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TO: FRANK L. FREITAS, TREASURER-TAX COLLECTOR

FROM: GERE W. SIBBACH, AUDITOR-CONTROLLER

VIA: JAMES P. ERB, ASSISTANT AUDITOR-CONTROLLER *J. E.*

DATE: NOVEMBER 15, 2011

SUBJECT: REPORT OF THE ANNUAL FISCAL AND COMPLIANCE REVIEW OF
ESTABLISHMENTS SUBJECT TO THE COUNTY TRANSIENT OCCUPANCY TAX
ORDINANCE FOR CALENDAR YEAR 2010.

Purpose

The objective of our review was to determine the accuracy of the Transient Occupancy Tax (TOT) and San Luis Obispo County Tourism Business Improvement District (SLOCTBID) assessment remitted to the County and verify that the tax and assessment were calculated in accordance with Chapters 3.08 and 3.09 of the San Luis Obispo County Code. In addition, we verified the existence and posting of registration certificates and business licenses.

Methodology

We reviewed the monthly TOT returns submitted by seventeen selected establishments in the unincorporated area of San Luis Obispo County. Due to the results of our 2010 review of one establishment, the review was extended to include calendar year 2009. In sixteen of our reviews we reconciled the amounts reported on the TOT returns to the establishments' financial books and records verifying total receipts, exemptions and deductions claimed, and tax remitted. We tested samples of customer registration cards and room logs by agreeing customer names and payment amounts to the operators' daily/monthly summaries used to calculate the TOT reported to the County. In addition we verified existence and posting of TOT Certificates and business licenses.

We were unable to obtain accounting records from one establishment and could not perform a review of the actual taxable revenue for Calendar Year 2010. At your request we prepared a schedule of estimated taxable revenue and calculated the likely amount of transient occupancy tax due. In conducting our analysis, we compared the revenue submitted by the establishment for monthly TOT returns and monthly revenue reported on a loan application, as well as deposits identified in bank statements. All documentation was provided by the Treasurer-Tax Collector's Office.

Results

We identified one establishment that over reported revenue and nine establishments that under reported revenue resulting in a total of \$25,102 in TOT, SLOCTBID, penalties and interest due to the County. A comprehensive schedule of monetary audit findings for the establishments is shown in the attached Summary of Monetary Audit Findings. We also identified one

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establishment that did not post the Transient Occupancy Registration Certificate in a conspicuous place.

In addition, based on our estimates, the operator of TOT Certificate #050 understated room revenues for calendar year 2010, and as a result under paid Transient Occupancy Tax by \$108,838.

Under separate communication to your Office, we previously issued individual reports for each establishment audited. These separate reports served to communicate to your Office our specific audit findings and recommendations. This report summarizes those findings and will be presented to the Board of Supervisors.

**COUNTY OF SAN LUIS OBISPO
CALENDAR YEAR 2010 - TRANSIENT OCCUPANCY TAX AUDITS
SUMMARY OF MONETARY AUDIT FINDINGS**

| ESTABLISHMENT * | PERIOD AUDITED | TAXABLE REVENUES | | MONEY DUE BY AUDIT FINDINGS | | | | | |
|-----------------|-------------------|------------------|-----------------|-----------------------------|----------------------------|------------|----------|-------------|--|
| | | REPORTED | AUDITED | DIFFERENCE | TAXES/FEES DUE/(REFUND) | PENALTIES | INTEREST | TOTAL DUE | |
| 1** | Jan - Dec 2010 | \$ 2,868,300.76 | \$ 2,868,330.66 | \$ 29.90 | \$ 3.29 | \$ 0.66 | \$ 0.03 | \$ 3.98 | |
| 2** | Jan - Dec 2010 | 105,688.00 | 101,199.25 | (4,488.75) | (493.76) | - | 0.12 | (493.64) | |
| 3** | Jan - Dec 2010 | 559,977.68 | 559,977.68 | - | - | - | - | - | |
| 4 | Jan - Dec 2010 | 1,116,412.26 | 1,116,412.26 | - | - | - | - | - | |
| 5** | Jan - Dec 2010 | 80,720.50 | 94,390.00 | 13,669.50 | 1,503.65 | 300.73 | 39.33 | 1,843.71 | |
| 6 | Jan - Dec 2010 | 98,178.00 | 100,378.00 | 2,200.00 | 242.00 | 48.40 | 6.05 | 296.45 | |
| 7** | Jan - Dec 2010 | 606,093.47 | 611,827.87 | 5,734.40 | 630.79 | 126.16 | 20.41 | 777.36 | |
| 8** | Jan - Dec 2010 | 361,876.82 | 363,746.00 | 1,869.18 | 205.61 | 41.13 | 59.87 | 306.61 | |
| 9** | Jan - Dec 2010 | 88,807.50 | 92,852.50 | 4,045.00 | 444.95 | 88.99 | 10.54 | 544.48 | |
| 10** | Jan - Dec 2010 | 198,707.05 | 268,885.50 | 70,178.45 | 7,719.64 | 1,543.92 | 236.13 | 9,499.69 | |
| 10** | Jan - Dec 2009 | 385,251.94 | 471,887.76 | 86,635.82 | 8,908.96 | 1,781.80 | 253.72 | 10,944.48 | |
| 11 | Jan - Dec 2010 | 83,495.00 | 83,495.00 | - | - | - | - | - | |
| 12** | Jan - Dec 2010 | 1,273,980.47 | 1,278,205.47 | 4,225.00 | 464.75 | 92.95 | 13.10 | 570.80 | |
| 13** | Jan - Dec 2010 | 465,374.66 | 465,374.66 | - | - | - | - | - | |
| 14 | Jan - Dec 2010 | 99,418.00 | 106,743.00 | 7,325.00 | 659.25 | 131.85 | 16.50 | 807.60 | |
| 15** | Jan - Dec 2010 | 153,959.00 | 153,959.00 | - | - | - | - | - | |
| 16** | Jan - Dec 2010 | 552,911.32 | 552,911.32 | - | - | - | - | - | |
| | | \$9,099,152.43 | \$9,290,575.93 | \$191,423.50 | \$20,289.13 | \$4,156.59 | \$655.80 | \$25,101.52 | |
| 17** | Jan - Dec 2010 | 137,196.00 | 941,866.00 | 804,670.00 | 88,513.70 | 17,702.74 | 2,621.40 | 108,837.84 | |

* Establishment names have not been included for purposes of confidentiality.
 Note: The Transient Occupancy Tax (TOT) rate for the period is 9%. ** Establishments also include a 2% BID assessment for a total rate of 11%.