



**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**

**City Auditor**  
Kenneth J. Mory  
CPA, CIA, CISA, CRMA

**Deputy City Auditor**  
Corrie E. Stokes  
CIA, CGAP, CFE

# Hotel Occupancy Tax Revenue Audit

November 2013



## REPORT SUMMARY

As part of this audit, we tested the tax exemptions claimed by three hotels within the City's full-purpose jurisdiction. We identified that two out of the three hotels are not in compliance with the City's hotel occupancy tax ordinance regarding exemptions and associated supporting documentation resulting in a deficiency of \$5,904.

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**GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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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**

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Hector Gonzales, CPA, CIA, Assistant City Auditor  
Karl V. Stephenson, CGAP, CICA, Auditor-in-Charge  
Kacy Williams, Auditor

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November 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 collect the tax deficiencies identified in this audit.



For more information on this or any of our reports, email [oca\\_auditor@austintexas.gov](mailto:oca_auditor@austintexas.gov)

# HOTEL OCCUPANCY TAX REVENUE AUDIT

Mayor and Council,

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

## 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 audit's 2012 risk assessment, there were 468 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.

## OBJECTIVE AND SCOPE

The objective of the audit was to determine whether hotel occupancy tax exemptions were reported to the controller in accordance with City and State laws.

The audit scope included documentation for revenues and exemptions reported for 16 quarters, from 2<sup>nd</sup> quarter of 2009 through the 1<sup>st</sup> quarter of 2013, in three hotels. The geographical scope was the City's full-purpose jurisdiction

## WHAT WE FOUND

Our testing indicated two out of the three hotels reviewed were not in compliance with the City's HOT Ordinance regarding exemptions and associated supporting documentation, with a resulting total revenue deficiency of \$5,904 owed to the City. These hotels did not maintain the required documentation to support exemptions to the remittance of tax, and therefore, did not comply with the City's HOT ordinance regarding the areas tested.

This is the 11<sup>th</sup> HOT collection audit that we have conducted since 2005. Our prior audits have resulted in identifying approximately \$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

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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 audit's 2012 risk assessment, there were 468 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.

## OBJECTIVE, SCOPE, AND METHODOLOGY

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

### Objective

The objective of the audit was to determine whether hotel occupancy tax exemptions were reported to the controller in accordance with city and state laws.

### Scope

The audit scope included documentation for revenues and exemptions reported for 16 quarters from 2<sup>nd</sup> quarter of 2009 through the 1<sup>st</sup> quarter of 2013 in three 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; and
- reviewed hotel documentation.

## AUDIT RESULTS

Overall, we identified approximately \$5,904 in HOT revenue deficiencies owed to the City.

**Finding: Two of the three hotels reviewed were not in compliance with the City’s HOT ordinance regarding exemptions and the related supporting documentation, resulting in a total deficiency of \$5,904.**

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. After 30 days, all guests are exempt from HOT as they are considered Texas residents.

For two of the three hotels reviewed, we found that they did not maintain appropriate documentation to support all their exemptions reported to the City. (See Exhibit 1).

**EXHIBIT 1**  
**Deficiency Amount by Hotel**

Hotel #	Principal Deficiency
2	\$5,556
3	\$348
Total	\$5,904

**SOURCE:** OCA Analysis of HOT Revenues for the 2<sup>nd</sup> qtr 2009 through the 1<sup>st</sup> qtr of 2013, September 2013

As shown in Exhibit 2, the hotels reviewed did not consistently maintain the required documentation to support the first thirty (30) days exemption, or incorrectly included revenue and exemptions.

**EXHIBIT 2**  
**Types of Issues by Hotel**

Hotel #	Improper Exemption of Revenue	Deficient Documentation
2	X	X
3	X	
<b>Total Number of Hotels</b>	<b>2</b>	<b>1</b>

**SOURCE:** OCA Analysis of HOT Revenues for the 2<sup>nd</sup> qtr 2009 through the 1st qtr of 2013, September 2013

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.

## Additional Item: Prior HOT Audit

In our February 2013 HOT audit report, we reported one hotel as having a deficiency of just over \$100,000 due to insufficient documentation to support exempted revenue. After receiving the Controller's collection notice, the hotel appealed the result and during the appeal hotel management was able to provide sufficient documentation for all exempted revenue. This resulted in no deficiency being owed to the City.

## RECOMMENDATIONS

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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 collect the tax deficiencies identified in this audit.**

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 *DT*  
**DATE:** November 1, 2013  
**SUBJECT:** Hotel Occupancy Tax Revenue Audit November 2013 – Updated Management Response

Please update our response as noted below. In the time since my original submission, we have billed and collected all outstanding amounts with regard to this audit.

**Audit Recommendation:** The Controller's Office should collect the tax deficiencies identified in this audit.

**Management Response:** Management concurs with the recommendation. The Controller's Office billed both hotels with deficiencies identified in the audit. Both hotels have paid the deficiencies at this point.

We appreciate the opportunity to provide a response. If you need additional information, please contact me at 512-974-1166.

**CC:** Elaine Hart, Chief Financial Officer

**ACTION PLAN**

**Hotel Occupancy Tax Revenue Audit**

<b>Recommendation</b>	<b>Concurrence and Proposed Strategies for Implementation</b>	<b>Status of Strategies</b>	<b>Proposed Implementation Date</b>
<b>1. The Controller's Office should collect the tax deficiencies identified in this audit.</b>	<b>Concur.</b> The Controller's Office billed and collected the tax deficiencies identified in this revenue audit.	Implemented	N/A