




Lehigh County
- Pennsylvania

OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Nanton John, CFE
COUNTY CONTROLLER DEPUTY CONTROLLER

TO: Final Distribution
FROM: Mark Pinsley, County Controller 
DATE: June 27, 2024
RE: Hotel Tax Summary – Management Report

The Controller’s Office has completed agreed-upon procedures (AUP) on 14 out of 65 (21.5%) judgmentally selected hotels for the calendar year 2022. The 14 hotels reviewed represented 29.3% of reported taxable revenue for the calendar year 2022. Separate written reports were sent to each Hotel Operator. Our report number 24-16 is attached.

We concluded:

- \$71,000 in additional hotel room rental tax and interest was assessed and collected for calendar year 2022 as a result of our individual AUP engagements.
- Overall, Hotel Operator tax reporting compliance was adequate.
- The opportunity exists for the Office of Fiscal Affairs to strengthen their collection efforts of late fees and penalties.
- The implementation of an electronic tax filing system for hotels could help to improve the efficiency of collection efforts and provide time-saving benefits.

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 2022*

REPORT NO. 24-16

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 | 4-5 |
| Schedule of Prior Audit Findings and Recommendations | 6-7 |
| Fiscal Officer’s Response | not used |

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 65 (21.5%) 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 29.3% of reported taxable revenue for the calendar year 2022.

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 2022

| | |
|---|------------------------|
| Hotel Tax Collected | \$4,031,775 |
| Disbursement of Hotel Tax Funds: | |
| Amount Remitted to Discover Lehigh Valley | (2,771,845) |
| Amount Remitted to Tourism | (755,958) |
| Amount Retained for Development | (503,972) |
| Total Hotel Tax Funds Disbursed | (<u>\$4,031,775</u>) |
| Amount Yet To Be Disbursed | - \$ 0 - |

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> |
|---------------------|--|---------------------------------------|---|------------------------------|
| 2022 | 65 | 14 | \$ 1,168,717 | \$ 71,000 |
| 2021* | - | - | - | - |
| 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 |

*No agreed-upon-procedure engagements performed.



OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Nanton John, CFE
COUNTY CONTROLLER DEPUTY CONTROLLER

Mr. Timothy Reeves, Chief 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 65 (21.5%) judgmentally selected hotels that reported taxable revenues of \$29,218,922 and hotel room rental tax of \$1,168,717 (before adjustments) for the calendar year 2022. The 14 hotels reviewed represented 29.3% of reported taxable revenue for the calendar year 2022.


Separate reports were distributed to each hotel, the Board of Commissioners, the County Executive, and you. Additional tax and interest of \$71,000 were assessed for the following adjustments:

| | |
|------------------------|-----------------|
| Exemption Adjustments | \$20,693 |
| Revenue Adjustments | 44,341 |
| Remittance Adjustments | <u>5,966</u> |
| Total | <u>\$71,000</u> |

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, 2020, 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 Chief 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

June 17, 2024
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, Lead Accountant

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

Schedule of Audit Findings and Recommendations

1. Collection of Late Fees for Delinquent Tax Returns

Condition: The Fiscal Office did not pursue the collection of late fees for 16 of the 17 hotels that submitted monthly tax returns and remittances after the filing deadlines. In accordance with The County of Lehigh Hotel Room Rental Tax Rules and Regulations (“The Rules”), Part II, Section F.5, the Office of Fiscal Affairs shall impose interest at the rate of 1.5% per month, or fraction thereof, that their tax remains unpaid.

Potential late fees totaling \$5,670.69 in 2022 were identified for which the Office of Fiscal Affairs could have pursued collection. The Fiscal Office collected only \$42.72 in late fees for late tax remittances. Additional fees amounting to \$4,203.40 were identified by the Controller’s Office as part of their individual hotel Agreed Upon Procedures (AUP) reviews, and subsequently collected. The balance remains uncollected and is subject to additional late fees to date. Fiscal Office management has taken a cost-benefit approach when considering the assessment and pursuit of collection efforts; however, Hotel Operators may continue to be non-compliant with the Rules due to lack of enforcement.

Recommendation: It is recommended that the Office of Fiscal Affairs enhance their collection efforts for delinquent tax returns and late fees in accordance with the Rules. The late fee should be calculated and communicated to the Hotel Operator in a timely manner, and appropriate collection efforts be pursued as allowed by the Rules (Part II, Section G.2), up to and including filing a claim against the Hotel Operator in the Court of Common Pleas of Lehigh County. The Office of Fiscal Affairs may also seek the counsel of the County’s Law Department as part of their collection efforts.

Management’s Response: Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recommendations will be taken into consideration and pursued based on assessed risk.

2. Electronic Payments and Document Submission

Condition: The process by which the Office of Fiscal Affairs requires the Hotel Rental Tax to be filed by Hotel Operators is entirely manual. This includes the mailing of tax return documents and payment remittance, a manual review process, recordkeeping, and communications. The current process appears to be inefficient. The implementation of an electronic tax filing system could assist in expediting the tax return submission and payment processes. The recordkeeping and collection processes could also be automated which could help to reduce errors inherent to an entirely manual process.

Recommendation: As was recommended in the prior audit, Management of the Office of Fiscal Affairs should consult with the Office of Information Technology regarding the feasibility of adopting software/web-services that will allow Hotel Operators to file monthly tax returns, make

electronic payments, and maintain updated license information on-line. The software should have the ability to calculate and assess interest if a Hotel Operator files a late tax return. In addition, the data captured by the transactions should be utilized for the automation of financial recording which will strengthen controls and enhance efficiency.

Management's Response: Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recommendations will be taken into consideration and pursued based on assessed risk.

3. Revisions to the County of Lehigh Hotel Room Rental Tax Rules and Regulations

Condition: Audit testing identified five hotels, out of 20 sampled, that did not include backup to substantiate the gross revenue reported on their tax returns, and four hotels that did not include backup to substantiate the tax-exempt revenue reported. This is in addition to the 14 hotels for which individual Agreed Upon Procedures (AUP) reviews were performed, of which five did not include backup to support reported gross revenue, and two did not include backup to support reported tax-exempt revenue. After reviewing supporting documentation, inaccurate tax returns were identified which resulted in the under-payment of actual tax due and was subsequently collected as part of the AUP engagements. Documentation substantiating the amounts of monthly gross revenue and tax-exempt revenue is not currently required by the Rules to be submitted with the tax return.

Recommendation: It is recommended that the Office of Fiscal Affairs consider reviewing the Rules and revising them to align with the current Hotel Tax reporting environment and best practices as the rules have not been revised since their implementation in 2005. Revisions should include clear indication that Hotel Operators must submit documentation to substantiate their reported gross revenue and tax-exempt revenue. The inclusion of supporting documentation should assist the Office of Fiscal Affairs in their cursory review of the monthly tax returns and facilitate accurate reporting and remittances.

Management's Response: Office of Fiscal Affairs management did not provide written comments in response to our report. However, as per discussions with Management, the recommendations will be taken into consideration and pursued based on assessed risk.

COUNTY OF LEHIGH, PENNSYLVANIA
HOTEL TAX SUMMARY – MANAGEMENT REPORT

Schedule of Prior Audit Findings and Recommendations
(Audit Report #21-29 issued December 6, 2021)

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.

Current Status

The Chief Fiscal Officer stated that they take the cost of enforcement into consideration when pursuing non-reporting entities. They will pursue based on cost-effectiveness and legal advice from the Law Department.

- 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.

Current Status

The Office of Fiscal Affairs now maintains a separate spreadsheet to track late and missing submissions.

- 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.

Current Status

Late fees are pursued and enforced to the point where it is still cost effective. The Chief Fiscal Officer noted the cost of collecting and enforcing the late fees should not surpass the fee itself.

- 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) online. 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.

Current Status

The Chief Fiscal Officer noted that an online tax submission application is not a priority at this time, but may revisit the cost-benefit and time savings of such an application in the future. The Controller's Office will continue to include this recommendation in the current audit report based on repeated findings.