



20-02

INTERNAL AUDIT REPORT

Bid Tax

February 2020

City of Sioux Falls Internal Audit Department
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Sioux Falls, SD 57117-7402
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Introduction

The City of Sioux Falls (City) collects approximately \$1.9 million in Business Improvement District (BID) occupancy tax per year. This funding comes in the form of a \$2 per room, per night occupational tax, which is charged to transient guests at commercial transient lodging facilities located within the city limits of Sioux Falls. Once collected, these funds are then forwarded to Experience Sioux Falls (formerly known as the Convention & Visitors Bureau, or CVB) who use the funds to market and promote the visitor industry in Sioux Falls. The mission of Experience Sioux Falls is to market Sioux Falls as a one-of-a-kind destination and provide an energized visitor experience to enhance economic impact to the City of Sioux Falls. To accomplish this mission, Experience Sioux Falls staff members attend numerous trade shows and advertise through various forms of print and digital media.

Background

The Business Improvement District (BID) was established by City Ordinance 78-10 on November 15, 2010, and includes all commercial transient lodging facilities located within the city limits of Sioux Falls, excluding any hotel/motel properties with less than 40 rooms. It was created for the purpose of funding the marketing and promotion of the visitor industry in the city of Sioux Falls and its hotels and motels located within the district through Experience Sioux Falls. The BID tax took effect January 1, 2011, and is remitted monthly to the City Finance department. Each hotel self-reports the tax due based upon their occupancy statistics. The City collects a 1% administrative fee and forwards the remaining 99% balance of BID tax funds to Experience Sioux Falls.

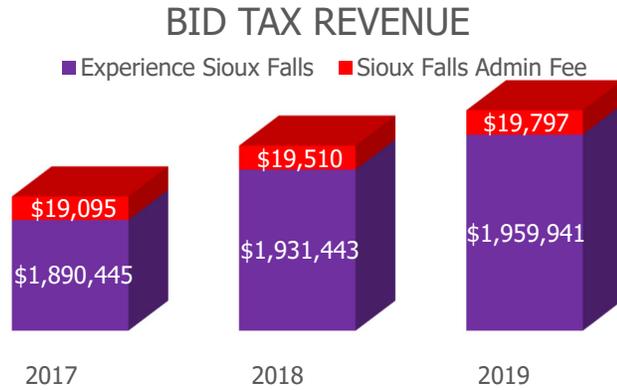
Figure 1. Hotels and Motels Located Within Business Improvement District



Figure 2. Rooms Sold Subject to Bid Tax



Figure 3. Bid Tax Revenue



The Fiscal Year for Experience Sioux Falls is October 1 through September 30. The Fiscal Year for the City is January 1 through December 31.

Each year, Experience Sioux Falls prepares and presents to the Experience Sioux Falls board of directors and the City of Sioux Falls City Council, an annual budget for the use of the BID Tax. Per South Dakota Codified Law (SDCL) Chapter 9-55, the budget must be presented to and approved by the Experience Sioux Falls executive committee and the City Council before becoming effective. South Dakota Codified Law chapter 9-55-3 outlines what BID tax funds can be used for.

Objective

- 1 Determine if adequate controls are in place to ensure the accuracy of the BID Tax collection and remittance processes from hotels in the Business Improvement District.
- 2 Evaluate the City of Sioux Falls' BID Tax collection and remittance processes.
- 3 Determine if adequate controls are in place to ensure expenditures of BID Tax revenue are appropriate and align with the purpose of the BID Tax.

Scope

The scope of this audit included a review of the BID Tax collection process, remittance process, policies and procedures, and internal controls as they are currently in place. The detailed testing of transactions covered the 12-month fiscal year period of October 1, 2018, through September 30, 2019, which coincides with Experience Sioux Falls' fiscal period.

Methodology

To complete this audit, we performed the following steps:

- Interviewed hotel management within the Business Improvement District in Sioux Falls.
- Interviewed City of Sioux Falls Finance management and staff involved in the BID tax process.
- Interviewed Experience Sioux Falls management and staff.
- Reviewed City of Sioux Falls Code of Ordinances, Chapter 37, Taxation, applicable to BID tax.
- Reviewed South Dakota Codified Law (SDCL) applicable to BID tax.
- Reviewed written policies and procedures in place over BID tax remittance and collection processes.
- Reviewed a sample of hotel BID tax payments, reports, and supporting documentation.
- Reviewed payments made by the City of Sioux Falls to Experience Sioux Falls.
- Analyzed the process for reporting new hotels and closed hotels within the Business Improvement District.
- Documented and analyzed the City's process for collecting BID tax from hotels and its process for disbursing BID tax to Experience Sioux Falls.
- Attended and viewed a City of Sioux Falls Council meeting to observe proposed budget presentation by Experience Sioux Falls.
- Reviewed Experience Sioux Falls monthly financial reports.
- Reviewed external audit report of Chamber of Commerce for year ended 2019.
- Determined permissible BID tax expenses per City of Sioux Falls Ordinance and South Dakota Codified Law.

Results

Controls Over BID Tax Collection and Remittance Processes from Hotels

We conducted interviews with management staff from two hotels that were selected from the most current listing of hotels located within the Business Improvement District (BID) to determine the general nature and process of collecting BID tax by hotels. We reviewed the City of Sioux Falls Code of Ordinances and South Dakota Codified Law (SDCL) applicable to BID tax. Lastly, we reviewed a random sample of payments, occupancy worksheets, and occupancy reports for seven hotels. We determined the following regarding the BID tax collection and remittance processes by hotels:

- Based on the testing of hotels selected, BID tax payments were remitted to the City in a timely manner, before any collection efforts were needed.
- There is a collection policy that has been developed internally by the City, which is enforced.
- Based on our testing, calculations of BID tax payments made by hotels were accurate.
- Based on interviews with management from hotels chosen in the testing sample, multiple controls in the form of night audits, report reconciliation, separation of duties, and software audit trails are in place to ensure the accuracy of BID tax collection, tax exempt rooms, and complimentary rooms.

The following audit findings were noted:

Audit Finding 1:

Based on our review of the City Code of Ordinances Chapter 37, we determined that the ordinance should be reviewed and updated. There have been no updates to it since its establishment in 2010 and a number of items are either out of date or could benefit from clarification. First, the Code of Ordinances has not been updated to reflect the Convention & Visitors Bureau (CVB) name change to Experience Sioux Falls. Secondly, the listing of hotel names and addresses is outdated and the listing of current hotels changes throughout the year as hotels open and close within the Business Improvement District. **See recommendation 1 below.**

Audit Finding 2:

Based on the testing performed, we found that four out of the seven hotels selected in our sample did not submit a signed, sworn statement with their monthly BID tax payment, which is required by Ordinance 37.196. In interviewing staff from the City Finance department involved in the collection of the BID tax, it was found that remittance of the signed, sworn statement by the hotels is inconsistent and most often is not included with the remittance of BID tax payments. **See recommendation 2 below.**

Audit Finding 3:

Based on our testing of hotel BID tax payments, we determined the following regarding the BID Occupational Tax Worksheet: 1) it is listed as a requirement within the City's internal policies and procedures to be submitted with payment; however, it is not required by City ordinance; 2) it includes minimal instructions regarding how the worksheet is to be filled out and is therefore filled out inconsistently among the hotels that do submit it with their payment; 3) it is a source of verification to be used to compare to hotel occupancy reports, tax exempt reports, and complimentary

room reports. However, due to inconsistency, it is difficult to verify the accuracy of the worksheet and ultimately payment of BID tax; 4) the basis for offering a complimentary room is inconsistently filled out, which is a requirement per Ordinance 37.194. **See recommendation 3 below.**

City of Sioux Falls Collection and Remittance Processes

We conducted interviews with management from the City of Sioux Falls Finance department to determine the process that is followed by Finance staff in regard to BID tax collection from hotels and remittance to Experience Sioux Falls. In addition, we analyzed the process for reporting both new hotels and closed hotels within the Business Improvement District. We determined the following regarding the BID tax collection and remittance processes:

- Ongoing reconciliation of BID tax collections is completed by Finance and tied to the Munis financial system.
- Finance staff verify mathematical calculations of BID tax and determine reasonableness as compared to historical trends of past payments.
- Checks are received and receipted in Munis by someone independent of the reconciliation and accounts payable processes.
- An internal collection policy is in place and enforced to address payments that are past due.
- BID tax payments made to Experience Sioux Falls from October 2018 through September 2019 are accurate, per collection and remittance of BID Tax as outlined in City Ordinance Chapter 37.193 and Chapter 37.198.
- Experience Sioux Falls is responsible for sending an updated listing of hotels and hotel managers to the City Finance department on a quarterly basis or more frequently if deemed necessary.

The following audit finding was noted:

Audit Finding 4:

In reviewing the City of Sioux Falls Finance department's policies and procedures, established in February 2020, we found the following: 1) the City's policy and procedure documentation does not include a policy or procedure regarding how to handle potential incorrect BID tax payments remitted by hotels. 2) listed under City of Sioux Falls Finance Office responsibilities: "With the assistance of the Internal Audit Department, periodically perform an audit of the hotel's books, based on the following: a) Hotels that have been delinquent in payments 3 times or more in a calendar year, b) Random selection of 3 hotels per year (including any audit performed as determined by 5a above). **See recommendation 4 below.**

Controls Over Expenditures of BID Tax Revenue

We interviewed management and staff from Experience Sioux Falls, reviewed internal policies and procedures provided by Experience Sioux Falls, attended a City of Sioux Falls Council Informational meeting, at which Experience Sioux Falls presented their annual budget, reviewed financial reports and budget detail from Experience Sioux Falls, and reviewed the completed external audit report of the Chamber of Commerce. We determined the following:

- Experience Sioux Falls provides all sales, service, marketing, and financial numbers at monthly CVB Advisory Council meetings. These meetings are held each month, with the exception of July and December. The Mayor and City Council are invited to attend these meetings.
- Experience Sioux Falls reports the BID information on a quarterly basis to the BID Board, Advisory Council Executive Committee, and the Mayor and City Council. All BID hotel general managers and owners receive the meeting minutes.
- The BID Board receives financial and various status updates, such as sales reports, service reports, and Visitor Information Center reports, at quarterly meetings. The Chamber's Budget and Finance Committee receives and approves them, as does the full Chamber Board of Directors each month.
- The budget is presented to and approved by the CVB Executive Committee and the City Council, which is in compliance with City ordinance.
- Receipts and/or backup documentation is kept on file for all BID-related expenses.
- Financial reports are sent to the City Finance department on a monthly basis. In addition, the City receives a copy of the external audit of the Chamber of Commerce that is completed each year.

Recommendations and Management Response

- 1 We recommend that management review and update City of Sioux Falls Code of Ordinances, Chapter 37, Taxation, related to BID Tax, to accurately reflect the Convention & Visitors Bureau name change to Experience Sioux Falls, as well as remove the inaccurate hotel listing that is currently listed in Ordinance 37.190.

Management's Response: Management is already in the process of a comprehensive review to the BID Tax Ordinance and expects recommendations to be brought forward in the second quarter of 2021. While the Sioux Falls Convention and Visitors Bureau (CVB) has rebranded itself as Experience Sioux Falls, and while corporate documents were recently filed for Experience Sioux Falls as of October 2020, the Sioux Falls CVB continues to operate under the

Greater Sioux Falls Chamber of Commerce. Management's intent is to prepare recommended ordinance revisions to be brought forward at a time that coincides with the Sioux Falls CVB fully operating as a separate and distinct legal entity called Experience Sioux Falls. Management continues to meet with leadership with the CVB and if the transition is not expected to occur imminently, Management will move forward the remainder of the ordinance update and require the Greater Sioux Falls Chamber of Commerce to file a fictitious name filing for "Experience Sioux Falls".

Management Representative Responding: Shawn Pritchett, Finance Director

Date of expected implementation: End of second quarter, 2021

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We recommend that management enforce Ordinance 37.196 and require a signed, sworn statement be submitted with each BID Tax payment remitted to the City by hotels in the Business Improvement District. In addition, we recommend this documentation be filed in the City's financial system to be available and accessed at any time.

Management's Response: Management will update the forms required by the hotels to combine the detailed BID Occupational Tax Worksheet with the BID Occupational Tax Remittance Report. This will simplify the process and allow the signed, sworn statement to be submitted on the same worksheet as the detailed room report.

Management will file this documentation in the City's financial system going forward.

The City is also in the process of developing an online payment portal for the BID Occupational Tax remittances. As part of an existing review and update to the BID Occupational Tax Ordinance, management will provide recommendations for updating the Ordinance to allow for online remittance and certification of accuracy as part of the electronic submission.

Management Representative Responding: Janelle Zerr, Finance Manager

Date of expected implementation: Prior to year-end, 2020

3

We recommend the following regarding the BID Occupational Tax Worksheet: 1) Update the form to include specific, detailed instructions on how the entire form is to be filled out to ensure consistency and accuracy; 2) Update the Code of Ordinances to reflect the expectation and requirement of the submission of the worksheet with BID tax payment so it is consistent with Finance policy and procedure.

Management's Response: Management will update the form to provide more detailed instructions to the hotel on how to fill out the form. Management will provide recommendations for modifying the BID Occupational Tax Ordinance to reflect the requirement of submitting this form with payment.

Management Representative Responding: Janelle Zerr, Finance Manager

Date of expected implementation: Prior to year-end, 2020

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We recommend that Finance management:

- 1) Document and establish a written policy and procedure that addresses how to handle potential inaccurate BID tax payments remitted to the City by hotels within the Business Improvement District.
- 2) Update the policy and procedure regarding performing audits so that the wording complies with IIA standards and does not imply Internal Audit assuming any management responsibilities.

Management's Response: Management will update our written policy to include procedures to handle incorrect BID tax payments.

Management will remove language in written policy referencing Internal Audit assisting with the auditing of hotels. Instead, Management will perform such audit administratively and/or work with Internal Audit to have the current policy for auditing hotels included in their annual audit plan.

Management Representative Responding: Janelle Zerr, Finance Manager

Date of expected implementation: Prior to year-end, 2020

Opportunity for Improvement

The following recommendation does not address an audit finding, but rather an opportunity for improvement to the Bid Tax collection process.

We recommend that management establish, document, and implement a standardized, automated customer remittance and collection process associated with BID tax. Establishment of an automated process ensures accuracy, reduces time, and potential human error. The automation will also provide for timely and effective reconciliations to identify delinquent accounts or inaccurate payments.

Management's Response: Management will review the recommendation by Internal Audit in terms of efficiency and assess feasibility for implementation. As previously noted, the process to implement an online portal for remittance of the BID tax has already started and would address this recommendation. Our goal is to have this operational by end of first quarter, 2021.

Management Representative Responding: Janelle Zerr, Finance Manager

Date of expected implementation: End of first quarter, 2021

Conclusion

To conclude, adequate controls exist over the BID Tax process. However, we do believe there are opportunities for improvement to address inefficiencies and control weaknesses as noted above. The recommendations above will provide additional controls, as well as increased efficiencies for all involved in the BID tax collection and remittance processes. We would like to thank hotel management, Finance management and staff, and Experience Sioux Falls management and staff for their cooperation and assistance provided during this audit.

Authorization

The Sioux Falls City Council approved this audit by resolution in December 2019 as a carryforward audit from the 2019 Annual Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

Audit Standards

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

Statement of Independence

Internal Audit administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per Section 32.022 of the Code of Ordinances of Sioux Falls, SD.

Distribution of Report

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

Performed By

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Internal Auditor