



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF HOTEL OCCUPANCY TAX – TOWNEPLACE SUITES EDGEWOOD-ABERDEEN

Report Number:
2024-A-17B

Report Date:
8/8/2024

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 TownePlace Suites Edgewood-Aberdeen for the period of 7/1/2022 through 5/31/2024. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2024.

The objective of this audit was 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 in accordance with § 123, Article VII of the County Code. 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,

A handwritten signature in black ink that reads "Chrystal Brooks, CPA".

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is taxable revenues were underreported resulting in an underpayment. 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	Generally Effective
Tax payments are complete and timely	Generally Effective

ISSUES AND CORRECTIVE ACTIONS

2024-A-17B.01 Miscalculated Hotel Occupancy Tax

County Code Section 123-67A(3) states "[t]here is a hotel occupancy tax levied on the rent paid for use or occupancy of a room in a hotel in the County. The rate of the tax is 6% of the rent paid. This tax shall not be levied on use or occupancy exceeding 30 consecutive days."

We looked to recalculate taxable revenue to confirm that reported totals were supported by hotel records. We found that TownePlace Suites over-reported gross taxable revenue for each month during the review period. The vast majority of the over-reporting of gross revenue is due to the inclusion of pet charges as a part of the gross taxable room revenue calculation.

Additionally, we noted the hotel over-reported tax-exempt revenue resulting in an underpayment. As a part of our testing, the hotel operator provided monthly Tax Exempt Reports listing each tax-exempt transaction and the total revenue exempt from the hotel occupancy tax. However, the Hotel Operator could not produce these reports for the months prior to July 2023. The County's Rules and Regulations require hotel operators to "keep and preserve for a period of four (4) years 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."

County Code Section 123-67A(3) requires hotel operators to "[r]emit to the Treasurer no later than the 25th day of each month the hotel occupancy tax collected" in the preceding month. Additionally, 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."

We calculated the underpayments and the unpaid interest and penalties to arrive at an underpayment of \$4,852 as of July 18, 2024. To arrive at that total, we used the hotel operator's financial reports and monthly closing reports to estimate tax-exempt revenue for the missing months assuming an error rate consistent with the reports that were available for review. Interest will continue to accrue until the taxes are paid. These calculations have been provided to the hotel operator and the County Treasurer.

We recommend Treasury notify the hotel operator of the overdue balance and establish a payment plan for the arrearage.

Management Response: We agree with the County Auditor's findings.

HOTEL OPERATOR'S RESPONSE

1. We looked to recalculate taxable revenue to confirm that reported totals were supported by hotel records. We found that TownePlace Suites over-reported gross taxable revenue for each month during the review period. The vast majority of the over-reporting of gross revenue is due to the inclusion of pet charges as a part of the gross taxable room revenue calculation.

-Acknowledge, and as we agreed upon, we will not calculate the other revenue such as pet charges, other miscellaneous subtracted from room revenue.

2. Additionally, we noted the hotel over-reported tax-exempt revenue resulting in an underpayment. As a part of our testing, the hotel operator provided monthly Tax Exempt Reports listing each tax-exempt transaction and the total revenue exempt from the hotel occupancy tax. However, the Hotel Operator could not produce these reports for the months prior to July 2023. The County's Rules and Regulations require hotel operators to "keep and preserve for a period of four (4) years 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."

- Acknowledge, as the financial controller of Evergrow explaining to you that his calculations was done correctly using your form attached.

- Our Owner Mr. Pravin Patel would like to come personally to meet with the manager explaining that he fills the tax in monthly bases and is not happy to pay the mentioned amount in your letter.

Waiting your soonest reply so we can come to your office ASAP.

Regards
Hany Hanna
General Manager

Auditor's Note: The Hotel Operator has indicated that they intend to ask the County Treasurer for a waiver of some of the overdue balance.

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 Agree 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

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.

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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. Pravin Patel, Owner and Operator, TownePlace Suites Edgewood-Aberdeen	Chrystal Brooks CPA, CIA, CGAP, CISA, CGFM, CRMA County Auditor	Brad DeLauder CPA, CIA Senior Auditor
Mr. Robert Sandlass, County Treasurer		

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.