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Hotel Occupancy Tax Revenue Audit

September 29, 2017

City of Fort Worth
Department of Internal Audit
200 Texas Street
Fort Worth, Texas 76102

Audit Staff
Patrice Randle, City Auditor
Terry Holderman, Assistant City Auditor
Diane Hinojoza, Senior Auditor
Kanizur Mazumdar, Internal Auditor
The Hotel Occupancy Tax Revenue Audit was conducted as part of the Department of Internal Audit’s Fiscal Year 2017 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, 2013 through September 30, 2016.

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.
- Courtyard Fort Worth Downtown/Blackstone
- DFW Airport Marriott South
- Springhill Suites Fort Worth University
- Hampton Inn & Suites Fort Worth-West-I-30
- Residence Inn Fort Worth Fossil Creek

For the three-year audit period, we concluded that four of the five audited hotels under-reported taxable hotel occupancy tax revenue during the three-year period ended September 30, 2016. The DFW Airport Marriott South hotel audit did not result in any exceptions.

Hotel occupancy tax under-reporting/under-payments resulted from hotels not having exemption forms to support exemptions claimed, unsigned or undated exemption forms to support claimed exemptions, exemptions claimed for providing services to agencies that are not recognized as being exempt by the City of Fort Worth, and/or lack of documentation to support permanent residency exemptions (i.e., guest stays for at least 30 consecutive days). As a result, a total of $3,673.50, excluding penalties and interest, was identified as underpaid to the City of Fort Worth.

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. FMS then billed each hotel based on our audit results.
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Background

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

The following graph shows hotel occupancy tax revenue for fiscal years 2012 through 2016.
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, 2013 through September 30, 2016.

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 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 within the CFW. Based on our audit results, we concluded that four hotels under-reported hotel occupancy taxes due to the City. Based on our audit results, we concluded that the CFW was underpaid $3,673.50 in hotel occupancy taxes.

<table>
<thead>
<tr>
<th>Hotel Name</th>
<th>Hotel Address</th>
<th>Tax Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Courtyard Fort Worth Downtown/Blackstone</td>
<td>601 Main - Fort Worth, TX 76102</td>
<td>$1,043.24</td>
</tr>
<tr>
<td>DFW Airport Marriott South</td>
<td>4151 Centreport Drive - Fort Worth, TX 76155</td>
<td>$0.00</td>
</tr>
<tr>
<td>Springhill Suites Fort Worth University</td>
<td>3250 Lovell Ave - Fort Worth, TX 76107</td>
<td>$1,567.93</td>
</tr>
<tr>
<td>Hampton Inn &amp; Suites Fort Worth-West-I-30</td>
<td>2700 Green Oaks Rd - Fort Worth, TX 76116</td>
<td>$45.00</td>
</tr>
<tr>
<td>Residence Inn Fort Worth Fossil Creek</td>
<td>5801 Sandshell Drive - Fort Worth, TX 76137</td>
<td>$1,017.33</td>
</tr>
<tr>
<td><strong>TOTAL TAXES DUE TO THE CITY (excluding penalties and interest)</strong></td>
<td></td>
<td><strong>$3,673.50</strong></td>
</tr>
</tbody>
</table>

The under-reporting and related underpayments resulted from hotels not having supporting exemption forms, claiming exemptions although supporting exemption forms were unsigned or not dated, claiming exemptions for agencies that are not recognized as being exempt by the CFW, and/or claiming permanent residency exemptions without adequate documentation to support that hotel guests stayed 30 or more consecutive days.

Our audit results were communicated to the Financial Management Services (FMS) Department upon completion of each individual hotel audit. FMS then billed each hotel for the amounts noted as being underpaid. Upon completion of our fifth individual hotel audit, the amount due from the Hampton Inn & Suites ($45.00) had been paid to and received by the CFW.
Acknowledgements

The Department of Internal Audit would like to thank the City of Fort Worth’s Financial Management Services Department, the Courtyard Fort Worth Downtown/Blackstone, DFW Airport Marriott South, Springhill Suites Fort Worth University, Hampton Inn & Suites Fort Worth-West-I-30, and the Residence Inn Fort Worth Fossil Creek for their cooperation and assistance during this audit.