



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER  
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GLENN ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

**TO:** Final Distribution

**FROM:** Glenn Eckhart, County Controller *G.E.*

**DATE:** April 5, 2018

**RE:** Hotel Tax Summary – Management Report

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The Controller's Office has completed agreed-upon procedures (AUP) on 14 out of 54 (26%) judgmentally selected hotels for the calendar year 2016. The 14 hotels reviewed represented 25% of reported taxable revenue for the calendar year 2016. Separate written reports were sent to each hotel operator. Our report number 18-10 is attached.

We concluded:

- \$3,510 in additional hotel room rental tax and interest was assessed for the calendar year 2016 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 Calendar Year 2016*

REPORT NO. 18-10

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 14 out of 54 (26%) judgmentally selected hotels to assist the Fiscal Officer in determining the accuracy of hotel tax remittances made to the County of Lehigh. The 14 hotels reviewed represented 25% of reported taxable revenue for the calendar year 2016.

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.

With our Agreed-upon-procedures engagements, we typically note 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: Tax Returns Covering Calendar Year 2016**

Hotel Tax Collected		\$2,985,978
Disbursement of Hotel Tax Funds:		
Amount Remitted to Discover Lehigh Valley	(2,052,860)	
Amount Remitted to Tourism	( 559,871)	
Amount Retained for Development	( <u>373,247</u> )	
Total Hotel Tax Funds Disbursed		<u>(\$2,985,978)</u>
<b>Amount Yet To Be Disbursed</b>		<b>- \$ 0 -</b>

**Summary of Controller's Office Engagements Since 2010**

<u>Tax Year</u>	<u>Total Hotels Reporting in Lehigh County</u>	<u>No. of Hotels Reviewed</u>	<u>Hotel Tax Before Adjustments</u>	<u>Audit Adjustments</u>
2016	54	14	\$ 736,755	\$ 3,510
2015	53	12	\$ 789,799	\$ 1,716
2014*	-	-	-	-
2013*	-	-	-	-
2012	49	20	\$1,428,731	\$ 2,607
2011	48	19	\$1,646,971	\$ 24,036
2010	45	45	\$1,973,351	\$ 13,796

\*No agreed-upon-procedure engagements performed.





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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 14 out of 54 (26%) judgmentally selected hotels that reported taxable revenues of \$18,441,002 and hotel room rental tax of \$736,755 (before adjustments for the calendar year 2016. The 14 hotels reviewed represented 25% of reported taxable revenue for the calendar year 2016.

Separate reports were distributed to each hotel, the Board of Commissioners, the County Executive, and you. Additional tax and interest of \$3,510 were assessed for the following adjustments:

Exemption Adjustments	\$2,399
Revenue Adjustments	-
Remittance Adjustments	<u>1,111</u>
Total .....	<u>\$3,510</u>

In the previous Hotel Tax Summary-Management Report, which covered the period January 1 through July 31, 2015, we noted certain matters that we reported to management of the Office of Fiscal Affairs. We have provided a current status to these items in a separate section entitled "*Schedule of Prior 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

April 4, 2018  
Allentown, Pennsylvania

Final Distribution:  
Phillips Armstrong, County Executive  
Board of Commissioners  
Edward Hozza, 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 Prior Audit Findings and Recommendations*  
(Audit Report #16-9 issued March 30, 2016)

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 20<sup>th</sup> 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 20<sup>th</sup> 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.

**Management's 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.

**Current Status:** The Fiscal Office is continuing to pursue the above recommendation.

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.

**Management's Response:** County administrative management should pursue establishing an administrative cost sharing arrangement with Discover Lehigh Valley.

**Current Status:** The Fiscal Office will continue to consider the above recommendation.