



**CITY OF FORT BRAGG**

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**FINANCE AND ADMINISTRATION COMMITTEE**

**MEETING DATE:** February 12, 2020  
**TO:** Finance and Administration Committee  
**AGENDA ITEM TITLE:** **Receive Report Regarding Results of TOT Audit**

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**BACKGROUND AND OVERVIEW:**

Transient Occupancy Tax (TOT) is a local tax that is applied to the cost of hotel or other lodging stays of 30 consecutive days or less. In 2016, with passage of local Measures AA and AB, the City's TOT rate increased from 10% to 12%. This tax is a revenue source solely for the General Fund. TOT is collected by lodging establishments and remitted to the City on a monthly basis. Factors influencing TOT revenues include vacancy rates, changes in business and leisure travel, new hotels, hotel expansion, and room rate increases.

Auditing of tax revenues is an important financial tool used to help ensure tax compliance and maximize the City's revenue collection. Prior to the current audit, the City had not conducted a TOT audit in approximately ten years.

In November of 2018 Staff solicited proposals from two revenue enhancement firms that operate in California; Muni Services and Hdl. On January 28, 2019 the City of Fort Bragg City Council authorized staff to contract with Muni Services to conduct an audit of the hotel operators that collect and remit TOT in the City of Fort Bragg. The cost of the audit was not to exceed \$30,400.

The Audit commenced in February of 2019. The review period was determined to be April 2016 through March of 2019. Staff provided detailed TOT tax returns (for all 27 operators in the City) to the Muni Services audit team who reviewed and summarized all of the returns. The auditors then analyzed the data and based on analyzed risk selected ten operators for audit. In September of 2019, Muni Services auditors travelled to Fort Bragg and visited each of the ten hotels for onsite visits. Auditors examined in detail each hotel's books and records.

The Audit was finalized in January of 2020. The final cost of the audit was slightly over budget at \$31,000 primarily due to travel reimbursement costs. Of the ten hotel operators under audit, four were issued letters of commendation while six were found to have reporting and payment deficiencies. The total amount of deficiencies found was approximately \$100,000. Deficiency assessments ranged between approximately \$1,000 and \$34,000. Because TOT tax return

information is confidential no specific hotel names or deficiency assessment amounts will be used in this report. Some of the areas that led to underreporting included incomplete records, underreported rent, unsubstantiated food and beverage deductions, pet fees, late check out fees, roll away bed fees, embezzled funds deduction and non-taxation of first 30 days rent. A list of guest fees for which hotel operators commonly fail to collect TOT is attached to this report.

Commendation and deficiency letters will be sent to each of the audited hotel operators as of today February 12, 2020. Operators assessed a deficiency will have until March 31, 2020 to either pay the deficiency in full or make payment arrangements with the City Finance department.

**RECOMMENDATION:**

Staff recommends accepting this final audit report with presentation to the full council at the mid-year budget review on March the 5<sup>th</sup>, 2020. Staff further recommends conducting an audit of eight to ten hotel operators in each of the next two years so that all of the City's hotel operators are audited within a three-year period.

**ALTERNATIVES:**

1. Request further details regarding the FY 2019/2020 TOT audit
2. Recommend an alternative ongoing audit schedule

**ATTACHMENTS:**

1. Guest Charges Subject to TOT Collection