

FREDERICK COUNTY, MARYLAND

Hotel Rental Tax Audit

Frederick, Maryland

PERFORMANCE AUDIT REPORT

For the period July 1, 2020 through June 30, 2024

Report #25-02



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INDEPENDENT AUDITORS' REPORT AND EXECUTIVE SUMMARY

Interagency Internal Audit Authority
Frederick County, Maryland

CliftonLarsonAllen LLP (CLA) was engaged by Frederick County, Maryland (the County) to conduct a performance audit of the hotel rental tax as required by County Ordinance No. 04-11-355, adopted July 2004, amended by County Ordinance No. 04-08-663 in July 2014, and updated by Bill No. 19-11 in July 2019. The purpose of this report is to provide findings and recommendations regarding this audit. Our audit scope covered the period July 1, 2020 through June 30, 2024. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States.

We found that the Frederick County Tourism Council complied with the County Ordinances and Memorandums of Understanding (MOU) with the County. The Tourism Council properly recorded hotel rental tax revenues, administrative expenses and debt service on the outstanding bonds in their general ledger. During our review of the Tourism Reinvestment in Promotion and Product Development (TRIPP) Program, we noted the Tourism Council has policies and procedures in place to evaluate grant applications for the determination of grant awards. Our testing of a sample of TRIPP grants found that all grants were awarded in accordance with internal policies and procedures, expenses associated with those grants were properly approved in accordance with program guidelines, matching funds were properly received, where applicable and grant transactions were properly recorded in the general ledger. In conclusion, there were no exceptions related to the TRIPP program testing.

During our review of the County's financial records, we found that the monthly hotel rental tax revenues received from the hotels were properly recorded in the County's general ledger. We noted exceptions related to the calculation of the monthly hotel rental tax by the hotels, which are noted below. Our review of the monthly calculations of amounts due to the Tourism Council by the County's Accounting Department appeared accurate based on the revenues received by the County, the administrative rate charged by the County and the debt service requirements of the bonds outstanding.

Out of the ten hotels selected during our audit, three of the hotels yielded no exceptions in the completion of the hotel rental tax report submitted to the County, and one hotel was non-responsive to the audit. We found exceptions at six of the nine hotels tested, which included lack of documentation to support the hotel rental tax report, net room rental receipts and non-transient rental receipts not agreeing to supporting documentation provided and incorrect calculation of penalties and interest associated with late payments.

Interagency Internal Audit Authority
Frederick County, Maryland

During our review of the Human Trafficking Training Program, we determined that nine out of the ten hotels selected for testing were required to provide annual employee training on human trafficking and certify to the County Human Relations Department annually that all their employees have completed the training. The remaining hotel was located within the City of Frederick or incorporated municipality and therefore, do not fall under the County Ordinance. The Human Relations Department did not verify/obtain the annual training certifications from the hotels for 2021 – 2023 until April 30, 2025 due to turnover in the Department. Four out of the nine hotels selected for testing failed to submit the required annual certification as of April 30, 2025. During our testing to ensure employees at the nine required hotels completed the annual human trafficking program, one hotel yielded exceptions and one hotel was non-responsive.

A summary of findings are as follows:

Finding #	Area	Finding
1	Lack of Documentation	The following hotels could not provide supporting documentation for testing – Hotel 1, Hotel 2, Hotel 3, Hotel 4, and Hotel 5.
2	Net Room Rental Receipts	Net room rental receipts and non-transient rental receipts did not agree to supporting documentation for the following hotels – Hotel 6 and Hotel 7.
3	Inaccuracy of the Tax Calculation for Late Payments	The penalty and interest associated with late payments were incorrectly calculated for the following hotels – Hotel 3, Hotel 4, Hotel 5, Hotel 6 and Hotel 7.
4	Human Trafficking	Hotel 1 and Hotel 5 could not provide evidence that certain employees selected for testing participated in human trafficking training in 2024.
5	Human Trafficking Training Annual Certification	The Human Relations department did not verify / obtain the annual certification for the hotels within a timely manner for three of the fiscal years. The following hotels did not submit their annual certification as required – Hotel 6, Hotel 8, Hotel 7 and Hotel 2.

The responses from the County's Finance Division and Human Relations Department are included after each finding in the findings, recommendations, and management's responses section.

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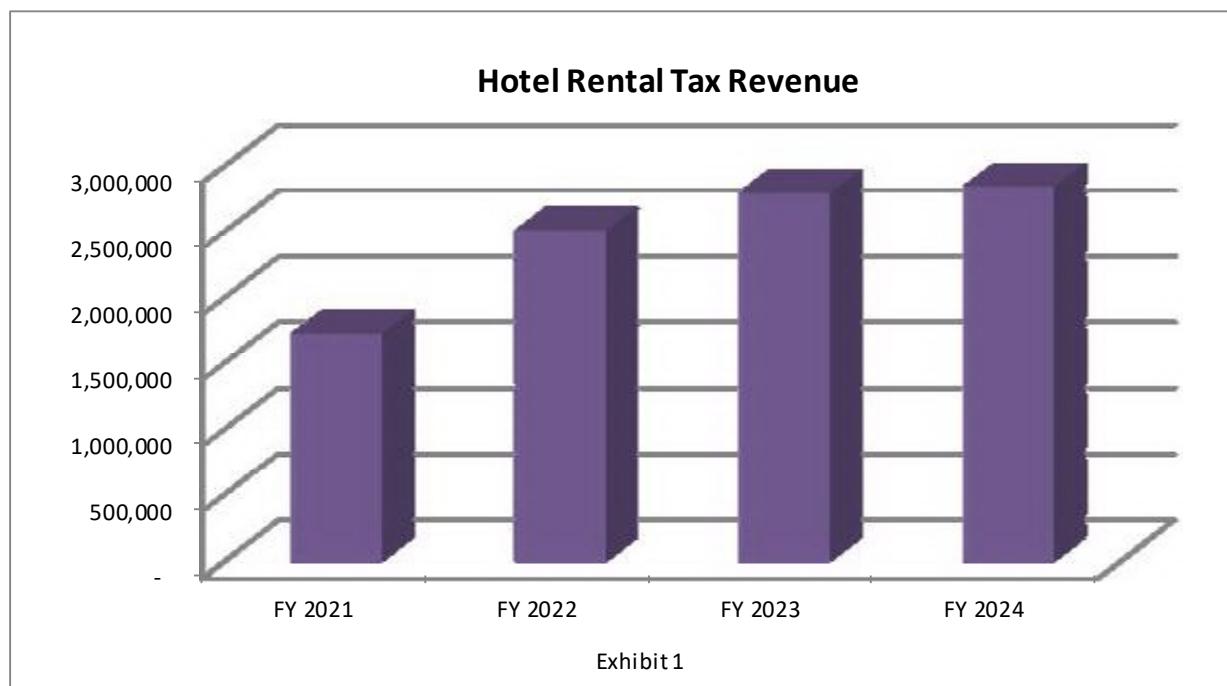
Baltimore, Maryland
September 17, 2025

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BACKGROUND

The Tourism Council of Frederick County, Inc. (Tourism Council) is a non-profit organization created to encourage, foster and stimulate tourism in Frederick County, Maryland (the County). The Tourism Council obtains and distributes information about tourism attractions in the County to promote cooperation and exchanges between business, organizations and tourist attractions both in and out of the County. The Tourism Council's source of funding is a mix of the Hotel Rental Tax, private/government grants, membership dues, advertising cooperatives, sales and miscellaneous income. The Hotel Rental Tax accounted for approximately 66.6%, 67.7%, 80.9% and 82.5% of the Tourism Council's revenue for FY 2021, 2022, 2023 and FY2024, respectively.

The hotel rental tax was established as a result of the Frederick County Government's Ordinance No. 04-11-355, adopted July 2004, to provide a source of funding to the Tourism Council. Previously, the Council was funded directly from the County's General Fund. The County collects a 5% hotel rental tax on transient stays not exceeding 90 consecutive days from all hotels located in Frederick County. County hotels submit the hotel rental tax collected from guests to the County Treasurer on a monthly basis. Refer to Exhibit 1 for hotel rental tax collected by the County for fiscal years 2021 through 2024. Council Bill No. 16-13 amended the hotel rental tax, effective October 29, 2016 to increase the hotel rental tax from 3% to 5%.



The Ordinance states that the Hotel Rental Tax revenue will first be used to pay for administrative costs incurred by the County in collecting the tax, which was \$1,300 for fiscal year 2017, increasing 1% annually for each year thereafter. The County also deducts debt service payments related to County bond issuances used to construct the Tourism Council's Visitors' Center. There are currently three bond issuances outstanding that are associated with the Tourism Council totaling approximately \$850,101 as of June 30, 2024. The balance of the Hotel Rental Tax revenue after administrative and debt service costs are deducted is then paid to the Tourism Council.

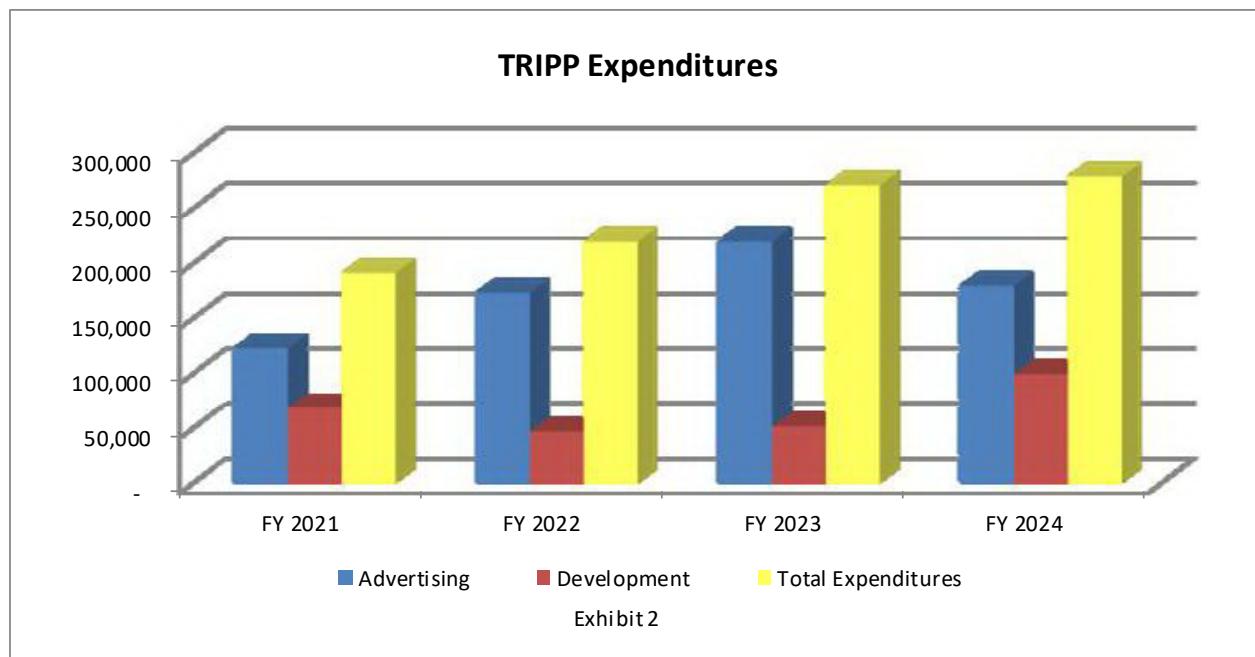
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As a result of the COVID-19 pandemic, the County and Tourism Council signed a MOU in June 2020 for the following, effective April 2020:

- Suspension and deferment of the County's administrative fee, and the debt service (principal and interest) on the General Obligation Bonds used to pay for the Tourism Council's Visitors' Center until:
 - July 1, 2021 or when the hotel rental tax collections reach or exceed 90% of the hotel rental tax collections of the corresponding quarter of fiscal year 2019;
- At the end of the suspension period, the County will resume collection of the administrative fee at 125% of the effective agreed upon administrative cost with 25% being applied to reimburse the County for the suspended and deferred administrative fee until fully reimbursed;
- At the end of the suspension period, the County will resume collection of the debt service at 125% of the actual debt service amount with 25% being applied to reimburse the County for the suspended and deferred debt service until fully reimbursed.

However, in October 2021 the County and Tourism Council signed an MOU which waived the requirement for the collection of the administrative fee and debt service (principal and interest) on the General Obligation Bonds from the Tourism Council during the period April 2020 through June 2021.

The Tourism Council uses Hotel Tax Revenues forwarded by the County for general operating expenses and the Visitor's Center. Hotel Tax Revenues are also used to fund the Tourism Reinvestment in Promotion and Product Development (TRIPP) program in which non-profit organizations within the County may apply for funding to help promote tourism. These funds are available for advertising, trade show promotion, and development of local non-profit sites, attractions, events, and activities that attract tourists to the County. Refer to Exhibit 2 for TRIPP expenditures for fiscal years 2021 through 2024.



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County Code 1-6-68 requires lodging establishments provide certain employee training on how to identify human trafficking activities and human trafficking victims beginning on May 1, 2019. Additionally, beginning on November 1, 2019, lodging establishments are required to annually certify to the County Human Relations Department that all of their employees have completed the required training. County Code requires the Interagency Internal Audit Authority (IIAA) to include this training requirement as part of its audit of the hotels and lodging establishments registered with the County.

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OBJECTIVES, SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) established by the U.S. Government Accountability Office (GAO). 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 conclusion based on the audit objectives. Because of the inherent limitations, a performance audit made for the limited purposes of our review would not necessarily disclose all weaknesses related to the County's compliance.

The County is required to have an independent audit of the Hotel Rental Tax revenues at least every four years under Frederick County Government's Ordinance No. 04-11-355, amended by Ordinance No. 14-08-663 and updated by Bill No. 19-11. The objective of this audit is to ensure that the Tourism Council is in compliance with all laws, regulations, and agreements related to the Hotel Rental Tax revenues and expenditures as well as testing the collection of and appropriate calculation of the hotel rental tax by the County. The scope of the audit covers the period July 1, 2020 through June 30, 2024.

As part of the hotel rental tax audit, we:

- Selected ten out of the thirty hotels that remitted hotel rental tax revenues during the audit period. For each hotel that was tested, we:
 - Selected twenty-four out of the forty-eight months of the audit period and reviewed the supporting documentation used by the hotel to complete the hotel room rental tax report to ensure completeness and accuracy of the report. We also recalculated the hotel rental tax due to the County for accuracy.
 - Selected two guests per month for the twenty-four months tested and reviewed their hotel bill to ensure the tax was properly calculated and collected from the guest.
- Verified that the monthly tax collections reported by the individual hotels agreed with the amounts utilized by the County to calculate payments due to the Tourism Council.
- Obtained the County's calculation of payments due to the Tourism Council for twenty-four out of the forty-eight months of the audit period and:
 - Verified the administrative fees charged by the County were in accordance with the Memorandum of Understanding (MOU) between the County and Tourism Council;
 - Recalculated the administrative fees charged by the County for accuracy; and
 - Verified the debt service amounts charged by the County agreed to the amortization schedules of the bonds issued by the County for the Tourism Council's Visitor's Center.
- Verified that the payments made by the County to the Tourism Council were accurate and agreed with the amounts recorded in the Tourism Council's financial ledgers. We traced payments received by the Tourism Council for twenty-four out of the forty-eight months to the Tourism Council's bank account.
- Verified that the Tourism Council properly recorded the debt payments and set aside the required minimum for the Visitor's Center each fiscal year in their general ledger.

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- Gained an understanding of the Tourism Council's Tourism Reinvestment in Promotion and Product Development (TRIPP) Program and selected 33 out of 98 grants awarded during the audit period for testing to ensure program participants were eligible for the grant and funds were dispersed appropriately to those participants.
- Gained an understanding of the human trafficking training program at the County and hotels selected for hotel rental tax testing. For each hotel tested, we:
 - Obtained the employee listing as of December 31, 2024 and selected a sample of 25% of the employees to trace their compliance with the required training to supporting documentation maintained at the hotel;
 - Obtained the annual certification for 2021 through 2024 from the County Human Relations department and verified the certification was in compliance with the guidelines prescribed by the Human Relations Department.

Our audit noted the following scope limitations related to the testing of the ten hotels as follows:

- Hotel 1 failed to respond to CLA and the Director of Internal Audit requests for information for this audit. At the direction of the IIAA, Hotel 1 was not included in this audit.
- Hotel 7 opened in April 2021; therefore, only nineteen months were tested for this audit.

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FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

We identified several areas where exceptions to current policies and procedures were noted, or procedures or controls could be improved. These items are discussed below and include our findings and recommendations, together with the County responses to our findings.

1. Lack of Documentation

Finding:

A listing of documentation needed to complete the audit was provided to the ten hotels selected for testing. The following hotels did not provide documentation requested as follows:

- Hotel 1 – There were numerous attempts to reach Hotel 1 to complete the audit. These attempts were through email and phone call by CLA and the Director of Internal Audit; contact was made with Hotel 1; however no documentation was provided. Since there was no response to the audit request, we were unable to determine the accuracy of the hotel rental tax remitted to the County or the tax charged to guests of the hotel.
- Hotel 2 - We requested a list of guests of the hotel for twenty-four months during the audit period to select a sample of guest folios for recalculation of the hotel rental tax. The hotel was unable to provide a full guest listing for the months of July 2020, September 2020 and November 2020 due to a change in ERP system.
- Hotel 3 – The hotel did not maintain copies of the hotel rental tax reports submitted to the County monthly for the period under audit.
- Hotel 4 and Hotel 5 – We requested a list of guests of the hotels for twenty-four months during the audit period to select a sample of guest folios for recalculation of the hotel rental tax. The hotels were unable to provide a full guest listing for the months of July 2020, September 2020 and November 2020 due to their system not retaining information back to these months.

Recommendation:

We recommend the County or Tourism conduct training and/or communication to all hotels on the hotel rental tax laws and regulations, including the requirement of the County to have an independent audit of the hotel rental tax program. While the County cannot prescribe corporate retention policies to our audit, additional communication should include best practices for the maintenance and retention of supporting documentation that corroborates the hotel rental tax reports submitted to the County.

Management Response:

The Tourism Council and the County will work together to communicate to the hotels the hotel rental tax laws, regulations, record retention of supporting documentation for their hotel tax report, and the County's independent audit requirement. The County will update the Frederick County Hotel Rental Tax Information document on the Treasury website to include best practices for maintenance and retention of supporting documentation to corroborate the reports submitted to the County. In addition, Finance will evaluate options to require hotels determined to be a risk—or those specifically identified in the internal audit findings—to submit enhanced documentation in support of their monthly tax reports. This may include financial system reports that support reported revenue figures and substantiation for non-transient stays. The estimated timeframe for completion is by June 2026.

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2. Net Room Rental Receipts

Finding:

The hotel rental tax is calculated on the net room rental receipts, which is gross room rental receipts less rental receipts from non-transients (those whose stay is over 90 consecutive days). The net room rental receipts in the hotel rental tax report did not agree to supporting documentation provided by the following hotels:

- Hotel 7 - For the month of November 2022, the hotel calculated the hotel rental tax based on gross room rental receipts instead of net room rental receipts. The effect was an overpayment of hotel rental tax to the County totaling \$336.60.
- Hotel 6 –
 - The amount reported for gross rental receipts for the month of March 2022 did not agree to supporting documentation. The net effect of this discrepancy was \$580.97 in underpayment of hotel rental tax to the County.
 - The amounts reported for rental receipts from non-transients for twenty-four out of twenty-four months tested did not agree to supporting documentation. The net effect of these discrepancies was \$12,665.35 in underpayment of hotel rental tax to the County.

Recommendation:

We recommend the County perform a risk based, cost effective analysis of the hotels in the County, which takes into account the size, the experience and knowledge of management company/owner, the volume of reservations and the average amount of tax paid to the County annually. The County should utilize this analysis to determine if increased oversight by the County would be beneficial to ensure the correct amount of tax is remitted monthly.

Management Response:

The County acknowledges the importance of a risk-based, cost- effective analysis to enhance oversight of hotel tax remittances. While current staffing and resource limitations within the Accounting Department prevent the immediate implementation of a comprehensive risk assessment model, we are committed to improving compliance monitoring within our operational capacity. The County will continue to verify accuracy of hotel tax reports. Finance will evaluate options to require hotels determined to be a risk—or those specifically identified in the internal audit findings—to submit enhanced documentation in support of their monthly tax reports. This may include financial system reports that support reported revenue figures and substantiation for non-transient stays.

In addition, the County will update the existing Frederick County Hotel Rental Tax Information document that is on the Treasury website to provide clarity on calculating the hotel rental tax due, discounts, interest, and penalties. The estimated timeframe for completion is by June 2026.

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3. Inaccuracy of the Tax Calculation for Late Payments

Finding:

The hotel rental tax is due on the 21st of the month for the previous month. When a tax payment is delinquent for one month or more, interest of 0.5% per month and penalty of 10% per month on the total tax due is charged to the hotel. We noted the following hotels had inaccuracies in the calculation of the interest and penalties for late payments as follows:

- Hotel 3 - For the months of July 2022 and September 2022, the hotel incorrectly calculated the 0.5% interest per month on late payments. The effect was an overpayment of hotel rental tax to the County totaling \$22.75.
- Hotel 3 - For the months of July 2020, May 2021, July 2021, January 2022, May 2022, November 2022 and May 2024, the hotel did not calculate the 0.5% interest per month or 10% penalty on late payments. The effect was an underpayment of hotel rental tax to the County totaling \$174.65.
- Hotel 7 - For the month of November 2022, the hotel did not calculate the 0.5% interest per month on late payment. The effect was an underpayment of hotel rental tax to the County totaling \$71.26.
- Hotel 5 - For the month of September 2021, the hotel did not calculate the 0.5% interest per month on late payment. The effect was an underpayment of hotel rental tax to the County totaling \$61.80.
- Hotel 4 - For the month of September 2021, the hotel did not calculate the 0.5% interest per month on late payment. The effect was an underpayment of hotel rental tax to the County totaling \$61.22.
- Hotel 6 - For the months of July 2021, September 2021 and March 2024 the hotel did not calculate the 0.5% interest per month on late payments. The effect was an underpayment of hotel rental tax to the County totaling \$2,466.96.

Recommendation:

We recommend the County Accounting Department follow up with the above hotels and provide training on the calculations for interest and penalties to ensure the hotel remits the correct amount of hotel rental tax in accordance with the County Ordinance.

Management Response:

The County will communicate through a letter and provide a training document on the calculations for interest and penalties to ensure the hotel submits the correct amount of hotel rental tax in accordance with the County Ordinance. An example of the calculation for rental tax, interest and penalties is in the Frederick County Hotel Rental Tax Information document located on the Treasury website with the Hotel Room Rental Tax report to assist hotels with the Hotel Room Rental Tax calculation. The County may need to review delinquent calculations by hotels moving forward for accuracy. The estimated timeframe for completion is by June 2026.

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4. Human Trafficking

Finding:

Frederick County Council Bill No.18-29, which is codified in Section 1-6-68 in the Frederick County Code, requires every employee of a lodging establishment to complete a human trafficking training program approved by a national hotel brand, a recognized national lodging association, or other training approved by the Frederick County Human Relations Department. We selected a sample of employees from the hotels for 2024 and tested to ensure compliance with this ordinance and noted the following:

- Hotel 1 – The hotel was not able to provide a listing of employees to select a sample for testing.
- Hotel 5 – The hotel was not able to provide supporting documentation (i.e., training certificate) for one out of seven employees selected for testing.

Recommendation:

We recommend the Frederick County Human Relations Department provide outreach services to the hotels that fall under section 1-6-68 to communicate the requirements of the human trafficking program and best practices for maintaining supporting documentation to ensure compliance.

Management Response:

The Human Relations Department (HRD) has initiated a standard operating procedure (SOP). Starting at the end of September each year we will mail a reminder letter of the county code along with the Annual Human Trafficking Training Log for the Manager or Owner of the establishment to complete. A fillable PDF version is available on the Frederick County Government website, located under the Human Trafficking Training for Lodging Establishments webpage. This webpage has been shared and will continue to be shared in each correspondence sent as it has details regarding the code and what is expected. At this time, we are in communication with the Interagency Information Technologies (IIT) Division to review and update the webpage to standardize the content and expectation. Our goal is for this webpage to be a resource for any questions the lodging establishments may have. Establishing a SOP, supplying the Annual Human Trafficking Training Log and updating the webpage is essential for ensuring that lodging establishments are well-informed and compliance with the county code, thereby supporting our efforts to combat human trafficking effectively.

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5. Human Trafficking Training Annual Certification

Finding:

Frederick County Council Bill No.18-29, which is codified in Section 1-6-68 in the Frederick County Code, requires every employee of a lodging establishment to complete a human trafficking training program approved by a national hotel brand, a recognized national lodging association, or other training approved by the Frederick County Human Relations Department. The Frederick County Human Relations Department is required to inquire/obtain the submitted certification from all lodging establishments in unincorporated Frederick County within a six-month period after year-end. We noted the following related to the Human Trafficking Training Annual Certification:

- The Human Relations Department were unable to locate records for 2021 due to turnover within the Department. Moreover, for 2022 and 2023, the Department did not verify compliance with annual training certification until April 2025.
- The following hotels selected for testing failed to submit their required certification of human trafficking training for their employees as follows:
 - Hotel 6 – 2022
 - Hotel 8 – 2022 and 2023
 - Hotel 7 – 2022
 - Hotel 2 - 2024

Recommendation:

We recommend the Frederick County Human Relations Department create a formal policy for the Department detailing the procedures and policies for collecting and tracking the information needed the Human Trafficking Training Annual Certification from the lodging establishments in unincorporated Frederick County. Further, we recommend the Frederick County Human Relations Department provide outreach services to the hotels that fall under section 1-6-68 to communicate the requirements of the human trafficking program in relation to the Annual Training Certification.

Management Response:

First, we would like to address the findings. Director Anthony Russell was hired in August of 2023. Compliance efforts took place from November 2023 through June of 2024. Due to staff vacancies the 2024 compliance efforts began February of 2025 which delayed the intended timeline. During the collection of 2024's documents those establishments not in compliance for 2023 were asked to submit that documentation as well.

Moving forward the HRD created an SOP for the audit and compliance process for lodging establishments in Frederick County regarding human trafficking awareness training. In that process we have established a strategic and timely protocol for contacting and supporting lodging establishments and enforcing non-compliance through the issuance of civil citations.



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