



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS**

**Justin P. Wilson
Comptroller of the Treasury**

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October 18, 2017

Hamilton County Mayor and
Board of County Commissioners,
Chattanooga Area Convention and
Visitors Bureau Executive Committee
Chattanooga, Tennessee

Ladies and Gentlemen:

As per Public Chapter 170, Public Acts of 2017, the Office of the Comptroller of the Treasury conducted a review of the use of proceeds from the Hamilton County Hotel-Motel Occupancy Privilege Tax by the Chattanooga Area Convention and Visitors Bureau. The purpose of the review was to ensure that the proceeds are being used to promote tourism within the Hamilton County area. The results are presented herein.

Copies of this report are being forwarded to the Hamilton County Mayor, members of the Hamilton County Commission, members of the Executive Committee of the Chattanooga Area Convention and Visitors Bureau, and certain state legislators. A copy is available for public inspection in our office and may be viewed at www.comptroller.tn.gov/la.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson".

Comptroller of the Treasury



HAMILTON COUNTY HOTEL-MOTEL OCCUPANCY PRIVILEGE TAX REVIEW

October 18, 2017

Justin P. Wilson, Comptroller



HAMILTON COUNTY HOTEL-MOTEL OCCUPANCY PRIVILEGE TAX REVIEW

BACKGROUND

Public Chapter 170, Public Acts of 2017, requires the Comptroller of the Treasury to audit any person or entity receiving proceeds from the Hamilton County hotel-motel tax to ensure that the proceeds are being used in accordance with the stated purpose of tourism promotion. The entire proceeds of the hotel-motel tax received by Hamilton County are currently being forwarded to the Chattanooga Convention and Visitors Bureau (CVB). Therefore, our procedures were limited to the operations of this entity.

Additionally, questions and concerns over the types, amounts, purposes, and reasonableness of certain expenses made by the CVB have been raised. Many of those issues were also addressed in this review.

SCOPE OF PROCEDURES PERFORMED

The CVB contracts with a public accounting firm to perform an annual audit for the purpose of opining on the fair presentation of their financial statements. Therefore, we limited the scope of our procedures to examining expenses to determine if the proceeds of the hotel-motel tax were being spent for the promotion of tourism. We chose the most recently audited fiscal year (July 1, 2015 through June 30, 2016) as the period of our expense review. We also expanded our scope to review several expenses from previous years that have specifically been questioned publicly.

The procedures performed included testing expenses against policies and procedures developed by the CVB, verifying the existence of sound business practices, and reviewing compliance with the CVB's stated purpose of tourism promotion. We also tested expenses for compliance with Resolution 207-27 adopted by the Hamilton County Commission, which imposes hotel-motel tax disbursement guidelines as well as requires the CVB to make regular and periodic written reports regarding their compliance with the Resolution.

FINDINGS AND RECOMMENDATIONS

FINDING 1 DETAILED DOCUMENTATION FOR CREDIT CARD PURCHASES WAS NOT ALWAYS MAINTAINED

Credit card charges were not always accompanied by detailed documentation of the purchase. While separate reports were maintained supporting the business purpose of the expenses, detailed receipts were not available for approximately 36% of the credit card charges examined.

RECOMMENDATION

Detailed receipts should be filed for all credit card purchases, traced to the monthly credit card statements, and maintained with the separate reports documenting the business purpose of the expenses. A credit card use policy should be developed and adopted by the CVB board or executive committee providing detailed guidelines for allowable expenses for credit card usage and specifying required documentation to be maintained.

MANAGEMENT’S RESPONSE – ROBERT B. DOAK, PRESIDENT & CEO - CHATTANOOGA AREA CONVENTION AND VISITORS BUREAU

We concur with the finding and recommendation.

Management has and will continue to monitor procedures so there is a complete receipt of the charge. A credit card use policy has been in place during my almost 15-year tenure at the CVB. Our Executive Committee in July, 2017 updated and adopted additional policies that include stronger controls on recording credit card receipts.

FINDING 2 THE CVB IS NOT REPORTING ITS ACTIVITY TO THE HAMILTON COUNTY MAYOR AND BOARD OF COUNTY COMMISSIONERS IN ACCORDANCE WITH RESOLUTION 207-27

Resolution 207-27 requires the CVB to make “regular and periodic written reports to the Hamilton County Mayor and Board of Commissioners of its efforts” to comply with the provisions of the Resolution. The CVB has annual audits of its financial statements that are available for review; however, we were unable to obtain any written reports to the Hamilton County Mayor and Board of County Commissioners. Instead, we were informed that the CVB status reports were made verbally.

RECOMMENDATION

The CVB should make regular and periodic written reports to the Hamilton County Mayor and Board of Commissioners as required by Resolution 207-27.

MANAGEMENT’S RESPONSE – ROBERT B. DOAK, PRESIDENT & CEO - CHATTANOOGA AREA CONVENTION AND VISITORS BUREAU

We concur with the finding and recommendation.

Management felt that the community-wide Annual Meeting that included a presentation on the CVB fiscal year activities and was attended regularly by the Hamilton County Mayor and Commissioners and covered by the media, complied with the reporting requirement. Approximately 1,000 people attend the Annual Meeting every year. Going forward, the CVB will publish an Annual Report that will be provided to the County Mayor and Commission. The Annual Report also will be posted on the CVB website for other interested parties to review our yearly activities. Two written reports have been submitted to the County Mayor & the County Commission in 2017. The County has received our 3rd party independent audits.

FINDING 3 THE USE OF GIFT CARD BALANCES WAS NOT RECONCILED TO RELATED EXPENSES

The CVB receives gift cards from local businesses in exchange for advertising on the CVB website. These cards are kept by the controller and given to employees to use for entertaining clients and to cover other expenses incurred by the CVB. An employee will make a request for a gift card and then inform the controller as to the purpose of their request. However, a gift card log is not maintained and there is no reconciliation of the expenses incurred on those cards.

RECOMMENDATION

A log should be maintained for the use of gift cards and the associated expenses should be documented, which includes detailed receipts and a reconciliation of any balances remaining on the cards. A gift card use policy should be developed and adopted by the CVB board or executive committee providing detailed guidelines for allowable expenses for gift card usage and specifying required documentation to be maintained.

MANAGEMENT'S RESPONSE – ROBERT B. DOAK, PRESIDENT & CEO - CHATTANOOGA AREA CONVENTION AND VISITORS BUREAU

We concur with the finding and recommendation.

Management has a practice that allows certain businesses to provide gift cards that can be used for CVB-related business in exchange for advertising. While a tracking system is in place, our controller is reviewing our practices and procedures and will recommend to management any additional steps to track the use of these cards.

OBSERVATIONS

While there are periodic reports of financial operations provided to the CVB board or executive committee, it appears the operational policies and procedures are very general and most controls and restrictions are implemented by management rather than being initiated by the board or executive committee. We believe there should be detailed policies and procedures adopted by the board or executive committee to specify valid expenditures and the limits thereon. This would provide employees with comprehensive, documented guidelines to follow in making CVB expenses and would provide management with standard criteria for monitoring and processing these expenses. Examples of items to address in the policies are: if and when local meals are allowable, a reasonable amount for employee retirement gifts, and the appropriateness of other miscellaneous expenses.

One provision of Resolution 207-27 requires the CVB to fund, from the hotel-motel tax they receive, the county's 50% share of the operating deficit, if any, of the Carter Street Corporation, which operates the Chattanooga Convention Center. There was no operating deficit for the 2015 – 2016 fiscal year. Another provision of the Resolution requires the CVB to reserve \$300,000 per year for capital improvements of the convention center. The CVB paid \$300,000 to the convention center during the year examined rather than "reserving" these funds. We were informed that the CVB interprets the provisions of the Resolution to mean the CVB must make a \$300,000 payment annually to the convention center in addition to funding 50% of any operating deficit of the Carter Street Corporation. Management of the CVB should consult with the Hamilton County Mayor and Board of County Commissioners to clarify the wording/intent of these provisions of Resolution 207-27, specifically as to the meaning of the word "reserve."

CONCLUSIONS

The CVB is charged with promoting tourism, which is generally carried out by recruiting prospective clients, advertising, and other promotional activities. The industry of tourism promotion and recruitment is unique and therefore cannot necessarily be compared to the operations of other departments of county government. Furthermore, the CVB is not subject to the same policies, procedures, statutory requirements, and regulations of county governments in Tennessee.

The spending of the CVB appears to be for tourism and tourism-related purposes based on the documentation of expenses examined during the performance of our review. No obvious, material instances of waste or abuse were noted in our review of the expenses of the CVB. While some expenses may appear lavish or questionable compared to county government departments, they might be considered reasonable or necessary within the industry in which the CVB operates. However, we believe more active involvement by the board of directors and the executive committee, especially by adopting detailed, specific policies such as the ones recommended in this report and by publishing more operational information on the CVB website, will help make the operations of the CVB more transparent and will help alleviate some of these concerns.

Furthermore, the Hamilton County Commission should require sufficient reporting from all non-profits requesting funding from the county to provide assurance to the Commission that the funds are being spent for the purpose for which they are appropriated.

Appendices A and B follow, which explain the test work performed during our procedures.

**Hamilton County, Tennessee
Chattanooga Area Convention and Visitors Bureau
Appendix A - Testing Analysis**

	<u>Total</u>	<u>Tested</u>	<u>Percentage Tested</u>
Expenditures	\$ 8,014,981.52	\$ 1,096,424.40	13.68%
Credit Cards	\$ 378,297.50	\$ 193,614.18	51.18%

Note:

Our expenditure testing included 55 expenditures judgmentally chosen from the CVB's check register. This testing produced eight negative results regarding insufficient documentation for the expenditures. Six of the eight negative results were noted to have been associated with the use of credit cards; therefore, we focused attention on reviewing more credit card statements.

The CVB receives and pays its credit card statement monthly. In our expenditure test, we chose six months of the year under examination and traced the monthly statement to the detailed documentation of purchases made during the month.

Credit Card Payments Tested	<u>Total Transactions on Credit Card Statement</u>	<u>Transactions Documented Properly</u>	<u>Transactions without Detailed Documentation</u>	<u>Transactions without any Documentation</u>
Jul-15	27,483.68	203	124	51
Aug-15	31,689.68	233	157	40
Oct-15	34,218.11	273	174	61
Jan-16	29,747.49	120	79	23
Apr-16	40,027.58	192	124	31
May-16	30,447.64	217	132	45
	<u>193,614.18</u>	<u>1,238</u>	<u>790</u>	<u>251</u>
		63.8%	20.3%	15.9%
		Percentage of Credit Card Purchases without Adequate Documentation		<u>36.2%</u>

Hamilton County, Tennessee
Chattanooga Area Convention and Visitors Bureau
Appendix B - Credit Card Expenditures by Category

Note:

The CVB maintains logs of credit card expenditures by each employee that describe the details of the purchase. We used those logs to prepare the summary of total credit card purchases for the year examined.

Credit Card Expenditures

Local Expenditures

Restaurants	\$ 14,162.74		
Parking	<u>1,208.53</u>	15,371.27	4.1%

Employee Travel

Flights	19,885.82		
Meals	4,119.97		
Parking	1,137.52		
Taxi/Shuttle	2,085.55		
Lodging	34,053.44		
Rental Car Expenses	<u>5,602.20</u>	66,884.50	17.7%

Employee Gifts

Retirement	3,205.14		
Miscellaneous	<u>747.94</u>	3,953.08	1.0%

Client Expenses

Flights	3,508.12		
Meals/Entertainment	48,537.04		
Lodging	10,447.03		
Gifts/Incentives	9,968.68		
Volunteer Appreciation	<u>8,486.36</u>	80,947.23	21.4%

Advertising

Twitter	3,357.96		
Facebook	25,085.17		
Advertising	<u>8,499.44</u>	36,942.57	9.8%

Miscellaneous

Storage Fees	4,084.94		
Shipping	18,140.83		
Office Supplies	4,490.52		
Iron Man/Marathon Supplies	34,811.65		
Misc. Supplies	9,950.88		
IT Costs	45,505.81		
Subscriptions	1,989.86		
Memberships	8,043.25		
Trade Show/Conference Registration	32,729.90		
Finley Stadium Remodel	3,245.10		
Other	<u>11,206.11</u>	174,198.85	46.0%

	<u>\$ 378,297.50</u>	<u>100.0%</u>
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Some expenditures reflected above such as gifts and services purchased for clients, local meals, and entertainment expenses would not be acceptable expenditures for most other government departments. However, given the unique characteristics of the tourism industry, these expenses might be deemed normal and necessary. Therefore, we have suggested very specific, detailed policies be adopted by the CVB Board or Executive Committee to guide the employees in determining proper expenses.