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Hotel Occupancy Tax Revenue Audit

January 22, 2016



City of Fort Worth
Department of Internal Audit
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The Hotel Occupancy Tax Revenue Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2015 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 and one motel for the three-year period ended September 30, 2014.

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 six (6) hotels/motel.

- American Airlines Training & Conference Center
- Century Motel
- DFW Marriott Hotel and Golf Club
- Fort Worth Hilton
- Hilton Garden Inn FW Medical Center
- Holiday Inn DFW Airport South

For the three-year audit period, we concluded that the six audited hotels/motel under-reported taxable hotel occupancy tax revenue due to the City of Fort Worth. The under-reporting and related underpayments resulted from hotels claiming exemptions without exemption forms, claiming exemptions with supporting exemption forms that were unsigned or not dated, claiming exemptions for agencies that are not allowed or not recognized as eligible exempt organizations by the City of Fort Worth, and/or claiming permanent residency exemptions without documentation to adequately support that hotel guests stayed the required 30 consecutive days. We also noted instances where there was inadequate support for adjustments made to reported taxable room revenue amounts. As a result, a total of \$15,219.12 was identified as underpaid to the City, excluding penalties.

Upon completion of each individual hotel/motel audit, the Department of Internal Audit notified the Financial Management Services Department of amounts owed to the City. The Financial Management Services Department then billed each hotel/motel based on our audit results.

With this interim reporting, and prompt follow-up by the Financial Management Services Department, \$11,692.28 of the \$15,219.12 (plus \$861.82 in penalties) has been collected from four (4) of the six hotels/motel. The remaining \$3,526.84 has been billed to the remaining two hotels.

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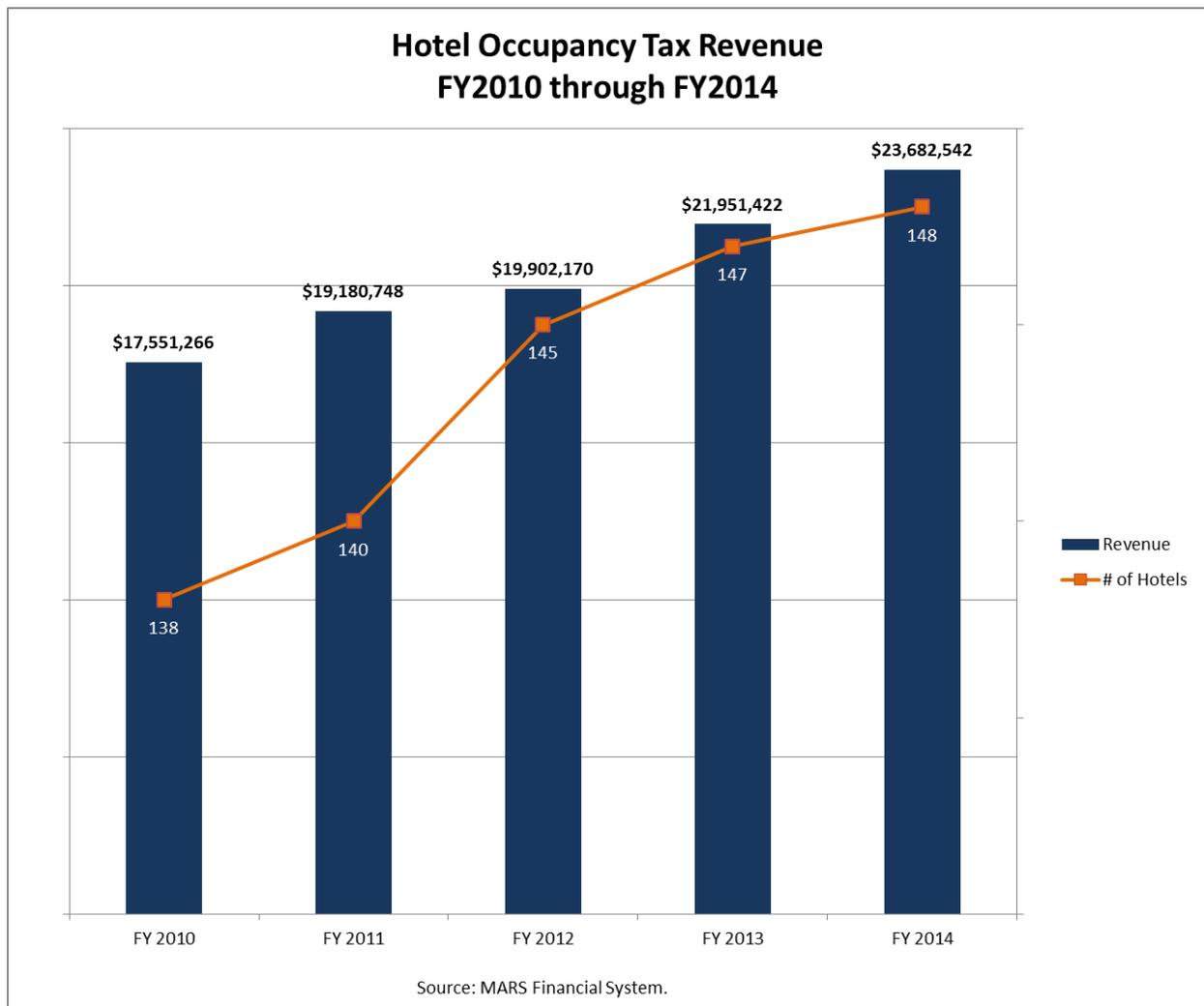


Background

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. 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 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 and had been historically remitted 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 hotel occupancy tax payments via Automated Clearing House (ACH).

The following graph shows hotel occupancy tax revenue for fiscal years 2010 through 2014.





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 Fort Worth hotels and one Fort Worth motel for the three-year period ended September 30, 2014.

The Department of Internal Audit did not conduct a review of payroll tax filings associated with the motel whose employees are allowed to occupy rooms in exchange for work performed on the premises. We also did not review the City's internal processes for handling and recording hotel occupancy taxes, since a review of such was included in the prior Hotel Occupancy Tax Audit Report released on March 13, 2015.

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 federal agencies qualifying for hotel occupancy tax exemptions and for verifying the permanent residency requirement;
- reviewed City financial records for verification of bank deposits 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, except for peer review¹. 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.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Audit Results

The Department of Internal Audit conducted an audit of the following five hotels and one motel within the City of Fort Worth. Based on our audit results, we concluded that the six hotels/motel under-reported hotel occupancy taxes due to the City.

Hotel/Motel Name	Address	Amount Due
Hilton Garden Inn FW Medical Center	912 Northton Street - Fort Worth, TX 76104	\$ 143.01
DFW Marriott Hotel and Golf Club	3300 Championship Pkwy - Fort Worth, TX 76177	\$ 146.64
Fort Worth Hilton	815 Main Street - Fort Worth, TX 76102	\$ 1,189.80
American Airlines Training & Conference Center	4501 Hwy 360 - Fort Worth, TX 76155	\$ 2,337.04
Century Motel	3434 E. Lancaster Ave - Fort Worth, TX 76103	\$ 5,106.02
Holiday Inn DFW Airport South	14320 Center Station Drive - Fort Worth, TX 76155	\$ 6,296.61
TOTAL		\$15,219.12

The under-reporting and related underpayments resulted from hotels claiming exemptions without having exemption forms, claiming exemptions with supporting exemption forms that were unsigned or not dated, claiming exemptions for agencies that are not allowed or recognized as eligible exempt organizations by the City of Fort Worth and/or claiming permanent residency exemptions without adequate documentation to support that hotel guests stayed 30 or more consecutive days. We also noted instances where there was inadequate support for adjustments made to reported taxable room revenue amounts.

It should be noted that during the review of Century Motel, the Department of Internal Audit was informed that motel employees are allowed to occupy rooms in exchange for work performed on the premises. Our review of permanent residency exemptions at his motel was, therefore, based on information captured on motel guest cards. The value of the monthly room rent was considered exempt from City taxes as long as the guest card captured employee stays for 30 consecutive days. For stays of less than thirty (30) days, the value of the room exchanged for services was considered taxable room revenue to the City.



Acknowledgements

The Department of Internal Audit would like to thank the City of Fort Worth's Financial Management Services Department, the American Airlines Training & Conference Center, Century Motel, DFW Marriott Hotel and Golf Club, Fort Worth Hilton, Hilton Garden Inn FW Medical Center, and Holiday Inn DFW Airport South for their cooperation and assistance during this audit.