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**Hotel Occupancy Tax Revenue
Audit**

March 13, 2015



**City of Fort Worth
Department of Internal Audit**
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Fort Worth, Texas 76102

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The Hotel Occupancy Tax Revenue Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2014 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to determine whether:

- hotels are remitting hotel occupancy tax reports and payments as required, and
- hotel occupancy exemptions complied with applicable City and state law.

Audit Scope

Our audit included a review of five hotels for the three-year period ended September 30, 2013.

Opportunities for Improvement

Daily reconciliation of revenue collections to revenue sub-ledgers and cashiering system

Reporting of gross HOT receipts

HOT process enhancements

Controls within HOT tracking system

Executive Summary

The Department of Internal Audit conducted an audit of the following five (5) hotels: Embassy Suites, Hyatt Place Fort Worth Cityview, Omni Fort Worth, Residence Inn and the Towne Place Suites – Downtown.

The Department of Internal Audit concluded that the Finance and Management Services Department accounted for all hotels within the City of Fort Worth. We also concluded that the City has an aging report by which hotel occupancy tax payments are tracked.

For the three-year audit period, taxable hotel revenue was under-reported by three of the five hotels. As discussed in the Scope section of this report, the Department of Internal Audit considered it cost-prohibitive to review two years of data for one of the five hotels selected for audit.

The Department of Internal Audit also identified opportunities for improvement within the City's hotel occupancy tax process.

- Internal control weaknesses were noted within the mainframe system that is used to track hotel occupancy tax (HOT) payments. Enhancing those controls would help ensure data reliability.
- The City Code contains information related to penalties that could be considered contradictory to the reader.
- Opportunities exist to improve customer service and decrease the amount of time required to process HOT payments.
- Weaknesses were noted within the Treasury Division's daily revenue reconciliation process. Daily revenue collections are generally reconciled to cashiering reports but are not reconciled to sub-ledgers that account for the specific revenue source. Reconciliations to both sub-ledgers and cashiering systems help ensure accountability for City revenue collections.

These audit findings are discussed in more detail within the [Detailed Audit Findings](#) section of this report.

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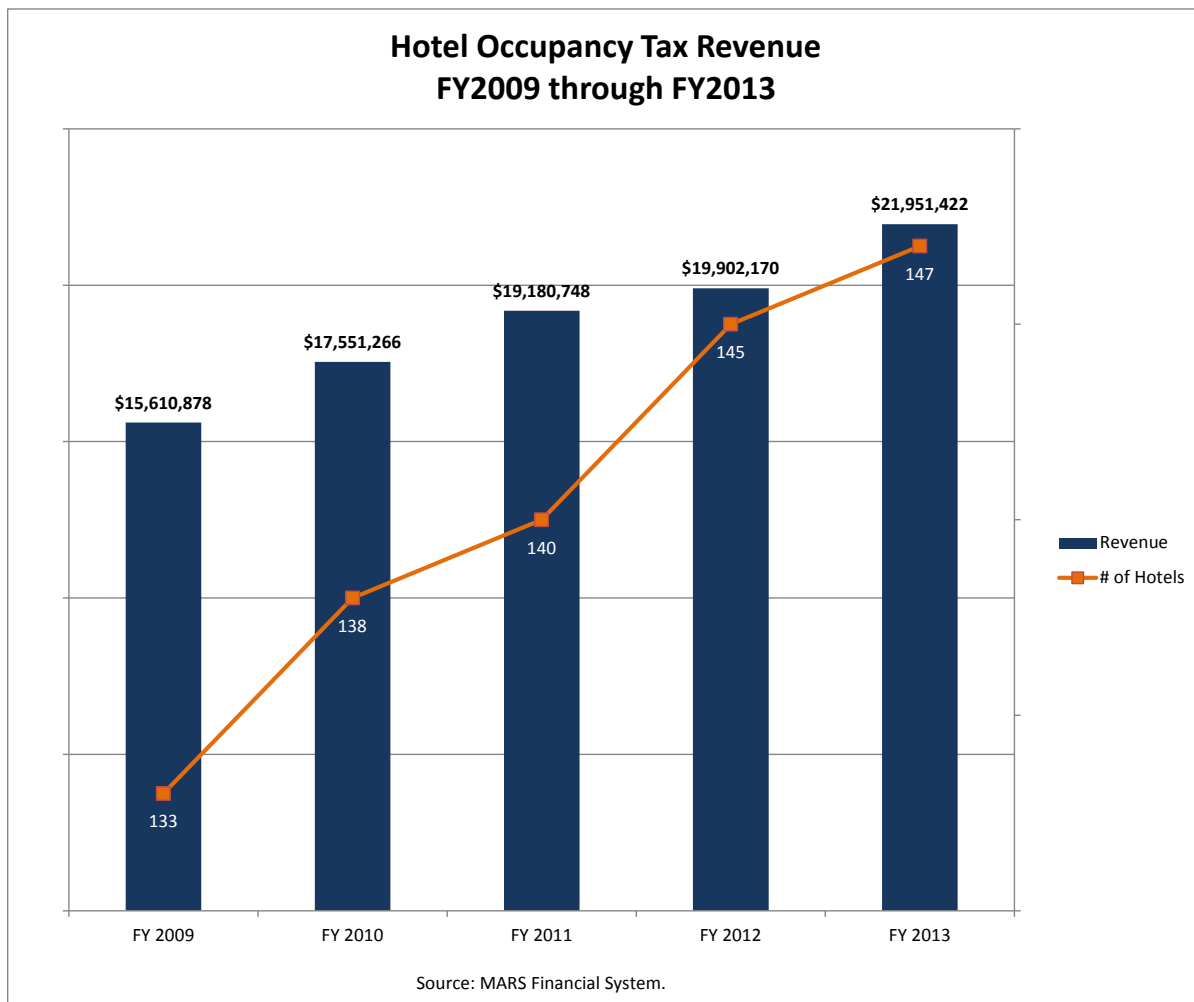
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Background

There are over 140 hotels located within the boundaries of Fort Worth. For each hotel, the City of Fort Worth levies a nine percent (9%) hotel occupancy tax on room rental or other hotel space where the cost of occupancy is at a rate of \$2 or more per day. The City of Fort Worth requires that hotel occupancy taxes be remitted on a monthly basis. Prior to January 2013, hotel occupancy tax remittances were required each quarter.

There are currently three Fort Worth hotels for which the City has entered into an economic development program (380) agreement. Under the agreements, 100% of hotel occupancy tax revenue received from each hotel is returned, on a quarterly basis, as long as the hotel has met the performance-based grant requirements. Hotels have historically remitted hotel occupancy tax reports and payments to the City via mail. However, as of January 2013, the City began allowing hotels to submit information on-line via the City's website. When reporting via the City's website, Fort Worth hotels have the convenience of remitting occupancy tax payments via Automated Clearing House (ACH). The following graph shows hotel occupancy tax revenue for fiscal years 2009 through 2013.





A delinquency occurs if hotel occupancy tax is not remitted or if the report is not filed or postmarked by the 25th of each month. Delinquent hotels are assessed a late penalty of 15%.

On November 6, 2012, the City adopted an ordinance to assess interest, accruing at a rate of 10%. The effective date of the interest assessment was January 1, 2013.



Objectives

The objectives of this audit were to determine whether:

- hotels are remitting hotel occupancy tax reports and payments as required; and,
- hotel occupancy exemptions claimed complied with applicable City and state law.

Scope

Our audit included a review of five Fort Worth hotels for the three-year period ended September 30, 2013. The Department of Internal Audit also included a review of the City of Fort Worth's hotel occupancy tax process.

The Department of Internal Audit's review of one hotel's tax records was limited to the period October 1, 2012 through September 30, 2013. Hyatt Place Fort Worth Cityview indicated that their records for the period October 1, 2010 through September 30, 2012 were located at their corporate office and the City of Fort Worth would incur an expense if these documents were required to be relocated to the Hyatt Place's local office. The Department of Internal Audit concluded that due to the lack of reporting errors identified during our review of records supporting the most recently completed year, that the cost to relocate these records for review was cost-prohibitive.

Also, the City of Fort Worth entered into an economic development program (380) agreement with one of the five hotels selected for audit – Omni Fort Worth. Ensuring that the Omni Fort Worth met performance-based grant requirements was considered beyond our audit scope. The Internal Audit Department, therefore, only verified that the Neighborhood Services Department (formerly the Housing and Economic Development Department) authorized the return of hotel taxes paid by the Omni and that the amount returned agreed with the amount submitted to the City.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- reviewed the Fort Worth City Code to obtain hotel occupancy tax reporting requirements;
- reviewed the State Comptroller's website and City of Fort Worth certificates of occupancy files to help identify the hotel population;
- interviewed City staff regarding the City of Fort Worth's hotel occupancy tax process;
- reviewed City financial records for verification of bank deposits and proper recording;
- reviewed hotel records for verification of gross receipts and tax exemptions;
- re-performed penalty and interest calculations to attest accuracy; and,
- reviewed financial records to ensure that wire transfers to hotels with 380 agreements were proper.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review. 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 Results

The Department of Internal Audit conducted an audit of five hotels within the City of Fort Worth. Based on our audit results, we concluded that three of the five hotels under-reported and thus underpaid hotel occupancy taxes due to the City. The under-reporting and underpayments resulted from the hotels' exclusion of cleaning and pet cleaning fees as taxable revenue and from claiming exemptions that are not accepted by the City of Fort Worth.

We also concluded that internal controls within the mainframe system (which is used to track hotel payments) need strengthening, as well as the granting of user access to the mainframe system. During our review of the process by which hotel occupancy tax payments are handled, we identified areas in which process improvements could result in time and cost savings to the City's Treasury Division.

The Department of Internal Audit identified areas in which the City Code could be updated to provide a clearer directive to City staff and hotels. We also identified areas in which hotel occupancy tax reporting could be strengthened to ensure better accountability of revenue collections.



Overall Evaluation

High	Medium	Low
<u>Accuracy in systematic calculation of penalties</u>		
<u>Clarity regarding hotel occupancy tax filing due date within the City Code</u>		
	<u>No requirement to report gross hotel receipts to the City</u>	
	<u>Inefficiencies within the hotel occupancy tax process</u>	
	<u>Required entry of HOT payment information in HOT payment system and restrictions on altering hotel tax remittance information</u>	
	<u>Audit trails to fully track changes to the hotel occupancy tax database</u>	
	<u>Limiting access to the hotel occupancy tax revenue mainframe</u>	
	<u>Restrictively endorsing checks upon receipt</u>	



Detailed Audit Findings

1. Three of the five hotels selected for testing underreported taxable revenue.

Taxes on the occupancy of hotel rooms are required to be collected, reported and remitted to the City in accordance with State law and City requirements.

For the period reviewed, three (3) of the five (5) hotels selected for testing under-reported taxable revenue, resulting in an underpayment of hotel occupancy taxes. The under-reporting resulted from hotels not including cleaning and pet cleaning fees as taxable revenue and claiming unallowable exemptions such as non-governmental and educational. There were also some exemption certificates that were not signed.

Underpayment of hotel occupancy taxes totaled \$17,989.07, excluding the 15% penalty. The total underpayment increases to \$20,687.43 when adding the 15% penalty.

Recommendation 1A:

The Chief Financial Officer should collect hotel occupancy taxes from the following hotels:

<i>HOTEL</i>	<i>Underpayment</i>
Embassy Suites	\$ 9,203.75
Residence Inn	3,542.40
TownePlace Suites	5,242.92
TOTAL:	\$ 17,989.07

Auditee's Response: Concur. The Chief Financial Officer and Financial Management System team agree that hotel occupancy taxes should be collected from area hotels. Treasury will notify the listed hotels and begin the collection process.

Target Implementation Date: August 1, 2015

Responsibility: Treasury Department

Recommendation 1B:

The Chief Financial Officer should communicate eligible exemptions to Fort Worth hotels. Consideration should be made to include a section on the hotel reporting form by exemption type.

Auditee's Response: Concur. The Chief Financial Officer and Financial Management Services team agree that all eligible exemptions should be reviewed and communicated to the area hotels on an annual basis. In addition, an update of our hotel reporting form will be explored by both the Information Technology Department and the Department of Finance.

Target Implementation Date: August 30, 2015

Responsibility: Information Technology and Treasury



2. The hotel occupancy tax remittance system does not properly allocate penalties.

Section 32-18(c) of the City Code States, “A late penalty equal to fifteen (15) percent of the total tax owed shall be assessed if the person fails to remit the tax or have it postmarked and/or file the report or have it postmarked by the 25th day of the month following the end of the monthly collection/reporting period.”

The City of Fort Worth’s hotel occupancy tax remittance system does not allocate penalties if hotels pay their hotel tax bill one day late (the 26th day of the following month). Instead, the hotel batch system runs at the end of the 26th day, causing penalties to be calculated one day late. Each time hotel taxes are remitted one day late, the Treasury Division must submit a change request to the Information Technology Solutions (ITS) Department to correct payment and penalty information.

Recommendation 2:

The Chief Financial Officer, in conjunction with the Chief Technology Officer, should update the Hotel Occupancy Tax Remittance System to ensure penalties are being calculated in accordance with the City Code, thus eliminating a change request.

Auditee’s Response: Concur. The Chief Financial Officer and Financial Management Team concur that there are issues with the accuracy of penalties in the current system. The Chief Financial Officer and Chief Technology Officer will work together to improve the Tax Remittance System and to ensure penalties are calculated in an accurate and timely fashion, thereby eliminating unnecessary and costly change requests. The Chief Technology Officer and Information Technology Solutions staff estimates that this effort can be completed within current budget appropriations.

Target Implementation Date: September 1, 2015

Responsibility: Information Technology and Treasury

3. The City of Fort Worth Code contains conflicting information regarding delinquent payments.

Section 32-18 (a) states that “Every person owning, operating, managing or controlling any hotel shall collect the tax imposed ... and remit the same to the tax assessor-collector on or before the due date, and at the same time file the report required by Section 32-19 herein.” Section 32-18 (b) states that “A delinquency occurs if, by the 25th day of the month after the end of the monthly collection/reporting period, (i) the tax is not remitted or postmarked or (ii) the report is not filed or postmarked. ...”

Section 32-19 states that “On the first day of the calendar month following each monthly collection/reporting period, every person required in section 32-18 to collect the tax imposed in this article shall file a report with the tax assessor-collector showing consideration paid..... Such person shall remit the tax due on such occupancies at the time of filing such report.”

The due date is defined in the City ordinance as the 1st business day after the end of the collection/reporting period. The due date is generally the first day of the month because, per the ordinance, the last day of the month marks the end of the collection/reporting period.



In reference to HOT, there is a grace period from the due date to the 25th of the month. If the taxes and report are not paid and/or filed by the 25th day of the month, then 32-18(b) states that there is a delinquency. Generally no penalties are charged until after the 25th day of the month. Section 32-19 specifies what the report should include and reiterates that the report is due on the due date, which again is defined as the 1st day following the collecting/reporting period.

Recommendation 3:

The Chief Financial Officer should determine whether it is appropriate to modify the Code to specify the grace period granted to hotels.

Auditee’s Response: Concur. The Chief Financial Officer and Financial Management Team concur that a consistent grace period for payments should be added to the Code and be effectively communicated to hotel management.

Target Implementation Date: September 30, 2015

Responsibility: Chief Financial Officer and Treasury

4. Hotels are not required to report gross hotel revenue.

Section 32-19 of the City Code states that “.....every person required in section 32-18 to collect the tax imposed in this article shall file a report with the tax assessor-collector showing the consideration paid for all room occupancies in the preceding month, the amount of the tax collected on such occupancies, and any other information the tax assessor-collector may reasonably require. ...”

Each month, the City of Fort Worth requires that hotels submit a report of hotel occupancy tax due, along with the hotel tax payment, if applicable. Within the report, hotels are not required to report payments received for all room occupancies during the reported period (e.g., gross hotel receipts). Instead, hotels are only required to report taxable receipts, along with taxes, penalties, interest and net amount due.

Best business practices indicate maintaining/producing reports that support the calculation of taxes paid. However, management does not see a need to collect total gross receipts, since they are posted on the State Comptroller website.

Recommendation 4:

The Chief Financial Officer should require that hotels submit gross and taxable hotel receipts. Accordingly, the remittance form and on-line website should be revised to reflect the requirement.

Auditee’s Response: Concur. The Chief Financial Officer and Chief Technology Officer along with the Information Technology Department will determine if an update of our current software is needed to include a section for submitting gross and taxable hotel receipts. In addition, development of current forms as it relates to submitting documentation through the City’s website will be fully evaluated.

Target Implementation Date: September 30, 2015

Responsibility: Chief Financial Officer and Chief Technology Officer



5. Inefficiencies exist within the hotel occupancy tax process.

Streamlining tasks is necessary to improve efficiencies within operational processes.

- *Payments walked-in by hotels are not processed upon submittal.*

The City of Fort Worth sent correspondence (dated February 3, 2014) to hotels stating that “The City cashiers will not be able to process your remittance while you wait.” Since walk-in payments are not processed while hotel customers wait, no receipt is provided to the customer. Not processing walk-in hotel payments upon submittal/remittance does not promote good customer service and increases the opportunity for misappropriation of funds.

- *Tax remittance forms are mailed to hotels that file electronically.*

Hotels that remit hotel occupancy taxes on-line do not utilize paper hotel occupancy tax forms. However, each month, blank hotel occupancy tax remittance forms are mailed to all hotels, regardless of whether hotels remit their taxes on-line, in person or by mail.

The City incurs unnecessary office supply, postage and personnel costs when blank hotel occupancy tax remittance forms are sent to hotels that file electronically. Process efficiency improvements reduce time and costs.

- *Postmarked envelopes are re-stamped by Treasury staff.*

Section 32-18 (b) of the City Code states that “A delinquency occurs if, by the 25th day of the month after the end of the monthly collection/reporting period, (i) the tax is not remitted or postmarked or (ii) the report is not filed or postmarked. ...” Items mailed through the United States Postal Service generally bear a postmark date to show when the items were delivered into the care of the postal service.

If the mailed envelope bears a postmark, the Treasury Division re-stamps the envelope with the same date. If the envelope does not have a postmark date or if the postmark date is illegible, the Treasury Division stamps the envelope with the date payment was received in the Treasury Division.

Re-stamping legibly-postmarked envelopes appears to be an inefficient use of City resources. However, Treasury Division staff consider it easier to date stamp all hotel occupancy tax payment envelopes rather than having to determine which envelopes have a legible postmark date and which ones do not.

Since payments processed prior to the delinquency would be evidence that penalties were not applicable, limiting stamping of illegible or non-postmarked envelopes would seem more appropriate to support delinquent payments.

Recommendation 5A:

The Chief Financial Officer should require that Treasury staff process walk-in payments upon receipt.

Auditee’s Response: Concur. The Chief Financial Officer and Treasury staff will review the process of accepting and processing walk-in occupancy tax payments to hotels upon receipt.

Target Implementation Date: July 31, 2015



Responsibility: Chief Financial Officer and Treasury

Recommendation 5B:

The Chief Financial Officer should discontinue sending blank hotel occupancy tax remittance forms to all hotels and should consider: 1) e-mailing remittance forms only to those hotels that file manually and/or 2) posting a printable remittance form on the City's website in an area that can be easily located by the hoteliers.

Auditee's Response: Concur. The Chief Financial Officer and Financial Management Team will review the current processes to include e-mail communication and information transfers between Treasury and the hotels. The review will confirm that all hotels have e-mail capability and that a closed-loop communication process can be established with all hotels. The option to provide a printable remittance form on the City's website will also be evaluated.

Target Implementation Date: August 30, 2015

Responsibility: Chief Financial Officer and Treasury

Recommendation 5C:

The Chief Financial Officer should either revise mail handling procedures and processes to require that staff only stamp those envelopes that support a delinquent payment or require that Mail Room staff receipt stamp mail upon receipt, whichever is most cost effective.

Auditee's Response: Concur. The Chief Financial Officer and Treasury staff will review mail handling procedures to include the most operationally and cost efficient process to either receipt stamp mail or to stamp those envelopes that support delinquent payments.

Target Implementation Date: July 31, 2015

Responsibility: Chief Financial Officer and Treasury

6. Treasury Division staff is not entering hotel information necessary in the payment processing of hotel payments and is altering remittances submitted by hotels.

Within a sample of 10 hotel occupancy tax payments with processing dates on the 4th of a particular month, the Department of Internal Audit noted the following.

- No postmark date was noted for seven of 10 (70%) payments entered into the mainframe (H600).
- Treasury Division staff made changes to five of ten (50%) hotel remittance forms submitted by Fort Worth hotels. While Treasury staff did not change the taxable receipts or the net amount due/total payment reported by hotels, Treasury Division staff changed how the hotel payment was allocated. In all five instances, the hotel tax amount due was reduced and penalties assessed, although the postmark date was before the hotel reporting delinquency date.



The following chart depicts an example of a reallocation.

	Remittance Amount Per Hotel	Remittance Amount Per Treasury
Taxable Receipts	\$ 61,706.97	\$61,706.97
9% Tax	5,553.63	4,720.58
15% Penalty	-	833.05
Net Amount Due	\$ 5,553.63	\$ 5,553.63

Recommendation 6A:

The Chief Financial Officer should ensure that all data fields are completed when entering hotel information into the mainframe (H600).

Auditee’s Response: Concur. The Chief Financial Officer and Treasury staff will review all required fields in the mainframe (H600) and confirm that all information is available from each hotel. The efforts with recommendation 5B should dovetail into this process.

Target Implementation Date: August 30, 2015

Responsibility: Chief Financial Officer and Treasury

Recommendation 6B:

The Chief Financial Officer should prohibit staff from altering or modifying hotel remittance forms submitted by hotels. Necessary changes should be entered in H600 with a note as to why payment changes were allocated differently than what the hotel reported.

Auditee’s Response: Concur. The Chief Financial Officer will prohibit staff from changing or altering the remittance forms. Notes on the remittance forms regarding transaction information may be used at times and should also be entered into the H600.

Target Implementation Date: April 30, 2015

Responsibility: Chief Financial Officer and Treasury

7. Audit trails do not fully track changes made to hotel occupancy tax data.

Audit trails exist to serve as a record of computer system and system user activity. Without audit trails that log system user activity, it is difficult to establish user accountability and/or determine whether errors or inconsistencies were generated by the system or user.

As previously discussed, CFW hotel tax data is currently maintained within a mainframe system referred to as H600. All changes made to hotel tax data are not tracked. Instead, tracking of changes is limited to the initial and the most recent data entry. Data changes made between the initial and most recent entries are not tracked.

Recommendation 7:

The Chief Financial Officer, in conjunction with the Chief Technology Officer, should ensure that all changes made to the hotel occupancy tax data is tracked. If a systematic tracking of changes is



determined to be cost-prohibitive, a manual process should be implemented that helps ensure accountability for all H600 data changes.

Auditee's Response: Concur. The Chief Financial Officer and the Chief Technology Officer will create an audit log to track changes made to hotel occupancy tax data. The Chief Technology Officer and Information Technology Solutions staff estimates this effort can be completed within current budget appropriations.

Target Implementation Date: September 1, 2015

Responsibility: Chief Technology Officer and Information Technology Solutions Staff

8. Hotel Occupancy Tax System data is accessible to former Treasury Division staff.

Section D-5 Information Technology Security, Part 9.1 Access Controls of the City's Administrative Regulations, states that "IT Asset Owners are responsible for the initial establishment of right of access, evaluation of authorized access when workforce responsibilities change, and timely termination of access for users ending their tenure at the City."

A former Treasury Division employee (whose job duties through December 2012 required H600 access) continued to have update capabilities to all H600 screens up until his return to the Treasury Division in March of 2014. The Treasury Division did not find it necessary to terminate the employee's H600 access since the employee was expected to return to his prior duties which required H600 access.

Although no issues were detected during our audit, allowing unauthorized access to computer systems can result in unauthorized data changes, accessibility to restricted information, etc.

Recommendation 8:

The Chief Financial Officer should require that access to finance-related systems only be granted to employees whose job assignments require the use of the referenced system.

Auditee's Response: Concur. Financial related systems access should only be granted to employees whose job assignments require the use of the specific system. The Chief Financial Officer and Treasury will review access logs and ensure the proper alignment with job assignments and system access.

Target Implementation Date: June 28, 2015

Responsibility: Chief Financial Officer and Treasury

9. The number of employees with full access to the hotel occupancy tax revenue mainframe is not minimized.

Three employees from ITS have full access (data changes, updating capabilities, etc.) to H600 screens in the production environment. While no improprieties were noted, allowing updating capabilities to more employees than are considered necessary can result in unauthorized changes.



Best business practices indicate that there should be a limit to the number of ITS employees who have access to computer systems.

Recommendation 9:

The Chief Financial Officer, in conjunction with the Chief Technology Officer, should limit the number of ITS employees that have full access to H600 data.

Auditee's Response: Concur. The Chief Financial Officer in conjunction with the Chief Technology Officer will determine the optimal number of ITS employees that should have full access to maintain H600 data.

Target Implementation Date: August 30, 2015

Responsibility: Chief Financial Officer and the Chief Technology Officer

10. Checks are not endorsed upon receipt.

The City of Fort Worth's Cash Handling Procedures Manual states that all checks MUST be endorsed immediately. However, hotel occupancy tax payments received via mail and/or walked in are not being endorsed immediately upon receipt.

Lost or stolen checks that have not been restrictively endorsed could result in lost revenue to the City.

Recommendation 10:

The Chief Financial Officer should require that Treasury staff endorse checks immediately upon receipt as required by City policy.

Auditee's Response: Concur. The Chief Financial Officer and Treasury will ensure that current procedures include the proper steps so that all checks are endorsed during the receipt process.

Target Implementation Date: August 1, 2015

Responsibility: Chief Financial Officer and Treasury



Acknowledgements

The Department of Internal Audit would like to thank the City of Fort Worth's Financial Management Services and Information Technology Solutions Departments, the Embassy Suites, Hyatt Place Fort Worth Cityview, Residence Inn, Towne Place Inn and the Omni Hotels & Resorts for their cooperation and assistance during this audit.