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Hotel Occupancy Tax Revenue Audit

January 18, 2019



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The Hotel Occupancy Tax Revenue Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2018 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 tax exemptions claimed complied with applicable City regulations and state law.

Audit Scope

Our audit included a review of five hotels from October 1, 2015 through September 30, 2017. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement

Continue efforts to implement prior audit recommendations made in reference to the City's hotel occupancy tax process

Executive Summary

The Department of Internal Audit conducted an audit of the following five (5) hotels.

- Fairfield Inn & Suites Fort Worth - Fossil Creek
- Courtyard by Marriott Fort Worth West at Cityview
- TownePlace Suites by Marriott Fort Worth Southwest/TCU Area
- Holiday Inn Express and Suites Fort Worth - Fossil Creek
- Residence Inn by Marriott Fort Worth Alliance Airport

We concluded that three (3) of the five aforementioned hotels under-reported taxable hotel occupancy tax revenue to the City of Fort Worth during the audit period. Internal Audit determined the validity of another hotel's taxable occupancy tax revenue was inconclusive, and concluded that the remaining hotel reported based on an inaccurate calculation methodology.

Hotel occupancy tax under-reporting/under-payments resulted from hotels not reporting pet cleaning and smoking fees as taxable revenue, inadequate support for exemptions, claiming ineligible exemptions, and reporting reward points as exemptions. As a result, a total of \$7,337.96 was identified as underpaid to the City of Fort Worth. This amount excludes penalties, interest and any hotel occupancy tax due from the Holiday Inn Express and Suites Fort Worth – Fossil Creek, which used an incorrect calculation methodology.

Upon completion of each individual hotel audit, the Department of Internal Audit notified the Financial Management Services Department (FMS) of amounts owed to the City.

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Background

For each hotel located within the boundaries of Fort Worth, the City of Fort Worth (CFW) 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. 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.

The CFW requires that hotel occupancy taxes be remitted on a monthly basis. Prior to January 2013, hotel occupancy tax remittances were required each quarter and had been historically remitted to the City by 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 hotel occupancy tax payments through Automated Clearing House (ACH).

Objectives

The objectives of this audit were to determine whether:

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

Scope

Our audit included a review of five (5) Fort Worth hotels, for the period October 1, 2015 through September 30, 2017. Activity beyond this period was reviewed as deemed necessary.

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 to obtain verification of qualifying hotel occupancy tax exemptions and the permanent residency requirement;
- reviewed City financial records for verification of hotel occupancy tax revenue and proper recording;
- reviewed hotel records for verification of gross taxable receipts and tax exemptions; and,
- re-performed hotel occupancy tax calculations to attest accuracy.

We conducted this 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 Results

The Department of Internal Audit conducted an audit of the following five hotels:

- Fairfield Inn & Suites Fort Worth – Fossil Creek;
- Courtyard by Marriott Fort Worth West at Cityview;
- TownePlace Suites by Marriott Fort Worth Southwest/TCU Area;
- Holiday Inn Express and Suites Fort Worth – Fossil Creek; and,
- Residence Inn by Marriott Fort Worth Alliance Airport.

Based on our audit results, the Department of Internal Audit concluded that three of the five hotels under-reported hotel occupancy taxes due to the City. We could not determine the amount due from one of the five hotels, and recommended that the remaining hotel submit corrected hotel occupancy tax reports for the entire audit period.

- The Department of Internal Audit could not rely on the evidence supplied by the *Fairfield Inn & Suites Fort Worth – Fossil Creek* as being valid nor reliable. Taxable hotel occupancy tax revenue reported to the City of Fort Worth was determined inconclusive due to:
 - discrepancies in gross room revenue amounts captured in hotel reports;
 - unexplained inconsistencies within hotel reports;
 - insufficient support to explain differences in taxable revenue captured within hotel reports and taxable revenue reported to the City of Fort Worth;
 - unexplained discrepancies in loyalty program reimbursement amounts; and,
 - questionable room revenue adjustments.

We, therefore, could not definitively conclude whether the Fairfield Inn & Suites Fort Worth – Fossil Creek remitted hotel occupancy tax as required by applicable City and state law.

- The Department of Internal Audit concluded that the *Holiday Inn Express and Suites Fort Worth – Fossil Creek* used an incorrect calculation methodology when reporting their taxable hotel receipts to the City of Fort Worth. Holiday Inn Express and Suites Fort Worth – Fossil Creek staff agreed with Internal Audit's conclusion.

The erroneous calculation methodology resulted in the under-reporting/underpayment of hotel occupancy taxes. However, we identified one report that the Holiday Inn Express and Suites Fort Worth – Fossil Creek inadvertently submitted for two different months (October and December 2015). This error resulted in an overpayment for the month in which the report was inadvertently duplicated.

Since the Holiday Inn Express and Suites of Fort Worth – Fossil Creek used an erroneous calculation methodology that resulted in hotel tax underpayments, the Department of Internal Audit recommended that the Financial Management Services Department request resubmittals of hotel occupancy tax reports in which the incorrect calculation methodology was used. The Financial Management Services Department should then require payments for months in which hotel



occupancy tax was under-reported, netted by the one month (December 2015) in which duplicated reporting resulted in an overpayment to the City of Fort Worth.

The following table summarizes our audit results.

Hotel Name	Hotel Address	Tax Due to CFW
Fairfield Inn & Suites Fort Worth – Fossil Creek	3701 NE Loop 820 Fort Worth, TX 76137	Inconclusive
Courtyard by Marriott Fort Worth West at Cityview	6400 Overton Ridge Blvd Fort Worth, TX 76132	\$148.23
TownePlace Suites by Marriott Fort Worth Southwest/TCU area	4200 International Plaza Fort Worth, TX 76109	\$3,619.78
Holiday Inn Express and Suites Fort Worth – Fossil Creek	6351 North Freeway Fort Worth, TX 76131	To Be Determined; Resubmittals Recommended
Residence Inn by Marriott Fort Worth Alliance Airport	13400 North Freeway Fort Worth, TX 76177	\$3,569.95

Hotel occupancy tax under-reporting resulted from hotels not reporting pet cleaning and smoking fees as taxable revenue, inadequate support for exemptions, claiming ineligible exemptions, and reporting reward points as exemptions. Our audit results were communicated to the Financial Management Services Department (FMS) upon completion of each individual hotel audit. The responsibility to bill these hotels is incumbent upon FMS.



Acknowledgements

The Department of Internal Audit would like to thank the City of Fort Worth's Financial Management Services Department, the Fairfield Inn & Suites Fort Worth – Fossil Creek, Courtyard by Marriott Fort Worth West at Cityview, TownePlace Suites by Marriott Fort Worth Southwest/TCU Area, Holiday Inn Express and Suites Fort Worth – Fossil Creek, and the Residence Inn by Marriott Fort Worth Alliance Airport for their cooperation and assistance during this audit.