



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF HOTEL OCCUPANCY TAX - COMFORT INN AND SUITES ABERDEEN

Report Number:
2023-A-20C

Report Date:
08/03/2023

Council Members and County Executive Cassilly:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Hotel Occupancy Tax paid by Comfort Inn and Suites Aberdeen for the period of 7/1/2021 through 5/31/2023. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2023.

The objective of this audit was to confirm that Hotel Occupancy Tax reported and paid to Harford County was complete. The scope was limited to the sampled hotels' processes for recording revenue and reporting revenue to Harford County. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit; they have been provided an opportunity to respond to this report; the response(s) provided follows the Issues and Corrective Actions.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is taxes were paid timely, but exemptions from taxable revenue were reported incorrectly. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment ⁱ
Hotel revenue is fully reported to the County	Not Effective
Tax payments are complete and timely	Effective

ISSUES AND CORRECTIVE ACTIONS

2023-A-20C.01 Incorrect HOT Exemptions

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". Those non-transient stays should be reduced from the hotel's gross room rental revenue. When we reviewed the hotel's process for calculating exemptions, we determined that some tax configurations were incorrect so the reports used to prepare the County's monthly tax reporting form could not be relied upon. The configuration error was corrected while we were onsite.

We also noted that documentation of exempt stays was not maintained on site or elsewhere. The County's Rules and Regulations require "Every Operator liable for the collection of the hotel occupancy tax shall keep and preserve for a period of four (4) years, the following records: i. lease agreements; ii. general ledgers; iii. night auditor and housekeeper reports; iv. traffic summaries; v. source of business reports; vi. any other documents that support room revenue and exemptions as well as the amount of hotel occupancy tax which the hotel owner or operator was liable to collect and pay to the County." and "The records shall be maintained at the place of business where the subject rooms were rented."

As a result of these conditions, we relied on the hotel operator's profit and loss statements to determine room rental income and partial transaction reports to identify non-transient and federal-government exemptions. Using that information, we have recalculated the taxes for each month of the audit period. Of note, there may have been valid exemptions that could not be confirmed without supporting documents, so they couldn't be included in our calculation.

Per County Code Section 123-67C "A hotel owner or operator that fails to collect, remit or file a return for the hotel occupancy tax levied by this article within the time prescribed shall be assessed the amount of tax due, interest at the rate of 0.5% for each month or fraction of a month past due and a penalty of 10% of the tax due."

The errors noted, resulted in both over- and underpayments; the net amount overpaid to the County as of 07/26/2023 is \$3,933.31.

We recommend the Treasurer's Office notify the hotel operator of the balance to be applied towards future taxes.

Management Response: Treasury agrees with the Auditor's calculations.

Expected Completion Date: 8/31/2023

HOTEL OPERATOR'S RESPONSE

08/03/2023

Chrystal Brooks
Harford County Auditor's Office

Subject: Management Response to County Auditor's Findings

Dear Ms. Brooks,

I am writing this response on behalf of Comfort Inn & Suites Aberdeen in acknowledgment of the recent audit conducted by your office. We have carefully reviewed the findings and appreciate the thorough examination of our operations. We recognize the importance of transparent and accountable management practices, and we value the insights provided by your audit.

We would like to express our agreement with the findings presented in the audit report. The issues raised are crucial for our organisation's efficient and effective functioning, and we are committed to taking the necessary steps to address and rectify them promptly.

Specifically, we acknowledge the following key findings:

1. Reducing and proper handling of the non-transient stay exceeding 30 days
2. Maintaining the records of Tax-exempt stays and other documentation for 4 years
3. Tax Configurations Errors were corrected during Audit Process

Our commitment to continuous improvement drives us to implement corrective actions promptly. To address the identified issues, we have already initiated a comprehensive action plan, which includes the following steps:

1. **Internal Controls Enhancement:** We will review and strengthen our internal tax calculation methods to ensure they are robust and prevent errors and other irregularities adequately.

2. Training and Development: We recognize the importance of well-trained and knowledgeable staff. As such, we will invest in training programs to enhance the skills and competencies of our employees.

3. Regular Audits and Reviews: To maintain a high level of accountability, we commit to conducting internal audits and reviews periodically to identify potential issues before they escalate.

4. Communication and Transparency: We will improve communication channels between management, employees, and stakeholders to foster a culture of transparency and open dialogue.

Additionally, we would like to thank your team for their professionalism and dedication throughout the auditing process. Their insights and recommendations will undoubtedly prove invaluable as we strive to improve our organizational practices.

Once again, we appreciate the County Auditor's Office's diligence in conducting this audit and providing us with an opportunity to improve our operations. We are committed to taking immediate action on the identified areas and ensuring that similar issues do not arise in the future.

If you require any further information or updates on our progress, please feel free to contact me.

Sincerely,

Rushi Vaidya

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

The audit approach focused on testing the key controls that address management's objectives. Our audit procedures included interviewing personnel, observation and testing as described in the table below.

Process / Control Objective	Scope of Review
Revenue Reporting	
Monthly and Daily occupancy reports agree to the revenue reported	<ul style="list-style-type: none">• Review a sample of monthly payments to confirm the total revenue reported was supported by the daily occupancy reports• Agreed reported amounts to the taxes that were remitted to the County
Non-financial records support the revenue reported	<ul style="list-style-type: none">• For a sample of dates, confirm the daily occupancy reports were supported by Housekeeping and other records
Tax Payments	
Tax payments are sent to the County on time and completely.	<ul style="list-style-type: none">• Recalculate a sample of payments based on reported revenue• Recalculate late fees, if applicable

Areas for improvement are described in the Issues and Corrective Actions section of this report.

The hotel operator's 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.

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 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.

Report Distribution:

Ken Talati, Owner, Iron Bird Hospitality
Rushi Vaidya, Manager, Comfort Inn and Suites
Shannon Miller, Guests, Inc.
Mr. Robert Sandlass, County Treasurer

Audit Team:

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

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.