

**HAMILTON COUNTY HOTEL/MOTEL
OCCUPANCY TAX**

AUDIT REPORT

Two-year Period Ending June 30, 2024



INTERNAL AUDIT OFFICE
455 N. HIGHLAND PARK AVENUE
CHATTANOOGA, TENNESSEE 37404

Hamilton County Hotel/Motel Occupancy Tax

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Two Year Period Ended June 30, 2024

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COUNTY MAYOR

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INTERNAL AUDIT OFFICE

TO: Weston Wamp, County Mayor
Hamilton County Board of Commissioners
Audit Committee
Bill Hullander, Trustee

FROM: Chris McCollough, County Auditor

DATE: October 21, 2024

SUBJECT: Audit Report - Hamilton County Hotel/Motel Occupancy Tax

BACKGROUND AND SCOPE OF TEST WORK

The Hamilton County Auditor's Office is responsible for performing occupancy tax audits of all hotels/motels and short-term vacation rentals (STVRs) located in Hamilton County and the cities of Chattanooga, East Ridge, Collegedale, Red Bank, and Soddy Daisy. These audits test compliance with the county's Hotel/Motel Occupancy Tax law and the respective ordinances of each municipality. This report outlines the results and conclusions from our tests of occupancy tax calculations, collections, and remittances to the Hamilton County Trustee for the two years ended June 30, 2024.

Our goal is to perform detailed field audits of occupancy tax collections and remittances on each hotel/motel/STVR located in Hamilton County within a two-year cycle. During the two-year period that ended June 30, 2024, our office conducted field audits on eighty-nine (89) properties. See page 5 for a table and graph summarizing collections of occupancy tax for the last 10 fiscal years. Additionally, see page 6 for a table of total collections by property type for fiscal years 2023 and 2024.

OBJECTIVES OF TEST WORK

The objectives of our tests of occupancy tax were to assess whether:

- Verify internal control procedures within the Trustee's office are adequate to ensure that all occupancy tax transactions (collections, billings, assessment of interest and penalties, assessment of civil fines) are properly authorized and recorded.
- Determine the receipt of occupancy tax remittances is properly recorded by the Trustee and properly accounted for in the county's financial records.
- Affirm that accounting records at the respective properties are adequate to ensure that the amount collected from patrons for occupancy tax is properly computed and remitted to the Trustee on a timely basis.
- Confirm the distribution of Hamilton County's occupancy tax to the Chattanooga Tourism Company (formerly the Chattanooga Area Convention and Visitors Bureau) complies with TCA 67-4-14 and with county resolution no. 207-27, dated February 21, 2007. On June 28, 2023, county resolution no. 623-70 was passed to set a cap on allocating the proceeds to the Chattanooga Tourism Company, which will be reviewed each budget year. The remaining funds will be used to promote, support, and fund other tourism-related efforts in the county. Additional oversight of the distribution of occupancy tax funds was established with the passing of Public Chapter No. 1016. This requires each local government in the State of Tennessee to submit an annual report that details the amount of hotel occupancy tax revenue spent along with its subordinate contractors and how those expenditures have been designated and used to promote tourism and tourism development.

TEST PROCEDURES

Our tests of hotel/motel occupancy tax receipts consisted of the following:

- Review of office procedures and internal controls at the Trustee's Office over the collection and recording of county and city occupancy tax receipts. In addition, our procedures included a review of the Trustee's efforts in collecting delinquent amounts.
- Analysis of monthly collections of the occupancy tax from each respective property. Any unusual fluctuations in collections were discussed with personnel in the Trustee's Office and noted for further investigation during our field audits.
- For each property selected, our procedures included:
 - 1) Review of the property's office procedures, internal controls, and accounting records for the receipt and recording of room rental revenue and the calculation of occupancy tax due;
 - 2) Tests of unusual fluctuations in monthly room rental revenue and occupancy tax remittances; detailed tests of the recording of room rental revenue using

appropriate sampling techniques; and

- 3) Review of supporting documentation for any occupancy tax exemptions granted.

AUDIT RESULTS

The following comments refer to specific properties audited during the two-year period ending June 30, 2024. All findings were reported to the Trustee and respective property representative for follow-up and correction.

An underpayment of occupancy tax to the Trustee was identified at 48 of the 89 (54%) properties audited, resulting in a total underpayment of **\$129,018**. Below are the primary reasons for the underpayment of occupancy tax:

- Some properties were granting unauthorized exemptions from the occupancy tax related to non-transient residents. The properties were instructed that occupancy tax exemptions are restricted to non-transient residents (those staying more than 90 consecutive days for county taxes and those staying more than 30 consecutive days for city taxes). These errors were addressed, and any additional tax due was billed as of the date of this report.
- Some properties were granting occupancy tax exemptions to ineligible groups. The only exemptions allowed are for employees of the Federal government, the State of Tennessee, and ‘political subdivisions’ of the State of Tennessee. These errors were addressed, and any additional tax due was billed as of the date of this report.
- At some properties, errors were noted in the computation of the occupancy tax due. These errors were addressed, and any additional tax due was billed as of the date of this report.
- Some properties were remitting occupancy tax late to the Trustee. A property operator is liable for both interest of 1% and penalty of 2% monthly on delinquent county and city taxes.

In addition to interest and penalties, each occurrence of an operator knowingly refusing to collect or remit the tax imposed may result in a separate violation in additional penalties not to exceed fifty dollars (\$50) per day.

AUDITORS' CONCLUSIONS

Based on test procedures performed, we conclude the following:

1. Internal controls and office procedures over the collection and processing of occupancy taxes at the Trustee's Office appear adequate to detect and prevent significant errors or abuses.
2. The properties generally compute occupancy taxes adequately and on a consistent basis. The discrepancies found were primarily due to clerical errors and granting incorrect tax exemptions. All discrepancies were reported to the Trustee and respective hotels for follow-up and correction.

We appreciate the assistance of the Trustee and properties' staff during our audits. If you have any questions regarding this report, contact Austin Durall at 209-6211 or me at 209-6212.

Chris McCollough

Chris McCollough

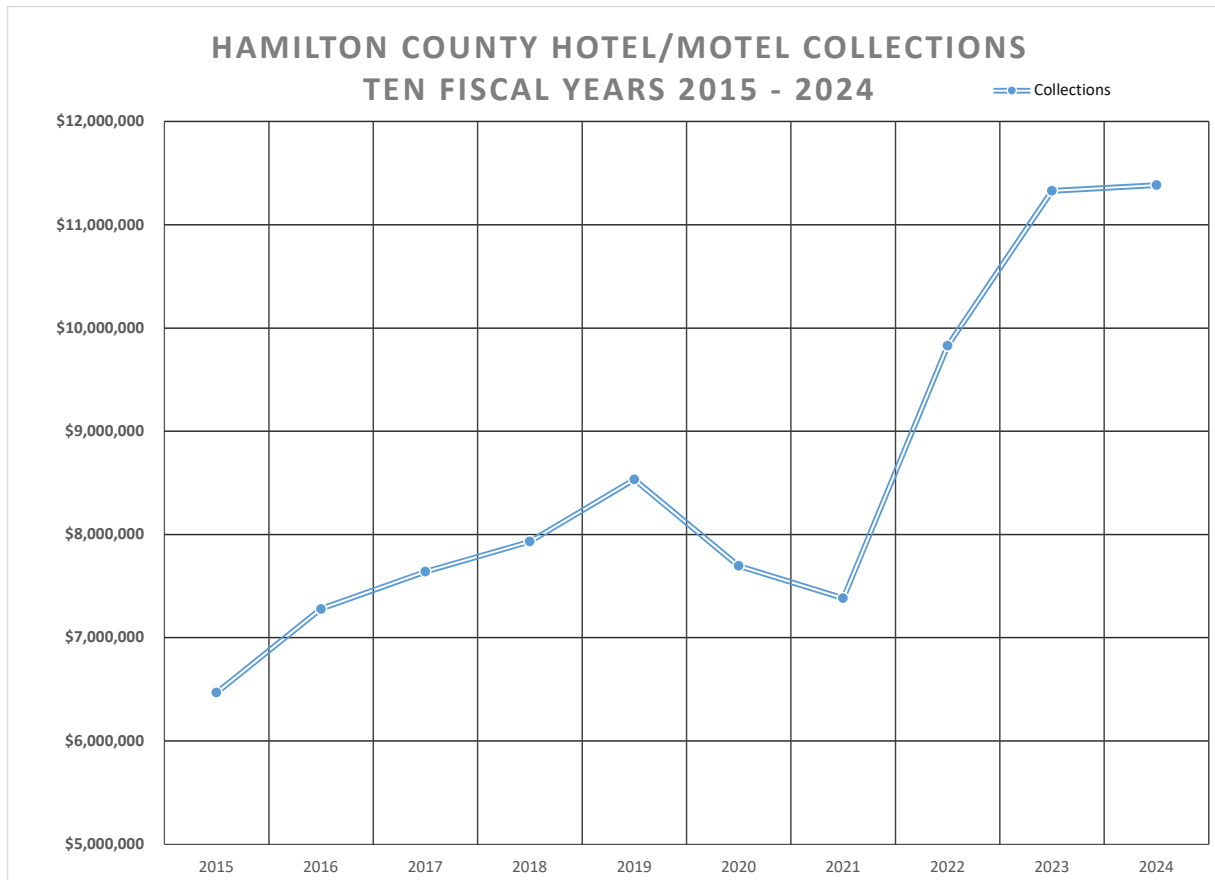
Staff Assigned to Audits

Roger Kincer

Copy: Claire McVay – Chief of Staff
David Roddy – Chief Operating Officer
Lee Brouner – Chief Financial Officer

Hotel-Motel Occupancy Tax
Hamilton County and Cities: Chattanooga, East Ridge, Collegedale, Red Bank, and Soddy Daisy
Summary of Collections by Fiscal Year
FY 2015 through FY 2024

Fiscal Year	Hamilton County	City of Chattanooga	City of East Ridge	City of Collegedale	City of Red Bank	City of Soddy Daisy	Total Collections	Percent Change
2015	6,466,890	5,818,517	321,589	2,398			12,609,394	11.5%
2016	7,278,581	6,553,890	382,103	3,313			14,217,887	12.8%
2017	7,638,833	6,845,768	421,091	3,397			14,909,089	4.9%
2018	7,931,190	7,039,405	447,459	37,396			15,455,450	3.7%
2019	8,533,283	7,466,205	539,394	119,227			16,658,109	7.8%
2020	7,695,745	6,570,725	515,312	111,270			14,893,052	-10.6%
2021	7,382,289	6,087,888	565,728	100,957	135	6,580	14,143,577	-5.0%
2022	9,826,879	8,418,764	652,087	120,606	6,536	16,515	19,041,387	34.6%
2023	11,330,091	9,734,974	742,549	150,519	22,908	27,168	22,008,209	15.6%
2024	11,384,042	9,700,576	827,229	163,540	25,706	28,030	22,129,123	0.5%



Hotel-Motel Occupancy Tax
Hamilton County and Cities: Chattanooga, East Ridge, Collegedale,
Red Bank, and Soddy Daisy
Total Collections by Property Type
FY 2023 and FY 2024

FY 2023				
<i>Property Type</i>	<i>Count</i>	<i>Percent</i>	<i>Collections</i>	<i>Percent</i>
Hotel/Motel	115	64%	\$19,653,334	89%
Short Term Rental	65	36%	2,354,875	11%
Total Properties	180	100%	\$22,008,209	100%

FY 2024				
<i>Property Type</i>	<i>Count</i>	<i>Percent</i>	<i>Collections</i>	<i>Percent</i>
Hotel/Motel	114	63%	\$19,758,824	89%
Short Term Rental	66	37%	2,370,299	11%
Total Properties	180	100%	\$22,129,123	100%