

## Bid Tax



### Objectives

- Determine if adequate controls are in place to ensure the accuracy of the BID tax collection and remittance processes from the hotels in the Business Improvement District.
- Evaluate the City of Sioux Falls' BID tax collection and remittance processes.
- 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.

### Background

The Business Improvement District (BID) was established by City Ordinance 78-10 on November 15, 2010. It includes all commercial transient lodging facilities located within the city limits of Sioux Falls, excluding any hotel/motel properties with less than 40 rooms. The purpose of the BID is to fund the marketing and promotion of the visitor industry in Sioux Falls and its hotels and motels located within the district through Experience Sioux Falls.

The City of Sioux Falls (City) collects approximately \$1.9 million in BID occupancy tax per year. The \$2 per room, per night occupational tax is collected by hotels from guests and then remitted monthly to the City Finance Department. Once collected, these funds are then forwarded to Experience Sioux Falls, who use the funds to market and promote the visitor industry in Sioux Falls.

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. Each year, Experience Sioux Falls prepares and presents an annual budget for the use of the BID Tax, in accordance with South Dakota Codified Law, chapter 9-55.

### What We Found

**Finding 1: Chapter 37 of the City of Sioux Falls Code of Ordinances should be reviewed and updated.**

- The listing of hotels in the Business Improvement District is inaccurate and the former name of Convention and Visitor's Bureau is still referenced.

**Finding 2: Compliance with Ordinance 37.196, Statement Required Along with Occupational Tax Payment, is not being enforced.**

**Finding 3: Based on testing of hotel BID tax payments, we determined that the BID Occupational Tax Worksheet is 1) filled out inconsistently by hotels; 2) a requirement by City Finance, but not by City Code of Ordinances.**

- 1) It includes minimal instructions regarding how it is to be filled out. 2) It is a source of verification to be used to compare to hotel occupancy reports. 3) The basis for offering a complimentary room is inconsistently filled out, which is a requirement per Ordinance 37.194.

**Finding 4: In reviewing the City of Sioux Falls Finance department's policies and procedures, established in February 2020, we found the policy and procedure documentation could be strengthened.**

- The documentation does not include a policy or procedure regarding how to handle potential incorrect BID tax payments remitted by hotels.

### What We Recommend

- Review and update the City of Sioux Falls Code of Ordinances, Chapter 37, Taxation, related to BID tax, to accurately reflect the Convention and Visitor's Bureau name change to Experience Sioux Falls, as well as remove the inaccurate hotel listing that is currently listed in Ordinance 37.190.
- 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, this documentation should be filed in the City's financial system to be available and accessed at any time.
- 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.
- Regarding Finance policies and procedures: 1) Management 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.
- **Opportunity:** We recommend that management establish, document, and implement a standardized, automated customer remittance and collection process associated with BID tax.