



OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

Denny L. Nester, City Auditor
MBA CPA CIA CFE CGFM CGAP

16-09 City of Colorado Springs Lodgers and Automobile Rental Tax (LART) Review

May 2016

Purpose

The purpose of this audit was to ensure organizations that received Lodgers and Automobile Rental Tax (LART) funds in 2015 spent those funds as specified by the contract.

Recommendations

1. We recommend strengthening processes related to administering LART contracts.

Highlights

We conclude the organizations tested expended LART funds as specified by the LART contracts. The audit period was January 1, 2015 through December 31, 2015. During the review, we identified one recommendation to strengthen processes around LART payments.

Revenue resulting from the City's 2% lodging and 1% automobile rental tax were deposited into the Lodgers and Automobile Rental Tax (LART) Fund. The LART Fund was administered by City Council, with the assistance of the LART Citizen's Advisory Committee. The LART funding purpose was to provide funds for marketing and other qualified expenses to support special events that attract visitors to the City and to the Pikes Peak Region, provide economic and cultural benefit, enhance the quality of life in the City, engage the community, and encourage tourist activity.

The approved LART appropriation for 2015 was \$4,969,932. Support from the LART fund included cash, as well as, in-kind support of City Public Safety costs related to events. The 2015 LART fund granted support to 43 organization programs or events. City Council staff along with Parks and Recreation staff each performed tasks related to the program.

We selected a sample of ten LART contracts from 2015 for testing. These ten organizations were able to provide us with proper support for all expenditures related to their 2015 LART contracts.

For 2016, City staff made process changes that streamlined the reimbursement process. In 2015, organizations received grants in the form of cash or in-kind assistance with Public Safety Costs. This required separate tracking of each grant category as well as eligibility for non-profit discounts on in-kind payments. For 2016, all grants are in the form of cash, with organizations responsible to pay their in-kind costs in full. These changes were commendable.

Management Response

Management was in agreement with our recommendations.

16-09 CITY OF COLORADO SPRINGS LODGERS AND AUTOMOBILE RENTAL TAX (LART) REVIEW

Observation 1

LART reimbursements were generally processed correctly. We noted a few instances in which payments were not accurate or not in compliance with contract requirements:

- One organization was given an invoice credit for in-kind services of \$3,000 above the award amount.
- The same organization did not request all of the cash amount that had been awarded. Consequently, \$700 remained in the LART fund.
- The contract states that organizations may apply for reimbursement within 30 days of the event. However, five organizations received payments at least two months prior to the event.
- Contracts also state that the City will pay upon receipt of an invoice detailing the expenditures. However, invoices submitted by organizations did not detail expenditures.

Recommendation

Processes should be improved to ensure compliance with contract terms.

City Council Management Response City Council staff are in agreement with the findings and recommendation. We appreciate the Auditor's Office efforts in completing this audit in a thorough and thoughtful manner, and for their helpful recommendations.

City Council staff will explore (with the assistance of the City Attorney's Office and City Contracting) a change in the contract for 2017 projects that extends the reimbursement period from 30 to 90 days of the event, which may better accommodate the reality of event administration without compromising the City's control of LART funds.

Finally, during 2016, City Council staff communicated to awardees the appropriate level of detail to be included in their invoices requesting LART payments. Some awardees are small nonprofits without robust financial administration functions and were challenged by the additional level of detail; however, most were able to comply. At least one applicant for 2017 has moved their financial administration to the Pikes Peak Community Foundation to improve their ability to more effectively comply with grant requirements, such as those associated with the LART award process.

Special Events Management Response Special Events Management is in agreement with the findings and recommendations. The change in the LART process for 2016 which eliminates in-kind payments and non-profit discounts will help ensure that there are no longer any errors in invoice credits.