



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF HOTEL OCCUPANCY TAX - HILTON GARDEN INN, BEL AIR

Report Number:
2023-A-20E

Report Date:
8/10/2023

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 Hilton Garden Inn, Bel Air for the period of 4/29/2022 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 is to confirm that Hotel Occupancy Tax reported and paid to Harford County was complete. The scope is 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 hotel occupancy taxes were paid timely, but taxable revenue was underreported. 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-20E.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. For 11 of the 14 months in the audit period, Hilton Garden Inn's revenue and/or tax exemptions were reported incorrectly. This appears to be the result of misinterpreting the reports the hotel used to calculate the taxes due. The hotel's accounting team advised us that they identified the errors when gathering records for this audit and have taken steps to correct the matter going forward. The last two tax filings reviewed were correct.

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." Using financial records and supporting documents, we have calculated the unpaid taxes and the related interest. The amount due to the County as of 7/25/2023 is \$4,795.47.

We recommend the Treasurer's Office notify the hotel operator of the balance of the unpaid taxes and interest.

Management Response: We agree with the auditor's calculation and confirmed that the hotel operator paid the amount due.

Expected Completion Date: 8/7/2023

HOTEL OPERATOR'S RESPONSE

We have reviewed the auditor's workpapers and agree with the auditor's findings. We have paid the underpayment and fixed the issues that were uncovered in the audit.

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.

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.

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, appropriate 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: | Audit Team: |
|---|----------------------------------|
| Mr. James Fitzsimmons, General Manager, Hilton Garden Inn | Chrystal Brooks |
| Mr. Mitchell Morton, Senior Manager, Tax Audit, Hilton | CPA, CIA, CGAP, CISA, CGFM, CRMA |
| Ms. Jodee Dooley, Tax Audit, Hilton | <i>County Auditor</i> |
| Mr. Robert Sandlass, County Treasurer | Brad DeLauder, CPA |
| | <i>Senior Auditor</i> |

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.