

**County of Sonoma
Transient Occupancy Tax**

**Agreed-Upon Procedures Report
For The Year Ended
December 31, 2008**

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Transient Occupancy Tax**

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For the Year Ended
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Auditor-Controller's Report on Applying Agreed-upon Procedures

We have performed the procedures enumerated in Appendix B of this report, agreed to by the Sonoma County Administrator's office, solely to assist you, in evaluating lodging establishments' compliance with terms and conditions of Sonoma County Code Article III, Uniform Transient Occupancy Tax Ordinance No. 5545 during the calendar year ending 2008. The lodging establishment's operator is responsible for compliance with those requirements. The sufficiency of these procedures is solely the responsibility of the Sonoma County Administrator's Office. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix B either for the purpose for which this report has been requested or for any other purpose.

The Schedule of Taxable Receipts and Transient Tax Reported Compared to Taxable Receipts and Transient Tax Per Audit identifies lodging establishments selected for review and compares the amount of taxable receipts reported to the amount audited and the variance of tax due based on the procedures performed. The associated findings can be found in Appendix B of this report.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Schedule of Taxable Receipts and Transient Tax Reported Compared to Taxable Receipts and Transient Tax Per Audit as well as the Schedule of Tax Collection Variances. Accordingly, we do not express such an opinion. 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 the Sonoma County Administrator's Office and is not intended to be and should not be used by anyone other than the specified party.

Sonoma County Auditor-Controller

July 31, 2009

County of Sonoma
Transient Occupancy Tax
Schedule of Taxable Receipts and Transient Tax Reported
Compared to Taxable Receipts and Transient Tax Per Audit
For the Period from January 1, 2008 to December 31, 2008

| | <u>Taxable Receipts Reported</u> | <u>Taxable Receipts Per Audit</u> | <u>Tax Paid</u> | <u>Tax Per Audit</u> | <u>Tax Variance Over (Under) Paid</u> |
|--|--|---|---------------------|--------------------------|---|
| 5 Seasons Wine Country Resort & Spa | \$ - | \$ 135,266 | \$ - | \$ 12,174 | \$ (12,174) |
| Beltane Ranch Bed & Breakfast | 234,750 | 229,633 | 21,128 | 21,128 | - |
| Cloverdale KOA Camping Resort | 513,449 | 483,400 | 46,210 | 46,210 | - |
| Healdsburg Property Management | 917,118 | 955,263 | 82,541 | 85,974 | (3,433) |
| Monte Vista Motel | 179,238 | 180,167 | 16,131 | 16,215 | (84) |
| Russian River Resort | 210,884 | 342,935 | 18,980 | 30,864 | (11,884) |
| Village Inn & Restaurant | 42,686 | 204,205 | 3,842 | 18,379 | (14,537) |
| Totals | <u>\$ 2,098,125</u> | <u>\$ 2,530,869</u> | <u>\$ 188,832</u> | <u>\$ 230,944</u> | <u>\$ (42,112)</u> |

The accompanying appendices are an integral part of this schedule.

County of Sonoma
Transient Occupancy Tax
Schedule of Tax Collection Variances
For the Period from January 1, 2008 to December 31, 2008

Underpayments

| | |
|--|-------------------------------|
| 5 Seasons Wine Country Resort & Spa | \$ (12,174) |
| Healdsburg Property Management | (3,433) |
| Monte Vista Motel | (84) |
| Russian River Resort | (11,884) |
| Village Inn & Restaurant | <u>(14,537)</u> |
| Total Underpayments | <u>(42,112)</u> |
| Net Total Due County Tax Collector | <u><u>\$ (42,112)</u></u> |

The accompanying notes are an integral part of this statement.

Appendix A
County of Sonoma
Transient Occupancy Tax
Summary of Significant Uniform Transient Occupancy Tax Ordinance
December 31, 2008

Summary of Significant Uniform Transient Occupancy Tax Ordinance

A. Description of Ordinance

The Sonoma County Uniform Transient Occupancy Tax Ordinance imposes a tax upon the privilege of transient occupancy. Transient occupant is defined as one who occupies a room, dwelling, recreational vehicle park space, or campground space for a period of thirty (30) days or less. The tax provides funds to support the advertisement of tourism in the unincorporated communities of the County.

B. Ordinance Requirements

1. Tax Imposed

Tax imposed constitutes a debt owed by the transient to the County at the rate of 9% on the room revenue collected. If for any reason, the tax due is not paid to the operator of the hotel, the Tax Collector may require that such tax be assessed against the lodging establishment and paid to the Tax Collector.

2. Exemptions

Exemptions are granted only on a claim made at the time rent is collected using a form prescribed by the Tax Collector.

Exemptions allowed include following:

- a. Any federal or state officer or federal credit union employee on official business.
- b. Any officer or employee of a foreign government who is exempt by reason of express provision of federal law or international treaty.
- c. Rooms donated to or paid for by the Red Cross or other charitable organization for the express purpose of providing temporary emergency shelter.
- d. Complimentary stays where no Rent is received.
- e. The owner of a timeshare estate occupying a room or rooms in a timeshare project, as defined in Business and Professions Code section 11212 or its successor statute.
- f. The owner of a membership camping contract as defined in Civil Code section 1812.300.

Appendix A

County of Sonoma Transient Occupancy Tax Summary of Significant Uniform Transient Occupancy Tax Ordinance December 31, 2008

3. Penalties and Interest

Each lodging establishment is required to submit a Transient Occupancy Tax Return within the month following each quarter of the year.

The Tax Collector has the authority to apply penalty and interest charges to any lodging establishment who fails to remit the tax return within the allotted time. The penalty applied for the first delinquent quarter is 10% of the amount of the tax in addition to the amount of the tax. For continued delinquency, an additional 10% of the amount of the tax plus previous delinquency charges is applied each thirty days of delinquency. Interest at the rate of one and one half (1 ½ %) percent per month on any unpaid balance of the tax, including penalties, is charged from the date the remittance first becomes delinquent until paid.

The Tax Collector also has the authority to impose a penalty of 25% of the amount of the tax in cases where there is fraud.

4. Determination of Tax by Tax Collector

If any operator shall fail or refuse to collect the tax levied by this article or to make, within the time provided by this article, any report and remittance of such tax or any portion thereof required by this article, the Tax Collector shall proceed in such manner as he may deem best to obtain facts and information on which to base his estimate of the tax due. As soon as the Tax Collector shall procure such facts and information as he is able to obtain upon which to base the assessment of any tax imposed by this article and payable by any operator, the Tax Collector shall proceed to determine and assess against such operator the tax, interest and penalties provided by this article. In any case where determination is made, the Tax Collector shall give notice of amount so assessed.

The operator may, within ten (10) days after the serving of such notice, make application in writing to the Tax Collector for a hearing on the amount assessed.

5. Appeal

Any lodging establishment aggrieved by any decision of the Tax Collector with respect to tax, interest, and penalties has the right to appeal in writing to the Board of Supervisors. The decision of the Board on any appeal is final.

Appendix A

County of Sonoma
Transient Occupancy Tax
Summary of Significant Uniform Transient Occupancy Tax Ordinance
December 31, 2008

6. Refund

An overpayment of tax may be refunded when a lodging establishment requests in writing the overpayment and states under penalty of perjury, the specific grounds upon which the request is founded. The request must be made within three years of the date of payment on forms furnished by the Tax Collector.

Appendix B

County of Sonoma Transient Occupancy Tax Procedures Applied and Associated Findings December 31, 2008

Overview

As of December 31, 2008, there were 316 lodging establishments, including recreational parks, campgrounds, and property rental firms, in the unincorporated area of the County certified with the Tax Collector. The total collection of transient tax for the 2008 calendar year was \$7,593,380, an increase of 0.95% over 2007. A sample of 7 establishments was audited, which represented \$188,832 of the collection, or approximately 2.5% of the total tax collected.

Procedures Applied

For each recipient listed within the Schedule of Taxable Receipts and Transient Tax Reported Compared to Taxable Receipts and Transient Occupancy Tax Per Audit, general ledger detail and transient occupancy exempt forms supporting the taxable rents reported on the quarterly transient occupancy tax returns were obtained. From the general ledger detail provided, we judgmentally selected individual transactions in order to insure the amounts recorded agreed to the individual registration/check-in cards or tags or check-out receipts showing room(s) and amount(s) paid.

We also reviewed the reservation systems where available, to identify cancellation fees or complimentary rooms not reported on the quarterly transient occupancy tax returns and to verify exempt stays.

Associated Findings

- A. The following is an explanation of the tax variances listed in the Schedule of Tax Collection variances for the period ended December 31, 2008.
1. 5 Seasons Wine Country Resort & Spa – failed to report and pay all quarters of Transient Occupancy Tax, resulting in an understatement of Transient Occupancy Tax due the County of Sonoma for 2008 in the amount of \$12,174.
 2. Beltane Ranch Bed & Breakfast - Review procedures identified record keeping issues in violation of Section 12-18-1 of the Transient Occupancy Tax Ordinance No. 5823 where not all patron receipts were available. Additionally, registration cards were not utilized which is also in violation of Section 12-18-1 and therefore there is no assurance that all rents were reported on the quarterly TOT returns. There does not appear to be a refund or underpayment of TOT as a result of the review procedures performed.

Appendix B

County of Sonoma Transient Occupancy Tax Procedures Applied and Associated Findings December 31, 2008

3. Cloverdale KOA Camping Resort – Original supporting documentation for the 2008 quarterly TOT tax returns as submitted to the county was for the most part completely unavailable. There were no retained original documents or ledger printouts of any sort, quarterly or otherwise, to support the gross rents reported in 2008, and individual receipts for a very incomplete number of stays/days were on hand, wholly inadequate to support the gross rents as reported. Based on contemporary printouts generated during field work from the computerized campsite ledgers for 2008, as compared against the 2008 quarterly TOT returns as originally prepared and submitted, there does not appear to be an underpayment of TOT owed to the county. However, the lack of original records to support the returns as submitted is in violation of the TOT Ordinance, Section 12-18-1 Records to be kept.
4. Healdsburg Property Management - Transient Occupancy Tax was understated by \$3,433 as a result of unreported revenue from cleaning fees and processing fees collected.
5. Monte Vista Motel - Transient Occupancy Tax was understated by \$84 as a result of \$409 of under reported credit card charges and a \$520 imputed value of missing room registration cards based on an extrapolation of the auditor's sample which is in accordance with Section 12-17 of the Transient Occupancy Tax Ordinance No. 5823.
6. Russian River Resort - Transient Occupancy Tax was understated by \$11,884 due to not reporting gross room revenue for the third quarter of 2008.
7. Village Inn & Restaurant - Transient Occupancy Tax was understated by \$14,537 as a result of not filing and reporting revenue for the second and third quarters of 2008 and underreporting the first quarter of 2008.