



**A Report to the  
Audit Committee**

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**Audit of Hotel Occupancy Taxes  
Fiscal Year 2013**

**August 22, 2013**

**Metropolitan  
Nashville  
Office of  
Internal Audit**

## EXECUTIVE SUMMARY

August 22, 2013



### Why We Did This Audit

This audit was conducted at the request of the Office of the Treasurer to provide management assurance that hotel occupancy tax collections are accurate and complete.

### What We Recommend

Hotel operator's documentation for room revenue, number of rooms rented, justification for out of service rooms, and exemption claims should be retained for 36 months. Also, they should solicit independent *Service Organization Control 1 Reports* from computer lodging system service providers. This will help ensure the accuracy of financial and statics reports used to prepare hotel occupancy tax returns.

For more information on this or any of our reports, email  
Mark.Swann@nashville.gov

# Audit of Hotel Occupancy Taxes Fiscal Year 2013

## BACKGROUND

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The Metropolitan Nashville Government imposes a six percent hotel occupancy tax and a flat \$2.50 per rented room convention center tax. There were 298 hotel operators that filed hotel occupancy taxes since 2009. Nearly 40 percent of the tax is collected from 25 hotels such as the Marriott Opryland, Downtown Radisson, Downtown Sheraton, Lowes Vanderbilt, and the Hutton hotels. The other 60 percent is collected from approximately 270 properties with fewer than 200 rooms.

## OBJECTIVES AND SCOPE

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The objectives of the audits were to:

- Determine revenue and number of rooms asserted for monthly hotel occupancy tax returns agreed with hotel operator's results of operations.
- Determine exemptions to hotel occupancy tax were for continuous stays in excess of thirty day or for federal, state, or local government business.

In fiscal years 2011, 2012, and 2013, annual revenues from hotel occupancy tax were \$38.8 million, \$47.1 million, and \$45.2 million respectively.

A sample of 18 hotel operator's (see Appendix B for locations) tax returns representing \$5.4 million in hotel occupancy taxes were selected for audit. Audit procedures traced revenue and room nights to supporting lodging computer system monthly reports and other supporting documentation, and agreed exemption claims with those allowed within the Metropolitan Nashville Code of Laws.

## WHAT WE FOUND

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The \$5.4 million in hotel occupancy tax returns reviewed were materially valid. However, ten hotels underpaid taxes by \$22,243 or .41 percent of the \$5.4 million in hotel occupancy tax reported for the 18 properties reviewed. An additional \$10,271 in penalty and interest was calculated, with a total of \$32,514 recommended for recovery.

Tax underpayments ranged between \$12,760 and \$60 for these ten hotels.

## GOVERNANCE

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The Collections Office within the Office of the Treasurer is responsible for receiving hotel occupancy tax returns. The Collections Office will review hotel occupancy tax returns for accuracy and monitor payments. Hotel operators assert total revenue and number of rooms rented on monthly hotel occupancy tax returns. Normally hotel operators obtain information for these hotel occupancy tax returns from their lodging computer system and records maintained for guest exemptions.

## OBJECTIVES AND CONCLUSIONS

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*Were hotel occupancy tax return revenue, number of rooms rented, and exemption claims accurate and complete?*

**Generally yes.** Hotel occupancy tax returns were materially valid for the 18 hotels reviewed. However, ten hotels underpaid taxes by \$22,242 or .41 percent of the \$5.4 million in hotel occupancy tax reported for the 18 hotels.

The hotel operators place significant reliance on their lodging computer system for compiling hotel occupancy tax returns. Internal controls surrounding computer lodging system service providers were not tested. A *Service Organization Control 1 Report* was received for the Hilton Worldwide Shared Services Center. The Office of Internal Audit will continue to solicit independent assurance reports for other computer lodging system service providers. Also, hotel operators need to ensure documentation for hotel occupancy tax room revenue, number of rooms rented, justification for out of service rooms, and exemption claims is retained for 36 months.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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To accomplish our audit objectives, we performed the following steps:

- Interviewed key hotel operator personnel.
- Reviewed and analyzed hotel property results of operations financial and statistical reports.
- Physically observed hotel properties.
- Reviewed support for hotel occupancy tax exemptions.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

## **AUDIT TEAM**

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Mark Swann, CPA, CIA, CISA, Metropolitan Auditor

Qian Yuan, CISA, Auditor-in-Charge

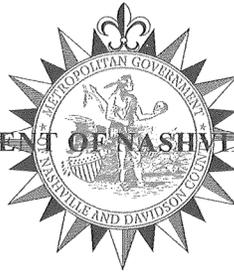
Seth Hatfield, Auditor

Jack Henry, CPA, Auditor

Joe McGinley, CISSP, CISA, Auditor

Lauren Riley, CPA, Auditor

KARL F. DEAN  
MAYOR



**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

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August 19, 2013

Mr. Mark Swann  
Metropolitan Auditor  
222 3<sup>rd</sup> Ave North Suite 401  
Nashville, TN 37201

RE: Audit of Hotel Occupancy Tax

*Mark*  
Dear Mr. Swann

This letter acknowledges receipt of your audit of hotel occupancy tax. I have reviewed the audit report and your conclusion and recommendations. I agree with the recommendations for the hotel operators and believe them to be reasonable and reflect good practice. My office will take any action available to encourage the operators to implement the recommendations.

I want to thank you for agreeing to conduct these audits to assist my office in the collections effort. The reports issued to the hotels reflect exceptional understanding and professionalism on the part of your staff. The reports have been very helpful in our collection efforts and, if the recommendations are followed by the hotel owners, Metro will continue to benefit in the future.

Sincerely

*Lannie B. Holland*  
Lannie B. Holland  
Metropolitan Treasurer

APPENDIX B – HOTEL AUDIT LOCATION FOR FISCAL YEAR 2013

