

Audit Committee Report

DATE: Monday, February 5, 2024

WARD(S): ALL

TITLE: MUNICIPAL ACCOMMODATION TAX AUDIT

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: FOR INFORMATION

Purpose

To communicate the findings from the Municipal Accommodation Tax Audit.

Report Highlights

- Financial Services is responsible for administering the Municipal Accommodation Tax (MAT) collected by hotels and short-term rental (STR) operators. Economic Development is the liaison between the hotel operators and the City and stays updated on occupancy trends. By-law and Compliance, Licensing and Permit Services (BCLPS) is responsible for ensuring STR applicants meet all licensing requirements including registering for a MAT account.
- The audit identified opportunities to improve the administration and oversight of the MAT program.
- Management has developed action plans which will mitigate the identified risks and address the recommendations outlined in the report.
- This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
- Internal Audit will follow up with management and report on the status of management action plans at a future Audit Committee meeting.

Recommendation

1. That the Internal Audit Report on Municipal Accommodation Tax be received.

Background

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes, and procedures in place to mitigate the business risks associated with the administration and oversight over the Municipal Accommodation Tax program.

The audit scope includes assessing that:

- Strategic plans are appropriately developed, implemented, and monitored, and align with the City's strategic initiatives and priorities.
- There is adequate management oversight, ensuring the proper execution of the Municipal Accommodation Tax operations.
- Key performance indicators have been developed and management tracks, monitors, and reports on the critical success factors.
- Policies and procedures are regularly reviewed, updated, and applied consistently.
- Information Technology systems are being leveraged and used to their maximum capabilities.

The scope of the audit covered the Municipal Accommodation Tax activities for the period of January 2021 to August 2023.

This audit was conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Previous Reports/Authority

Not applicable.

Analysis and Options

On November 23, 2017, the Province of Ontario issued the Transient Accommodation Regulation 435/17 which came into force December 1, 2017 and provides the necessary provisions for municipalities across Ontario to implement a Municipal Accommodation Tax (MAT). By-law 029-2019 was approved by Council on March 19, 2019 and came into effect on April 1, 2019. This By-law requires accommodation providers to collect and submit a standard rate of 4 per cent for daily stays to the City. As of April 1, 2020, the MAT was expanded to licensed short-term rentals. Currently in Vaughan, the annual initial licensing fee for STRs is \$360 and up to approximately \$12,000 for an STR broker. During the pandemic, Council approved a temporary suspension of collection and remittance of MAT that lasted from March 2020 until September 1, 2020.

It is estimated that the City could collect more than \$3 Million annually without increasing local residents' taxes through the MAT program. From 2020 through the end of 2022, the City has collected approximately \$4.7 million in MAT. Fifty per cent of the

net income collected from MAT is used to fund destination development and marketing in the City. The remaining 50 per cent is to be used at the City's discretion through the budgeting process.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The audit has identified opportunities to improve the operational efficiency:

- Developing a program to validate operator MAT submissions.
- Ensuring technology is fully leveraged to restrict input errors, improve communication between integrated systems and facilitate management oversight.
- Developing standard operating (SOPs) procedures and service level agreements (SLAs) with departmental stakeholders.
- Ensure staff have resources to provide sufficient administration and oversight over the MAT program.

For more information, please contact Kevin Shapiro, Director of Internal Audit, ext. 8293.

Attachments

1. Internal Audit Report – Municipal Accommodation Tax Audit.
2. Presentation Materials.

Prepared by

Kevin Shapiro, Director of Internal Audit, ext. 8293.

Approved by

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit