TO: Final Distribution

FROM: Mark Pinsley, County Controller

DATE: August 6, 2020

RE: Hotel Tax Summary – Management Report

The Controller’s Office has completed agreed-upon procedures (AUP) on 16 out of 60 (27%) judgmentally selected hotels for the calendar year 2018. The 16 hotels reviewed represented 28% of reported taxable revenue for the calendar year 2018. Separate written reports were sent to each hotel operator. Our report number 20-10 is attached.

We concluded:

- $6,865 in additional hotel room rental tax and interest was assessed for the calendar year 2018 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 2018

REPORT NO. 20-10
# LEHIGH COUNTY, PENNSYLVANIA
# HOTEL TAX SUMMARY – MANAGEMENT REPORT

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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 16 out of 60 (27%) judgmentally selected hotels to assist the Fiscal Officer in determining the accuracy of hotel tax remittances made to the County of Lehigh. The 16 hotels reviewed represented 28% of reported taxable revenue for the calendar year 2018.

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.
# Hotel Tax Activity: Tax Returns Covering Calendar Year 2018

Hotel Tax Collected: $3,514,789

**Disbursement of Hotel Tax Funds:**
- Amount Remitted to Discover Lehigh Valley: $(2,416,418)$
- Amount Remitted to Tourism: $(659,023)$
- Amount Retained for Development: $(439,348)$

Total Hotel Tax Funds Disbursed: $(3,514,789)$

**Amount Yet To Be Disbursed:** $0

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## Summary of Controller’s Office Engagements Since 2010

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Total Hotels Reporting in Lehigh County</th>
<th>No. of Hotels Reviewed</th>
<th>Hotel Tax Before Adjustments</th>
<th>Audit Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>60</td>
<td>16</td>
<td>$994,491</td>
<td>$6,865</td>
</tr>
<tr>
<td>2017*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>54</td>
<td>14</td>
<td>$736,755</td>
<td>$3,510</td>
</tr>
<tr>
<td>2015</td>
<td>53</td>
<td>12</td>
<td>$789,799</td>
<td>$1,716</td>
</tr>
<tr>
<td>2014*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2013*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2012</td>
<td>49</td>
<td>20</td>
<td>$1,428,731</td>
<td>$2,607</td>
</tr>
<tr>
<td>2011</td>
<td>48</td>
<td>19</td>
<td>$1,646,971</td>
<td>$24,036</td>
</tr>
<tr>
<td>2010</td>
<td>45</td>
<td>45</td>
<td>$1,973,351</td>
<td>$13,796</td>
</tr>
</tbody>
</table>

*No agreed-upon-procedure engagements performed.
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 16 out of 60 (27%) judgmentally selected hotels that reported taxable revenues of $24,641,246 and hotel room rental tax of $994,491 (before adjustments) for the calendar year 2018. The 16 hotels reviewed represented 28% of reported taxable revenue for the calendar year 2018.

Separate reports were distributed to each hotel, the Board of Commissioners, the County Executive, and you. Additional tax and interest of $6,865 were assessed for the following adjustments:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemption Adjustments</td>
<td>$1,549</td>
</tr>
<tr>
<td>Revenue Adjustments</td>
<td>5,302</td>
</tr>
<tr>
<td>Remittance Adjustments</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>$6,865</td>
</tr>
</tbody>
</table>

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.”

In the previous Hotel Tax Summary-Management Report, which covered the period January 1 through December 31, 2016, 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.

MARK PINSLEY  
County Controller

7/30/2020  
Allentown, Pennsylvania

Final Distribution:  
Phillips Armstrong, County Executive  
Board of Commissioners  
Edward Hozza, Director of Administration  
Frank Kane, Director, Community and Economic Development  
Alex Michaels, President, Discover Lehigh Valley  
George Samuelson, Accountant II
1. Hotel Licenses and Application Forms

**Condition:** The Office of Fiscal Affairs requires all hotels operating within Lehigh County to register with the Fiscal Office by completing an application form which subsequently leads to a Certificate of Authorization (Hotel License) being issued. This allows the Hotel operator the authority to collect hotel room rental tax in accordance with Part II Section (B) of the County of Lehigh Hotel Room Rental Tax Rules and Regulations. Periodically, the Fiscal Officer renews the hotel license for every active hotel and issues a new number in accordance with the year of renewal (e.g. 2016-XXX). The year used in numbering is the only item that changes.

During our review of the active hotel licenses on file, we determined that while all hotel licenses were up to date (most renewed in 2016) many hotels had outdated application forms as far back as 2012. The audit fieldwork conducted on the 16 sampled hotels resulted in the update of 4 hotel license application forms due to changes including ownership, EIN, and room count numbers. The Fiscal Office does not have a formal policy regarding when hotel licenses are renewed or application form information is updated.

**Recommendation:** The Fiscal Office should adopt a standard policy requiring hotel operators submit updated applications for a renewal license any time significant changes occur, such as ownership, business type, EIN, and hotel capacity changes, or every 4 years regardless of changes.
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.

**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, as well as implementing the use of credit card and E-file payment options to hotels.

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.