



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF HOTEL OCCUPANCY TAX - HOLIDAY INN EXPRESS CHESAPEAKE HOUSE

Report Number:
2024-A-17C

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 Holiday Inn Express Chesapeake House 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,

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-17C.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 sought to confirm that reported revenue totals were supported by hotel records. We found that Holiday Inn Express' gross taxable revenue reported to the County generally reconciled to internal supporting documentation. However, tax-exempt revenue was over-reported each month resulting in an underpayment. This appears to be the result of the hotel not charging County Occupancy Tax for some stays that were exempt from State Sales 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."

We calculated the underpayments and the unpaid interest and penalties to arrive at an underpayment of \$4,976 in occupancy tax as of July 24, 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

Subject: Response to Harford County Occupancy Tax Audit Findings

I am writing to formally address the findings of the recent occupancy tax audit conducted on the Holiday Inn Express - Aberdeen, MD. While we appreciate the effort and thoroughness of the audit process, I must express that we do not fully agree with certain conclusions reached in the audit report.

As this was our first audit, we encountered challenges in gathering satisfactory documentation to support all of our exempt revenue. Some of the reports requested were not available in our property management system, which led us to search for comparable reports to support the exempt revenue. This has resulted in some discrepancies that we are currently addressing.

We believe that the audit findings may not fully reflect our compliance with Harford County's occupancy tax regulations due to the documentation we presented, which we believed to be sufficient. We are committed to rectifying this situation and have already initiated steps to improve our reporting procedures and ensure that we meet all requirements moving forward.

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:
Ms. Tammy Lowry-Gault, General Manager, Chesapeake Hotel Corporation	Chrystal Brooks CPA, CIA, CGAP, CISA, CGFM, CRMA <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.