

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 Day & Night Inn Hesperia, 14865 Bear Valley 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 12 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.

No exceptions were noted as a result of this testing.

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.

No exceptions were noted as a result of this testing.

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 13 exemptions claimed totaling \$19,143. 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	11	\$ 16,144	\$ -
Exemption claims with improper, incomplete or not supported by documentation	2	2,699	270
	<u>13</u>	<u>\$ 19,143</u>	<u>\$ 270</u>

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 there are no reservations made online through a third party.

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 Diehl Evans LLP*

Irvine, California

August 26, 2019

DAY & NIGHT INN  
SCHEDULE A  
FOR PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2016

Reporting Period	Due Date	Date Paid	Tax Due	Penalty	2nd Penalty	Interest	Total Penalties Owed
January	2/29/2016	10/7/2016	895.14	\$ 90	\$ 90	\$ 29	\$ 209
February	3/31/2016	10/7/2016	861.05	86	86	25	197
March	4/30/2016	10/7/2016	1,068.15	107	107	26	240
April	5/31/2016	10/7/2016	953.87	95	95	21	211
May	6/30/2016	10/7/2016	713.44	71	71	13	155
June	7/31/2016	10/7/2016	914.09	91	91	11	193
July	8/31/2016	1/17/2017	1,422.00	142	142	32	316
August	9/30/2016	1/17/2017	1,083.95	108	108	18	234
September	10/31/2016	1/17/2017	996.43	100	100	13	213
October	11/30/2016	5/2/2017	872.11	87	87	20	194
November	12/31/2016	5/2/2017	839.14	84	84	16	184
December	1/31/2017	5/2/2017	996.57	100	100	15	215
				<u>\$ 1,161</u>	<u>\$ 1,161</u>	<u>\$ 239</u>	<u>\$ 2,561</u>

DAY & NIGHT INN  
SUMMARY OF FINDINGS  
FOR PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2016

Procedure Number	Gross Rent (Understatement) Overstatement	Occupancy Taxes (Underpayment) Overpayment
2	\$ -	\$ (2,561)
6	* \$ (2,699)	\$ (270)
Net Total	<u>\$ (2,699)</u>	<u>\$ (2,831)</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.