



**A Report to the
Audit Committee**

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**Audit of Hotel Occupancy Taxes
Fiscal Year 2015**

July 9, 2015

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

July 9, 2015



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 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.

Additionally, hotel operators need to document the number of exempt room nights claimed for each guest listed on hotel occupancy tax exemption reports.

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

Audit of Hotel Occupancy Taxes Fiscal Year 2015

BACKGROUND

The Metropolitan Nashville Government imposes a six percent hotel occupancy tax and a flat \$2.50 per rented room convention center tax. There were 618 hotel or vacation rental operator that filed hotel occupancy taxes in the past three fiscal years (fiscal years 2013, 2014 and 2015). The great majority of revenue continues to be from traditional hotel operators with vacation rental operations representing less than half of one percent (0.37 percent) of total hotel occupancy tax received during this period.

OBJECTIVES AND SCOPE

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 2013, 2014, and 2015, annual revenues from hotel occupancy tax and convention center tax were \$50.5 million, \$59.8 million, and \$61.8 respectively.

A sample of 14 hotel operator's (see Appendix B for locations) tax returns representing \$2.8 million in hotel occupancy taxes and convention center taxes were audited. Hotels selected for audit were based on annual reported room nights not matching expected number of room nights reported using historic Metropolitan Nashville hotel occupancy rates.

WHAT WE FOUND

The \$2.8 million in hotel occupancy tax and convention center tax returns reviewed were materially valid. However, nine hotels underpaid taxes by \$100,166 along with six of these hotels overpaying \$11,382, leaving a total of \$88,785 net underpaid recommended for recovery or three percent of hotel occupancy and convention center taxes audited. Tax underpayments ranged between \$45,317 and \$69 for these nine hotels.

GOVERNANCE

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

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. However, nine hotels underpaid taxes by \$100,166 or three percent of hotel occupancy tax and convention center taxes audited in fiscal year 2015.

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. Additionally, hotel operators need to document the number of exempt room nights claimed for each guest listed on hotel occupancy tax returns exemption reports.

COLLECTION OF HOTEL OCCUPANCY TAX NET AUDIT CLAIMS AT 76 PERCENT

Fiscal Year	Number of Audits	Audited Revenue Amount	Audited Tax Amount	Net Audit Claim ¹	Collected or Settled
2013	18	\$ 63,740,705	\$ 5,385,583	\$ 22,058	\$ 18,227
2014	29	182,368,581	14,242,187	415,061	302,924
2015	14	42,664,158	2,849,694	126,335	109,456
Total	61	\$288,773,444	\$22,477,465	\$563,454	\$430,608

¹ Amount includes the net amount of taxes underpaid, overpaid, and penalty and interest.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

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

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.
- Traced revenue and room nights to supporting lodging computer system monthly reports and other supporting documentation.
- Agreed exemption claims with those allowed within the Metropolitan Nashville Code of Laws.
- 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



DEPARTMENT OF FINANCE
METROPOLITAN TREASURER'S OFFICE
700 2ND AVENUE SOUTH, SUITE 205
P.O. Box 196300
NASHVILLE, TENNESSEE 37219-6300
PHONE: 615-880-2818
FAX: 615-880-2810

July 8, 2015

Mark Swann
Metropolitan Auditor
1417 Murfreesboro Pike
Nashville, TN 37217

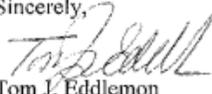
Re: Audit of Hotel Occupancy Taxes Fiscal Year 2015

Dear Mr. Swann:

This letter acknowledges receipt of your Audit of Hotel Occupancy Tax for Fiscal Year 2015. I have reviewed the audit report and agree with the conclusions and recommendations. If followed, these recommendations will help operators fully comply with Hotel Occupancy Tax requirements. My office will encourage operators to implement the recommendations.

I appreciate the continued support of you and your staff. These audits are instrumental in ensuring accurate and timely tax collections.

Sincerely,


Tom J. Eddlemon
Metropolitan Treasurer

