

Harris County Auditor's Office



MEMORANDUM

To: Ann Harris Bennett, Harris County Tax Assessor – Collector & Voter Registrar
Lina Hidalgo, County Judge
Rodney Ellis, Commissioner Precinct 1
Adrian Garcia, Commissioner Precinct 2
Tom Ramsey, Commissioner Precinct 3
Lesley Briones, Commissioner Precinct 4
Christian Menefee, County Attorney

From: Mike Post, Harris County Auditor *MP*
Errika Perkins, Chief Assistant County Auditor – Audit Division *EP*

CC: Wendy Caesar, Tax Assessor Chief Deputy
Samantha Kealoha, County Judge's Office
Brandon Dudley, Commissioner Precinct 1
Mike Lykes, Commissioner Precinct 2
Lynn Blue, Commissioner Precinct 3
Alice Lee, Commissioner Precinct 4
Jonathan Fombonne, County Attorney's Office
Daniel Ramos, Office of Management and Budget

RE: Hotel Occupancy Tax – Completeness & Accuracy of Reporting

Date: April 23, 2024

EXECUTIVE SUMMARY

The Harris County Auditor's Office – Internal Audit Division (Internal Audit) has completed a review of the Hotel Occupancy Tax (HOT) of a sample of hotels and motels operating within Harris County (County). The purpose of this engagement was to examine the financial records of six hotels and motels and compare them to the information submitted to the Harris County Tax Assessor-Collector & Voter Registrar (Tax Assessor). Internal Audit is transitioning the continuous auditing of Harris County's hotel and motel HOT compliance to the Tax Assessor's Compliance Department.

The engagement's scope was to perform the following objectives for the period of October 1, 2022, through September 30, 2023:

1. Verify the accuracy and completeness of the HOT reported to the County.
2. Validate exemptions reported to the County.

Recommendations for the Tax Assessor include the following:

- Follow up with each business identified that underreported HOT to the County.
- Develop a HOT reference guide for businesses, outlining pertinent information on the taxability of HOT sales and allowable exemptions.
- Verify the accuracy and completeness of HOT reported by businesses to the County.

BACKGROUND

All hotels and motels, regardless of size, must collect an occupancy tax from their guests. The purpose of the local HOT is to fund and support the promotion of tourism, conventions, and the hotel industry. The total tax collected by the hotel/motel is a combination of State, City, and County, as well as Houston Sports Authority occupancy taxes. The Tax Assessor collects the HOT for the County and the Houston Sports Authority.

State of Texas Tax Code §352.002(a) establishes authority for the imposition and collection of local hotel occupancy taxes and states, "The commissioners courts (...) by the adoption of an order or resolution may impose a tax on a person who, under a lease, concession, permit, right of access, license, contract, or agreement, pays for the use or possession or for the right to the use or possession of a room that is in a hotel, costs \$2 or more each day, and is ordinarily used for sleeping." Texas Local Government Code, Chapter 334: Sports and Community Venues, Subchapter A: General Provisions is the statutory basis for collection of a Sports and Community Venues Tax.

An August 29, 2023, Commissioners Court order levied the 2024 Hotel Occupancy Tax and states, "the owner or operator of each hotel shall collect, report and send the taxes collected to the Harris County Tax Assessor-Collector on or before the last day of the month following the end of each calendar quarter in accordance with procedures established by the Harris County Tax Assessor-Collector."

Pursuant to section 352.004(e) of the Texas Tax Code, if a person required to file a tax report does not file the report as required, Harris County is authorized to determine the amount of tax due under this chapter by conducting an audit of each hotel. Harris County shall provide at least 30 days' written notice to a person who is required to collect the hotel tax imposed by this chapter before conducting an audit.

RESULTS

COMBINED OBJECTIVES: Verify the accuracy, completeness, and validity of the exemptions for HOT reported to the County.

OBSERVATION 1: The Intercontinental Houston Medical Center hotel located at 6750 Main Street, Houston, TX, 77030 underreported taxable sales resulting in \$133,120 of HOT not paid to the County.

The notification letter of the audit and the Tax Assessor's Certified Tax Statement of the tax deficiency, penalties, and interest was issued on March 1, 2024, requesting the business to file an amendment of their HOT report information and accurately report and remit their taxes due within 30 days of the notification.

OBSERVATION 2: The WoodSpring Suites Houston Northwest hotel located at 5350 W. Sam Houston Parkway North, Houston, TX 77041 underreported taxable sales resulting in \$6,371 of HOT not paid to the County.

The notification letter of the audit and the Tax Assessor's Certified Tax Statement of the tax deficiency, penalties, and interest was issued on March 1, 2024, requesting the business to file an amendment of their HOT report information and accurately report and remit their taxes due within 30 days of the notification.

OBSERVATION 3: The Homewood Suites - Houston NW at Beltway 8 hotel located at 8950 Fallbrook Drive, Houston, TX, 77064 underreported taxable sales and included exemptions disallowed by the Texas Tax Code §156, Subchapter C, Exceptions to Tax; resulting in \$12,522 of HOT not paid to the County.

The notification letter of the audit and the Tax Assessor's Certified Tax Statement of the tax deficiency, penalties, and interest was issued on April 5, 2024, requesting the business to file an amendment of their HOT report information and accurately report and remit their taxes due within 30 days of the notification.

OBSERVATION 4: The Springhill Suites - Houston Humble Downtown hotel located at 914 Dallas Street, Houston, TX 77002 underreported taxable sales and included exemptions disallowed by the Texas Tax Code §156, Subchapter C, Exceptions to Tax; resulting in \$20,331 of HOT not paid to the County.

The notification letter of the audit and the Tax Assessor's Certified Tax Statement of the tax deficiency, penalties, and interest was issued on April 5, 2024, requesting the business to file an amendment of their HOT report information and accurately report and remit their taxes due within 30 days of the notification.

RECOMMENDATIONS: The Tax Assessor should complete the following:

1. Follow up with each business to ensure they remit the amount due.
2. Develop a comprehensive HOT reference guide for businesses, outlining pertinent information on the taxability of HOT sales and allowable exemptions. This guide will serve as a valuable source of information for businesses, and it should include cross-references to the relevant statutes. An example of the Texas Comptroller of Public Accounts guide is available at this link:
<https://comptroller.texas.gov/taxes/hotel/reference-guide.php>
3. The Tax Assessor should verify the accuracy and completeness of HOT reported by businesses to the County. As of February 2024, the Tax Assessor had already acted upon this recommendation by hiring an additional full-time employee for the Tax Assessor's Compliance Department to examine the accuracy of the financial records of hotels and motels.

Internal Audit Standards

We conducted our engagement in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.