



TOT COMPLIANCE AUDIT

SEPTEMBER 21, 2016

BACKGROUND

- **Hotels collect and transfer to City 10% TOT monthly**
- **Engaged HA&A to perform a hotel market and TOT analysis**
- **Engaged DavisFarr to perform TOT audit**



PURPOSE OF TOT AUDIT

- **Independent and objective analyses**
- **Reviewing of 16 hotels' compliance with the Morgan Hill Municipal Code**
- **Three-year period 1/1/13 – 12/31/15**
- **Findings, recommendations and best practices**



PRE-AUDIT

- **Met with Auditors to confirm Agreed-Upon-Procedures**
- **Sent letter to hotels**
- **Met with hotel operators**



KEY FINDINGS

- **Total amount owed \$136,194**
- **One hotel did not provide required documents**
- **4 hotels with substantial long term residency programs (>50%)**
- **Over-collections**



KEY FINDINGS (CONTINUED)

- **Invalid exemptions \$34,488**
- **Calculation errors \$16,347**
- **Un-reported taxable revenues \$8,527**
- **Penalties, interest, and audit recovery fees
\$30,145**



RECOMMENDATIONS

- **Revising the TOT returns**
- **Expanding the TOT Ordinance**
 - **Written agreement for 30-day exemptions**
 - **Government exemptions**
- **Requiring a TOT audit before transfer of ownership**



NEXT STEPS

- **Collect outstanding TOT**
- **Revise TOT Ordinance**
- **Revise TOT Return Forms**

