



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### AUDIT OF HOTEL OCCUPANCY TAX REVENUE CONTROLS- RED ROOF INN ABERDEEN

#### Report Highlights

#### Why We Did This Audit

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2021.

#### What We Found

We noted the taxes were overpaid; we recommend the hotel operator discontinue collecting occupancy taxes on long-term stays.

**Report Number:** 2021-A-13C

**Date Issued:** 04/12/2021

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Hotel Occupancy Tax paid by Red Roof Inn Aberdeen. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found the hotel has not been excluding the revenue for occupancy exceeding 30 consecutive days, resulting in an overpayment of taxes during the audit period. We couldn't reasonably calculate this variance and, based on discussion with the hotel operator, have not recommended a refund to the hotel operator.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

*Chrystal Brooks, CPA*

Chrystal Brooks  
County Auditor

cc: Mr. Akshay Lokhande, Red Roof Inn, Manager  
Mr. Robbie Sandlass, Harford County Treasurer



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### REVIEW RESULTS

We have audited Harford County Hotel Occupancy Tax paid by Red Roof Inn Aberdeen for the period of 01/01/2019 through 12/31/2020. Our opinion, based on the evidence obtained, is taxes were overpaid; the hotel should discontinue charging occupancy tax for long term stays. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

Risk	Expected Control	Conclusion
Hotels do not fully report their revenues to the County	<ul style="list-style-type: none"><li>Monthly and Daily Reports agree to the revenue reported</li><li>Housekeeping and other records support the number of reported occupancies</li></ul>	<span style="color: green;">Satisfactory</span> <span style="color: green;">Satisfactory</span>
Payments are made late or in the wrong amount	<ul style="list-style-type: none"><li>Monthly tax reporting forms are submitted timely.</li><li>Non-transient stays are excluded and reviewed for propriety.</li></ul>	<span style="color: green;">Satisfactory</span> <span style="color: red;">Unsatisfactory</span>

Areas for improvement are described in the Findings and Corrective Actions section of this report. Management has been provided an opportunity to respond to this report; the response provided follows the Findings and Corrective Actions.

### FINDINGS AND CORRECTIVE ACTIONS

#### Finding Number: 2021-A-13C.01 Non-transient Tax Revenue

##### Non-transient revenue has not been excluded for tax purposes.

**Analysis:** Harford County's Hotel Occupancy tax requires collection of a 6% tax, but "tax shall not be levied on use or occupancy exceeding 30 consecutive days". While Red Roof Inn in Aberdeen has a process to reduce revenue for State Hotel Tax purposes, it has not made a similar reduction for County Occupancy Tax. We were unable to reasonably calculate the amount of the overpayment.

Given that the taxes were collected and forwarded to the County completely, we believe that, if refunded to the hotel, they would find it difficult repay those amounts to past guests. Accordingly, we are not recommending a refund at this time.

**Recommendation:** We recommend Red Roof Inn discontinue collecting occupancy tax from long term residents after 30 days of a stay.

**Management Response:** We agree with the finding of the Harford County tax auditors. As per the recommendation, we have already stopped collecting occupancy taxes from long term guests staying over 30 days.

**Expected Completion Date:** 3/20/2021

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## **BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY**

Harford County adopted a Hotel Occupancy Tax, via Bill 14-035, for the purpose of expanding its tourism and tourism related activities. The legislation requires hotel operators within the County to collect a 6% tax from all occupants. All hotels within the County to are required to register with the County Treasurer and remit the collected occupancy tax monthly.

The objective of this audit is to determine if the County has collected, allocated and distributed the correct amount of revenue for the Hotel Occupancy Tax based upon supporting information from taxpayers. The scope of this review is limited to Harford County's management of the Hotel Occupancy Tax program in accordance with § 123, Article VII of the County Code. As needed, the supporting documentation maintained by Hotel Operators will be included within the scope of this review.. The scope was limited to Red Roof Inn Aberdeen's revenue, tax collections and payments during the audit period.

The audit focused on activity during the period of 01/01/2019 through 12/31/2020. Our audit procedures included interviewing personnel, observation and testing. Specifically, we reviewed a sample of monthly payments to confirm the total revenue reported was supported by the daily occupancy reports and agreed to the taxes that were remitted to the County. We also reviewed a sample of dates to confirm the daily occupancy reports were supported by Housekeeping and other records.

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient 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 findings and conclusions based on our audit objectives.

**Audit Team:**

Chrystal Brooks  
CPA, CIA, CGAP, CISA, CGFM, CRMA  
*County Auditor*

Sarah Self, CIA, CGAP  
*Staff Auditor*