



**A Report to the  
Audit Committee**

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**Audit of Hotel Occupancy Taxes  
Fiscal Year 2014**

**September 17, 2014**

**Metropolitan  
Nashville  
Office of  
Internal Audit**

## EXECUTIVE SUMMARY

September 17, 2014



### 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, adjustments to revenue, justification for out of service rooms, and exemption claims should be retained for 36 months. Also, they should continue to 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](mailto:Mark.Swann@nashville.gov)

# Audit of Hotel Occupancy Taxes Fiscal Year 2014

## 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 275 hotel operators that filed hotel occupancy taxes in fiscal year 2014. Nearly 57 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 43 percent is collected from approximately 250 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.
- 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 2012, 2013, and 2014, annual revenues from hotel occupancy tax and convention center tax were \$47.1 million, \$50.5 million, and \$59.7 respectively.

A sample of 29 hotel operator's (see Appendix B for locations) tax returns representing \$14.2 million in hotel occupancy taxes and convention center 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 \$14.2 million in hotel occupancy tax and convention center tax returns reviewed were materially valid. However, 22 hotels underpaid taxes by \$351,731 along with hotels overpaying \$60,308, leaving a total of \$291,423 net underpaid recommended for recovery or two percent of hotel occupancy tax and convention center tax reported for the 29 properties reviewed. An additional \$123,635 in penalty and interest was calculated resulting in net claims of \$415,058.

Tax underpayments ranged between \$110,621 and \$20 for these 22 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 29 hotels reviewed. However, 22 hotels underpaid taxes by \$351,731 along with hotels overpaying \$60,308, leaving a total of \$291,423 net underpaid recommended for recovery or two percent of hotel occupancy tax and convention center tax reported for the 29 properties reviewed. An additional \$123,635 in penalty and interest was calculated resulting in net claims of \$415,058.

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 Marriot International, Incorporated, Marriott Business Services center which supported two properties. The Office of Internal Audit will continue to solicit independent assurance reports for other computer lodging system service providers. Additional audit procedures were performed for some properties through use of occupancy analysis, inquiry, and comparison of lodging system revenue with franchise fee revenue calculations.

Hotel operators need to continue to ensure documentation for hotel occupancy tax room revenue, number of rooms rented, adjustments to revenue, 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.

KARL F. DEAN, MAYOR



**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

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September 10, 2014

Mr. Mark Swann  
Metropolitan Auditor  
1417 Murfreesboro Pike  
Nashville, TN 37217

Re: Audit of Hotel Occupancy Taxes Fiscal Year 2014

Dear Mr. Swann

This letter acknowledges receipt of your audit of hotel occupancy tax. I have reviewed the audit report and agree with the conclusions and recommendations for hotel operators. They are reasonable and reflect good practice. My office will encourage operators to implement the recommendations.

I appreciate your continued support and believe these audits are instrumental in ensuring accurate and timely hotel tax collections. Your staff has been thorough and acted professionally in conducting the audits. The reports have been very helpful in our collection efforts.

Sincerely,

  
Tom Eddlemon  
Metropolitan Treasurer

**APPENDIX B – HOTEL AUDIT LOCATION FOR FISCAL YEAR 2014**

