

City of Austin



**A Report to the
Austin City Council**

Mayor
Lee Leffingwell

Mayor Pro Tem
Sheryl Cole

Council Members
Chris Riley
Mike Martinez
Kathie Tovo
Laura Morrison
Bill Spelman

**Office of the
City Auditor**

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Kenneth J. Mory
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Deputy City Auditor
Corrie E. Stokes
CIA, CGAP, CFE

REVENUE AUDIT REPORT

Hotel Occupancy Tax Revenue Audit

February 2013



REPORT SUMMARY

As part of this audit, we reviewed the tax exemptions claimed by five hotels within the City's full purpose jurisdiction. We identified that none of the hotels fully complied with the City's hotel occupancy tax ordinance, with a total resulting deficiency of approximately \$177,467.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

Niki Raggi, CGAP, CICA, Assistant City Auditor
Margot Wilson, CGAP, CFE, CICA, Auditor-in-Charge
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February 2013



Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year 2013 Strategic Audit Plan.

What We Recommend

The Controller's Office should ensure the collection of tax deficiencies identified in this audit.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

HOTEL OCCUPANCY TAX REVENUE AUDIT

Mayor and Council,

I am pleased to present this audit on Hotel Occupancy Tax Revenues.

BACKGROUND

The City of Austin levies a hotel occupancy tax (HOT) of nine percent (9%) on qualified room stays costing more than two dollars per night in hotels, motels, tourist homes, tourist courts, lodging houses, inns, rooming houses, and bed and breakfasts.

As of the 2nd quarter of 2012, there were approximately 450 establishments listed by the City of Austin Controller's Office as collecting the tax within Austin's city limits. Those establishments collect taxes and remit them directly to the Controller's Office, who administers the tax.

OBJECTIVES AND SCOPE

The objectives of the audit were to determine whether hotels are remitting revenue to the Controller in accordance with the City and State laws and to provide the lodging providers information on applicable State and City laws and City requirements for documentation and remittance of taxes.

The audit scope included documentation for exemptions and revenues reported for 16 quarters, from 3rd Quarter of 2008 to 2nd Quarter of 2012, in five hotels. The geographical scope was the City's full purpose jurisdiction.

WHAT WE FOUND

We determined that none of the five hotels reviewed fully complied with the City's HOT Ordinance, with a resulting total revenue deficiency of approximately \$177,467 owed to the City. These hotels did not maintain the required documentation for supporting tax exemptions or incorrectly applied exemptions to entities that are not exempt under the ordinance.

This is the tenth HOT collection project that we have conducted since 2005. Our prior reviews have resulted in identifying \$2 million owed to the City by hotels.

We appreciate the cooperation and assistance that we received from staff in the Controller's Office during this audit.

Kenneth J. Mory, City Auditor

BACKGROUND

The City of Austin levies a hotel occupancy tax (HOT) of nine percent (9%) on qualified room stays costing more than two dollars per night in hotels, motels, tourist homes, tourist courts, lodging houses, inns, rooming houses, and bed and breakfasts.

As of the 2nd Quarter of 2012, there are approximately 450 establishments listed by the City of Austin Controller's Office as collecting the tax within Austin's city limits. Those establishments collect taxes and remit them directly to the Controller's Office, who administers the tax, including accounting and collection responsibilities.

The City's Law Department plays a supporting role in preparing payment plans for delinquent taxes, offering advice and opinions, and filing City claims against bankrupt establishments. The Office of the City Auditor (OCA) conducts regular revenue audits to help ensure compliance.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Hotel Occupancy Tax Revenue Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2013 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objectives

The objectives of the audit were to determine whether hotels are remitting revenue to the Controller in accordance with the City and State laws and to provide the lodging providers information on applicable State and City laws and City requirements for documentation and remittance of taxes.

Scope

The audit scope included documentation for exemptions and revenues reported for 16 quarters from 3rd Quarter of 2008 to 2nd Quarter of 2012 in five hotels. The geographical scope was the City's full purpose jurisdiction.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Used a risk-based criteria to determine high risk hotels for review.
- Reviewed applicable laws and regulations.
- Reviewed documentation from the City's Controller's Office and the State Comptroller's Office.
- Interviewed hotel owners, operators and managers.
- Reviewed hotel documentation.
- Considered risks related to information technology and to fraud, waste, and abuse.

AUDIT RESULTS

Overall, we identified approximately \$177,467 in HOT revenue deficiencies owed to the City.

Finding 1: None of the hotels reviewed fully complied with the City’s HOT ordinance, which resulted in a total deficiency of approximately \$177,467.

Lodging providers as defined in Chapter 11-2 of the City’s HOT ordinance owe a nine percent (9%) tax on qualified room stays costing more than two dollars per night. Persons contracting to use a hotel room for over thirty (30) consecutive days are exempt from paying the hotel occupancy tax. In order to be exempt from the first day of stay, hotels are required to collect a written intent to stay thirty (30) consecutive days or longer. Also, certain entities, such as the Federal government, are exempt from paying the City’s occupancy tax.

As shown in Exhibit 1, none of the hotels reviewed fully complied with the City HOT ordinance, resulting in a total deficiency of approximately \$177,467.

**EXHIBIT 1
Deficiencies by Hotel**

Hotel #	Estimated Tax Deficiency	Primary Issue by Hotel
1	\$ 122,810	missing documentation
2	\$ 32,715	unallowable exemptions
3	\$ 18,805	missing documentation
4	\$ 11,728	missing documentation
5	\$ 1,409	unallowable exemptions
Total	\$ 177,467	

SOURCE: OCA Analysis of HOT Revenues for scope period of Q3 FY2008 to Q2 of FY2012

As shown in the exhibit, the hotels reviewed did not consistently maintain the required documentation to support the exemptions or applied the tax exemption to entities that are not exempted under the ordinance. Additionally, we noted data reliability concerns due to discrepancies between computer system data and hardcopy documents provided to demonstrate exemptions.

Based on our results, we communicated the deficiencies and provided information to the hotel owners and operators on applicable State and City laws and City requirements for documentation and remittance of hotel occupancy taxes.

RECOMMENDATIONS

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

- 1. The Controller's Office should ensure the collection of tax deficiencies identified in this work.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

MANAGEMENT RESPONSE



MEMORANDUM

TO: Ken Mory, City Auditor
FROM: Diana Thomas, Controller *DThomas*
DATE: February 25, 2013
SUBJECT: Hotel Occupancy Tax Revenue Audit February 2013 - Management Response

I have reviewed the attached draft audit report. In response to the recommendation below, the Controller's Office provides the following response.

Audit Recommendation: The Controller's Office should ensure the collection of tax deficiencies identified in this work.

Management Response: Management concurs with the recommendation. The Controller's Office will pursue collection of the tax deficiencies identified in this revenue audit as soon as we receive the details from the Office of the City Auditor.

We appreciate the opportunity to provide a response. If you need additional information, please contact me at 974-1166.

CC: Elaine Hart, Chief Financial Officer

APPENDIX A

ACTION PLAN

Hotel Occupancy Tax Revenue Audit

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
1. The Controller's Office should ensure the collection of tax deficiencies identified in this work.	Concur. The Controller's Office will pursue collection of the tax deficiencies identified in this revenue audit as soon as we receive the details from the Office of the City Auditor.	Planned	As soon as details are received