

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES

City Council
City of Hesperia
Hesperia, California

We have performed the procedures enumerated below, which were agreed to by the management of the City of Hesperia (the City), solely to assist the City in verifying the accuracy of the transient occupancy tax returns submitted by the Econolodge, 11976 Mariposa Road, Hesperia, California 92345 (the Hotel), for the period from January 1, 2016 to December 31, 2016. The Hotel's management is responsible for the preparation and filing of the transient occupancy returns. The sufficiency of these procedures is solely the responsibility of the management of the City of Hesperia. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

1. We reviewed the City Municipal Code and related ordinances and resolutions related to transient occupancy tax.

No exceptions were noted as a result of this testing.

2. We verified the mathematical accuracy and the timeliness of the transient occupancy reports filed with the City for the calendar year 2016.

During testing over mathematical accuracy and timeliness of transient occupancy reports filed it was noted 7 out of the 12 months of transient occupancy reports were not filed timely during the calendar year 2016. Per section 3.10.060 of the City's Code of Ordinances; any operator who fails to remit taxes within the time required should pay a penalty of ten percent of the amount of the tax. In addition to the penalties, the operator shall pay interest at the rate of one-half of one percent per month or fraction thereof on the amount of tax, exclusive of penalties, from the date on which the remittance first became delinquent until paid. See Schedule A for a list of delinquent months and calculated penalties and interest.

3. We traced the gross revenues reported on the transient occupancy tax returns prepared by the Hotel to gross revenues recorded in the Hotel's accounting records and verified that these were in accordance with the City's ordinance.

Per review of transient occupancy tax returns, it was noted that several exemptions for over 30 day occupancy exemptions were not properly supported, resulting in under reported gross taxable revenues of \$2,248 and underpayment of transient occupancy tax of \$225.

4. We selected a sample of twenty-five individual rental transactions during the review period and for each transaction selected, we verified the tax computations and traced the amounts of rental revenues and transient occupancy taxes collected to the books and records of the Hotel.

No exceptions were noted as a result of this testing.

5. We reviewed the internal control procedures of the Hotel and determined: (a) how “gross rents” and “uncollected rents” were accounted for and reported to the City, (b) what procedures were in place to identify transient and non-transient guests, and (c) how exemptions, including complimentary rooms, were documented and reported to the City.

During our review, we noted that the Hotel does not include charges for roll-away beds, pet charges, late check out fees and telephone, modem and fax services in revenues subject to transient occupancy tax. These charges are part of the consideration received from the guest for occupancy of space and therefore should be considered rent that is subject to transient occupancy tax. Total pet fee and roll away bed charges for the year were \$60, resulting in an underpayment of transient occupancy tax of \$6.

6. We reviewed the supporting documentation for exemptions claimed on three of the transient occupancy tax returns in the period under review. The selected reporting periods were April, August and October 2016.

For the three tax returns selected, there were a total of 11 exemptions claimed totaling \$11,487. The results of our testing are as follows:

	Number of Exemption Claims	Amount of Exemptions	Under (Over) Payment of Occupancy Taxes
Exemption claims supported by proper forms and documentation	7	\$ 9,137	\$ -
Exemption claims with improper, incomplete or not supported by documentation *	4	2,350	235
	<u>11</u>	<u>\$ 11,487</u>	<u>\$ 235</u>

* These are in addition to the findings noted at procedure 3.

7. We performed additional procedures that we considered necessary to verify the reasonableness of reported revenues of the Hotel operator.

There were no additional procedures considered necessary.

8. We inquired how the Hotel handles reservations and payments made online through a third party such as Expedia.com and how the transient occupancy taxes were collected and reported to the City on these transactions.

Per our discussion with Hotel management reservations made online through a third party such as Expedia.com are handled as follows:

- Guests will book the hotel room through the intermediary e-channels (Expedia, etc.).
- Intermediary charges the guest's credit card for the entire stay at the time of purchase. The Hotel has no knowledge of the rate the guest is charged, or whether the Intermediary is charging or disclosing a tax amount to the guest.
- Intermediary sends the reservation to the Hotel through the Hotel's reservation system.
- Upon the guest's arrival, the Hotel sets up an incidental folio for the guest.
- Upon check out, the guest is billed for the total in the folio for incidentals. Folio does not indicate rate guest paid to Intermediary.
- Hotel invoices the Intermediary for room and tax based on agreed upon rates between the Hotel and the Intermediary.
- Hotel records revenue billed to Intermediary as room revenue, and tax collected to appropriate tax accrual account.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the transient occupancy tax returns. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of City Council, management, and others within the City and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dickel Evans LLP

Irvine, California
August 26, 2019

ECONOLOGGE
SCHEDULE A
FOR PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2016

Reporting Period	Due Date	Date Paid	Tax Due	Penalty	Interest	Total Penalties Owed
January	2/28/2016	3/10/2016	7,983.24	\$ 798	\$ 13	\$ 811
February	3/31/2016	4/8/2016	7,462.67	746	10	756
March	4/30/2016	5/10/2016	8,097.67	810	13	823
April	5/31/2016	6/8/2016	8,442.93	844	11	855
May	6/30/2016	7/3/2016	8,870.40	887	4	891
July	8/31/2016	9/10/2016	9,395.54	940	16	956
October	11/30/2016	12/5/2016	8,649.27	865	7	872
				<u>\$ 5,890</u>	<u>\$ 74</u>	<u>\$ 5,964</u>

ECONOLODGE
SUMMARY OF FINDINGS
FOR PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2016

Procedure Number	Gross Rent (Understatement) Overstatement	Occupancy Taxes (Underpayment) Overpayment *
2	\$ -	\$ (5,964)
3	* (2,248)	(225)
5	* (60)	(6)
6	* (2,350)	(235)
Net Total	<u>\$ (4,658)</u>	<u>\$ (6,430)</u>

* - Amounts do not include penalties of up to ten percent and interest up to one-half of one percent per month of tax due per City Ordinance 3.10.060.