

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 Maple Motel Hesperia, 9630 Maple Ave, 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.

No exceptions were noted as a result of this testing.

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.

During testing over gross revenues reported on the transient occupancy tax returns it was noted revenue per the transient occupancy tax returns was over reported by \$10,824.

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 all the transient occupancy tax returns in the period under review.

Total of 10 exemptions claimed totaling \$31,042. 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	4	\$ 21,869	\$ -
Exemption claims with improper, incomplete or not supported by documentation	6	9,173	917
	<u>10</u>	<u>\$ 31,042</u>	<u>\$ 917</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 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 Diehl Evans LLP

Irvine, California
September 9, 2019

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

Procedure Number		Gross Rent (Understatement) Overstatement	Occupancy Taxes (Underpayment) Overpayment
3	*	\$ 10,824	\$ 1,082
6	*	<u>(9,173)</u>	<u>(917)</u>
Net Total		<u>\$ 1,651</u>	<u>\$ 165</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.