



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### AUDIT OF HOTEL OCCUPANCY TAX REVENUE CONTROLS

#### 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

Collection controls are adequate and effective.

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

**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 Revenue Controls. 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 County's hotel occupancy tax collection process is adequate and effective to ensure taxes are collected timely and accurately.

We also performed audits of three hotels in the County. These audits found tax payments and reported revenue were sufficiently supported. However, we did note one hotel was incorrectly collecting occupancy tax on long-term stays, so we recommended they discontinue that practice in accordance with the County Code. The results of those audits are in reports numbered 2021-A-13A, 2021-A-13B and 2021-A-13C.

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. Robbie Sandlass, Treasurer  
Ms. Kim Spence, Budget



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### REVIEW RESULTS

We have audited Harford County's Hotel Occupancy Tax Revenue Controls for the period of 01/01/2019 through 12/31/2020. Our conclusion, based on the evidence obtained, is that the controls are satisfactory to ensure taxes are collected timely and correctly. 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 have not been identified for taxation.	<ul style="list-style-type: none"><li>Hotels are required to register with the County and are properly flagged in Taxnet.</li></ul>	Satisfactory
Payments are not calculated correctly or paid after the due date.	<ul style="list-style-type: none"><li>Treasury reviews the reporting form and payment amount for accuracy, notifying hotel operators of any discrepancies.</li><li>Treasury tracks receipt of each payment and collects any penalties due for late payments.</li></ul>	Satisfactory Satisfactory
Hotels under-report revenue for tax purposes.	<ul style="list-style-type: none"><li>Hotels are required to submit a revenue reporting form in support of each payment.</li><li>Treasury initiates audits as needed or requested to confirm reported revenues are correct.</li></ul>	Satisfactory Satisfactory
Municipal share of taxes is incorrect.	<ul style="list-style-type: none"><li>Treasury allocates revenue monthly to a clearing account for quarterly distribution to the municipalities.</li></ul>	Satisfactory
Taxes are not used for tourism purposes.	<ul style="list-style-type: none"><li>Treasury allocates tax revenue to restricted accounts.</li></ul>	Satisfactory

Areas for improvement are described in the Findings and Corrective Actions section of this report. Although none was required, Management has been provided an opportunity to respond to this report. Accordingly, no response was provided.

### 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 are required to register with the County Treasurer and remit the collected occupancy tax monthly.

The objective of this audit was 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 was 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 has been included within the scope of this review.

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 performed data analysis to identify all hotels in the County and confirm their registration status. We reviewed the quarterly payments to the Municipalities to confirm the amounts were correct. We also reviewed a sample of monthly tax payments to ensure they were received timely and in the correct amounts. If paid late, we confirmed penalties were properly assessed. In addition, Treasury initiated audits of several hotels so we could confirm they were fully reporting their tax revenue.

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*