



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 24-16 City of Colorado Springs 2023 Annual Lodgers and Automobile Rental Tax Contract Compliance

July 2024

### **Purpose**

The purpose of this audit was to ensure 2023 awarded Lodgers and Automobile Rental Tax (LART) funds were used as specified and requirements were met per the applications and contracts.

### **Highlights**

We conclude that LART funds were used as specified. However, the City of Colorado Springs (City) did not have processes in place to determine if LART fund recipients were in compliance with contract requirements. Our review identified three observations. Please see pages two and three of this report for observation details.

The Lodgers and Automobile Rental Tax (LART), by ordinance, collects a 2% tax on any short-term lodging and a 1% tax on any automobile rental with the goal of attracting visitors and enhancing the economy and cultural benefits of the City and Pikes Peak Region. In 2023, over \$9.5 million was collected.

Funds are first allocated to City contracts with four tourist promotion organizations and the remaining funds are administered by City Council with guidance from the LART Citizen's Advisory Committee (LART Committee).

The LART Committee is responsible for recommending funding allocations to applicants that promote tourism.

City Council reviews and approves the awarded LART funds. City Finance then distributes the funds through contracts. The contracts specify certain requirements to ensure funds are spent in accordance with City Ordinance.

We reviewed to ensure all applicants who were awarded funds submitted a final report of expenditures and use of funds. In addition, we verified compliance with the four tourist promotion organizations contractual key performance indicators and end-of-year annual reports.

Additionally, we randomly selected a sample of five applicants awarded 2023 LART funds and reviewed for compliance as follows:

- Verified all required documentation was submitted to the City
- Reviewed expenditure supporting documentation to verify funds were spent as intended.

### **Management Response**

City Finance was in agreement with our recommendations.

### **Recommendations**

1. Implement a tracking system to ensure compliance with all requirements in the LART funding application and contract.
2. Track the receipt of final reports from all applicants awarded funds and communicate any non-compliance to the LART Committee.
3. Provide oversight to ensure organizations maintain compliance with the contract or re-evaluate the requirements of the contract.

### **Audit Committee**

#### **Recommendation:**

1. Audit Committee proposed that the LART Committee consider one FTE to be included in the LART Fund budget to provide program administration and ensure compliance.

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## **Observation 1**

All five applicants selected for audit provided sufficient support for expenditure of awarded LART funds. However, non-compliance with the application and contract was identified:

- One applicant was missing verification of non-profit status and a proposed budget with a marketing plan for the event.
- Three applicants did not submit their required final report.
- Two applicants did not submit all required information with their final report.

Each applicant was required to submit, with their LART funding application a proposed budget for the event, a marketing plan for the event, verification of non-profit status (if applicable), W-9, statement of authority, and a PERA form. In addition, the applicant was required to sign a LART agreement and submit a final report within 90 days of completion of the event. The LART funding application outlined specific requirements that should be included in the final report.

## **Management Response**

We agree with the recommendation. For the 2023 off-cycle process, a new application procedure was implemented. The applicants now complete the LART application in an Adobe form, which requires that a proposed budget, marketing plan, and completed W-9, Statement of Authority and PERA form are attached to the application. If the documents are not attached, the application cannot be submitted.

## **Recommendation**

Management should implement a tracking system to ensure compliance with all requirements in the LART funding application and contract.

## **Observation 2**

A review of final reports for 80 applicants awarded 2023 LART funds, excluding the five applicants selected for a full audit, identified 60 applicants had not submitted a final report.

A final report is required from each program/event receiving LART funding and must be submitted within 90 days of completion of the event. The final report was intended to provide an outcome of the event, show how LART funds were used, and proof of advertising and promotion of the event to include use of the LART logo.

Consequences for non-compliance could include penalties, full refund of funds or future awards restrictions.

## **Management Response**

We agree with the recommendation. A tracking sheet was created in January, for the 2024 contracts, to track the receipt of the 90-day Final Reports. Non-compliance will be reported to the LART Committee in the following year.

## **Recommendation**

Management should:

- Track the receipt of final reports from all applicants awarded funds.
- Communicate any non-compliance to the LART Committee.

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### **Observation 3**

The annual end-of-year reports for the four tourist promotion organizations awarded LART funds were reviewed for compliance. We identified that some metrics outlined in the key performance indicators (KPIs) were not measurable and/or verifiable. Two of the four organizations were not fully in compliance with the KPIs.

- Two KPIs in the contracts were not reported.
- Four KPIs were reported, but were not in the contract.
- Some wording and measurements for KPIs did not fully agree.

Three of the four organizations were required to complete an annual audit by an independent accounting agency. The audit was to be submitted to the City by April 1, 2024. Two organizations were not in compliance with this requirement.

- One organization did not submit an audit.
- One organization had not submitted an audit by the deadline.

There were four tourist promotion organizations with multi-year contractual agreements effective January 1, 2023. The organizations were contracted to provide consistent and long-range visitor promotion for the City.

Each organization was required to establish annual goals for each KPI listed for their organization. The contract required the organization to submit an end-of-year annual report to include a presentation of year-to-date progress in each of the KPIs with goals and historical amounts.

There does not appear to be a process in place to verify KPI goals submitted agree to the end-of-year annual report.

### **Management Response**

We agree with the recommendation. We will review the end of year reports annually by April, 2025, to ensure the report aligns with that year's KPIs. In addition, we will re-evaluate requirements of the contract by December 2024, for the 2025 contract year.

### **Audit Committee Recommendation**

In response to the City Auditor's findings (see Observations on pages 2 and 3) the Audit Committee proposed that the LART Committee consider one full-time equivalent position (FTE) to be included in the LART fund budget. This FTE would be responsible for managing all aspects of LART funds to include monitoring compliance of all requirements.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.