City of Austin

A Report to the Austin City Council

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Office of the City Auditor

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REVENUE AUDIT REPORT

Hotel Occupancy Tax Revenue Audit

May 2012

REPORT SUMMARY

As part of this audit, we reviewed the tax exemptions and exclusions claimed by four hotels within the City's full purpose jurisdiction. We identified three hotels that did not comply with the City's hotel occupancy tax ordinance, with a resulting deficiency of approximately $84,806.

AUDIT NUMBER: AU12105

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards, except for the assessment of internal controls over the accuracy and completeness of hotel revenues as reported in their own information systems. The 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

Rachel Snell, CIA, CFE, CICA, Assistant City Auditor
Gus Rodriguez, CIA, CISA, CGAP, Auditor-in-Charge
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May 2012

Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of City Auditor's (OCA) FY 2012 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 report on our latest Hotel Occupancy Tax Revenue Audit.

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.

Currently, there are approximately 300 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.

OBJECTIVE AND SCOPE

The objective of the audit was to identify hotel occupancy tax deficiencies and to educate the hotel owners and operators on applicable laws and requirements for documentation and remittance of hotel occupancy taxes.

The audit scope included documentation for exclusions, exemptions, and revenues reported for sixteen quarters from 3rd quarter 2007 to 2nd quarter 2011 in four hotels. The geographical scope was the City's full-purpose jurisdiction.

WHAT WE FOUND

Overall, we identified approximately $84,806 in HOT deficiencies owed to the City.

- One of the four hotels reviewed maintained documentation to support the exemptions and exclusions claimed.
- Three of the four hotels reviewed did not maintain the required support documentation for exemptions and exclusions to the remittance of tax, and therefore, did not comply with the City's HOT ordinance.

This is the ninth HOT collection project we have conducted since 2005. Our prior reviews have resulted in identifying $1.92 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. The City Controller's Office administers the HOT.

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.

This is the ninth HOT collection project we have conducted since 2005. Our prior reviews have resulted in identifying $1.92 million owed to the City by hotels.

OBJECTIVES, SCOPE, AND METHODOLOGY

This Hotel Occupancy Tax Revenue Audit was conducted as part of the Office of City Auditor's (OCA) Fiscal Year (FY) 2012 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objective

The objective of the audit was to identify hotel occupancy tax deficiencies and to educate the hotel owners and operators on applicable laws and requirements for documentation and remittance of hotel occupancy taxes.

Scope

The audit scope included documentation for exclusions, exemptions, and revenues reported for sixteen quarters from 3rd quarter 2007 to 2nd quarter 2011 in four hotels. The geographical scope was the City's full-purpose jurisdiction.

Methodology

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

- Analyzed total exemptions and exclusions claimed and time since last audit, related to hotels and HOT collection to select hotels for review
- Reviewed applicable State and City laws and regulations
- Obtained and compared documentation from the City Controller's Office and the State Comptroller's Office
- Interviewed hotel owners, operators and managers
- Obtained and evaluated hotel documentation

AUDIT RESULTS

Overall, we identified approximately $84,806 in HOT revenue deficiencies owed to the City.

Finding 1: Three out of four hotels we reviewed did not comply with the City's HOT ordinance, which resulted in a deficiency of $84,806.

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. This tax is not imposed on room stays of at least thirty consecutive days. Persons contracting to use a hotel room for over thirty (30) consecutive days are exempt from paying the hotel occupancy tax. Hotels are required to collect a written intent to stay thirty (30) consecutive days or longer.

For one of the four hotels reviewed, reported exemptions and exclusions were supported with appropriate documentation, and therefore, no tax deficiency was identified. However, the remaining three hotels did not maintain appropriate documentation to support the exemptions or exclusions, or provided tax exemptions to unqualified entities. (See Exhibit 1)

Exhibit 1
Total Deficiencies by Hotel

Hotel #	Principal	Penalty	Interest	Total
1	$ 0.00	$ 0.00	$ 0.00	$ 0.00
2	86.92	4.35	12.10	103.37
3	33,876.05	1,693.80	6,223.06	41,792.91
4	34,916.66	1,745.83	6,246.85	42,909.34
Total	**$68,879.63**	**$3,443.98**	**$12,482.01**	**$84,805.62**

SOURCE: OCA Analysis of HOT Revenues for scope period.

Two of the three hotels reviewed did not maintain either the certificate of exemption or a written intent to stay longer than thirty (30) days. The other hotel incorrectly applied the tax exemption to local government entities that are not exempted under the ordinance.

Based upon the results above, we communicated the deficiencies and provided information to the hotel owners and operators, in an effort to educate them 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 Diana Thomas

DATE: May 22, 2012

SUBJECT: Hotel Occupancy Tax Revenue Audit May 2012 - 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 pending receipt of information from the Office of the City Auditor.	30 days after receipt of information.