



Audit Report

***Finance/Business Tax:
Transient Occupancy Tax
New Hotel***

July 2013

AU14-01

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REPORT SUMMARY

The Finance Department/Business License/Tax Division is the designated Tax Administrator for Riverside Municipal Code Section 5.32 – Transient Occupancy Tax (TOT) responsible for the administration, collection, and transaction recording of “Rent” revenue¹ from the various city hotels (hotel operators) as defined in the code.

In fiscal year 2011/2012, an audit was performed on 10 selected hotels (out of 23) to review the monthly registration and billing transactions for a 19 month period. Since the previous audit, one new hotel has opened. The scope of this audit is limited to that hotel’s operations from April 17, 2012 through May 31, 2013.

The Hotel Operator provided examples of Guest Folios for individuals that stayed more than 30 consecutive days at their establishment. Each time the Hotel Operator adjusted the registration records to exempt all Transient Occupancy Taxes for the full period of occupancy. Per the Riverside Municipal Code, a Guest is considered a “Transient” the first 30 days the hotel room is occupied. TOT should be assessed and collected during those first 30 days; beginning on the 31st day and thereafter, the Guest is exempt from the imposed TOT.

We informed the City of Riverside Business Tax Supervisor regarding the Hotel Operator’s tax assessment practices for Guests that stay 30 consecutive days or more at their establishment. A decision was made by the Supervisor and City of Riverside Assistant Finance Director to instruct the Hotel Operator to change their tax assessment practices for future monthly TOT effective no later than August 1, 2013. No lost revenue was calculated or invoiced.

A letter was sent to the Hotel with the above instructions.

¹ Per Section 5.32.010, Rent is defined as “the amount of the consideration charged or chargeable to the tenant or person entitled to occupancy, for the occupancy space, valued in money whether received in money, labor or otherwise, including the full value of receipts, cash, credits, property or services of any kind or nature, without any deduction whatsoever.”

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our audit objectives were to:

- Verify Hotel Operator's understanding and compliance of the Riverside Municipal Code Section 5.32 Transient Occupancy Tax; and
- Determine whether the Hotel Operator properly assessed, collected and remitted all TOT owed to the City in compliance with Riverside Municipal Code Section 5.32.

Scope and Methodology

The review was conducted in July 2013 for records and transactions from April 17, 2012 through May 31, 2013. To address the audit objectives and as part of our assessment of risk, we

- Performed an analytic review of the TOT data for the hotel;
- Verified Business Tax Division maintained copies of TOT returns filed and submitted by Hotel Operator in accordance with the City's Records Retention Schedule;
- Interviewed Hotel General Manager to verify their understanding of the Riverside Municipal Code 5.32 and their TOT reporting process;
- Verified the Hotel Operator had the *Transient Occupancy Registration Permit* available for review and/or posted in a conspicuous place at all times; and
- Verified the information reported on the TOT returns agreed to the accounting records and applicable supporting documentation.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

BACKGROUND

Riverside Municipal Code Section 5.32 levies a Transient Occupancy Tax (TOT) on the daily usage of a hotel room(s) in the City of Riverside. Each Guest staying at a hotel is required to pay a tax on the daily Room Rate charged by the Hotel Operator. The TOT constitutes a debt owed by the Guest to the City and extinguished when the Guest pays the Hotel Operator the Total Room Rate and TOT for their stay in the hotel room. All TOT collected by the Hotel Operator are to be remitted to the City on a monthly basis. The TOT becomes delinquent and subject to penalties and interest if not received by the City on or before the fifteenth (15th) calendar day of the month following the close of each calendar month.

On November 2, 2010 in a Special Municipal Election voters approved an increase in the TOT rate to support the Riverside Convention Center renovations. On January 4, 2011, the City Council approved the Riverside Municipal Code Section 5.32 be amended to increase the TOT rate, by a total of 2% phased in over time, from 11% to 12% as of July 1, 2012 and to 13% as of July 1, 2014. During our review period, the TOT rate was 12%. The revenue generated by TOT is recorded in the General Fund (101-313000).

Hotel Review

The hotel reviewed is a newly built five-story hotel with 125 guest rooms, located within nearby distance to the Riverside Convention Center and Downtown pedestrian Main Street mall. The Room Revenue, Exemptions, and TOT for the hotel under review are listed below. The name of the hotel has been excluded throughout the entire report in order to be compliant with Section 5.32.270 (Confidentiality of Records) of the Riverside Municipal Code.

Hotel Room Revenue, Exemptions, and Transient Occupancy Tax Period April 17, 2012 through May 31, 2013				
Tax Year	Tax Month	Gross Room Rentals \$	Exemptions \$	TOT Collected \$⁽¹⁾
2012	April	48,265	520	5,252
2012	May	149,985	382	16,456
2012	June	186,495	6,710	19,776
2012	July	303,459	9,581	35,265
2012	August	209,631	5,387	24,509
2012	September	151,727	1,596	18,016
2012	October	186,856	9,530	21,279
2012	November	184,540	10,644	21,017
2012	December	248,055	4,247	29,257
2013	January	169,202	3,200	19,939
2013	February	206,861	12,533	23,319
2013	March	274,445	18,367	30,729
2013	April	236,027	18,037	26,159
2013	May	248,144	10,161	28,558
Total		\$ 2,597,038	\$ 110,895	\$ 319,531

(1) = Effective July 1, 2012, the TOT rate increased from 11% to 12% per Riverside Municipal Code Section 5.32

FINDINGS & RECOMMENDATIONS

Finding # 1: Hotel practice in assessing TOT for occupants greater than 30 days is not in compliance with Riverside Municipal Code Section 5.32

Long-Term Guest

Hotel Operator provided examples of Guest Folios for individuals that stayed more than 30 consecutive days at their establishment. Each time the Hotel Operator adjusted the registration records to exempt all Transient Occupancy Taxes for the full period of occupancy. Per the Riverside Municipal Code, a Guest is considered a "Transient" the first 30 days the hotel room is occupied. TOT should be assessed and collected during those first 30 days; beginning on the 31st day and thereafter, the Guest is exempt from the imposed TOT.

We are not able to quantify the amount of TOT that would have been collected during the audit period from the Hotel Operator for Guest(s) that stayed 30 days or more in which an adjustment was made to exempt all Transient Occupancy Taxes from their Guest Folio.

Auditor's Comment

On July 15, 2013, we met with the City of Riverside Business Tax Supervisor to discuss this issue. A decision was made by the Supervisor and City of Riverside Assistant Finance Director to have the Hotel Operator change tax assessment practices for future monthly TOT reporting per Riverside Municipal Code Section 5.32.

The Hotel Operator received an official letter from Internal Audit with the results of the Transient Occupancy Tax review; they agreed to notify their staff members and modify their billing system to assess and collect TOT daily up until the 30th day. As of the 31st day and thereafter, TOT is no longer applied to the daily room rate. This TOT will be included in the monthly report and remittance to the City of Riverside's Business Tax Division, effective no later than August 1, 2013.

Management's Response

No management response is required.