



**A Report to the
Audit Committee**

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David Briley

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**Audit of Hotel Occupancy Taxes
July 2016 Through January 2019**

February 1, 2019

**Metropolitan
Nashville
Office of
Internal Audit**

Audit of Hotel Occupancy Taxes July 2016 Through January 2019

EXECUTIVE SUMMARY

February 1, 2019



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.

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

BACKGROUND

The Metropolitan Nashville Office of Internal Audit conducts compliance audits of Metropolitan Nashville Government's six percent hotel occupancy tax and \$2.50 per rented room convention center tax. There were 290 hotel and 4,845 vacation rental operators that filed hotel occupancy taxes between July 2016 and December 2018 (fiscal years 2017, 2018 and first half 2019). Exhibit 1 summarizes the amount received in the Treasury Collections Office within the Office of the Treasurer.

Exhibit 1 – Hotel Occupancy Tax Return by Fiscal Year¹

Type	2017	2018	2019 ¹
Hotel	\$80,888,829	\$87,685,647	\$49,058,260
Vacation Rental	4,045,677	6,799,846	4,996,988
Not Classified	128,768	65,281	2,185
Total	\$85,063,274	\$94,550,774	\$54,057,433

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 days or for federal, state, or local government business.

A sample of 18 hotel operator's (see Appendix B for locations) tax returns representing \$5.6 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 or properties jointly reviewed with the City of Goodlettsville.

WHAT WE FOUND

The \$5.6 million in hotel occupancy tax and convention center tax returns reviewed were materially valid. However, 17 hotels underpaid taxes by \$66,257 along with hotels overpaying \$8,492, leaving a total of \$57,765 net underpaid recommended for recovery (1.03 percent) of hotel occupancy tax and convention center tax audited. Tax underpayments ranged between \$24,937 and \$154 for these 17 hotels.

¹ Hotel occupancy taxes received as posted in Treasury Department Collections database as of December 31, 2018.

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, 17 hotels underpaid taxes by \$66,257 along with hotels overpaying \$8,492, leaving a total of \$57,765 net underpaid recommended for recovery (1.03 percent) of hotel occupancy tax and convention center tax audited between July 2017 and January 2019.

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.

COLLECTION OF HOTEL OCCUPANCY TAX NET AUDIT CLAIMS AT 72 PERCENT

Exhibit 2 – Summary of Hotel Occupancy Tax Net Audit Claims By Fiscal Year as of January 22, 2019

Fiscal Year	Number of Audits	Audited Revenue Amount	Audited Tax Amount	Net Audit Claim	Collected
2013	18	\$ 63,740,705	\$ 5,385,583	\$ 22,058	\$ 26,985
2014	29	182,368,581	14,242,187	415,061	289,891
2015	14	42,664,158	2,849,694	126,335	120,070
2016	15	195,849,557	14,150,449	93,385	65,766
2017	5	30,587,191	1,977,256	29,131	5,964
2018	6	23,502,929	1,997,296	20,814	14,884
2019	7	21,557,917	1,636,622	27,744	7,993
Total	94	\$ 560,271,037	\$ 42,239,087	\$ 734,529	\$ 531,553

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:

- Contracted the M G Group PC to conduct hotel occupancy tax audits for properties within the City of Goodlettsville, this was a joint effort with the City of Goodlettsville Collections Office.
- 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.

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



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February 1, 2019

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Auditor
404 James Robertson Parkway
Nashville, TN 37219

Re: Audit of Hotel Occupancy Taxes July 2016 through January 2019

Dear Mr. Swann:

This letter acknowledges receipt of your audit of Hotel Occupancy Tax for the period July 2016 through January 2019. I have reviewed the audit and agree with the conclusions and recommendations. If followed by hotel operators, the recommendations will allow operators to fully support their tax filings and payments. The Collections Office will continue to assist operators with filing accurate and timely tax payments.

I appreciate the support of you and your staff. These audits are instrumental in collection of these taxes as tourism continues to grow in Nashville.

Regards,

A handwritten signature in blue ink that reads "Talia Lomax-O'dneal".

Talia Lomax-O'dneal

APPENDIX B – HOTEL AUDIT LOCATIONS FOR JULY 2016 THROUGH JANUARY 2019

