

**CITY of
SPRINGFIELD**



Internal Audit Report

Hotel/Motel Tax

July 2011

2011-01

Hotel/Motel Tax Audit
Table of Contents

	<u>Page</u>
Letter of Transmittal.....	1
Authorization	2
Audit Objectives and Scope	2
Overall Conclusion	2
Background	2
Audit Objective Analysis and Opportunity for Improvement	6
Management Response.....	9



July 11, 2011

Honorable Mayor and Members of the City Council:

I am pleased to present the attached internal audit report on Hotel/Motel Tax Collection and Payout Procedures. The purpose of the audit was to evaluate controls and identify opportunities to enhance the revenue collection procedures used to collect the hotel/motel tax and to ensure tax procedures are being used in accordance with ballot language approved by voters.

A draft for discussion was provided to the City Manager's Office, the City Attorney's Office and the Finance Department prior to the release. All departments covered under this audit were very responsive to the recommendations.

I would like to thank the Finance Department for their full cooperation and assistance provided during this audit.

Respectfully submitted,

A handwritten signature in blue ink that reads "KBork".

Kristy Bork, CPA
Internal Auditor
City of Springfield

Attachment

cc: Greg Burris, City Manager
Fred Marty, Deputy City Manager
Collin Quigley, Assistant City Manager

CITY OF SPRINGFIELD
840 Boonville Avenue, P.O. Box 8368 Springfield, Missouri 65801-8368
Phone: (417) 864-1000 fax: (417) 864-1912

Authorization

The Internal Audit Department has conducted an audit of the collection and administration of the Hotel/Motel Tax ("the Tax"). The audit was conducted under the authority of Chapter 2, Section 15 of the Springfield City Charter and in accordance with the Annual Audit Plan approved by City Council.

Audit Objectives and Scope

This audit was performed in accordance with *Generally Accepted Government Auditing Standards*, which included tests of the controls and records, and other audit procedures that the Auditor considered necessary in the circumstances. This audit covered the fiscal year ending June 30, 2010, although the Auditor examined certain events and transactions occurring before and after that period.

The audit objectives were as follows:

1. Evaluate the effectiveness of internal controls over the collection and administration of the tax.
2. Ensure that contracts entered into with third parties and bond issuances are in accordance with the ballot language and the Tax proceed payments are made in accordance with contracts and bond documents.

Overall Conclusion

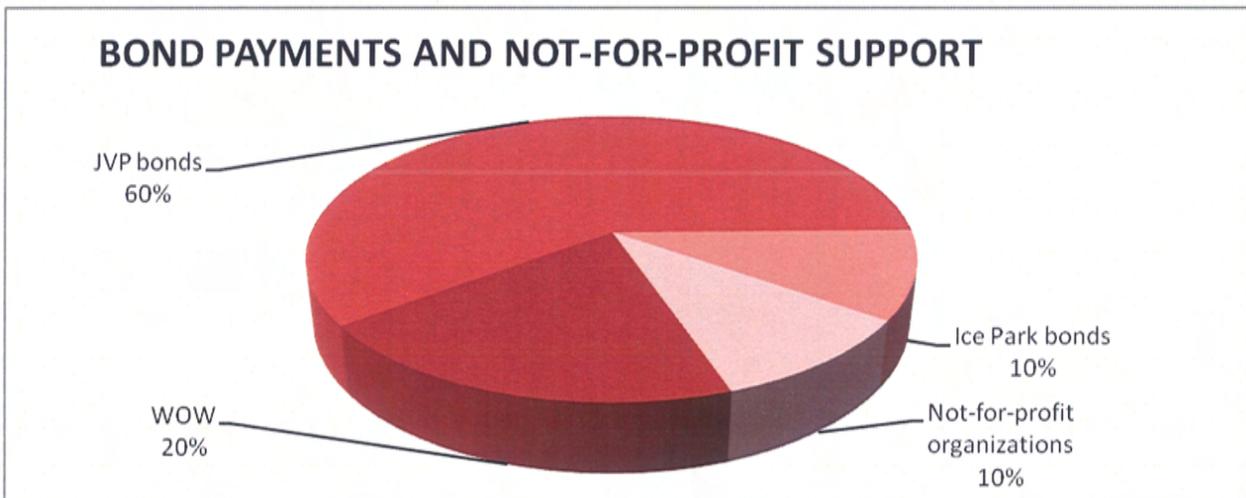
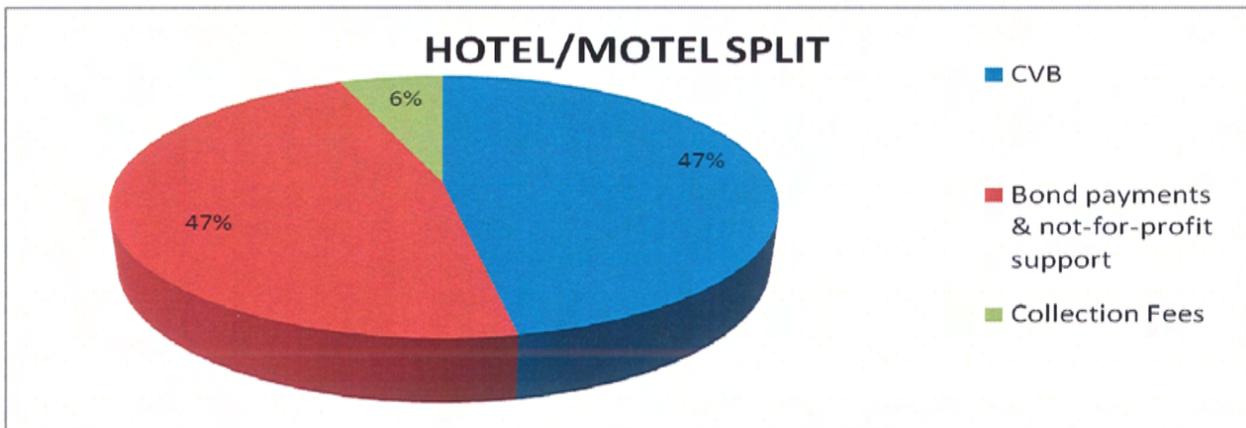
As a result of audit inquiries, examinations and tests, the Auditor noted one contract did not have specific language to ensure the goals of the ballot language were maintained. The Auditor also concluded there were adequate controls in place to ensure that the Finance Department is properly collecting the Tax, and properly distributing the Tax in accordance with City Code. Audit results were shared with the Director of Finance, the City Attorney and the City Manager. The Objective Analysis and Opportunity for Improvement Section of this report addresses these areas in more detail.

Background

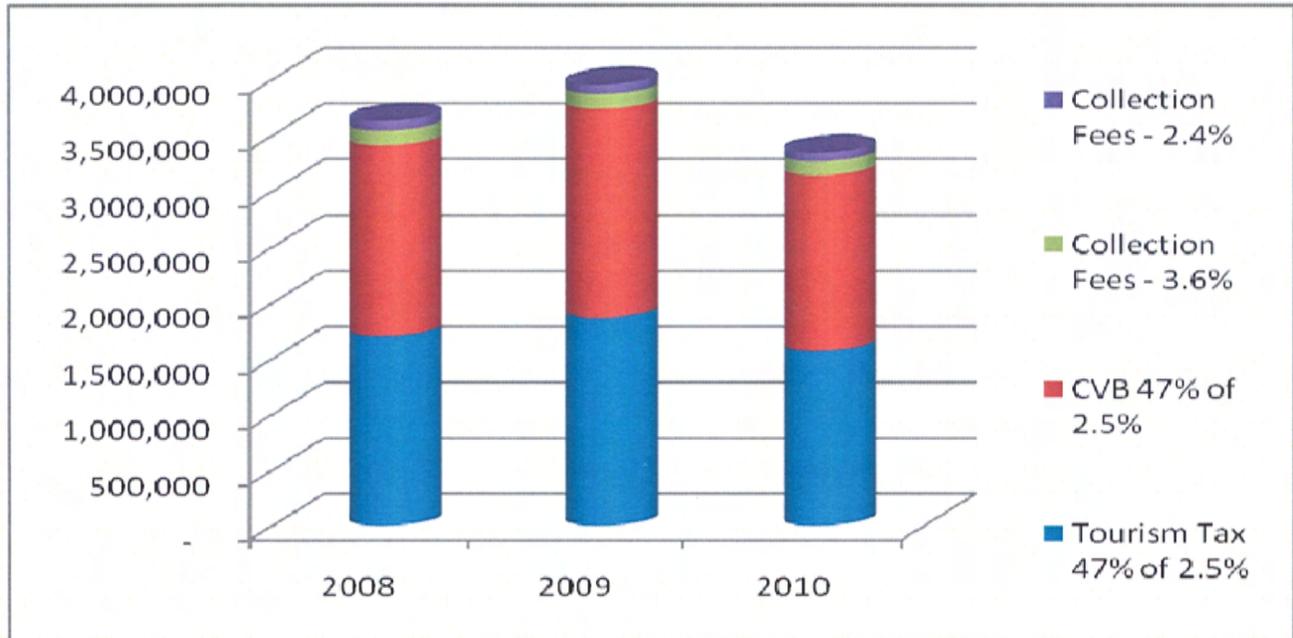
In 1979, City Council approved general ordinance 984 which amended City Code and allowed the City to collect a 2% hotel/motel tax. This Ordinance noted the Tax was to be used by what is today known as the Convention and Visitors Bureau (CVB). This initial Code amendment allowed the City to maintain 6% of all collections to cover the City's costs to collect and enforce the Tax. In 1998, voters were asked to increase the Tax from 2% to 4.5% to further promote tourism. The ballot language read as follows:

“Shall the City of Springfield increase the tax paid ... from two (2) percent to four and one-half (4½) percent to promote recreation, education, tourism and the local economy in order to carry out the recommendations of the Vision 20/20 Citizen’s Committee and the Commission on Travel and Tourism by developing Civic Park, constructing an indoor ice facility and making capital grants available for projects to assist not-for-profit organizations who promote these activities such as the Discovery Center, the Gillioz, and the Landers Theaters, Dickerson Park Zoo and the American National Fish and Wildlife Living Museum and Aquarium with the tax increase to end with the last debt service payment”

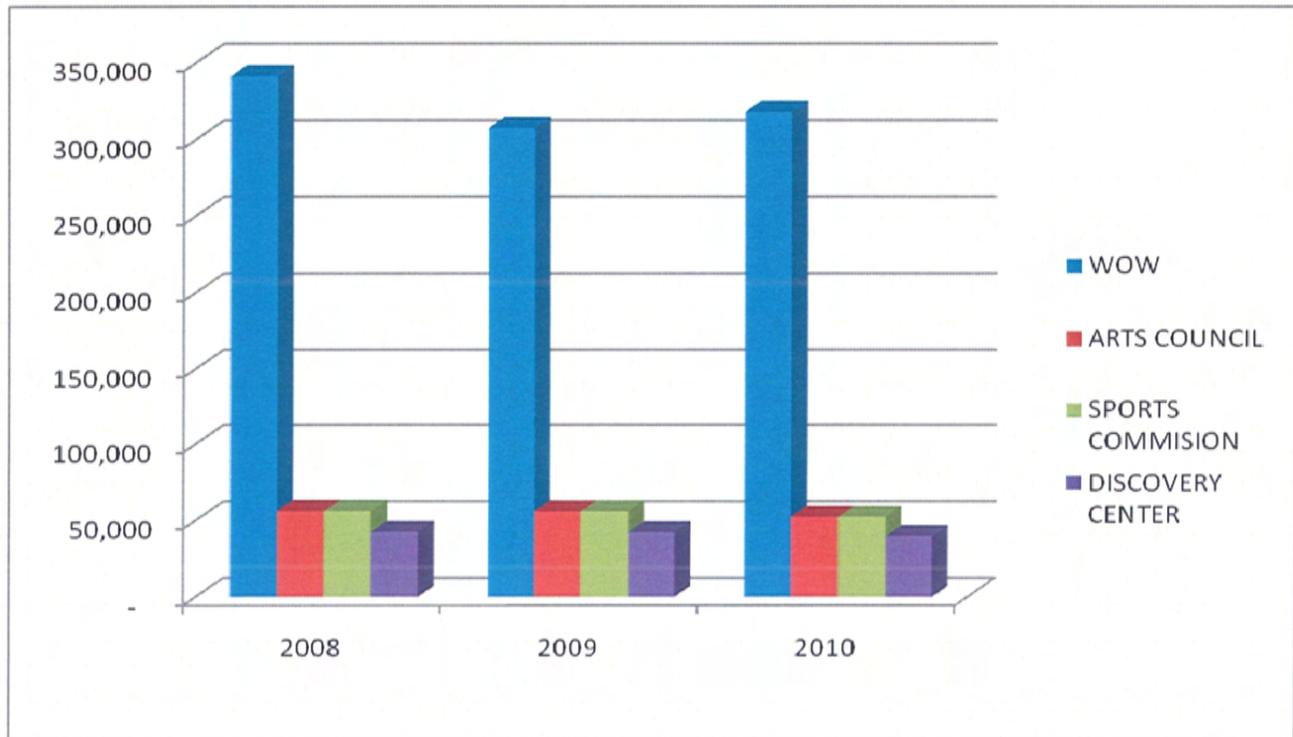
In February 2004, the voters were asked to approve an additional 0.5% increase, to bring the Tax to an even 5%. The 0.5% increase was to be used to “attract sporting events and conventions and to retain a tourist information center.” This increase was given to the CVB. The City still maintains 6% of the total tax collected to cover the costs to collect, distribute, and enforce the tax. A portion of the 6% collection fee is split between the Greater Springfield Area Sports Commission and the Springfield Regional Arts Council and a portion is maintained by the City to cover collection and administration costs. See the tables below to show the Tax break out:



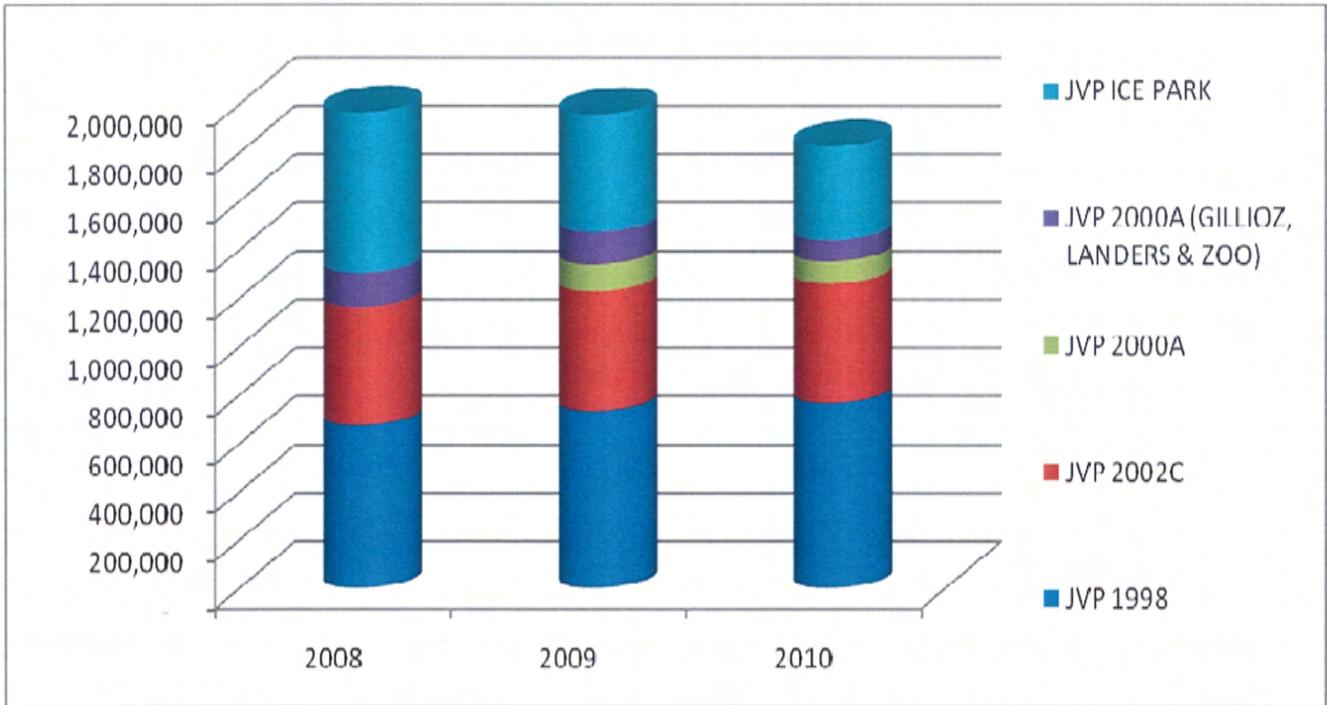
Total Tax Collected 3-Year Trend – Split by Category



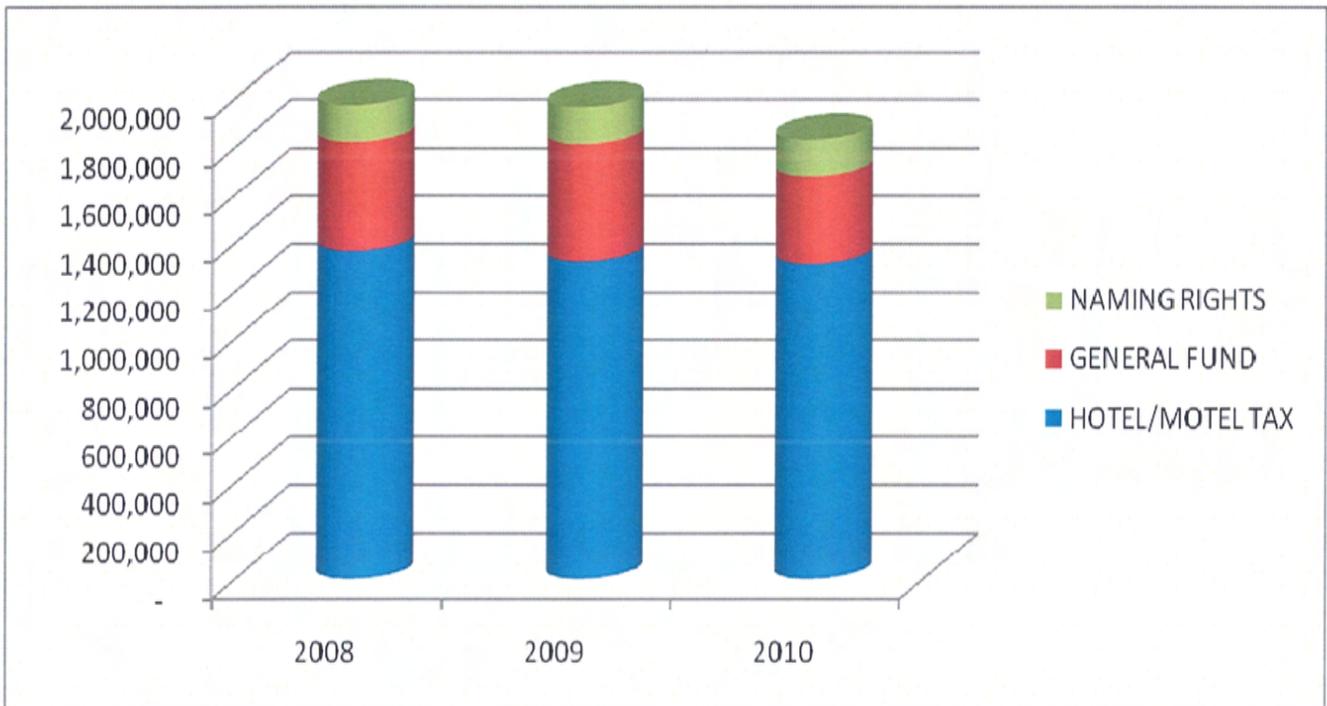
Third-Party Recipient – 3-Year Trend



Bond Payments – 3-Year Trend



Source of Bond Payments – 3-Year Trend



Audit Objective Analysis and Opportunity for Improvement

Objective 1: Evaluate the effectiveness of internal controls over the collection and administration of the tax.

In planning and performing the audit, the Auditor considered the City's internal control over the collection and administration of the Tax as a basis for designing auditing procedures. The City should have adequate controls to ensure risks associated with the collection of tax dollars, recording of transactions and proper financial reporting are properly mitigated.

The Licensing Division is responsible for collecting the Tax and following up with hotel/motels that do not pay, whereas Finance is responsible for ensuring that Tax receipts and distributions are properly recorded and reported in the financial statements.

The Auditor's consideration of internal control over the collection and administration of the Tax was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control. To test the above-stated objective, I performed the following tests: interviewing management and staff, observing collection procedures, tracing and comparing a sample of recorded transactions from the licensing permit database to the financial statements, and testing follow up procedures on vendors that were late or in non-payment status. Based on these tests, the Auditor did not identify any deficiencies of the above-stated objective that would be considered a material weakness in internal controls over the collection and administration of the Tax.

City staff and management have appropriate controls to ensure all hotels/motels are paying tax on a timely basis and ensuring that controls over collection are properly segregated. Automated controls are in place to ensure that the recordings of Tax revenues are broken out in accordance with ballot language, which further mitigates the risk of errors.

The following are other items I discussed with management as part of this audit. This comment does not represent a weakness in internal control, but an area for management to review if changes in processes are necessary.

Opportunities for Improvement:

- a. There have been no audits of vendor tax statements performed by Licensing since 2009. Management should consider whether this practice would be beneficial to the City in finding additional tax revenues.

Objective 2: Ensure that contracts entered into with third parties and bond issuances are in accordance with the ballot language and Tax proceed payments are made in accordance with contracts and bond documents.

The original 2% Tax goes directly to the CVB, was established by Council prior to the Missouri Hancock Amendment, and was never included in any ballot language. The Original 2% Tax used by the CVB appears to be paid in accordance with general ordinance 2984 signed in August 1979, and also paid in accordance with the yearly contract between the City and the CVB.

The 1998, a 2.5% increase and in 2004, a .05% increase were both voted on and passed by the citizens. To ensure compliance with ballot language, I tested each contract and bond issuance to ensure the contracts and bond issuances were written in accordance with ballot language.

When studying the ballot language for the 1998 and 2004 increases, it was noted that there were no clear sunset dates for those increases. The 1998 tax will end with the "last debt service payment" and the 2004 increase does not mention a sunset date.

To comply with the 1998 ballot language, the City distributed the Tax to pay certain non-profit organizations and pay debt service costs associated with capital improvements. The City issued contracts with two non-profit organizations that receive a pre-determined percentage of Tax proceeds (the American National Fish and Wildlife Museum District and the Discovery Center), issued four different series of bonds to construct the Ice Park and Jordan Valley Park, and entered into contracts with three non-profit or governmental organizations (the Gilioz, Landers Theater, and Dickerson Park Zoo) to pay debt service costs for bonds issued by Greene County.

It appears all bonds were issued for the stated ballot purpose: building Jordan Valley Park and the Ice Park, and providing capital grants for not-for-profit organizations who promote recreation, education, tourism and the local economy. However, Tax proceeds collected does not cover total debt service payments (see graph above); General Fund monies have been necessary to supplement the debt service costs of the bonds since 2002.

When reviewing the contracts with the non-profit organizations, it appears that Tax proceeds are being paid in accordance with the contract terms for both organizations. However, it was noted that the contract with the American National Fish and Wildlife Museum District does not specify that the Tax proceeds must be used for capital improvements as noted in the ballot language.

Opportunities for Improvement:

- a. Management should work with the Law Department to determine if the language in the contract with the American National Fish and Wildlife Museum District is properly fulfilling the ballot requirements and city code. If the Law Department determines that the current contract is not in line with the ballot language, City Management should work with the American National Fish and Wildlife Museum District to develop a new contract.
- b. Management should work with the Law Department to determine if there is a clear, documented sunset date noted in the ballot language and determine when the Tax will be up for renewal.



MEMORANDUM

TO: Kristy Bork

RE: Management's Response to Hotel Motel Tax Audit

DATE: June 7, 2011

Objective 1 Opportunities for Improvement

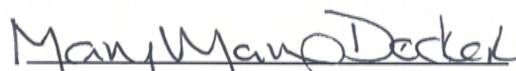
Previous hotel-motel tax audits have proved beneficial in promoting understanding of the proper calculation of the hotel- motel tax. The tax is a gross receipts tax and this makes the calculation somewhat complex. The audits showed us where we needed to improve our education efforts. Beginning in FY 2012, the Licensing Division of the Finance Department will conduct 4 hotel-motel tax audits per year.

Objective 2 Opportunities for Improvement

- a. Management has met with the Law Department to discuss this issue. The City Attorney has opined that the ballot language restricts use of these funds to "capital grants," while the contract with the American National Fish and Wildlife Museum allows these funds to be used for both capital improvements and operations. Management intends to work with the Executive Director of the museum to develop an amendment to the contract to restrict future use of funds in accordance with the ballot language.
- b. Management agrees that there is no clear sunset date for this tax. The ballot language states the tax will expire "with the last debt service payment," but does not give a specific year. In the future, Management will endeavor to ensure clear sunset dates are included in tax-related ballot initiatives



Greg Burris, City Manager



Mary Mannix, Finance Director