



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF HOTEL OCCUPANCY TAX - SPRINGHILL SUITES BY MARRIOTT

Report Number:
2024-A-17A

Report Date:
08/01/2024

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 Springhill Suites by Marriott 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 was 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,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is taxable revenues were underreported and taxes paid incompletely or not at all. 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	Not Effective

ISSUES AND CORRECTIVE ACTIONS

20243-A-17A.01 Miscalculated and Unpaid Hotel Occupancy Tax

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."

Springhill Suites' Hotel Occupancy Taxes for October, November, and December 2023 taxes are currently unpaid. We also noted that, for each month during the review period, the hotel under-reported gross revenue. As a result, for those months, the hotel operator incorrectly reported lower taxable revenue and paid less taxes than required.

We have calculated the underpayments and the unpaid interest and penalties to arrive at an underpayment of \$53,104 as of July 12, 2024. 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

We acknowledge a past due balance and are working on a means to settle the balance due on the account. We continue to pay the current Occupancy Taxes on time.

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.

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. Alan Michaels, Owner and Operator, Springhill Suites by Marriott	Chrystal Brooks CPA, CIA, CGAP, CISA, CGFM, CRMA
Mr. Tim Engle, General Manager, Springhill Suites by Marriott	<i>County Auditor</i>
Mr. Robert Sandlass, County Treasurer	Brad DeLauder CPA, CIA <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.