MEETING DATE: 07/24/06

AGENDA ITEM: Authorization of a Professional Services Contract with Jefferson Wells International for Transient Occupancy Tax Audit Services

ATTACHMENTS

CITY OF CULVER CITY

REQUEST FOR PROPOSAL

FOR

TRANSIENT OCCUPANCY TAX

COMPLIANCE AUDIT

COMPLIANCE AUDIT EXPECTATIONS

The City of Culver City is seeking a qualified audit firm to conduct a transient occupancy tax audit on each of the hotels and motels within its jurisdiction for the years 2003, 2004, 2005 and 2006.

The City of Culver City (City) collects a variety of local taxes, one of which includes the transient occupancy tax (TOT). Periodically, the City contracts with outside professionals to conduct compliance audits of all hotels and motels in the City, to both determine compliance and to ultimately report on any additional tax and penalties that may be owed to the City.

Specifically, the compliance audit firm must be able to identify, distinguish, and detect compliance problems with the following kinds of transactions and agreements typical to a hotel motel operation: long-term contracts, cash transactions, tax exemptions, credit card discounts, deposit and group cancellation charges, extra person charges, non-taxable rents, packages, refunds, trade outs, travel agent discounts, forfeited deposits, in-room charges, adjustments to the bill, bad debts and refunds. In addition, should the firm discover separate charges for other kinds of services (e.g., energy or other surcharges), these are to be documented and reported to the City.

The compliance audit firm will be expected to complete a review of every hotel and motel in the City, using statistically valid sampling techniques. A review of internal controls shall also be conducted. If material discrepancies are found, the testing should be expanded to include all months within the audit period. The firm must be able to review the accounting records of the hotel/motel under audit and, if the books are unauditable, be able to reconstruct revenue through bank deposits and tax report filings.

DESCRIPTION OF THE TRANSIENT OCCUPANCY TAX PROGRAM

The City has a TOT ordinance that is several years old, and is one based on a common model available at the time. No rate adjustments to the TOT ordinance have occurred since the adoption of Proposition 218. Exemptions from the TOT are ones commonly found in other municipalities.

An on-line copy of the City's Municipal Code, including the TOT ordinance, can be found at www.culvercity.org; click on "City Information" button, and then click on "Municipal Code".

The TOT brings in about $2.25 million in revenues to the City annually. The hotels/motels report on and remit the tax monthly.

Currently, there are 20 hotels and motels in the City. Of these, three are large with over 200 rooms each, while the balance of the hotels and motels are around 50 rooms or less. The last compliance audit of all hotels and motels included a review of the books through the end of calendar year 2002.

The City's Treasury personnel can provide only minimal assistance to the firm during the course of the compliance audit. Cooperation may be expected in answering questions about application of the Municipal Code and providing access to prior tax filings by the hotels and motels. Following the audit, City staff will initiate the collection process. The compliance audit firm may have post-audit work in the event of a substantive challenge of the audit results and/or required follow-up by the City Attorney's Office in order to enforce collection.

DELIVERABLES

- By December 28, 2006 the firm shall deliver a compliance audit report on every hotel and motel in the City. This report shall include reference to deficiencies in internal control, in addition to any TOT remittance deficiencies.
- All worksheets associated with the compliance audit report shall be made available in hard copy and in Microsoft Excel format on a diskette or CD ROM disk. In addition, all working papers shall be in electronic format, should they need to be delivered by e-mail on a future date.
- All working papers associated with the compliance audit shall be maintained by the firm for a period of three years following the review.
- Meetings shall be conducted both at the beginning of the compliance audit period and again after all compliance audit have been completed. Mid-term meetings will be scheduled, as needed, during the audit period if problems arise with any individual hotel/motel compliance audit engagement.
- The successful firm is expected to be available to meet, at the discretion of the City Treasurer, with the City Council Audit Committee to discuss compliance audit results.
- The City expects that the professional staff provided by the firm will be fully qualified with the appropriate experience, and that answers and guidance given will be provided by executives (supervisors and above) and not junior personnel.
- Twelve (12) copies of the proposal should be submitted to:

Christopher Armenta
City Clerk
City of Culver City
9770 Culver Boulevard
Culver City, CA 90232

*Please mark the envelope "TOT Compliance Audit Proposal".

EVALUATION AND SELECTION PROCESS

A Preparer's Conference will be held in the City Hall, Cathedral Room (Third Floor), 9770 Culver Boulevard, Culver City, California, on Thursday June 1, 2006 at 9:30 a.m. so that questions concerning the RFP may be directed to staff prior to the completion of proposal. Attendance is encouraged for those firms intending to submit proposals.

Contact with City staff is encouraged up to the submittal of the proposal. After the proposal is submitted, no further contact is permitted. The City contact coordinator is Deputy City Treasurer Karen Maggio and may be contacted at (310) 253-5844 or by e-mail at karen.maggio@culvercity.org.

Each proposal must be submitted to the City Clerk's Office in a single sealed envelope.

Deadline for Submission - The close of business on Thursday, June 8, 2006.

The evaluation process consists of the following steps:

1. The proposals will be evaluated and rated by City staff based on their technical qualifications and technical approach. Final proposals will be selected from those organizations and ranked based on their price, technical qualifications and approach score.

2. The finalists may be required to make an oral presentation to staff and the City Council Audit Committee.

3. A Recommendation will then be made to the City Council.

Selection of the successful proposal will be at the sole discretion of the City Council.

It is expected the City Council will be presented with a recommendation on or before June 15, 2006.

THE CITY COUNCIL REQUESTS THAT ONCE PROPOSALS HAVE BEEN SUBMITTED, NO UNSOLICITED CONTACT OR DISCUSSIONS CONCERNING THESE PROPOSALS BE MADE PRIOR TO THE EVALUATION OF ALL PROPOSALS.

QUALIFICATIONS AND APPROACH

As stated in the evaluation process, the proposal will first be examined relative to technical qualifications and approach to the TOT compliance audit. Each organization's proposal should include at a minimum, the following information as is deemed necessary:

1. Names and qualifications of the specific individuals who would be assigned to this engagement. Please outline their relevant education and tax compliance experience.

2. Description of any specialized skills, training, or background in public finance and tax law that members of the engagement team possess.

3. Description of experience of assigned individuals in conducting TOT compliance audits for other cities in California with a similar number of hotels and motels.

4. List of all current and former municipal clients for which a TOT compliance audit has been conducted, within the last 5 years, indicating references, type(s) of services performed, dates and length of service for each.

5. Description of local office's work plan and deliverable report. The proposal should include types of compliance audit programs, use of statistical sampling and any additional components of the compliance audit.

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6. Sample of type of compliance audit letter/report usually issued.

7. Description of any regulatory action taken against your organization or local office.

8. Indicate the location of the office in which the audit team will be based. The TOT compliance audit experience referenced in item 5 must come from that office.

FEES

The City requests a statement of maximum cost be made for the compliance audit as set forth above in the Compliance Audit Expectations. All other expenses including typing, clerical, printing services, travel, mileage and miscellaneous expenses should be included in the total compliance audit fee. An hourly rate for post audit work should also be stipulated.

The City requests that the proposal include a schedule of rates by professional staff classifications. The schedule should reflect rates for compliance audit services. It should reflect the anticipated distribution of hours per staff classification.

OTHER INFORMATION

Please list any other pertinent information you would like the City to consider in making our selection. We encourage you, if interested, to contact City Treasurer Crystal C. Alexander or Deputy City Treasurer Karen Maggio to obtain additional data, which would enable you to evaluate the scope of your operations so that you may formulate a proposal. Any financial information you may need to review is available in the City Treasurer's Office.

BACKGROUND

The City of Culver City encompasses almost 5 square miles, has a residential population of slightly more than 41,000, and the total population more than triples during working hours.

Governed by a Charter approved in 1947 and last amended in 2006, the City is operated under a Council/City Manager form of government. Five City Council members are elected at large to serve four-year terms. The Mayor is selected from among Council members. The City Council members also serve as Agency members. The City Clerk and City Treasurer are elected. The City Manager is a hired position.

The Treasury Division is part of the City Treasurer's Office. The City has automated much of the finance and tax collection activities. The Treasury Division has first line responsibility for the collection of the City's business license tax, utility users tax and transient occupancy tax.