# COUNTY OF LOS ANGELES
## DEPARTMENT OF AUDITOR-CONTROLLER

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October 27, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe Wendy L. Watanabe
Auditor-Controller by J Schneiderman

SUBJECT: **TREASURER AND TAX COLLECTOR TRANSIENT OCCUPANCY TAX FINANCIAL/COMPLIANCE AUDIT FOR FISCAL YEAR 2007-08**

Los Angeles County Code (Code) Chapter 4.72 requires hotel and motel operators (Operators) in unincorporated areas to charge a 12% Transient Occupancy Tax (TOT, also known as "bed tax") on rent charged to hotel/motel guests. The Code requires Operators to collect the TOT, and remit it to the Los Angeles County Treasurer and Tax Collector (TTC).

At TTC's request, we contracted with a Certified Public Accounting firm, Simpson and Simpson, CPAs (auditor), to review the financial records of 60 Operators for Fiscal Year 2007-08. The purpose of the reviews was to ensure that the Operators remitted the correct TOT to TTC, and that the Operators were complying with other requirements of the Code related to the TOT (e.g., registration and recordkeeping requirements). We worked closely with TTC to monitor the auditor's progress and findings during the audits.

## Summary of Findings

The auditor completed their reviews, and issued reports for each of the 60 Operators. As indicated in the Attachment, a total of $230,356 in underpaid TOT, including penalties and interest, less appeal reductions, was identified. TTC collected $158,841 of the underpayments from all Operators except for two. The remaining $71,515 is owed by Guest House Inn & Suites ($49,885) and La Crescenta Motel ($21,630). TTC

management informed us that Guest House Inn & Suites has declared bankruptcy. As a result, TTC is working to collect the unpaid TOT through the bankruptcy court. TTC is also working with La Crescenta Motel to collect the amount they owe. The auditors also identified $3,199 in TOT overpayments from seven Operators, which TTC has refunded.

Four Operators account for $150,772 (65%) of the total TOT underpayments.

- Guest House Inn could not explain the differences between the rent recorded in their accounting records and the rent they reported to TTC. In addition, Guest House Inn did not pay the TOT owed to the County for January 2008, and from March through June 2008. The auditor's findings resulted in Guest House Inn owing the County $49,885 in underpaid TOT, penalties, and interest.
- Summit Motel did not provide adequate documentation to support the TOT exemptions they claimed for permanent residents. Summit Motel gave the auditor copies of tenant agreements to support the exemptions. However, the auditors noted that the agreements appeared to be questionable, and applied a penalty for submitting false documents. During the TOT appeals process, Summit Motel acknowledged that the agreements were signed by Summit Motel staff, and not by the tenants.

  The auditors also determined that Summit Motel reported, but did not pay, the TOT owed to the County for the fiscal year ended June 30, 2008, and could not explain the differences between the gross rents they reported to TTC and their bank deposits. The auditor's findings resulted in Summit Motel owing the County $42,653 in underpaid TOT, penalties, and interest.
- Kellogg West Center for Continuing Education did not provide adequate documentation to support the exemptions they claimed. The auditor's findings resulted in Kellogg West Center owing the County $36,604 in underpaid TOT, penalties, and interest.
- La Crescenta Motel could not explain the differences between the gross rents they reported to TTC and their bank deposits. In addition, La Cresenta did not report collecting any rent from July 2007 through June 2008 to TTC. The auditor's findings resulted in La Crescenta Motel owing the County $21,630 in underpaid TOT, penalties, and interest.

For the remaining Operators, the auditor noted various issues, such as inadequate documentation for TOT exemptions and mathematical errors. These issues, along with penalties and interest, resulted in the underpaid TOT amounts indicated in the Attachment.

The auditor discussed each report with the respective Operator. Three Operators appealed their audit findings. The County appeals officers reduced the amount of TOT owed because of additional documentation provided by the Operators. The amounts shown in the Attachment are the final reduced amounts owed by each Operator.

Due to the large number of audits, copies of the individual reports are not attached, but are available upon request. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101 for copies of the reports.

WLW:JLS:RGC:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Mark J. Saladino, Treasurer and Tax Collector
Public Information Office
Audit Committee

# Los Angeles County Treasurer and Tax Collector
## Transient Occupancy Tax (TOT) Audit
## For Fiscal Year 2007-08

| # | Supv. District | Operator | Under/ (Over) Reported TOT | Penalties | Interest | Total | Footnote |
|---|---|---|---|---|---|---|---|
| 1 | 1 | A-1 MOTEL | $ 3,133 | $ 628 | $ 1,323 | $ 5,084 | |
| 2 | 1 | BEST WESTERN EXECUTIVE INN | $ 19 | $ - | $ 2 | $ 21 | |
| 3 | 1 | CROSSROADS | $ 15 | $ 4 | $ 3 | $ 22 | |
| 4 | 1 | DEL MAR MOTEL | $ 1,067 | $ 218 | $ 415 | $ 1,700 | |
| 5 | 1 | EL RANCHO MOTEL, LOS ANGELES | $ (1) | $ - | $ 1 | $ - | (1) |
| 6 | 1 | GARDENS HOTEL | $ 3,465 | $ 692 | $ 1,205 | $ 5,362 | |
| 7 | 1 | GUEST HOUSE INN & SUITES | $ 28,876 | $ 5,814 | $ 15,195 | $ 49,885 | (2) |
| 8 | 1 | MOTEL 6 #1014 | $ (42) | $ 125 | $ 20 | $ 103 | (1) |
| 9 | 1 | PRIDE HOTEL | $ 206 | $ 42 | $ 52 | $ 300 | |
| 10 | 1 | QUALITY INN & SUITES | $ 852 | $ 170 | $ 224 | $ 1,246 | |
| 11 | 1 | TRAVEL INN, HUNTINGTON PARK | $ - | $ - | $ - | $ - | |
| 12 | 1 | VALLEY INN | $ 983 | $ 198 | $ 278 | $ 1,459 | |
| 13 | 2 | AVIATION MOTEL | $ 274 | $ 54 | $ 69 | $ 397 | |
| 14 | 2 | CAMINO PALMS | $ 34 | $ 6 | $ 5 | $ 45 | |
| 15 | 2 | DESERT INN | $ 254 | $ 56 | $ 83 | $ 393 | |
| 16 | 2 | EL SEGUNDO INN | $ - | $ - | $ - | $ - | |
| 17 | 2 | HAMPTON INN, INGLEWOOD | $ 1,036 | $ 236 | $ 246 | $ 1,518 | |
| 18 | 2 | LAX SUITES GROUP | $ - | $ - | $ - | $ - | |
| 19 | 2 | MAGIC CARPET MOTOR INN | $ 2,162 | $ 512 | $ 833 | $ 3,507 | |
| 20 | 2 | MARQUIS MOTEL | $ 109 | $ 26 | $ 33 | $ 168 | |
| 21 | 2 | MERLE MOTEL | $ 342 | $ 68 | $ 72 | $ 482 | |
| 22 | 2 | MOTEL 6 #1010 | $ 214 | $ 46 | $ 64 | $ 324 | |
| 23 | 2 | SUMMIT MOTEL | $ 21,063 | $ 9,483 | $ 12,107 | $ 42,653 | |
| 24 | 2 | TRAVELERS INN MOTEL | $ 288 | $ 56 | $ 90 | $ 434 | |
| 25 | 2 | TWIN TOWERS MOTEL | $ - | $ - | $ - | $ - | |
| 26 | 3 | GRAZIADO EXECUTIVE CONFERENCE CTR | $ 4,941 | $ 1,068 | $ 1,632 | $ 7,641 | |
| 27 | 4 | COURTYARD BY MARRIOTT | $ 6,808 | $ 1,498 | $ 2,409 | $ 10,715 | |
| 28 | 4 | FOGHORN HARBOR INN MOTEL | $ 23 | $ 4 | $ 7 | $ 34 | |

**Los Angeles County Treasurer and Tax Collector**
**Transient Occupancy Tax (TOT) Audit**
**For Fiscal Year 2007-2008**

| # | Supv. District | Operator | Under/ (Over) Reported TOT | Penalties | Interest | Total | Footnote |
|---|---|---|---|---|---|---|---|
| 29 | 4 | MARINA BEACH MARRIOTT | $ 120 | $ 22 | $ 40 | $ 182 | |
| 30 | 4 | OAKWOOD APTS. | $ 143 | $ 2,808 | $ 3,829 | $ 6,780 | |
| 31 | 4 | RITZ-CARLTON MARINA DEL REY | $ 1,244 | $ 2,434 | $ 3,771 | $ 7,449 | |
| 32 | 4 | TAHITI MARINA | $ 418 | $ 84 | $ 120 | $ 622 | |
| 33 | 5 | BEST WESTERN PASADENA INN | $ 310 | $ 62 | $ 87 | $ 459 | |
| 34 | 5 | BEST WESTERN PASADENA ROYALE | $ 1,549 | $ 312 | $ 472 | $ 2,333 | |
| 35 | 5 | CASTAIC INN | $ 285 | $ 58 | $ 50 | $ 393 | |
| 36 | 5 | COMFORT INN/ROADWAY | $ (19) | $ 42 | $ 48 | $ 71 | (1) |
| 37 | 5 | COMFORT SUITES | $ 3,875 | $ 776 | $ 1,214 | $ 5,865 | |
| 38 | 5 | DENA INN APARTMENT MOTEL | $ 114 | $ 74 | $ 103 | $ 291 | |
| 39 | 5 | EL RANCHO MOTEL, PASADENA | $ 42 | $ 20 | $ 30 | $ 92 | |
| 40 | 5 | EXTENDED STAY AMERICA #854 | $ - | $ - | $ - | $ - | |
| 41 | 5 | FAIRFIELD INN | $ 665 | $ 136 | $ 215 | $ 1,016 | |
| 42 | 5 | HAMPTON INN, SANTA CLARITA | $ - | $ - | $ - | $ - | |
| 43 | 5 | HILTON GARDEN INN, VALENCIA | $ 2,700 | $ 540 | $ 737 | $ 3,977 | |
| 44 | 5 | HIWAY HOST MOTEL | $ - | $ - | $ - | $ - | |
| 45 | 5 | HOLIDAY INN EXPRESS | $ 289 | $ 84 | $ 117 | $ 490 | |
| 46 | 5 | KELLOGG WEST CENTER FOR CONT. EDUCATION | $ 24,845 | $ 4,972 | $ 6,787 | $ 36,604 | |
| 47 | 5 | LA CRESCENTA MOTEL | $ 11,739 | $ 2,350 | $ 7,541 | $ 21,630 | (3) |
| 48 | 5 | LA QUINTA INN & SUITES-STEVENSON | $ 1,916 | $ 384 | $ 463 | $ 2,763 | |
| 49 | 5 | LUCKY STAR MOTEL | $ 2,174 | $ 438 | $ 656 | $ 3,268 | |
| 50 | 5 | PASADA MOTEL | $ (164) | $ 82 | $ 82 | $ - | (1) |
| 51 | 5 | PEARBLOSSOM MOTEL | $ 214 | $ 64 | $ 68 | $ 346 | |
| 52 | 5 | REGAL INN MOTEL | $ 326 | $ 66 | $ 68 | $ 460 | |
| 53 | 5 | RESIDENCE INN | $ 756 | $ 382 | $ 634 | $ 1,772 | |
| | | | **Total Underpaid TOT** | | | **$ 230,356** | |

**Los Angeles County Treasurer and Tax Collector**
**Transient Occupancy Tax (TOT) Audit**
**For Fiscal Year 2007-2008**

| # | Supv. District | Operator | Under/ (Over) Reported TOT | Penalties | Interest | Total | Footnote |
|---|---|---|---|---|---|---|---|
| 54 | 1 | BROWN'S MOTEL | $ (1) | $ - | $ - | $ 1 | |
| 55 | 1 | INDUSTRY INN | $ (143) | $ 70 | $ 63 | $ 10 | (1) |
| 56 | 1 | VISTA MOTEL | $ (23) | $ - | $ - | $ 23 | |
| 57 | 2 | DIXIE MOTEL | $ (839) | $ - | $ - | $ 839 | |
| 58 | 2 | PARADISE INN | $ (1,809) | $ - | $ - | $ 1,809 | |
| 59 | 2 | PATIO MOTEL | $ (367) | $ - | $ - | $ 367 | |
| 60 | 2 | VERMONT MOTEL | $ (150) | $ - | $ - | $ 150 | |
| | | | **Total Overpaid TOT** | | | **$ 3,199** | |

Footnotes

(1) The auditor determined that gross revenue was over reported and under reported, with a net effect of an over reporting of gross revenue. However, under reported revenue resulted in penalties and interest.

(2) TTC management informed us that Guest House Inn & Suites has declared bankruptcy. As a result, TTC is working to collect the unpaid TOT through the bankruptcy court. The interest amount due includes additional interest calculated through 9/1/2011, as the amount due remains unpaid.

(3) TTC is working with La Crescenta Motel to collect the amount owed. The interest amount due includes additional interest calculated through 9/1/2011, as the amount remains unpaid. All Operators, except La Cresenta Motel and Guest House Inn & Suites, have remitted their underpaid TOT to the County.