COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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August 17, 2011

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **TREASURER AND TAX COLLECTOR - TRANSIENT OCCUPANCY TAX AUDITS FOR FISCAL YEARS 2004-05, 2005-06 AND 2006-07**

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 a "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 Certified Public Accounting firms: Simpson and Simpson, CPAs; and M.R. Grant, CPA, (auditors), to review the financial records of 86 Operators for fiscal years (FY) 2004-05, 2005-06, and 2006-07. The purpose of the reviews was to ensure that the Operators collected and remitted the correct TOT to TTC, and ensure 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 auditors' progress and findings during the audits.

Summary of Findings

The auditors completed their reviews, and issued reports for each of the 86 Operators. As indicated in the Attachment, the auditors identified $1,005,579 in underreported TOT, including penalties and interest. TTC has collected $997,273 of the underpayments. The remaining $8,306 is owed by GuestHouse Inn, which has

declared bankruptcy. TTC is working to collect the $8,306 in unpaid TOT through the bankruptcy court. The auditors also identified $2,226 in TOT overpayments from seven operators, which TTC has refunded.

Four Operators account for approximately $650,594 (65%) of the total TOT underpayments:

- Kellogg West Center failed to collect or pay any TOT from July 2004 to February 2005. In addition, Kellogg West did not maintain adequate records to support the TOT exemptions they claimed for government employees. As a result, the auditors determined that Kellogg West underpaid its TOT by $310,410.

- Magic Carpet Motor Inn did not maintain adequate records to support the TOT exemptions they claimed for permanent residents. As a result, the auditors determined that Magic Carpet underpaid its TOT by $148,481.

- Summit Motel did not maintain adequate records to support the exemptions they claimed, and/or document the variances noted by the auditors between the Motel's bank deposits and its reported rent collections. As a result, the auditors determined that Summit underpaid its TOT by $97,600.

- Oakwood Apartments' supporting documentation did not agree with the monthly TOT reported to TTC. As a result, the auditors determined that Oakwood underpaid its TOT $95,817.

For the remaining Operators, the auditors noted issues with inadequate documentation for TOT exemptions and revenues, and that the Operators were not always submitting required paperwork to TTC. These issues, along with penalties and interest, resulted in the underreported TOT amounts indicated on the Attachment.

The auditors discussed each report with the respective Operator. Eleven Operators appealed their audit findings. In most cases, the County appeals officers reduced the amount of TOT owed, because of additional documentation provided by the Operators. The amounts shown on the Attachment are the final reduced amounts owed by each Operator.

The auditors also identified potential other revenue that may be subject to TOT. Specifically, charging TOT on sales from managing agents, booking agents, room sellers and on-line travel agents. TTC is working with County Counsel to update the County Code to include these revenue sources.

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:FL

Attachment

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

Los Angeles County Treasurer & Tax Collector
Transient Occupancy Tax (TOT) Audit
Fiscal Years Ending June 30, 2005, 2006 and 2007

	Operator	City	Supv. District	Under/(Over) Reported TOT	Penalties	Interest	Total
1	A-1 MOTEL	HUNTINGTON PARK	1	16,553	3,320	11,765	31,638
2	BEST WESTERN EXECUTIVE INN	ROWLAND HEIGHTS	1	4,488	898	1,731	7,117
3	BROWN'S MOTEL	LA PUENTE	1	313	62	166	541
4	CROSSROADS	LOS ANGELES	1	50	22	40	112
5	DEL MAR	S. SAN GABRIEL	1	11,497	2,300	4,690	18,487
6	EL RANCHO	LOS ANGELES	1	195	58	135	388
7	GUESTHOUSE INN & SUITES (1)	WHITTIER	1	6,655	1,550	5,951	14,156
8	HUNTINGTON PARK TRAVEL INN	HUNTINGTON PARK	1	41	14	27	82
9	INDUSTRY INN	LA PUENTE	1	282	58	113	454
10	JOE'S MOTEL	LOS ANGELES	1	-	-	-	-
11	MOTEL 6 #1014	ROWLAND HEIGHTS	1	130	118	361	609
12	MOTEL 6 #252	WHITTIER	1	-	-	-	-
13	PRIDE HOTEL	LOS ANGELES	1	718	152	307	1,177
14	QUALITY INN & SUITES	WALNUT	1	18	4	8	30
15	TIKI MOTEL	HUNTINGTON PARK	1	-	-	-	-
16	VALLEY INN	LA PUENTE	1	10,711	2,148	4,367	17,226
17	WHITTIER TRAVEL INN	WHITTIER	1	-	-	-	-
18	WHITTIER-ATLANTIC HOTEL	LOS ANGELES	1	-	-	-	-
19	AVIATION MOTEL	INGLEWOOD	2	521	160	293	974
20	CAMINO PALMS MOTEL & MARQUIS MOTEL (2)	GARDENA	2	22	14	32	68
21	CRENSHAW HOLLY	GARDENA	2	-	-	-	-
22	DESERT INN	LOS ANGELES	2	42	8	25	75

Los Angeles County Treasurer & Tax Collector
Transient Occupancy Tax (TOT) Audit
Fiscal Years Ending June 30, 2005, 2006 and 2007

	Operator	City	Supv. District	Under/(Over) Reported TOT	Penalties	Interest	Total
23	EL SEGUNDO	HAWTHORNE	2	154	34	55	243
24	HAMPTON INN	INGLEWOOD	2	1,709	678	1,934	4,321
25	JET MOTOR INN	LOS ANGELES	2	-	-	-	-
26	LA MIRAGE INN	LOS ANGELES	2	-	-	-	-
27	LAX SUITES GROUP	DEL AIRE	2	-	-	-	-
28	MAGIC CARPET MOTOR	LOS ANGELES	2	76,764	15,352	56,365	148,481
29	MERLE MOTEL	GARDENA	2	87	40	50	177
30	MOTEL 6 #1010	HARBOR CITY	2	196	38	127	361
31	PARADISE INN	LOS ANGELES	2	(35)	58	99	122
32	PATIO MOTEL	COMPTON	2	7,506	1,492	3,260	12,258
33	SUMMIT MOTEL	LOS ANGELES	2	50,470	10,092	37,038	97,600
34	TRAVELER'S INN MOTEL	INGLEWOOD	2	5,184	1,010	2,133	8,327
35	TWILITE MOTEL	LOS ANGELES	2	-	-	-	-
36	TWIN TOWERS	INGLEWOOD	2	44	8	8	60
37	VEGAS MOTEL	LOS ANGELES	2	-	-	-	-
38	VERMONT MOTEL	LOS ANGELES	2	20	40	77	137
39	GRAZIADIO	MALIBU	3	29,551	5,910	9,460	44,921
40	BEST WESTERN JAMAICA	MARINA DEL REY	4	-	-	-	-
41	COURTYARD BY MARRIOTT	HACIENDA HEIGHTS	4	180	36	125	341
42	DAYS IN MOTEL	WHITTIER	4	-	-	-	-
43	FOGHORN HARBOR INN MOTEL	MARINA DEL REY	4	120	24	52	196
44	GOOD NITE INN	WHITTIER	4	-	-	-	-
45	MARINA BEACH MARRIOTT HOTEL	MARINA DEL REY	4	421	1,396	3,150	4,967

Los Angeles County Treasurer & Tax Collector
Transient Occupancy Tax (TOT) Audit
Fiscal Years Ending June 30, 2005, 2006 and 2007

	Operator	City	Supv. District	Under/(Over) Reported TOT	Penalties	Interest	Total
46	MARINA DEL REY HOTEL	MARINA DEL REY	4	8,442	1,692	5,112	15,246
47	MARINA INTERNATIONAL HOTEL	MARINA DEL REY	4	3	0	1	4
48	MOTEL 6 #1307	HACIENDA HEIGHTS	4	-	-	-	-
49	OAKWOOD APARTMENTS	MARINA DEL REY	4	54,445	13,442	27,930	95,817
50	RITZ-CARLTON MARINA DEL REY	MARINA DEL REY	4	28,050	6,882	11,950	46,882
51	TAHITI MARINA	MARINA DEL REY	4	2,626	552	1,262	4,440
52	VAGABOND INN	HACIENDA HEIGHTS	4	-	-	-	-
53	BEST REST INN – FLYING INN	LEBEC	5	-	-	-	-
54	BEST WESTERN PASADENA INN	PASADENA	5	4,978	1,378	1,595	7,951
55	BEST WESTERN PASADENA ROYALE INN	PASADENA	5	1,430	286	855	2,571
56	CASTAIC INN/ BEST VALUE INN	CASTAIC	5	8,701	1,742	3,830	14,282
57	COMFORT INN	CASTAIC	5	-	-	-	-
58	COMFORT SUITES	STEVENSON RANCH	5	-	-	-	-
59	DENA INN APARTMENTS	LITTLEROCK	5	2,327	640	969	3,936
60	ECONOLODGE	GORMAN	5	-	-	-	-
61	EL RANCHO	PASADENA	5	-	-	-	-
62	EXTENDED STAY AMERICA # 854	STEVENSON RANCH	5	550	352	1,002	1,904
63	FAIRFIELD INN	STEVENSON RANCH	5	547	198	357	1,102
64	GOLDEN MOTEL	SAN GABRIEL	5	-	-	-	-
65	HAMPTON INN	STEVENSON RANCH	5	791	162	370	1,323
66	HILTON GARDEN INN	VALENCIA	5	-	-	-	-
67	HIWAY HOST MOTEL	PASADENA	5	-	-	-	-
68	HOLIDAY INN EXPRESS	PASADENA	5	4,053	812	1,551	6,416

Los Angeles County Treasurer & Tax Collector
Transient Occupancy Tax (TOT) Audit
Fiscal Years Ending June 30, 2005, 2006 and 2007

	Operator	City	Supv. District	Under/(Over) Reported TOT	Penalties	Interest	Total
69	KELLOGG WEST CENTER	POMONA	5	185,301	37,062	88,047	310,410
70	LA CRESENTA MOTEL	LA CRESCENTA	5	2,668	532	787	3,987
71	LA QUINTA INN & SUITES	STEVENSON RANCH	5	9,003	-	1,294	10,297
72	LUCKY STAR	PASADENA	5	6,155	1,236	3,661	11,052
73	PARTNERS DAYS INN	CASTAIC	5	-	-	-	-
74	PASADA MOTEL	PASADENA	5	6,533	1,308	2,440	10,281
75	PEARBLOSSOM MOTEL	PEARBLOSSOM	5	8,313	1,664	1,882	11,859
76	REGAL INN MOTEL	PASADENA	5	19,082	3,816	7,275	30,173
77	SIERRA PELONA MOTEL	SAUGUS	5	-	-	-	-

Total Underpaid TOT $ 1,005,579

78	AZUSA INN	LA PUENTE	1	(209)	-	-	(209)
79	GARDENS MOTEL	LOS ANGELES	1	(1,355)	-	-	(1,355)
80	VISTA MOTEL	LOS ANGELES	1	(3)	-	-	(3)
81	DIXIE MOTEL	COMPTON	2	(1,038)	168	372	(498)
82	WESTERN MOTEL	LOS ANGELES	2	-	-	-	-
83	CRYSTALAIRE -BLALOCK-EDDY RANCH	LLANO	5	(20)	-	-	(20)
84	EVERGREEN	COVINA	5	(28)	2	5	(21)
85	RESIDENCE INN MOTEL	STEVENSON RANCH	5	(120)	-	-	(120)

Total Overpaid TOT $ (2,226)

(1) GuestHouse Inn paid TTC $5,850 of the underreported TOT, leaving a balance of $8,306. However, GuestHouse Inn has filed for bankruptcy. TTC is working to collect the unpaid TOT through the bankruptcy court. All other Operators have paid their underreported TOT to the County.

(2) The same Operator owns both the Camino Palms Motel and Marquis Motel. The Operator's financial records did not identify amounts for the individual motels. Therefore, the financial records and audit report were combined for both motels.