

# **ATTACHMENT A**

**STATUS OF CHARTER PASSENGER TAX, TRANSIENT OCCUPANCY TAX, AND  
OTHER AUDITS**

# **Status of Charter Passenger Tax, Transient Occupancy Tax, and Other Audits**

**October 2019**

## **Charter Passenger Tax Audits**

Under an agreement between the City of Newport Beach and Hinderliter, De Llamas & Associates (HdL), HdL will conduct nine (9) Charter Passenger Tax Audits on behalf of the City. The City Revenue Auditor accompanied HdL during site visits to answer questions pertaining to the Municipal Code, exemptions, and filing returns.

As of this writing, HdL has conducted 8 out of the 9 audits and has submitted 4 audits for review. A majority of the Charter audits were discovered not to be in compliance with record keeping. Upon initial site visits, about half of the companies had asked for clarification on the City code and Charter Tax reporting requirements. The submitted audits are under review and have not been finalized.

It was discovered that two additional charter companies have been operating without reporting Charter Tax. In addition, with the help of the Harbor Department, multiple discoveries of non-reporting Charter companies are being made. New Charter Passenger Tax accounts will be created for all new discoveries.

## **Transient Occupancy Tax**

### Davis Farr

Under an agreement between the City of Newport Beach and Davis Farr LLP (DF), DF will conduct twenty Transient Occupancy Tax audits on behalf of the City. Of those twenty audits, 11 are hotels, 8 are Short-Term Lodging Agents, and 1 is a Short-Term Lodging Owner/Operator. The majority of the hotels have been audited in the past. However, the short-term lodging agents or owner/operators have never been audited. The City Revenue Auditor accompanied DF during site visits to answer questions pertaining to the Municipal Code, exemptions, and filing returns.

As of this writing, Davis Farr has submitted eight hotel audits, five short-term agent audits and one additional owner/operator audit for review. Davis Farr has conducted 95% of the requested audits. Conducted audits are being reviewed by Davis Farr management prior to submitting to the City for final review. Davis Farr has submitted eight hotel audits, five short-term agent lodging audits, and one owner/operator audit for final review.

The majority of the hotel and short-term lodging audits were discovered not to be in compliance with reporting fees or record keeping. The audits are under review and are not finalized.

### Gruber & Associates

Under an agreement between the City of Newport Beach and Gruber & Associates (Gruber), Gruber will conduct twenty transient occupancy tax audits on behalf of the City. Of those twenty audits: 10 are for hotels, 9 are for short-term lodging agents, and 1 is for a short-term lodging owner/operator. The majority of the hotels have been audited in the past. However, the short-term lodging agents or owner/operators have never been audited. The City Revenue Auditor accompanied Gruber during site visits to answer questions pertaining to the Municipal Code,

exemptions, and filing returns. Currently, Gruber & Associates has completed four hotel audits and has scheduled the remaining hotel audits. As of this writing, these audits have not been submitted to the City.

**Internal Audit**

The Revenue Auditor has conducted two contract compliance audits of City contracted service providers. The contract compliance audit involves reviewing contracted scope of services and whether the service provider is delivering all contracted services. These audits have not been finalized.