



**Hotel Occupancy Tax – Hilton Garden  
Inn El Paso/University  
Audit No. A2014-09**

Issued by the  
Internal Audit Office  
August 12, 2014

***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of Hotel Occupancy Taxes paid by the Hilton Garden Inn El Paso/University. Based on the results of the audit, three (3) findings have been identified. All three (3) findings are considered significant in nature.

Listed below is a summary of the three (3) significant findings identified in this report:

1. Due to an oversight by the Hilton Garden Inn El Paso/University, the hotel overpaid the City of El Paso for the month of February 2014 by \$8.10.
2. Deficiencies were noted in the Hilton Garden Inn El Paso/University Hotel's Tax Exempt Schedule for the month of February 2014.
3. A review of the Hilton Garden Inn's February 2014 guest Folios identified that their bills and receipts did not include the statements required by Section 3.12.031B of City Ordinance 017912.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

## ***BACKGROUND***

The City of El Paso currently imposes a 9% Municipal Hotel Tax on the cost of the hotel accommodations, after a 2% increase that went into effect on January 1, 2013.

- Ordinance 17912 and 17913, passed and approved on December 18, 2012, amended Title 3 (Revenue and Finance) Chapter 3.12 (Hotel Room Tax) of the El Paso City Code to implement the voter approved increase in the City's Hotel Occupancy Tax (HOT) on November 6, 2012. El Paso voters approved ballot proposition #3 which authorized the designation of the City's downtown ballpark project as a sports venue project and further authorized using a 2% increase in the HOT to fund the construction of a baseball stadium in downtown El Paso. The ordinances also amend various sections of Title 3.12 in order to impose the additional 2% and sets out certain requirements related to collection, reporting, penalties, and use of the additional tax.
- A Resolution approved on December 18, 2012 established the Baseball Stadium Venue Project Fund in order to account for the venue project. The Resolution outlines the purposes for depositing monies into the Fund, establishes the use of the monies, and establishes separate accounts within the Fund for the various revenue sources to include proceeds of the Venue Project Hotel Occupancy Tax imposed by the City.

Hotels collect the Hotel Occupancy Tax from its guests and then remit the tax to the City on a quarterly basis. The City of El Paso has a process in place for conducting Municipal Hotel Occupancy Tax Audits of selected hotels in the El Paso area. As part of this ongoing process, the Hilton Garden Inn El Paso/University was selected for review.

The Hotel Garden Inn El Paso/University is a full service hotel that provides lodging accommodations, restaurant and lounge services, meeting rooms, a fitness center, a gift shop, and an outdoor swimming pool. The Hilton Garden Inn El Paso/University opened on December 18, 2006 and is located at the entrance to the University of Texas El Paso campus. The Hilton Garden Inn El Paso/University has 154 guest rooms and has been the 7<sup>th</sup> highest grossing hotel in El Paso, Texas for the past year. The Hilton Garden Inn El Paso/University has remitted Hotel Occupancy Taxes in the amount of \$218,174.71 to the City of El Paso for the last two quarters (October 2013 – March 2014).

## ***AUDIT OBJECTIVES***

The audit objective for the Hotel Occupancy Tax – Hilton Garden Inn El Paso/University Audit is to determine if the Hilton Garden Inn El Paso/University Hotel has collected and remitted Municipal Hotel Occupancy Taxes to the City of El Paso in accordance with applicable State and City regulations.

## ***AUDIT SCOPE***

The audit period covered the operations of the Hilton Garden Inn El Paso/University Hotel during the period of October 2013 – March 2014.

### *AUDIT METHODOLOGY*

To achieve our audit objectives we:

- Conducted interviews with City of El Paso’s Office of the Comptroller staff,
- Conducted interviews with Hilton Garden Inn El Paso/University management,
- Reviewed and compared quarterly hotel occupancy receipts reports submitted to the State and City and identified and determined cause for any discrepancies,
- Performed tests of selected transactions,
- Performed tests of selected tax exemptions,
- Verified that the additional 2% tax levy is tracked and deposited into a separate “Ballpark Venue Project Fund,”
- Reviewed Office of the Comptroller’s reconciliation process of Municipal Hotel Occupancy taxes.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

**SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT’S RESPONSES**

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

**Finding: 1**

**Municipal Hotel Occupancy Tax Overpayment**

As required by Texas Tax Code Chapter 351. Municipal Hotel Occupancy Taxes Sec. 351.006. Exemption: “A governmental entity described in Section 156.103(a) is exempt from the payment of tax authorized by this chapter....the exemption must be supported by the documentation required under rules adopted by the comptroller and the municipality.”

Due to an oversight by the Hilton Garden Inn El Paso/University, the Hilton Garden Inn overpaid the City of El Paso for the month of February 2014 by \$8.10. The first quarter of 2014 was selected for review, with detailed testing conducted of the month of February 2014. The following variance was noted:

	February 2014 Activity Reported to the Office of the Comptroller	Recalculated February 2014 Activity	Variance	Note
February 2014 Gross Room Receipts	\$ 415,422.23	\$ 415,422.23	-	
Less Tax Exemptions	(34,758.24)	(34,848.24)	(90.00)	1
Taxable Income:	\$ 380,663.99	\$ 380,573.99	\$ 90.00	
City Hot Tax Due (@ 9%)	\$ 34,259.76	\$ 34,251.66	\$ 8.10	2

1	Folio 244 received both State and Local exemptions for the period of February 1, 2014 to March 4, 2014. The Tax Exempt schedule did not include the local exemption of \$90.00 for Folio 244 on February 17, 2014 causing local tax exemptions to be understated and Taxable Room Receipts to be overstated by \$90.00 for the February 2014.
2	The Hilton Garden Inn overpaid the City of El Paso for the month of February 2014 by \$8.10.

**Recommendation:**

The Hilton Garden Inn El Paso/University should ensure allowable Federal Tax Exemptions are identified and adjusted from Net Income to arrive at Taxable Income before calculating and paying the Municipal Hotel Occupancy Tax to the City of El Paso.

The City of El Paso Office of the Comptroller should remit \$8.10 to the Hilton Garden Inn El Paso/University Hotel.

**Finding: 2**

**Exemption Documentation**

As required by Texas Tax Code Chapter 351. Municipal Hotel Occupancy Taxes Sec. 351.006. Exemption: *“A governmental entity described in Section 156.103(a) is exempt from the payment of tax authorized by this chapter....the exemption must be supported by the documentation required under rules adopted by the comptroller and the municipality.”*

Based on our review, there were deficiencies noted in the Tax – Exempt Schedule for the month of February 2014. A total of 534 daily room exemptions were listed for the month of February 2014, with 330 being for both State and Local room exemptions and 204 State only room exemptions. The following deficiencies were noted:

Deficiency	Description	# of Folios	% of Total	Folio Numbers
1.	Incorrect exempt organization listed on Tax exempt schedule.	4	.75%	206, 428, 204, 231
2.	Exemption listed on another individual’s name.	1	.19%	224
3.	Guest received State exemption on 2/25 for a hotel stay on 2/13 and 2/14. The exemptions were not listed on Tax exempt scheduled for February 2014.	1	.19%	305
4.	“Trade-out” room listed as State tax exempt.	1	.19%	542

**Recommendation:**

The Hilton Garden Inn El Paso/University should ensure exemptions are properly documented in the hotel’s Tax – Exempt Schedule.

**Finding: 3**

**Compliance with Ordinance 017912**

As required by Ordinance 017912 Section 3.12.031B.: Each bill or other receipt for hotel charge that is subject to the additional tax imposed under this Chapter must conspicuously include the following statement: *“The City of El Paso requires an additional tax of two percent be imposed on each hotel charge for the purpose of financing a venue project.”*

A review of the Hilton Garden Inn’s February 2014 guest Folios identified that the bills and receipts did not include the statement required by Section 3.12.031B of City Ordinance 017912. The hotel’s Accounting Manager was notified of the required verbiage and immediately submitted a request to Hilton to get the verbiage added to their receipts. As of July 24, 2014, the Hilton Garden Inn El Paso/University’s receipts contain the statement required by Ordinance No. 017912 Section 3.12.031B.

**Recommendation:**

- The Hilton Garden Inn El Paso/University should continue to include the required statement listed in City Ordinance 017912 Section 3.12.031B.
- The City of El Paso’s Office of the Comptroller should request that all hotels submit an example of their receipts that are subject to the additional 2% hotel tax in order to ensure compliance with City Ordinance 017912 Section 3.12.031B.

***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

***CONCLUSION***

We have concluded work on the audit objectives of the Hotel Occupancy Tax – Hilton Garden Inn El Paso/University Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude on whether the Hilton Garden Inn El Paso/University met the objectives of this audit. Based on our audit work, we have determined the following:

- The Hilton Garden Inn El Paso/University has consistently collected and remitted Municipal Hotel Occupancy Taxes to the City of El Paso on a timely basis.
- The Hilton Garden Inn El Paso/University is properly maintaining room exemption documentation on file, but needs to ensure that allowable room tax exemptions are properly documented in their Tax – Exempt Schedule.
- The Hilton Garden Inn El Paso/University has made the proper adjustments to its receipts in order to comply with Section 3.12.031B of City Ordinance 017912.

The City of El Paso’s Office of the Comptroller should monitor amounts reported and remit \$8.10 to the Hilton Garden Inn El Paso/University.

Implementation of the recommendations provided in this Audit Report should assist the Hilton Garden Inn El Paso/University Hotel to achieve full compliance in the collection and remittance of Municipal Hotel Occupancy Taxes. We wish to thank the management and staff of the Hilton Garden Inn El Paso/University for their assistance and courtesies extended throughout this audit.

No responses are being asked of the Hilton Garden Inn El Paso/University or The City of El Paso Office of the Comptroller.

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