



HARFORD COUNTY, MARYLAND  
Office of the County Auditor

**AUDIT OF HOTEL OCCUPANCY TAX REVENUE**

**Report Highlights**

**Why We Did This Audit**

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2017.

**What We Found**

We noted that collection controls are adequate and effective.

Audits of hotel operators have not been done.

**Report Number:** 2017-A-15

**Date Issued:** 05/03/2017

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Harford County's Hotel Occupancy Tax. The results of that audit, our findings and recommendations for improvement are detailed in the attached report. We would like to thank the members of management for their cooperation during the audit.

The audit found the Hotel Occupancy Tax collection process is adequately designed and effectively implemented to confirm payments are calculated correctly and received timely. However, a process to audit hotel operators has not yet been implemented or designed.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

*Chrystal Brooks, CPA*

Chrystal Brooks  
County Auditor

cc: Mr. Robert Sandlass, Treasurer



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### REVIEW RESULTS

We have audited Harford County's Hotel Occupancy Tax for the period of 1/1/2015 through 2/28/2017 (to include payments for January 2017). Our opinion, based on the evidence obtained, is the Hotel Occupancy Tax collection process is adequately designed and effectively implemented. The audit approach focused on testing the key controls that address management's objectives for the process. Conclusions drawn are below.

<b>Risk</b>	<b>Expected Control</b>	<b>Conclusion</b>
Hotels have not been identified for taxation	<ul style="list-style-type: none"> <li>Hotels were notified of the registration requirement when the tax was created</li> </ul>	Satisfactory
Payments are calculated incorrectly or not received timely	<ul style="list-style-type: none"> <li>Treasury recalculates each payment that is received and notifies hotel operators when there are errors</li> </ul>	Satisfactory
Hotels under-report revenue for tax purposes	<ul style="list-style-type: none"> <li>Hotels are required to submit a reporting form to support the payment provided each month</li> <li>Treasury initiates audits, as needed, to confirm reported revenues were correct.</li> </ul>	Satisfactory  Needs Improvement
Municipal share of taxes is incorrect or not paid timely	<ul style="list-style-type: none"> <li>Treasury allocates revenue monthly to a clearing account</li> <li>Municipalities are paid quarterly</li> </ul>	Satisfactory  Satisfactory
Taxes collected are not used for Tourism purposes	<ul style="list-style-type: none"> <li>Treasury performs reconciliations to restrict hotel tax revenue in the County's financial statements</li> </ul>	Satisfactory

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

## **FINDINGS AND CORRECTIVE ACTIONS**

### **Finding Number: 2017-A-15.01 Audits of Hotel Operators**

#### **Audits of hotels' reported income are not conducted.**

**Analysis:** The Treasurer's Office has adopted Rules and Regulations authorizing audits. The risk of being subject to audit helps deter taxpayers from paying less than their legal obligation.

The Rules and Regulations require notice of an audit be sent to hotel operators at least 7 days prior to the audit by the County Treasurer. We have been advised by the County Attorney that "At this time the County is not planning on conducting any audits of the hotels in the County." The Treasurer has further advised that "Treasury is very much interested in having outside audits performed; however, we are not prepared to initiate the process at this time."

Without periodic audits of hotels, there is no way to confirm, even on a sample basis, that hotels are fully reporting their taxable income.

Beginning in FY2017, the County Auditor's Annual Audit Plan will include time for audits of Hotel Operators. The Treasurer's Office has agreed to work with us to identify auditees and send required notices in future years.

#### **Management Response:**

*Auditor Note:* Management was provided an opportunity to respond to this report; however, no response was provided.

## **BACKGROUND INFORMATION**

### **PROGRAM DESCRIPTION AND KEY STATISTICS**

Harford County adopted a Hotel Occupancy Tax, via Bill 14-035, which became effective March 23, 2015. For Hotels in the County, the tax rate is 6% of the room rental fees less any tax-exempt government rentals. Hotels must register with the County once and submit tax to the County each month by the 25th of the following month. Occupancy tax revenue for hotels within a municipality are shared evenly. County revenue must be used for tourism uses; however, 25% may be used for general purposes. Revenues and budgets as of February, 2017 are summarized below.

<b>Fiscal Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Budget	\$ -	\$ 2,000,000	\$ 2,025,000
Actual	740,827	2,359,201	1,375,308

**REVIEW OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this audit was to determine if the County has collected, allocated and distributed the correct amount of revenue for the Hotel Occupancy Tax based upon supporting information from taxpayers. The scope of this review was limited to Harford County’s management of the Hotel Occupancy Tax program in accordance with § 123, Article VII of the County Code. Criteria also included the approved Rules and Regulations and Procedures for Hotel Occupancy Tax. As needed, the supporting documentation maintained by Hotel Operators was included within the scope of this review.

The audit focused on activity during the period of 1/1/2015 through 2/28/2017. Our audit procedures included interviewing personnel, observation and testing. Specifically, we confirmed that hotels were properly registered, recalculated tax payments and penalties, and confirmed that taxes were properly forwarded to municipalities. We also selected a sample of hotels for examination. However, we did not perform those audits because the Treasurer’s Office was not prepared to send notification of the audits to hotel operators. Those examinations were intended to agree reported revenue to hotel management systems and other information maintained by the hotel operators.

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.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

**Audit Team:**

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

Brad DeLauder, CPA  
*Senior Auditor*