



Date: April 8, 2025

To: Sheryl M.M. Long, City Manager

From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*

Copies to: Internal Audit Committee
William Weber, Assistant City Manager
Steve Webb, Finance Director

Subject: **Admissions Tax Audit**

Attached is the Admissions Tax audit report. The primary objectives of this audit were to assess admissions tax license holders' compliance with all legislative requirements regarding licensure and remittance of all applicable taxes and fees, and ensure proper internal controls over operations. This audit was conducted in accordance with the current audit agenda.

We would like to thank the management and staff of the Finance Department for their assistance and cooperation during this audit.

If you need any further information, please contact me.

Attachment

Admissions Tax Audit

April 2025



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Executive Summary

Internal Audit (IA) conducted a performance audit of Admissions Tax operations under the Treasury Division (Treasury). The primary objectives of this audit were to assess admissions tax license holders' compliance with all legislative requirements regarding licensure and remittance of all applicable taxes and fees, and ensure proper internal controls over operations.

The City of Cincinnati (City) levies a 3% tax on admissions paid within City boundaries; as such, persons or establishments who sell tickets must collect and remit tax to the City. To be able to sell tickets, these entities must first apply for and obtain an admissions tax license, pay applicable license and bond fees, then submit monthly and annual tax returns, as well as remit all applicable tax to the City.

The audit revealed several opportunities for strengthening internal controls over the admissions tax process. For instance, IA found that the Microsoft Access (Access) database management system that stores admissions tax data is limited in its functionality and does not have the necessary safeguards to detect data entry errors. As a licensing and permitting tax collector, Treasury must have a more effective system to handle the volume of entries and aid in increasing City revenue.

Furthermore, IA determined that the Access system does not integrate with licensee payments. Because the system does not have the capability to maintain payment data, staff must manually upload and update payment data from a variety of sources instead of having all information available on one platform. This process is time-consuming and increases the likelihood of human error during data entry.

IA found that Treasury does not have a formal tracking mechanism for returns and payments. The CMC states that licensees who do not submit payments on time must pay 1% interest per month from the time when the tax becomes due until paid. However, Treasury's Access system does not have the capability to generate a report of late remittances. As such, Treasury staff cannot determine which licensees are not submitting payments on time or enforce interest payments.

IA determined that management review and oversight needs improvement. Due to a vacancy in Treasury, the manager has taken on a large proportion of non-supervisory responsibilities associated with admissions tax such as answering phone calls related to license applications and processing tax returns. Due to these responsibilities, the manager has limited time to provide supervisory oversight and ensure compliance with the CMC.

Overall, IA found that to strengthen internal controls over admissions tax operations, the following recommendations should be incorporated: determine a method to improve system efficiency to meet the needs of the division; ensure that the system synchronizes with licensee payments, develop a tracking mechanism for returns and payments to ensure compliance with the CMC; and improve management review and oversight. Implementing these recommendations will ensure that proper internal controls have been established to increase efficiency and effectiveness over operations and aid in increasing City revenue.

I. Introduction

Background

Admission refers to a charge paid for the right to enter a temporary or permanent place or event, such as concert or sports tickets.¹ The City levies a 3% tax on admissions paid within City boundaries; as such, persons or establishments who sell tickets must collect and remit tax to the City. To be able to sell tickets, these entities must first apply for and obtain an admissions tax license, pay applicable license and bond fees, then submit monthly and annual tax returns, as well as remit all applicable tax to the City.

These tax returns are received and processed by Treasury. Currently, all daily operations are overseen by the City's Debt Manager and the Senior Accountant, who are responsible for processing all applicable payments, daily balancing, and communicating with licensees. The City's Treasurer is also responsible for approving requests for admissions tax exemption from entities exempted by the Ohio Revised Code. Treasury uses Access to manage tax return data; this information is entered into the system daily as licensees submit their digital monthly tax returns.

There are three types of license applicants: sellers, resellers, and marketplace facilitators. In April 2024, the CMC was amended to include marketplace facilitators, or entities who control electronic ticket brokerage services such as Ticketmaster or SeatGeek. As such, these entities are also responsible for remitting admissions tax and returns to the City. With the inclusion of marketplace facilitators, the City's revenue has increased substantially: in Fiscal Year (FY) 2024, the revenue from admissions tax totaled \$11,878,722.85, an increase of 33.38% from FY 2023 (see table below).

Fiscal Year	Total Admissions Tax Revenue*
2022	\$7,655,754.67
2023	\$8,905,639.12
2024	\$11,878,722.85
2025 (through 12/31/2024)	\$8,267,066.58

*Revenue reports obtained from Treasury.

¹ <https://www.cincinnati-oh.gov/finance/admissions-tax/#:~:text=Per%20Section20309%20of%20the,of%20the%20City%20of%20Cincinnati.>

Audit Selection

IA conducted this audit in accordance with the Audit Work Plan.

Audit Objectives

The primary objectives of this audit were to assess admissions tax license holders' compliance with all legislative requirements regarding licensure and remittance of all applicable taxes and fees, and ensure proper internal controls over operations.

Audit Scope and Methodology

To accomplish the audit objectives, IA reviewed pertinent policies and procedures, the CMC, ordinances, and interviewed appropriate staff. Records reviewed included data from FY 2022 to present.

Data Limitations

Data limitations occur when the data provided contains weaknesses that can affect the accuracy and reliability of analysis. Throughout this audit, limitations of data storage such as inadequate tracking of files prevented IA from testing and analyzing admissions tax data.

Statement of Auditing Standards

As required by the Cincinnati Administrative Code Article II §15, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 5.60 pertaining to external peer review requirements. This exception did not have a material effect on the audit.

IA continues to conduct internal quality reviews to assure conformance with applicable GAGAS. IA performed the fieldwork between February and March of 2025.

Commendations

IA commends the management and staff of the Finance Department for their assistance and cooperation throughout the audit.

II. Audit Findings and Recommendations

The Access database management system for admissions tax is limited in its effectiveness.

Per the Standards for Internal Control in the Federal Government, "Management should design the entity's information system and related control activities to achieve objectives and respond to risks".² Currently, Treasury uses an Access database management system to store admissions tax data; however, IA was informed that the system is limited in its functionality and can be cumbersome for staff to use.

The Access system is over 24 years old and does not have the necessary internal controls to handle admissions tax entries. For instance, IA was informed that if an employee enters the name of an existing business incorrectly, the system only recognizes the correctly spelled business, thus saving the entry as an entirely new business and being unable to identify entries made in error. While IA was informed that Treasury is in the initial stages of working with the Cincinnati Area Geographic Information System to implement new program management software, the current system's limitations affect the entirety of admissions tax operations, as will be discussed further in this report.

Recommendation 1: Determine a method to improve system efficiency to meet the needs of the division.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

Treasury has been approved to move forward with a new licensing/tax program, which includes licensing, admission tax, STR and TOT that will be integrated into CAGIS. Treasury is currently drafting the last section of the Scope of Services for licensing which includes Admissions Tax. The CAGIS team has reviewed STR and TOT. The new scope will include the ability to track licenses, tax returns and registrations from submission to approval. We request that the new system includes the ability to submit returns electronically, calculate taxes due (including interest due on late payments) and license fees, accept payments, track delinquencies, send renewal notices electronically, the ability to communicate with customers within the portal, and provide supervisory oversight to name a few.

The Access system does not integrate with licensee payments.

Currently, licensees can submit payments physically or electronically. Physical payments are made via check and submitted to Treasury, and electronic payments are made via the Datapoint/Fidelity Information Services (FIS) platform through e-check or credit card. Physical payments are recorded in a check log, while electronic payments are entered into the FIS log and assigned an FIS number. Licensees must also submit a monthly return to Treasury via email.

Because the Access system is not equipped to maintain payment data and does not integrate with the FIS platform, staff must manually upload and update this data in the system, cross-

² Green Book, GAO Standards for Internal Control in the Federal Government.

referencing between the emailed return and the check or FIS log to determine whether all information is correct. This process is time-consuming and inefficient, as Treasury staff must upload information from a variety of sources rather than all information being available on one platform.

Recommendation 2: Ensure that the system synchronizes with licensee payments.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

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Treasury does not have a formal tracking mechanism for returns and payments.

As discussed in the previous finding, IA determined that Treasury has the ability to track returns and payments manually, but there is no formal tracking mechanism. This inefficient process affects Treasury's ability to determine whether all taxes are paid when due.

The CMC states that if the tax is not paid when due, "there shall be added as a part of the tax interest at the rate of one percent per month from the time when the tax became due until paid"³. While IA was informed that it is the licensee's responsibility to submit late interest as delineated on the monthly return form, Treasury's Access system does not have the capability to generate a report of late remittances. Thus, Treasury staff cannot determine which licensees are not submitting payments on time or enforce the 1% interest as required by the CMC.

Recommendation 3: Develop a tracking mechanism for returns and payments to ensure compliance with the CMC.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

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³ CMC 309-9(e)

system includes the ability to submit returns electronically, calculate taxes due (including interest due on late payments) and license fees, accept payments, track delinquencies, send renewal notices electronically, the ability to communicate with customers within the portal, and provide supervisory oversight to name a few.

License holders are not notified to renew their licenses when the expiry date arrives.

Admissions tax licenses are issued for two durations: annual licenses, which are issued if a vendor will collect admissions for ongoing events, and temporary licenses, which are issued for one-time events. Annual licenses expire on December 31st of the year in which the license is issued, while temporary licenses are issued for a term less than one year.⁴ IA found that Treasury does not communicate to licensees that their licenses have expired, and there is no automated renewal notification in the system. As such, licensees may not be aware that their licenses are out of date and may become out of compliance with the CMC if they continue to operate.

Recommendation 4: Notify licensees when the license expiry date arrives.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

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Admissions tax communications are not centrally stored.

Centralizing data sources ensures that staff has access to a common source of trusted data, allowing for efficient and effective operations. “Centralizing entity data eliminates data silos by integrating all information into a single, shareable source. This minimizes the time spent reconciling competing data sets and reduces the inefficiencies caused by inaccurate or incomplete data”.⁵

The majority of licensee requests are received via email, and Treasury responds to these emails with an attachment indicating approval. These emails are kept in the “Sent” folder of the Treasury Licensing email. However, no sorting mechanism for the outbox exists such that staff

⁴ “All annual licenses shall be for a period beginning on the date they are issued through the following December 31, and all temporary licenses shall be for the period specified therein, unless the licensee surrenders a license sooner or the treasurer suspends or revokes a license for cause.”—CMC 309.13(f)

⁵ Diligent, The Benefits of Centralized Data: A Single Source of Information for Your Business Entities. April 26, 2018.

can find specific license applications without sorting through multiple emails. As such, it is difficult for Treasury staff to organize and keep track of sent emails, as several staff members send out emails from this address. Thus, communication from applicants and licensees should be organized and tracked elsewhere along with licensee information such as payment history, all monthly returns, and renewal information. This will enable staff to easily find communications and general information from licensees without drawing from several sources.

Recommendation 5: Determine a method to store licensee communications centrally.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

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Management review and oversight needs improvement.

Adequate management oversight is critical to ensure that daily operations are performed properly and that all license terms are enforced. As of Calendar Year (CY) 2024, the Treasury's Accounting Technician III role is vacant. IA found that the manager has taken on a large proportion of non-supervisory responsibilities, such as answering phone calls related to license applications and processing tax returns. Due to these responsibilities, the manager has limited time to provide supervisory oversight in terms of spot-checking the Senior Accountant's work or generating management exception reports to ensure compliance with the CMC.

Recommendation 6: Improve management review and oversight.

Department Response: Partially Agree. Treasury is facing staffing issues, but that has not prevented management from providing spot-checking of work. Management has taken on more non-supervisory responsibilities due to missing staff, however we do not believe that we face additional risk based on the controls in place. As mentioned previously, a new system with alert notifications and better reporting capabilities will allow managers the ability to monitor all processes (Admission Tax, Short Term Rental, Transient Occupancy Tax, and Business Licenses).

Treasury does not perform audits of licensee returns.

Audits are crucial for ensuring the accuracy, reliability, and transparency of financial information. IA was informed by the Treasurer that during her tenure, audits of licensee returns have not been performed due to limited resources and the time-consuming manual process. As such,

Treasury does not have any way to determine whether licensees are following the terms of their license agreements, which can lead to noncompliance with the CMC.

Recommendation 7: Perform periodical audits of licensee returns to ensure that licensees are following the terms of their license agreements.

Department Response: Partially Agree. Treasury does not have the staff to conduct onsite audits of licensees' tax returns to test accuracy of data (i.e., venue event dates, ticket prices, review of attendance logs, etc.) to ensure/improve the accuracy of admission tax returns. Treasury staff do, however, audit returns when received and check the accuracy of each return for the proper calculation of the tax, including late returns and commensurate late payment. As mentioned earlier, an improved system would have the ability to track licenses, tax returns and registrations from submission to approval – including the ability to calculate returns and license fees, track late payments, send renewal notices electronically, and ability to communicate with customers within the system portal as a way of “auditing” records.

The turnaround dates on processing license applications and exemption requests are not being tracked.

The Admissions Tax General Rules and Regulations state that Treasury will review license applications and exemption requests within 30 days of receipt. IA attempted to test whether Treasury fulfills this requirement by reviewing license applications and exemption requests; however, IA determined that because license applications are not tracked outside of the Treasury Licensing email outbox, and approved exemption requests include the date of issue without the date of processing, it is nearly impossible for a third party to determine whether Treasury is reviewing all appropriate license applications or exemption requests within the allotted 30 days.

Recommendation 8: Determine a tracking method to ensure that all license applications and exemption requests are being processed per policy.

Department Response: Agree. Treasury does not have a software system to monitor processing times for exemption requests. These requests are reviewed manually as the rules and regulations require submission 30 days prior to ticket sales to ensure timely approval. The review process involves review of contracts, payment terms, commercial licensing agreements or other documents. Additional time may also be needed for requestor clarification of documentation submitted for exemption.

No policy exists to determine which licensees should pay increased bond fees, and bond records are not organized or tracked efficiently.

When prospective licensees send in applications, they must also include a bond fee; the CMC states that the Treasurer is responsible for determining appropriate bond fee amounts for licensees⁶. IA confirmed that bond fees are usually \$100 per application unless the Treasurer stipulates that certain licensees should be charged more; this judgment is made based on event

⁶ “The treasurer may require any vendor to file with the treasurer a bond, with security to the approval of the finance director of the city, and in such amount as the treasurer may fix... Such bond, when approved by the treasurer, shall be deposited in the treasurer's office.”— CMC 309.11(d)

size and past payment history. However, no division policies or formal guidelines, such as a rubric, have been created to support how this determination is made. Justifying additional charges to licensees ensures that criteria for charging these fees are clearly stated to ensure consistency in the event that licensees dispute extra charges.

Additionally, IA determined that bond records should be organized and tracked more efficiently. While IA was provided with an Excel workbook containing admissions bonds from FY 2022 to present, this workbook did not include a list of bond amounts per licensee such that IA could identify which licensees submitted bond fees greater than \$100. It is crucial that all bond information is stored in such a way that a third-party reviewer can determine whether licensees have paid and any increased bond amount has been approved by the Treasurer.

Recommendation 9: Create a policy or rubric to determine which licensees must pay increased bond fees, and determine a method for organizing and tracking bond records.

Department Response: Agree. The CMC provides the Treasurer discretion when determining bond requirements and amounts which have historically been based on venue type, risk factors and history of vendor delinquency. The bond requirement is a cash bond which is tracked outside of the current system. Treasury will continue to maintain a spreadsheet with the bond information. Treasury will request that the new system have the ability to track bond amounts. Treasury will modify the Admission Tax Rules & Regulations to provide language on how the amount is determined.

III. Conclusion

The City of Cincinnati collects a 3% admissions tax to generate revenue and defray current expenses for the City from persons or organizations selling tickets. The audit revealed several opportunities for strengthening internal controls over this process.

To strengthen internal controls over admissions tax operations, the following recommendations should be incorporated: determine a method to improve system efficiency to meet the needs of the division; ensure that the system synchronizes with licensee payments, develop a tracking mechanism for returns and payments to ensure compliance with the CMC; and improve management review and oversight. Implementing these recommendations will ensure that proper internal controls have been established to increase efficiency and effectiveness over operations and aid in increasing City revenue.

IV. Finance Department Response

Recommendation 1: Determine a method to improve system efficiency to meet the needs of the division.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

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Recommendation 3: Develop a tracking mechanism for returns and payments to ensure compliance with the CMC.

Department Response: Agree. Treasury is inputting admission tax information in a 24-year-old database system. The system does not have the ability to enter tax returns, calculate taxes, late payments, store returns, accept payments and communicate with the licensee. This system is very slow and much of the admission tax data is maintained on separate spreadsheets.

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Recommendation 4: Notify licensees when the license expiry date arrives.

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Recommendation 6: Improve management review and oversight.

Department Response: Partially Agree. Treasury is facing staffing issues, but that has not prevented management from providing spot-checking of work. Management has taken on more non-supervisory responsibilities due to missing staff, however we do not believe that we face additional risk based on the controls in place. As mentioned previously, a new system with alert notifications and better reporting capabilities will allow managers the ability to monitor all

processes (Admission Tax, Short Term Rental, Transient Occupancy Tax, and Business Licenses).

Recommendation 7: Perform periodical audits of licensee returns to ensure that licensees are following the terms of their license agreements.

Department Response: Partially Agree. Treasury does not have the staff to conduct onsite audits of licensees' tax returns to test accuracy of data (i.e., venue event dates, ticket prices, review of attendance logs, etc.) to ensure/improve the accuracy of admission tax returns. Treasury staff do, however, audit returns when received and check the accuracy of each return for the proper calculation of the tax, including late returns and commensurate late payment. As mentioned earlier, an improved system would have the ability to track licenses, tax returns and registrations from submission to approval – including the ability to calculate returns and license fees, track late payments, send renewal notices electronically, and ability to communicate with customers within the system portal as a way of “auditing” records.

Recommendation 8: Determine a tracking method to ensure that all license applications and exemption requests are being processed per policy.

Department Response: Agree. Treasury does not have a software system to monitor processing times for exemption requests. These requests are reviewed manually as the rules and regulations require submission 30 days prior to ticket sales to ensure timely approval. The review process involves review of contracts, payment terms, commercial licensing agreements or other documents. Additional time may also be needed for requestor clarification of documentation submitted for exemption.

Recommendation 9: Create a policy or rubric to determine which licensees must pay increased bond fees, and determine a method for organizing and tracking bond records.

Department Response: Agree. The CMC provides the Treasurer discretion when determining bond requirements and amounts which have historically been based on venue type, risk factors and history of vendor delinquency. The bond requirement is a cash bond which is tracked outside of the current system. Treasury will continue to maintain a spreadsheet with the bond information. Treasury will request that the new system have the ability to track bond amounts. Treasury will modify the Admission Tax Rules & Regulations to provide language on how the amount is determined.