



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### AUDIT OF HOTEL OCCUPANCY TAX - MOTEL 6 EDGEWOOD

**Report Number:**  
2023-A-20A

**Report Date:**  
03/02/2023

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 Motel 6 in Edgewood for the period of 7/1/2021 through 12/31/2022. This audit was conducted as part of the County Auditor’s risk-based Annual Audit Plan approved by the County Council for FY2023 and at the request of the County Treasurer.

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 taxes were reported accurately, but not always paid timely. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment <sup>i</sup>
Hotel revenue is fully reported to the County	Generally Effective
Tax payments are complete and timely	Not Effective

## ISSUES AND CORRECTIVE ACTIONS

### 2023-A-20A.01 Late and Unpaid Hotel Occupancy Tax

County Code Section 123-67A(3) requires hotel operators to "remit to the Treasurer no later than the 25th day of each month the hotel occupancy tax collected" in the preceding month. For the 18-month review period, Motel 6 remitted taxes late 11 times and the December 2022 taxes are currently unpaid.

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." In some cases, the hotel paid the required late fees either with the payment or after being invoiced by the Treasurer. However, for 4 months, the interest and/or penalty charges have not been paid.

We further found that, for 8 months during the review period, the hotel reported Maryland sales tax exemptions rather than the County occupancy tax exemptions, which were greater. As a result, for those months, the hotel operator incorrectly reported higher taxable revenue and paid more taxes than required.

We have calculated the overpayments and calculated the unpaid interest and penalties to arrive at a net overpayment of \$2,365.31. However, we estimate the hotel owes \$2,487.86 in hotel occupancy tax and penalties for December 2022 as of February 9, 2023; interest will continue to accrue until the tax is paid. These calculations have been provided to the hotel operator and the County Treasurer.

We recommend Treasury notify the hotel operator of the credit to be applied to its December taxes payable and request the operator submit their December tax filing and remaining payment promptly.

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

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## HOTEL OPERATOR'S RESPONSE

We agree with the audit findings and recommendation. We have submitted the tax reporting form and paid the remaining December 2022 taxes and penalties.

## **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. Hotel stays over 30 days are exempt from the tax. 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.

<b>Process / Control Objective</b>	<b>Scope of Review</b>
<b>Revenue Reporting</b>	
Monthly and Daily Reports occupancy reports agree to the revenue reported	<ul style="list-style-type: none"> <li>• Reviewed a sample of monthly payments to confirm the total revenue reported was supported by the daily occupancy reports</li> <li>• Agreed reported amounts to the taxes that were remitted to the County</li> </ul>
Non-financial records support the revenue reported	<ul style="list-style-type: none"> <li>• For a sample of dates, confirm the daily occupancy reports were supported by Housekeeping and other records</li> </ul>
<b>Tax Payments</b>	
Tax payments are sent to the County on time and completely.	<ul style="list-style-type: none"> <li>• Recalculate a sample of payments based on reported revenue</li> <li>• Recalculate late fees, if applicable</li> </ul>

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

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 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. Chirag Patel, Motel 6 Operator	Chrystal Brooks	Brad DeLauder
Mr. Robert Sandlass, County Treasurer	CPA, CIA, CGAP, CISA, CGFM, CRMA	CPA CIA
	<i>County Auditor</i>	<i>Senior Auditor</i>

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<sup>i</sup> 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.