

July 2004

The County Council and County Executive
of Prince George's County, Maryland

Re: Hotel and Motel Tax Collections

INTRODUCTION AND SCOPE OF EXAMINATION

The Office of Audits and Investigations audited the financial records and reports submitted by hotels and motels in Prince George's County to determine compliance with the Hotel and Motel Tax remittance and reporting requirements, as set forth in The County Code, Prince George's County, Maryland, Subtitle 10: Finance and Taxation, Subdivision 3: Hotel and Motel Tax, Sections, 10-218 through 10-225.

The objectives of the Hotel and Motel Tax audit were to (1) determine the rate of hotel and motel owners and operators compliance; (2) ensure that the correct tax rate of five percent (5%) was being applied; (3) determine whether hotel and motel tax exemptions were properly applied, supported, and justified; and (4) correct hotel and motel tax revenue recordation and reporting errors and collect additional tax owed to the County, if any. The scope of our review covered the twenty-four month period from July 2000 through June 2002. There were sixty (60) operating hotels and motels in Prince George's County during that period, all of which were subject to the County's Hotel and Motel Tax. The last Hotel and Motel tax audit was performed by the Office of Finance and completed in August of 2000.

Prince George's County levies and imposes a tax at the rate of five percent (5%) on all gross amounts of money paid to the owners or operators of hotels and motels in Prince George's County by transient guests or tenants renting, using, or occupying a room or rooms, if such rental, usage, or occupancy is for less than ninety (90) consecutive days. Hotel and motel owners and operators are responsible for the collection and remittance of these taxes to the County. For a period of two (2) years, hotel and motel owners or operators are required to maintain all suitable records needed to document and determine the amount of Hotel and Motel taxes due and payable to the County. The Director of Finance has the right to inspect such records at all reasonable times.

The Hotel and Motel Tax does not apply to rooms rented by transient customers who are foreign government officers or employees exempted by reason of an international treaty or an Act of Congress. Federal and State of Maryland civilian and military personnel, traveling on official government business, also are exempt from the Hotel and Motel Tax. For each transaction involving an exemption, a separate Certificate of Exemption is required to be submitted by the hotel and motel owners or operators with their Hotel/Motel Tax Return collection reports.

Hotel and motel owners or operators are required to submit the Hotel/Motel Tax Return collection report and related remittances on a monthly or, in some cases, on a quarterly basis to the Director of Finance. For those entities reporting on a monthly basis, the Hotel/Motel Tax Return and remittance is due on or before the last day of each month covering the amount of tax collected during the preceding month. For those

entities reporting on a quarterly basis, the Hotel/Motel Tax Return and remittance is due on or before the last day of April, July, October, and January of each year, covering the amounts collected during the three (3) months immediately preceding the months in which the returns and remittances are required.

Failure by any hotel or motel owner or operator to remit to the Director of Finance the tax required to be collected and paid, within the established time and in the full amount due, will result in an imposition of two-thirds ($\frac{2}{3}$) of one percent (1%) per month interest charge and an additional penalty at the rate of one percent (1%) per month on the amount of the tax for each month from the date the tax is due. The total one and two-thirds percent ($1\frac{2}{3}\%$) interest and penalty will accrue on the first of each month that the tax remains unpaid. Over a twelve-month period, the interest and penalty payment is equivalent to twenty percent (20%) of the unpaid tax. Failure or refusal by hotel or motel owners or operators to collect, report, or remit the required taxes shall result in the Director of Finance taking additional reasonable steps to procure such facts and information deemed necessary to calculate an assessment base and the required tax payment to the County. Failure to remit such imposed taxes shall cause a tax lien to be placed on any real or personal property in the County of the person who has failed to collect or remit the taxes.

The County has collected an average of \$4.3 million per year in hotel and motel taxes over the past three years. Fiscal year 2002 collections were \$4.1 million, fiscal year 2001 collections were \$4.5 million, and fiscal year 2000 collections were \$4.3 million.

FINDINGS, COMMENTS, AND RECOMMENDATIONS

We reviewed the records of fifty-seven (57) of the County's sixty (60) hotels and motels that were operating during the July 2000 through June 2002 audit period. We did not review the records of three (3) hotels and motels since their annual gross receipts were less than \$500.

We examined all financial reports, including income statements and balance sheets. In instances where the hotel and motel reports were not in automated format, we examined guest sign-in cards, registers, and other manual reports. All internal hotel and motel financial statements and reports were compared to the reported revenues and collections submitted to the Director of Finance in the respective Hotel/Motel Tax Return collection reports. All differences were investigated and, where necessary, corrections were made.

We also examined all material exemptions reported on the Hotel/Motel Tax Return collection reports to verify that proper support and documentation was provided. The threshold used for material exemptions was set at 4.5% or more of gross reported revenues for a specific hotel or motel. All discrepancies and differences were investigated and, when necessary, they were excluded and adjustments were made.

We found errors, made adjustments, and collected additional revenues from fifteen (15) hotels and motels, representing a finding of materially erroneous Hotel/Motel Tax Return collection reports being submitted by twenty-five percent (25%) of the County's hotel and motel owners and operators. The majority of our findings involved

the application of ineligible exemptions. The primary cause of the misapplication of the Hotel and Motel Tax exemptions was misinterpretation of the exemption rules. For example, a large number of exemptions were given to religious organizations and students, which are not proper exemptions according to the law. A small percentage of the errors we found were the result of underreported revenues.

Our report identified approximately \$1.6 million in underreported revenues, which translated to approximately \$100,000 in additional Hotel and Motel Tax collections, including applicable interest and penalties. These additional funds have been collected and are on deposit in the County Treasury.

As a result of our audit, we recommend the following actions:

- 1. Hotel and Motel Tax audits should be done every two years. This will increase County revenues and ensure greater compliance by hotel and motel owners and operators.**
- 2. The Director of Finance should establish a more effective information and education program with the County's hotel and motel owners and operators to help improve understanding and application of the Hotel and Motel Tax exemption provisions.**
- 3. Monthly Hotel/Motel Tax Return collection reports should be reviewed for material exemptions and, if exemptions are material, based on reported revenues, a specific audit should be scheduled.**

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