



STEPHEN J. BARRON, JR., CFE

CONTROLLER OF NORTHAMPTON COUNTY

NORTHAMPTON COUNTY COURTHOUSE
669 WASHINGTON STREET
EASTON, PENNSYLVANIA 18042

FRANK S. KEDL, CIA
Audit Manager

PHONE (610) 559-3186
FAX (610) 559-3137

TIMOTHY P. BRENNAN, ESQ.
Solicitor

**INDEPENDENT INTERNAL AUDITOR'S REPORT ON APPLYING AGREED-UPON
PROCEDURES TO THE COUNTY OF NORTHAMPTON'S
HOTEL ROOM RENTAL TAX PROGRAM**

Members of the Northampton County Council
John Stoffa, County Executive
County of Northampton, Pennsylvania

We have performed the procedures enumerated below, which were agreed to by the County of Northampton Administration solely to assist you with the study of the County of Northampton's Hotel Room Rental Tax (HRRT) Program. The Hotel Room Rental Tax Act specifies that certain counties may, by ordinance, impose a tax on the consideration received from each transaction of renting a room(s) to accommodate temporary residents. The tax is to be collected by each operator of an establishment within the County and paid over to the County. Northampton County imposed the hotel room rental tax with Ordinance 359. Ordinance 440 increased the tax rate from 3.5% to 4.0%. Management is responsible for ensuring that operators within Northampton County are collecting this tax from their patrons, that operators remit to the County the tax they collect, that hotel room rental tax revenue is properly accounted for, and that the tax revenues are distributed accordingly. This Agreed-Upon Procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

1. **Procedure:** Determine if hotels are collecting and remitting the Hotel Room Rental Tax in accordance with the regulations and if procedures for compliance could be improved.

Findings: The following was found with regard to hotels collecting and remitting the HRRT:

- No one within the Administration is maintaining a list of all known establishments with the County.

- Establishments suspected of being in non-compliance with the Ordinance were discovered. A total of five establishments remain unresolved.

The following are some of the concerns with regard to HRRT information available to the public which could impact compliance.

- The County Rules and Regulations, tax forms and website are not being reviewed and updated on a regular basis.
- The County Rules and Regulations had incomplete verbiage in one paragraph and responsibilities of the various County offices were in conflict with the outline of responsibilities as implemented during the 2007 audit.
- The County Remittance Forms contained outdated information.
- The links on the County's HRRT website directed users to outdated documents.
- The County's website stated that questions be directed to NC DCED when in fact the Revenue Division is the best contact for questions with regard to the tax forms and remittances. The website does not provide a link to the Revenue Division.

Another area of concern is with the hotel contact information.

- Information supplied on initial license applications was not always the most current information for the hotels.
- Updated information was obtained from the hotels visited and forwarded to the Revenue Manager.

See item #2 below for additional compliance issues.

2. **Procedure:** Determine if tax forms are completed accurately, revenue is properly recorded and interest is being assessed as per the regulations.

Findings:

Accuracy of Tax Forms – In general, the hotels appear to have the same issues today with the HRRT that they had at the time of the previous audit. Of the five (5) hotels visited, three (3) had significant issues with compliance. Records at one of these hotels were in such disarray that it was not possible to verify with any degree of certainty that the monthly reports presented to us for verification to the Remittance Forms were reliable.

The following reporting deficiencies were discovered:

- Hotels are not completing the "occupancy" section of the Remittance Form correctly.
- Occupancy trends cannot be tracked,
- Hotels are not including the actual tax collected on the Remittance Form.
- Revenue cannot determine if the hotel is remitting the proper amount, i.e., the greater of the actual tax collected or the calculated tax.
- Hotels are not detailing the type of exemption given to guests on the exemption forms.
- Proper documentation for exemptions is not being obtained / retained by the hotel.
- Revenue cannot monitor the Remittance Forms for possible tax deficiencies if exemption information is missing.
- Hotels are exempting organizations that are not exempt from the HRRT per the Rules and Regulations.

- The taxability of permanent residents is not consistently handled from hotel to hotel within Northampton County.
- There is much confusion with regard to the handling of permanent residents.

There are several areas of the Rules and Regulations that hotels would like clarified:

- Taxability of organizations of a religious nature, schools and non-profits.
- Clarification on how to handle the first 30 days of a permanent resident's stay.
- Guidance on how a valid exemption certificate should be completed.
- Clarification of the revenue types taxable for the HRRT.
- Uniformity with the HRRT between counties within Pennsylvania.

The sum of HRRT revenue from these five hotels amounted to \$277,541 for the calendar year 2010. The total settlement figure based on errors on the returns submitted by these five hotels amounts to \$719.88 (less than 1% of their total HRRT revenue).

Revenue Properly Recorded – A review of revenue posting to Bi-Tech revealed the following:

- Revenue amounts are being monitored to ensure total funds collected are sufficient to meet grant obligations.
- No one is ensuring the accuracy of postings between the Orgs in Bi-Tech.
- Total receipts collected in Revenue agreed to Bi-Tech revenue in total.
- One entry was posted incorrectly to Bi-Tech causing an inaccurate allocation of funds between the Orgs. This incorrect posting went unnoticed by the Fiscal Affairs Accountant.

Proper Assessment of Interest – A review of remittances revealed the following:

- Remittances are reviewed for accuracy of calculations and due dates are monitored by the Revenue Manager to ensure timely filing.
- Underpayments and late payments are being addressed by the Revenue Manager who sends notices to the hotels assessing additional tax and interest due when necessary.

3. **Procedure:** Determine if the tax revenue is being distributed properly.

Findings: Testing revealed that neither NC DCED nor the Fiscal Affairs Accountant was made aware of Council's decision to increase one of the grant awards. As a result:

- Schedule of grant awards maintained by the Fiscal Affairs Accountant was not updated and quarterly grant payments were not amended to reflect this adjustment.
- Upon notification by our office, the Fiscal Affairs Accountant immediately corrected the schedule of grant awards and quarterly disbursements.
- Proper disbursements were made to distribute the HRRT collected during 2010.

Summary of Recommendations

The Administration should maintain a complete database of all establishments. The Excel spreadsheet created during this project and forwarded to them can be used for this database or the Administration can create a new format in a different program for this purpose. The goal is to retain a history for establishments for future reference, especially those that have been reviewed

and determined not to be subject to the HRRT. Periodically, licensees should be contacted to ensure that the information on the original application is current.

The Administration should periodically review all information available to the public to ensure that it is accurate and up-to-date. Major changes to information links, forms, and Rules and Regulations need to be communicated to the hotels. It would be beneficial to obtain email addresses to use as a means of communication.

The Administration should consult with the Solicitor for a determination and assistance with clarifying areas of confusion as stated by the hotel operators. The Administration should consider updating the Rules and Regulations to specifically address these concerns. Once a complete review and update has been done to the forms, the website and the Rules and Regulations, the Administration should consider holding informational sessions with the hotels to answer their questions. Any future update to the Rules and Regulations and forms should be communicated to the hotel operators on a routine basis as well. Procedures should be established by the Administration whereby the Remittance Forms will be monitored to enforce compliance with the Rules and Regulations. This will offer insight into which hotels may need additional guidance.

In order to ensure that the HRRT revenue collected is accounted for properly, the Fiscal Affairs Accountant should periodically review Bi-Tech, comparing the revenue posted in Bi-Tech to the Remittance Report spreadsheet prepared by the Revenue Manager. The budget line items in Bi-Tech for the various block grants should be reviewed periodically to ensure that all grant adjustments are accounted for in the disbursement schedule.

Management Response - John Stoffa, County Executive

A comprehensive list of all establishments within the County including those which are not subject to the HRRT will be compiled and maintained.

The County website will be reviewed quarterly to ensure that all information links, forms, and Rules and Regulations are up to date. Any changes to the website will be communicated to the hotels.

Changes to the Rules and Regulations as well as clarifications of gray areas will be submitted to the Solicitor for review. Any changes will be communicated to the hotels.

The duties involved with the collection and accounting for the HRRT remittances will be redistributed. Additional checks and balance will be instituted for all financial activities of the HRRT.

Conclusion: We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the County of Northampton's Hotel Room Rental Tax Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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This report is intended solely for the information and use of the management of the County of Northampton, Pennsylvania and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Stephen J. Barron, Jr.", with a stylized flourish extending to the right.

Stephen J. Barron, Jr., CFE
County Controller

July 15, 2011