

**City of Miami Beach**, 1700 Convention Center Drive, Miami Beach, Florida 33139, [www.miamibeachfl.gov](http://www.miamibeachfl.gov)  
Office of Internal Audit  
Tel: 305-673-7020

TO: Jimmy L. Morales, City Manager   
VIA: Mark D. Coolidge, Interim Internal Auditor   
FROM: Jessica Romero, Auditor 

DATE: September 11, 2018  
AUDIT: Central Beach Corp. d/b/a Miami Home Centers – Utility Tax Audit  
PERIOD: June 1, 2015 – May 31, 2018

This report is the result of a regularly scheduled audit of the public service tax (utility tax) collected and remitted to the City by Central Beach Corp. d/b/a Miami Home Centers (Miami Home Centers) between June 1, 2015 and May 31, 2018.

### INTRODUCTION

Article III entitled “public service tax” (utility tax) of the City Code details the terms and conditions concerning the charging, collecting and remitting of utility taxes on all purchases in the corporate limits of the City of electricity, metered gas, bottled gas, and fuel oil. More specifically, section 102-152 states that the seller is to collect and remit ten (10) percent, exclusive of governmental charges and taxes, of the total amount shown on such bill on account of the purchase of electricity, metered gas and bottled gas, and four (4) cents per gallon on fuel oil. Other terms listed include the requirement of remitting any monies owed by the 20<sup>th</sup> day of each month for revenues incurred during the prior month, submitting a semiannual listing (June 30<sup>th</sup> and December 31<sup>st</sup>) of all deliveries for resale within Miami Beach, the charging of interest on any late payments, etc. Lastly, City Code section 102-155 requires records of taxable sales transactions to be kept by the seller for inspection by the City and allows for enforcement of rules and regulations pertaining to Article III of the City Code.

According to their website, Central Beach Corp. d/b/a Miami Home Centers opened its doors at 545 Arthur Godfrey Road in Miami Beach as a local, family driven hardware store in 1954. They are now a complete Home Center with the expansion of their Home Décor, Benjamin Moore Paint Department, and Kitchen and Bath Showroom which includes decorative hardware and lighting on display. They also currently have four locations to shop within the South Miami, Miami Beach, Pinecrest and Tamiami areas. Among a myriad of items, the Miami Beach store sells propane gas to end use customers which is subject to the City’s utility tax provisions.

### OVERALL OPINION

Office of Internal Audit staff identified that Miami Home Centers was selling propane gas and was subject to the City’s utility tax provisions despite not remitting any monies during the thirty-six-month audit period. Once notified, they provided requested documentation and cooperated with all submitted requests. Testing determined the following shortcomings that are in need of prompt corrective action:

- Miami Home Centers underpaid the City by a total of \$8,393.45 as of August 31, 2018 which is comprised of \$7,190.74 in utility taxes and \$1,202.71 in interest.
- Miami Home Centers did not obtain a valid business tax receipt that authorizes the sale of propane gas as required in City Code section 102-357.

## PURPOSE

The purpose of the audit was to determine Miami Home Centers' compliance with the rules and regulations set forth in Article III, entitled "public service tax", of the City Code with a primary focus on whether the utility taxes paid were accurately calculated, fully collected and timely remitted to the City during the audit period.

## SCOPE

1. Review Miami Home Centers' records and documentation to determine the amount of propane gas sales during the period of June 1, 2015 thru May 31, 2018 and to calculate the corresponding amount of utility taxes owed to the City (including interest).

## FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

1. Finding – *Miami Home Centers Underpaid the City by a Total of \$8,393.45 as of August 31, 2018 which is Comprised of \$7,190.74 in Utility Taxes and \$1,202.71 in Interest*  
City Code section 102-155(b) requires Miami Home Centers and other sellers of propane gas within Miami Beach's boundaries to execute and file monthly statements accompanied by the amount of utility tax owed no later than the 20th day of each month to the City's Finance Department for relevant purchases made during the previous month. Furthermore, City Code section 102-157(b) states "In addition to any penalties imposed in subsection (a) of this section, any seller who fails to remit or is delinquent in remitting tax due under this article shall pay interest at the rate of ten percent per annum or the rate as specified by F.S. § 687.01, whichever is higher, on the unpaid amount of tax from the date on which the tax first became delinquent until paid."

Customer invoices, sales receipts, etc. were requested and obtained from Miami Home Centers that listed all propane gas exchange (item Y880125) transactions occurring between June 1, 2015 and May 31, 2018 within the jurisdictional boundaries of the City of Miami Beach. In addition, a review of their on-line product listings determined that they also sold: 14.1 OZ Propane Gas Torch (item 800654), 16 OZ Propane Camping Cylinder (item 310326), 2pk 16 OZ Propane Camping Cylinder (item 189452), 2 Mantle Propane Lantern with Case (item 292656) and Single Burner Ultra-Light Gear Propane Stove (item 197327). Subsequent conversations with the City Attorney's Office confirmed that these sales were also subject to the City's utility tax provisions. Once again, proper supporting documentation for these transactions was requested and received from Miami Home Centers.

As Miami Home Centers did not report or remit any utility taxes to the City of Miami Beach during the thirty-six (36) month audit period, all pertinent transactions would result in monies being owed to the City and subject to ten (10) percent per annum interest. Consequently, it was determined that the City was owed a total of \$8,393.45 which is comprised of \$7,190.74 in utility taxes and \$1,202.71 in interest as shown by the following table:

	2014-2015	2015-2016	2016-2017	2017-2018	
	Jun - Sept	Oct - Sept	Oct - Sept	Oct - May	Total
<b>Taxable Sales</b>	\$ 7,588.49	\$ 24,839.30	\$ 25,025.44	\$ 14,454.15	\$ 71,907.38
<b>Utility Tax Due</b>	\$ 758.85	\$ 2,483.93	\$ 2,502.54	\$ 1,445.42	\$ 7,190.74
<b>Interest Due</b>	\$ 226.93	\$ 578.44	\$ 326.41	\$ 70.93	\$ 1,202.71
<b>Total Due</b>	\$ 985.78	\$ 3,062.37	\$ 2,828.95	\$ 1,516.35	\$ 8,393.45

When questioned, Miami Home Centers' management claimed that they were unaware of the City Code's utility tax provisions and therefore did not comply. Once notified, they began filing future monthly utility tax returns starting with July 2018. When asked about June 2018's missing monthly return, they stated that they will file it soon and remit any corresponding monies due.

The Finance Department created and mailed a City Bill on September 6, 2018 in the amount of \$8,393.45 invoicing Miami Home Centers. Payment in full must be received by October 6, 2018 to avoid accruing additional interest.

Recommendation(s):

Miami Home Centers should timely remit the \$8,393.45 due by October 6, 2018 to avoid accruing additional interest. They should also remit June 2018's monthly tax return and continue to remit their future monthly utility tax returns on all products sold containing propane gas by the due dates designated in City Code section 102-155(b).

2. Finding – *Miami Home Centers did not Obtain a Valid Business Tax Receipt that Authorizes the Sale of Propane Gas as Required in the City Code Section 102-357*

City Code section 102-357, pursuant to section 205.042 of the 2017 Florida Statutes, authorizes the City to levy a business tax for the privilege of engaging in or managing any business, profession or occupation within the City. Moreover, City Code section 102-377 delineates the penalties and enforcement that the City may impose for violations of City Code section 102-357.

To determine whether Miami Home Centers complied with the business tax receipt (BTR) requirements set forth in City Code, a search of the City's current licensing and permitting software (EnerGov) was conducted. Testing found that although Miami Home Centers had obtained their 2015/16 and 2016/17 fiscal year BTRs, they did not include the appropriate fuel bottled gas dealer tax category.

Furthermore, their 2017/18 BTR was listed as "pending" in the EnerGov system due to the issuance of Code violation #CC2018-05995 for selling propane gas without a valid BTR. As of September 7, 2018, this \$1,000 violation has not been paid. Upon submitting their BTR application for the fuel bottled gas dealer tax category, and the category being approved by all of the regulatory review departments, the Finance Department will calculate the appropriate tax due for the FY 2015/16, 2016/17, 2017/18 and 2018/19 fiscal years.

Recommendation(s):

Miami Home Centers should adhere to the BTR requirements set forth in City Code section 102-357, pursuant to section 205.042 of the 2017 Florida Statutes. In addition, Code violation #CC2018-05995 should be paid in full. Once paid, the Finance Department's Customer Service Division should calculate the total amount due including late payment penalties for Miami Home Centers BTR renewals for the 2015/16, 2016/17 and 2017/18 fiscal years with the appropriate fuel bottled gas dealer tax category.

**EXIT CONFERENCE**

Audit findings were emailed to Central Beach Corp. d/b/a Miami Home Centers on September 11, 2018.

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cc: John Woodruff, Chief Financial Officer  
Hernan Cardeno, Code Compliance Department Director  
Dan Hitchcock, President, Central Beach Corp. d/b/a Miami Home Centers