




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
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THOMAS SLONAKER
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Distribution
FROM: Thomas Slonaker, County Controller
DATE: December 9, 2011
RE: Hotel Tax Summary



The controller's office has completed agreed-upon procedures at forty-five (45) hotels for the period January 1 through December 31, 2010. Separate written reports were sent to each hotel operator. Our audit report number 11-64 is attached.

We concluded:

- \$13,796 in additional hotel room rental tax and interest was assessed for 2010.
- \$820 in uncollected additional hotel room rental tax and interest from 2009 was reassessed for 2010.
- Overall, hotel operator reporting compliance was adequate. Several management issues were addressed during the review of hotel tax reporting and recordkeeping to improve compliance.

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 December 31, 2010

REPORT NO. 11-64

LEHIGH COUNTY, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

Table of Contents

	<u>Page(s)</u>
Hotel Tax Background	1-2
Hotel Tax Summary – Management Report	3
Schedule of Audit Findings and Recommendations	4
Schedule of Prior Audit Findings and Recommendations	5-7
Fiscal Officer’s Response	8

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

Agreed-upon procedures were performed to assist the fiscal officer in determining the accuracy of hotel tax remittances made to the County of Lehigh.

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 2007-2010

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Reporting hotels	45*	45	45	48
Reported taxable revenue	\$49,331,297	\$49,712,942	\$58,944,975	\$59,067,364
Hotel tax before adjustments	\$ 1,973,351	\$ 1,988,555	\$ 2,358,538	\$ 2,362,852
Audit adjustments	\$ 13,796	\$ 20,499	\$ 10,706	\$ 24,807

*Does not include three additional hotels: one hotel operator currently 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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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 for forty-five hotels reporting taxable revenues of \$49,331,297 and hotel room rental tax of \$1,973,351 (before adjustments) for the period January 1 through December 31, 2010. 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 \$13,796 were assessed for the following adjustments:

Exemption Adjustments	\$10,335
Revenue Adjustments	318
Remittance Adjustments	3,015
Additional Interest on 2009 Audit Adjustments	128
Total	<u>\$13,796</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 #10-70 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.


THOMAS SLONAKER
County Controller

December 6, 2011
Allentown, Pennsylvania

Final Distribution:
Board of Commissioners
Donald Cunningham, Jr., County Executive
Cindy Feinberg, Director, Community and Economic Development
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. 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 as of the audit report date. The management of the office of fiscal affairs does not accrue additional interest or pursue the collection of these outstanding amounts.

The individual amounts posted to accounts receivable do not automatically accrue interest monthly. If a hotel pays an audit adjustment that is past the audit report 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 audit report 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 audit report 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.

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 each hotel operator to review their application information annually and request any changes to be reported to the office of fiscal affairs management.

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY

Schedule of Prior Audit Findings and Recommendations

1. 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:

- There are still several hotels using the old outdated 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 (\$1,048) has been collected in full.
- Hotel Tax procedures manual describing the duties and responsibilities of the office of fiscal affairs hotel tax accountant has not been developed.

As reports are submitted, the management of the office of fiscal affairs should notify hotel operators not in compliance with the hotel tax rules and regulations (submitting old tax forms and not submitting monthly tax returns). Also, the hotel tax accountant's duties should be documented during the 2012 tax year. Office of fiscal affairs management should consider assessing an administrative fee for intentional failure to complete the forms completely and properly.

2. 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.

3. 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: Thomas Slonaker, County Controller
FROM: Brian L. Kahler, Fiscal Officer
DATE: December 6, 2011
RE: Hotel Tax Summary - 2010

Thank you and your staff for completing the Hotel Tax agreed upon procedures to assist the Fiscal office and ensure the County of Lehigh Hotel Tax Ordinance is followed.

Findings:

1. Lack of Monitoring

The Fiscal office has put into place additional controls to monitor Accounts Receivable. Interest will be adjusted, however not automatically at this time.

2. Information on Hotel Applications not current

The Fiscal office will send new application forms to all hotels in January 2012.

Prior Audit Findings:

The Fiscal office will continue to address these issues as stated in the 2009 response.

Thank you again for your assistance.

BLK/kk

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