



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 871-2897

GLENN ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Distribution
FROM: Glenn Eckhart, County Controller G.E.
DATE: March 30, 2016
RE: Hotel Tax Summary – Management Report

The Controller's Office has completed agreed-upon procedures (AUP) on 12 out of 53 (23%) judgmentally selected hotels for the period January 1 through July 31, 2015. The 12 hotels reviewed represented 48% of reported taxable revenue for the period January 1 to July 31, 2015. Separate written reports were sent to each hotel operator. Our report number 16-9 is attached.

We concluded:

- \$1,716 in additional hotel room rental tax and interest was assessed for the period January 1 to July 31 as a result of our individual AUP engagements.
- Overall, hotel operator reporting compliance was adequate.
- The implementation of electronic submission software for hotel tax returns would greatly improve the efficiency of collections efforts.

We wish to express appreciation for the cooperation received by the hotel operators and the Office of Fiscal Affairs' management.

Attachment

HOTEL TAX/SUMMARY REPORT

COUNTY OF LEHIGH
HOTEL TAX SUMMARY – MANAGEMENT REPORT

*On Applying Agreed-Upon-Procedures
for the period January 1 through July 31, 2015*

AUDIT REPORT NO. 16-9

LEHIGH COUNTY, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

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COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

Background

Legislative

Lehigh County Ordinance #2005-180 established a 4 % tax on hotel room rental revenue. It also authorized the county Fiscal Officer to distribute 68.75 % of all hotel tax collections on a monthly basis to Discover Lehigh Valley and the remaining 31.25 % is be retained by Lehigh County (18.75% for further development of tourism facilities and for community development initiatives within the County that enhance regional tourism and 12.5% for further development of facilities and for marketing purposes within the County to enhance regional tourism). The County Fiscal Officer established the “Hotel Room Rental Tax Rules and Regulations” for the collection, remittance and reporting of the hotel tax on a monthly basis effective September 5, 2005.

Review of Records

Agreed-upon- procedures (AUP) were performed on 12 out of 53 (23%) judgmentally selected hotels to assist the Fiscal Officer in determining the accuracy of hotel tax remittances made to the County of Lehigh. The 12 hotels reviewed represented 48% of reported taxable revenue for the period January 1 to July 31, 2015.

We performed these procedures in accordance with United States generally accepted government auditing standards, which incorporate the attestation standards established by the American Institute of Certified Public Accountants (AICPA). Procedures performed included:

- Verification of reported revenue to Form PA-3 submitted to the Commonwealth of Pennsylvania, Department of Revenue.
- Compliance to the County of Lehigh exemption Rules and Regulations for hotel room rental tax collection.
- Verification of reported revenue and hotel room rental tax collections to hotel operator accounting records.

We noted three major categories resulting in additional tax assessment to the operators:

- Exemption Adjustments – exemption certificates not provided or incomplete, disqualified exemptions taken, amounts claimed did not match operator records;
- Revenue Adjustments – Actual hotel room revenues exceeded amounts reported to the county; and
- Remittance Adjustments - Actual hotel room tax collected exceeded amount remitted to the county.

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

Hotel Tax Activity 2010-2015

<u>Year</u>	<u>Total Hotels Reporting in Lehigh County</u>	<u>No. of Hotels Reviewed</u>	<u>Annual Reported Taxable Revenue</u>	<u>Hotel Tax Before Adjustments</u>	<u>Audit Adjustments</u>
2015	53	12	(7 Months) \$19,744,802	\$ 789,799	\$ 1,716
2014*	-	-	-	-	-
2013*	-	-	-	-	-
2012	49	20	\$35,718.298	\$1,428,731	\$ 2,607
2011	48	19	\$41,174,264	\$1,646,971	\$24,036
2010	45	45	\$49,331,297	\$1,973,351	\$13,796

* No agreed-upon-procedure engagements performed.



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COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

Mr. Timothy Reeves, Fiscal Officer
Office of Fiscal Affairs
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

We have recently completed agreed-upon-procedures on 12 out of 53 (23%) judgmentally selected hotels that reported taxable revenues of \$19,744,802 and hotel room rental tax of \$789,799 (before adjustments for the period January 1 to July 31, 2015). The 12 hotels reviewed represented 48% of reported taxable revenue for the period January 1 to July 31, 2015.

Separate reports were distributed to each hotel, the Board of Commissioners, the County Executive, and you. Additional tax and interest of \$1,716 were assessed for the following adjustments:

Exemption Adjustments	\$724
Revenue Adjustments	876
Remittance Adjustments	<u>116</u>
Total	<u>\$1,716</u>

We noted certain matters that we reported to management of the Office of Fiscal Affairs in a separate section entitled "*Schedule of Audit Findings and Recommendations*."

This report is intended for the information of the Fiscal Officer and other affected County offices. However, this report is a matter of public record and its distribution is not limited.

GLENN ECKHART
County Controller

March 28, 2016
Allentown, Pennsylvania

Final Distribution:
Board of Commissioners
Thomas Muller, County Executive
Daniel McCarthy, Director of Administration
Frank Kane, Director, Community and Economic Development
Michael Stershic, President, Discover Lehigh Valley
George Samuelson, Accountant II

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

Schedule of Audit Findings and Recommendations

1. Electronic Submission of Monthly Tax Return

Condition: Currently, the Office of Fiscal Affairs requires all hotels to submit a paper monthly tax return accompanied with the full payment of the tax by mail, which must be received on or before the 20th of the following month. All interest and penalties are manually calculated by a staff member of the Office of Fiscal Affairs.

This method of filing a hotel tax return and internal processing practices are inefficient. The Commonwealth of Pennsylvania's Department of Revenue and the Internal Revenue Service both offer the option of filing a tax return either electronically, thus allowing for payment by credit card, or debit card.

Recommendation: The management of the Office of Fiscal Affairs should consult with the Office of Information Technology to adopt computer software to allow hotel operators to file their monthly tax return and pay electronically by the 20th of the following month. This software should also have the ability to calculate interest and penalties if the hotel operator files a late hotel tax return.

2. Hotel Tax Revenue/Cost Sharing

Condition: The County of Lehigh bears 100% of the cost of administering the hotel room rental tax collection; however, only 31.25% of the revenue is retained by the County. This 31.25% is dedicated to further development of tourism facilities and to marketing efforts within the county to enhance regional tourism. No funds are allocated to the cost of administering hotel room rental tax collection.

Recommendation: County administrative management should pursue establishing an administrative cost sharing arrangement with Discover Lehigh Valley.

TO: Glenn Eckhart, County Controller
FROM: Timothy A. Reeves, Fiscal Officer
DATE: March 28, 2016
RE: Response to Audit Findings and Recommendations – Hotel Tax Summary Audit

1. Electronic Submission of Monthly Tax Return

Response: The Fiscal Office acknowledges the inefficiencies associated with paper returns and manual calculations of interest and penalties. With the implementation of a new ERP system in 2016, we will pursue an electronic filing system that allows for payment by credit and debit cards similar to the Commonwealth of Pennsylvania's Department of Revenue and the Internal Revenue Service.

2. Hotel Tax Revenue/Cost Sharing

Response: The concept of establishing an administrative cost sharing arrangement with Discover Lehigh Valley has been discussed in the past by the County administrative management, but did not get enough support from Discover Lehigh Valley representatives to move forward with any cost sharing arrangement. County management will continue to re-visit the concept as warranted.

A handwritten signature in black ink, reading "Timothy A. Reeves", is written over a horizontal line.

Timothy A. Reeves, Fiscal Officer