



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: December 26, 2012
RE: Hotel Room Rental Tax Summary Report

The controller's office has completed agreed-upon procedures on 19 out of 48 (40%) judgmentally selected hotels for the period January 1 through December 31, 2011. Due to staff reductions in 2012, we reduced the number of hotels audited. Separate written reports were sent to each hotel operator. Our audit report number 13-2 is attached.

We concluded:

- \$24,036 in additional hotel room rental tax and interest was assessed for 2011 due to our audits.
- Overall, hotel operator reporting compliance was adequate. Several management issues were addressed during the review of hotel tax reporting and recordkeeping to improve compliance.
- County administrative management agreed to pursue establishing a cost sharing arrangement with Discover Lehigh Valley management to cover the county costs incurred to collect the hotel tax.

We wish to express appreciation for the cooperation received by the hotel operators and the office of fiscal affairs' management.

Attachment

TAX/SUMMARY REPORT

COUNTY OF LEHIGH
HOTEL TAX SUMMARY – MANAGEMENT REPORT

*On Applying Agreed-Upon-Procedures
for the period January 1 through December 31, 2011*

REPORT NO. 13-2

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 (formerly Lehigh Valley Convention and Visitor's Bureau) 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

Due to controller's office staff reduction in 2012, we reduced the number of hotel room rental tax audits. Agreed-upon-procedures were performed on 19 out of 48 (40%) judgmentally selected hotels to assist the fiscal officer in determining the accuracy of hotel tax remittances made to the County of Lehigh. The 19 hotels audited represented 76% of the total 2011 hotel tax revenue.

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.

Hotel Tax Activity 2007-2011

<u>Year</u>	<u>Reporting Hotels</u>	<u>Reported Taxable Revenue</u>	<u>Hotel Tax Before Adjustments</u>	<u>Audit Adjustments</u>
2011	48 (1)	\$41,174,264	\$1,646,971	\$24, 036
2010	45 (2)	\$49,331,297	\$1,973,351	\$13,796
2009	45	\$49,712,942	\$1,988,555	\$20,499
2008	45	\$58,944,975	\$2,358,538	\$10,706
2007	48	\$59,067,364	\$2,362,852	\$24,807

- (1) In 2011, 40% of hotels representing 76% of the hotel tax collected were audited. In 2007 to 2010, 100% of hotels audited.
- (2) Does not include three additional hotels: one hotel operator was in litigation with the County of Lehigh (additional 2009 tax assessment \$8,481); another hotel was not audited for 2010 because the defendant in the above litigation is the owner; and a third hotel was recently deemed a hotel (versus apartment) by the City of Allentown Zoning Office.



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GLENN ECKHART
COUNTY CONTROLLER

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DEPUTY CONTROLLER

Mr. Brian Kahler, 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 19 out of 48 hotels (40%) judgmentally selected hotels that reported taxable revenues of \$41,174,264 and hotel room rental tax of \$1,646,971 (before adjustments) for the period January 1 through December 31, 2011. The 19 hotels audited represented 76% of the total 2011 hotel tax revenue. In some cases, the scope was amended to meet our objectives.

Separate reports were distributed to each hotel, the Board of Commissioners, the County Executive, and you. Additional tax and interest of \$24,036 were assessed for the following adjustments:

Exemption Adjustments	\$11,217
Revenue Adjustments	11,259
Remittance Adjustments	<u>1,560</u>
Total	<u>\$24,036</u>

We noted certain matters that we reported to management of the office of fiscal affairs in a separate section titled "*Schedule of Audit Findings and Recommendations*". We also included the current status of issues raised in our prior report #11-64 see the "*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

November 29, 2012
Allentown, Pennsylvania

- Final Distribution:
Board of Commissioners
Cindy Feinberg, Director, Community and Economic Development
William H. Hansell, County Executive
Thomas Muller, Director of Administration
Michael Stershic, President, Discover Lehigh Valley

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY

Schedule of Current Audit Findings and Recommendations

1. Revenue and Remittance Audit Adjustments (\$12,819)

Condition: During our judgmentally selected audit of 19 out of 48 hotels (40%) for the 2011 Tax Year, \$12,819 in revenue and remittance audit adjustments were identified and billed. The office of fiscal affairs' employee in charge of monitoring the collection of the hotel tax did not identify these adjustments because the information submitted on a monthly basis by the hotels is not verified to their accounting records. The information submitted by the hotels is only verified to the accounting records a year later when the individual audits of the hotels are performed.

Under current "Hotel Room Rental Tax Rules and Regulations effective September 4, 2005", hotels are not required to submit supporting documentation for "Gross Room Revenue Collected," "Actual Hotel Tax Collected" and "Commonwealth of Pennsylvania Form PA-3" with their monthly "Hotel Room Rental Tax" reports.

Recommendation: The management of the office of fiscal affairs should require all hotels to submit with their monthly "Hotel Room Rental Tax Report" the accounting records that support the amounts reported as "Gross Room Revenue Collected" and "Actual Hotel Tax Collected". Also, the "Commonwealth of PA Form PA-3" should be required to verify total revenue for the month. This additional information should be a requirement beginning with the submission of the January 2013 monthly report. The office of fiscal affairs employee would verify all information listed on the hotel's monthly "Hotel Room Rental Tax" report to the hotel's accounting reports. If any differences are noted, adjustments would be made to the monthly report and any additional taxes and interest would be billed immediately.

The Office of the Controller is familiar with the reporting system of each hotel and will, on request of the Fiscal Officer; contact each hotel operator to obtain the necessary reports.

2. Hotel Tax Revenue/Cost Sharing (see Exhibit I)

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 (formerly Lehigh Valley Convention and Visitors' Bureau).

County of Lehigh, Pennsylvania
Hotel Tax Collections & Distribution
for the Tax Year 2011

Exhibit I

Month	Discover Lehigh Valley (formerly Lehigh Valley Convention & Visitors Bureau)	-----County of Lehigh-----		Total
	<u>68.75%</u>	Community Development & Tourism <u>18.75%</u>	Facility Development <u>12.50%</u>	
January	\$ 95,361.59	\$ 26,007.75	\$ 17,338.42	\$ 138,707.76
February	96,899.71	26,427.20	17,618.08	140,944.99
March	104,339.47	28,456.24	18,970.74	151,766.45
April	115,523.86	31,506.52	21,004.32	168,034.70
May	122,374.31	33,374.82	22,249.82	177,998.95
June	138,350.59	37,732.00	25,154.62	201,237.21
July	171,680.99	46,822.08	31,214.65	249,717.72
August	172,805.30	47,128.76	31,419.10	251,353.16
September	134,160.72	36,589.32	24,392.81	195,142.85
October	141,711.49	38,648.61	25,765.69	206,125.79
November	110,850.73	30,232.05	20,154.59	161,237.37
December	102,590.24	27,979.17	18,652.73	149,222.14
Total	\$ 1,506,649.00	\$ 410,904.52	\$ 273,935.57	\$2,191,489.09

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY

*Schedule of Prior Audit Findings and Recommendations
(Prior Audit Report #11-64)*

1. Lack of Monitoring

Condition: The management of the office of fiscal affairs does not monitor the collection of the prior tax year audit adjustments posted to the County of Lehigh's accounts receivable. Audit adjustments include the hotel tax due plus any interest up until the payment due date. There are three hotels that have not paid their 2009 audit adjustments totaling \$9,302. One hotel is in litigation with the County of Lehigh (\$8,481) and the other two hotels (\$821) have been assessed additional interest of \$128 plus their outstanding balances during their 2010 tax year audits. The management of the office of fiscal affairs has not pursued the collection of these outstanding amounts from these two hotels with the department of law.

The individual amounts posted to accounts receivable do not automatically accrue interest monthly. If a hotel pays an audit adjustment that is past the payment due date, the office of fiscal affairs does not charge the hotel additional interest. During the 2010 tax year, 27% of all 2009 tax year audit adjustments were paid past the payment due date which resulted in over \$450 in additional interest not being billed.

Recommendation: The management of the office of fiscal affairs should monitor the accounts receivable on a monthly basis. The individual amounts posted to the hotel tax accounts receivable should automatically accrue interest monthly. If a payment is received past the due date, the hotel should be billed additional interest up until the time the payment was received. Bills should be sent out monthly for all amounts listed as an accounts receivable. Also, any outstanding amounts that remain unpaid for six months should be referred to the department of law for collection.

Current Status:

- All outstanding audit adjustments from the 2009 Tax Year have been resolved; either by the hotels paying what was owed or by a court ordered arbitration payment.
- Audit adjustments are now posted to the accounts receivable.
- Accounts receivable should automatically accrue interest monthly (Remains Unresolved).
- Bills should be sent to all outstanding accounts receivable amounts (Remains Unresolved).

2. Information on Hotel Applications Not Current

Condition: While conducting the 2010 hotel tax audits, we noted four hotels out of forty-five (9%) that do not have an application containing current information (name of owner, mailing address, names of contact individuals, etc) on file in the office of fiscal affairs. The management of the office of fiscal affairs does not routinely re-verify information contained on the initial application for Hotel Room Rental Tax.

Recommendation: The management of the office of fiscal affairs should request that all hotels submit a new Hotel Room Rental Tax application with their January 2012 report.

Current Status: All hotels submitted new Hotel Room Rental Tax Applications in early 2012.

3. Management Issues

Condition: The management of the office of fiscal affairs needs to address the following issues concerning the assessment and collection of the county's 4% hotel tax.

- Approximately one third of the hotels are still using the old outdated tax forms.
- One hotel has not submitted a monthly hotel tax return for the entire 2009 tax year and one hotel submitted all twelve monthly tax returns for 2009 at the same time. Currently, there is no penalty for operators who do not submit monthly reports.
- Audit assessments are not listed as an accounts receivable on the accounting records of the County of Lehigh.
- An audit assessment from the 2008 tax year (\$1,048) has not been paid. The hotel entered into a legal agreement to pay the County of Lehigh \$67,139.41 tax and interest which was owed for June 2009, July 2009, September thru December 2009 and January thru April 2010. The legal agreement has been settled in full as of August 24, 2010. The 2008 audit assessment was not part of the legal agreement. The hotel went into receivership May 14, 2010.
- There are no written hotel tax procedures detailing how to review and process a hotel tax return, how and when to distribute the funds received and in what amounts to Discover Lehigh Valley (formerly Lehigh Valley Convention and Visitor's Bureau) and the County of Lehigh.

Recommendation: The management of the office of fiscal affairs should:

- Require all hotels start using the updated forms immediately. The fiscal office accountant should be responsible for pursuing the correct forms from hotel operators.
- Require all hotels to submit a monthly tax return. If a hotel is submitting other than on a monthly basis, the fiscal officer should document the alternate arrangement. Hotel operators who do not submit a monthly report should be assessed a fine of \$50.
- Establish an accounts receivable for all audit assessments. Invoice hotel operators for outstanding amounts due.
- Contact the Department of Law to determine if the County of Lehigh can collect the outstanding 2008 audit assessment from the hotel.
- Develop a Hotel Tax procedures manual describing the duties and responsibilities for the fiscal office hotel tax accountant.

Current Status:

- All hotels are using the correct tax forms.
- The hotel that submitted all twelve monthly returns at the same time in 2009 is now submitting their monthly tax returns in six month intervals.
- Accounts Receivable has been established.
- The audit assessment from 2008 (\$1048) has been collected in full.
- Hotel Tax procedures manual describing the duties and responsibilities of the office of fiscal affairs hotel tax account (Remains Unresolved).

4. **Hotel Room Rental Tax Rule Change**

Condition: The current county hotel room rental tax rules and regulations dated September 4, 2005 do not limit the imposition of hotel room rental tax to operators who benefit from the efforts of Discover Lehigh Valley (formerly Lehigh Valley Convention & Visitors Bureau). Currently, all room rentals are subject to the hotel tax rules but little or no enforcement is performed (or warranted) for operators of low capacity rooming facilities. Technically, anyone who offers a room for rent is subject to the hotel room rental tax reporting and monitoring requirements. "BusinessDictionary.com" offers a definition of a hotel that excludes operators with six or less rooms for rent. In general, to be called a hotel, an establishment must have a minimum of six letting bedrooms, three of which must have attached private bathroom facilities.

Recommendation: The county administration should consider revisiting the hotel tax rules and regulations to exclude non-commercial rooms for rent from the county hotel tax rules.

Current Status: Remains Unresolved.

5. **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 tax return is both inconvenient and outdated. The Commonwealth of Pennsylvania's Department of Revenue and the Internal Revenue Service both offer the option of filing a tax return either electronically or by a manual paper return. The tax payment can be made by check, electronically, credit card or debit card.

Recommendation: The management of the office of fiscal affairs should consult with the office of information technology to develop computer software to allow hotel(s) to file their monthly tax return and pay electronically by the 20th of the following month. This software would also have the ability to calculate interest and penalties if the hotel files the return after the 20th of the following month. This would give a hotel the option of filing their monthly tax return and paying the tax owed either electronically or manually.

Current Status: Remains Unresolved.



COUNTY OF LEHIGH
Office of Fiscal Affairs

Brian L. Kahler
Fiscal Officer

TO: Glenn Eckhart,
County Controller

FROM: Brian L. Kahler, *BLK*
Fiscal Officer

DATE: December 20, 2012

RE: Hotel Tax Summary

Thank you and your staff for completing the agreed upon procedures to assist the Fiscal office and ensure the County of Lehigh Hotel Tax Ordinance is followed. The background section of the Management Report details the challenges and the need to work together as the County changes the delivery of services in all offices.

Findings:

1. Revenue and Remittance Audit Adjustments

As stated above we need to expand our review to reduce the hours required by the Controller's office. To that end we will work with your staff to obtain the additional documents in an effort to reduce the overall County effort in this review.

2. Hotel Tax Revenue/Cost Sharing
Prior #4 Hotel Room Rental Tax Rule Change

This concept and suggested revisions to the current ordinance are anticipated to be included in a future Ordinance.

Prior Audit Findings:

We agree that issues continue to remain unresolved and will continue to address those issues in 2013. However, Fiscal office priorities constantly change, therefore the completion date is uncertain at this time.

BLK/kk

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