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Audit Report

**HOTEL TAX
DISTRIBUTION**

As of June 30, 2015

**Office of the Controller
County of Northampton
Pennsylvania**



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CONTROLLER OF NORTHAMPTON COUNTY

NORTHAMPTON COUNTY COURTHOUSE
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December 1, 2015

Members of the Northampton County Council
John A. Brown, County Executive
County of Northampton, Pennsylvania

We have completed an audit of Hotel Tax Distributions to ArtsQuest and Lehigh Valley Public Telecommunications Corporation (PBS-39) as of June 30, 2015.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Northampton County Department of Community and Economic Development (NCD CED) as well as personnel at ArtsQuest and Lehigh Valley Public Telecommunications Corporation (PBS-39). Their help was essential to the performance of this audit.

Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Kathleen A. Kuzma, MBA, CPA, CGMA
Lead Auditor

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EXECUTIVE SUMMARY

The Northampton County Department of Community and Economic Development should ensure that these grants are monitored for compliance with Ordinance 484 and the terms of the grant agreements. Monitoring is a valuable tool that could have resulted in the avoidance or correction of non-compliance issues that were experienced by ArtsQuest.

ArtsQuest did not submit their annual report in a timely manner as required by the grant agreement under Article 6 Fiscal Responsibilities, Records and Audit. In addition, ArtsQuest and NCDCEd did not resolve the prior year audit finding with regard to compliance with Article 3 Payment Provisions, Section 3.1.

Lehigh Valley Public Telecommunications Corporation (PBS-39) was in compliance with the requirements listed in Ordinance No. 484 and the grant agreement during the audit period.

INTRODUCTION

In 2000, the Pennsylvania General Assembly enacted legislation which authorized counties to impose a Hotel Room Rental Tax on non-permanent overnight lodging for the purpose of promoting local tourism. Northampton County Council, in turn, enacted Ordinance No. 359 in 2000, amended by Ordinance No. 440 in 2005, which established guidelines for the collection of the tax as well as restrictions on the use of tax proceeds.

County Council enacted Ordinance No. 484 on May 5, 2008 (effective June 4, 2008) which provided further guidance on the distribution of its 12.5% of tax revenues received. The intent of the Ordinance was to provide financial support for the planned development of land formerly owned by the Bethlehem Steel Corp., which is now a brownfields site. This portion of the tax collected is evenly distributed monthly in its entirety to ArtsQuest and Lehigh Valley Public Telecommunications Corporation (PBS-39), and will continue to be distributed in this manner until such time as the cumulative sum of \$1,000,000 has been distributed to each organization.

ArtsQuest has received a total of \$728,395 through 12/31/2014 and Lehigh Valley Public Telecommunications Corporation (PBS-39) has received a total of \$794,393 through 6/30/2015.

Per page 3 of Ordinance 484, after the total of \$1,000,000 is distributed to each organization, funding shall cease. If current trends in collection of the Hotel Room Rental Tax continue, the cumulative sum of \$1,000,000 could be reached during the latter part of 2016.

PURPOSE AND SCOPE

This audit was performed to comply with the requirements of Northampton County Ordinance No. 484.

The scope of the audit is from the date of our prior audit to the end of the subsequent reporting period of each entity. ArtsQuest reports on a calendar year basis and their annual report includes all tax revenues received from the period 1/1/2014 to 12/31/2014 (\$136,200). The fiscal year for Lehigh Valley Public Telecommunications Corporation (PBS-39), however, is from July 1 through June 30, and their annual report includes tax revenues received from the period 7/1/2014 to 6/30/2015 (\$143,298).

METHODOLOGY

Our methodology included:

- Reviewing Ordinance No. 484 and the grant agreements to determine applicable compliance issues.
- Reviewing County financial information with regard to the collection of the hotel room rental tax and the distribution of the portion under Ordinance No. 484.
- Reviewing the annual reports provided by ArtsQuest and Lehigh Valley Public Telecommunications Corporation (PBS-39) as they relate to Ordinance No. 484 and the grant agreements.
- Conducting interviews with appropriate personnel to gain an understanding of the process.
- Conducting audit tests on the County funds distributed and expenditures paid from County funds by ArtsQuest and Lehigh Valley Public Telecommunications Corporation (PBS-39).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Section A – Compliance

1. Grant Monitoring

OBSERVATION

The County has grant agreements with both organizations. Compliance with these agreements is supposed to be monitored by NDCED. In performing this audit, it was discovered that NDCED did not monitor these grant agreements.

Specifically, NDCED did not ensure that annual reporting for ArtsQuest was received within 90 days of the fiscal year end December 31st per Article 6 Fiscal Responsibilities, Records and Audit.

NDCED also did not follow up with the prior year audit finding for ArtsQuest with regard to the grant terms under Article 3 Payment Provisions, Section 3.1 requiring that funds be deposited in a financial institution in an interest bearing account.

RECOMMENDATION

NDCED should develop policies and procedures for monitoring grant agreements and should ensure monitoring is done throughout the year. Follow up on audit findings and compliance issues should be performed to ensure grantees adhere to grant terms.

MANAGEMENT RESPONSE

Diane Donaher, Director, Community and Economic Development

Management agrees with this recommendation. Internal procedural changes were adopted following the receipt of this report to ensure compliance in future years. Discussions with ArtsQuest also yielded changes to their process and accounting procedures to ensure future compliance with submission requirements. Funds have now been deposited in a financial institution in an interest bearing account.

2. Compliance with Article 6 Timely Filing of Annual Report

OBSERVATION

While gathering information for the preliminary phase of the audit, it was discovered that ArtsQuest did not submit their annual report in a timely manner. Per the grant agreement in Article 6, Section 6.0, the "GRANTEE shall submit annual reports to the Northampton County DCED regarding fiscal information and activity progress to the COUNTY within 90 days of the end of the GRANTEE'S fiscal year. ... The required content of the annual report is described in Appendix B."

ArtsQuest's fiscal year ends on December 31st. Therefore, the annual report is due no later than March 31st of the subsequent year. A copy of the annual report was received in October but only after our office requested a copy for this audit.

RECOMMENDATION

ArtsQuest should ensure compliance with all terms of the grant agreement and management should develop a procedure to ensure that the annual report is submitted timely.

MANAGEMENT RESPONSE

Diane Donaher, Director, Community and Economic Development

Management agrees with this recommendation. As discussed under Recommendation #1, internal procedural changes were adopted following the receipt of these findings which should ensure compliance in future years. These changes include the development of an electronic tracking system for grants, which will automate report tracking and oversight of grant requirements.

Ron Unger, Vice President of Administration

See Exhibit A for the response from ArtsQuest.



December 1, 2015

Kathleen A. Kuzma, MBA, CPA, CGMA
Lead Auditor, Controller's Office
County of Northampton
669 Washington Street
Easton, PA 18042

Re: ArtsQuest
Hotel Tax Audit Response

Dear Ms. Kuzma:

We have reviewed the captioned audit report as it pertains to ArtsQuest and the observations and recommendations made therein. The writer has taken appropriate steps to insure that the required filing deadline for the organization's annual report to Northampton County DCED subject to the referenced agreement has been added to the Schedule of Reporting Requirements – ArtsQuest Center Financing and as a backup, also included this requirement as an addition to the Schedule of Reporting Requirements with the office of ArtsQuest's Vice President of Finance. All future filing requirements will be met within the requirements of the subject agreement.

Thank you for your consideration and continued support.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ronald T. Unger", is written over a horizontal line.

Ronald T. Unger
Vice President of Administration

cc:
Diane Donaher, Director
Northampton County – Department of Community and Economic Development
Kassie Hilgert, President and CEO
Walter C. Keiper, Jr., Senior Vice President
Rhonda Gillespie, Vice President of Finance