




**TO:** Final Distribution  
**FROM:** Mark Pinsley, County Controller   
**DATE:** December 6, 2021  
**RE:** Hotel Tax Summary – Management Report

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The Controller’s Office has completed agreed-upon procedures (AUP) on 8 out of 64 (12.5%) judgmentally selected hotels for the calendar year 2020. The 8 hotels reviewed represented 16.7% of reported taxable revenue for the calendar year 2020. Separate written reports were sent to each hotel operator. Our report number 21-29 is attached.

We concluded:

- \$1,749 in additional hotel room rental tax and interest was assessed for the calendar year 2020 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 2020*

REPORT NO. 21-29

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 8 out of 64 (12.5%) judgmentally selected hotels to assist the Fiscal Officer in determining the accuracy of hotel tax remittances made to the County of Lehigh. The 8 hotels reviewed represented 16.7% of reported taxable revenue for the calendar year 2020.

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 2020**

Hotel Tax Collected		\$2,098,062
Disbursement of Hotel Tax Funds:		
Amount Remitted to Discover Lehigh Valley	(1,442,418)	
Amount Remitted to Tourism	( 393,387)	
Amount Retained for Development	<u>( 262,257)</u>	
Total Hotel Tax Funds Disbursed		( <u>\$2,098,062</u> )
<b>Amount Yet To Be Disbursed</b>		<b>- \$ 0 -</b>

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

Tax Year	Total Hotels Reporting in Lehigh County	No. of Hotels Reviewed	Hotel Tax Before Adjustments	Audit Adjustments
2020	64	8	\$ 346,141	\$ 1,749
2019*	-	-	-	-
2018	60	16	\$ 994,491	\$ 6,865
2017*	-	-	-	-
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.



OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Thomas Grogan, CPA
COUNTY CONTROLLER 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 8 out of 64 (12.5%) judgmentally selected hotels that reported taxable revenues of \$8,137,821 and hotel room rental tax of \$346,141 (before adjustments) for the calendar year 2020. The 8 hotels reviewed represented 16.7% of reported taxable revenue for the calendar year 2020.

Separate reports were distributed to each hotel, the Board of Commissioners, the County Executive, and you. Additional tax and interest of \$1,749 were assessed for the following adjustments:

Table with 2 columns: Adjustment Type and Amount. Rows include Exemption Adjustments (\$1,573), Revenue Adjustments (97), Remittance Adjustments (79), and Total (\$1,749).

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, 2018, 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.

Handwritten signature of Mark Pinsley

MARK PINSLEY
County Controller

December 6, 2021
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
Stephen Berndt, Accountant II

COUNTY OF LEHIGH, PENNSYLVANIA  
HOTEL TAX SUMMARY – MANAGEMENT REPORT

*Schedule of Audit Findings and Recommendations*

1. Hotel Tax Submission Processing

**Conditions:** 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. Paper files are maintained by hotel for the collection of monthly tax forms, check copies, and accounting documentation. An excel workbook is also maintain to track revenue and payment information. The following were noted:

- Several incidences were identified where required monthly tax documentation was not received from various hotels. Follow-up by the Office of Fiscal Affairs was documented; however, in some cases ignored by hotel operators.
- The method of filing a hotel tax return and manual internal processing practices are inefficient. Several record-keeping incidences were noted where paper files were not complete, and hotel tax form submissions were incorrectly entered into an excel workbook; however, the tax receipts were entered correctly into the accounting system. In addition, no documentation was noted for the communication of late fee interest assessed in January 2020 to one hotel.

It should be noted that the Controller's office does recognize and appreciate the recent efforts implemented by the Office of Fiscal Affairs to enhance oversight over the recording and processing of hotel tax collections.

**Recommendations:**

- The Office of Fiscal Affairs should establish a process to pursue non-reporting entities in compliance with section G of the County of Lehigh Hotel Room Rental Tax Rules and Regulations. In addition, they should also consider the inclusion of a penalty in the Rules and Regulations to be assessed when required monthly forms are not submitted whether or not tax is due.
- The Office of Fiscal Affairs should pursue, on a timely basis, incomplete hotel submissions. In addition, the excel workbook should be reviewed to validate proper inclusion of submitted tax information to ensure accuracy for analysis purposes.
- The identified outstanding late fee should be communicated to the hotel as soon as possible for recovery. In addition, assessed late fee interest amounts should be accurately maintained and periodically reviewed for collection.
- Management of the Office of Fiscal Affairs should consult with the Office of Information Technology to adopt software/web-services that will allow hotel operators the ability to file monthly tax returns, make payments, and maintain updated license information (self-service) on-line. This software should also have the ability to calculate and assess interest and penalties if the hotel operator does or does not file a late tax return. In addition, the data captured by the transactions should be utilized for the automation of financial recording processing strengthening controls and enhancing efficiencies.

COUNTY OF LEHIGH, PENNSYLVANIA  
HOTEL TAX SUMMARY – MANAGEMENT REPORT

*Schedule of Prior Audit Findings and Recommendations*  
(Audit Report #20-10 issued August 6, 2020)

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.

**Management's Response:** Management took the recommendation under advisement.

**Current Status:** Management has implemented a process in which letters will be sent to all hotels at the beginning of each calendar year requesting a review and update to their license information. Furthermore, the county will continue to request that all hotel operators submit an updated license during the year, if any significant changes occur, such as ownership change, business type, EIN, or hotel capacity changes.