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Audit Report

**HOTEL TAX  
DISTRIBUTION**

As of June 30, 2014

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



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**CONTROLLER OF NORTHAMPTON COUNTY**

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December 17, 2014

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, 2014.

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.

Our report was discussed with management. 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**

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ArtsQuest and Lehigh Valley Public Telecommunications Corporation (PBS-39) are in compliance with the broad requirements listed in Ordinance No. 484 and grant agreements.

However, ArtsQuest should consider other banking options to be compliant with Article 3, Section 3.1 of their grant agreement with the County, or ArtsQuest and the County could revisit this requirement of the grant agreement.

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## INTRODUCTION

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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 \$592,195 through 12/31/2013 and Lehigh Valley Public Telecommunications Corporation (PBS-39) has received a total of \$651,095 through 6/30/2014.

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## **PURPOSE AND SCOPE**

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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 1/1/2013 to 12/31/2013 (\$130,990). 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 7/1/2013 to 6/30/2014 (\$132,000).

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## **METHODOLOGY**

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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.

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## AUDIT RESULTS

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### Section A – Grant Agreement

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#### 1. Compliance with Grant Agreement Provisions

##### OBSERVATION

Article 3, Section 3.1 on page 3 of the grant agreement between the County and ArtsQuest states the following: “The funds paid to the GRANTEE in accordance with this Agreement shall be deposited in a bank or other financial institution in an interest-bearing account. Funds shall be continuously invested and reinvested and/or deposited and redeposited by the GRANTEE with a view toward maximizing yield and minimizing the instances of uninvested funds. Interest or any other income or accumulations earned on funds awarded pursuant to this Agreement and totaling more than \$50.00 in any calendar year shall be reported to the COUNTY in the required annual report and credited towards the one million dollar (\$1,000,000) allocation.”

ArtsQuest’s Northampton County Hotel Tax bank account had been a “money market premium” account earning an annual average yield of .48% (as taken from the 2012 bank statements) but was assessed a monthly service charge of \$10. ArtsQuest had earned interest in excess of \$50 in prior years from 2009 through 2011. However, in 2012 the monthly service charge exceeded the monthly interest income earned on the account.

ArtsQuest made a decision to change the account to a “free business checking” account which no longer earns interest and no longer is assessed monthly service charges. As a result of this change to the bank account, ArtsQuest is not in compliance with the grant agreement terms. However, ArtsQuest is saving a total of \$120 annually by not being assessed the \$10 monthly service charge.

An analysis of the 2013 bank statements for ArtsQuest was performed to calculate estimated interest income based on the average balance at the last known average interest rate. This interest income calculated by this office based on 2013 bank activity was below \$50.

##### RECOMMENDATION

ArtsQuest should consider other banking options that minimize service charges while maintaining compliance with the grant provision, or ArtsQuest and the County could revisit this requirement of the grant agreement.

MANAGEMENT RESPONSE –

Diane Donaher, Director of Community and Economic Development

Management has confirmed that ArtsQuest will re-establish the referenced account in an interest bearing account in order to fully comply with the terms of the agreement. Management accepts this resolution.

See response from ArtsQuest in Exhibit A.



December 11, 2014

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

Re: Hotel Tax Distribution Audit as of June 30, 2014  
ArtsQuest and PBS-39

Dear Ms. Kuzma:

We have reviewed the captioned audit report as it pertains to ArtsQuest and the observations and recommendations made therein. It is agreed that the observations noted fairly represent the conditions relative to the change in accounts based on the negative financial aspects reflected therein and the actions undertaken in mitigation. It is also agreed that ArtsQuest's management, in accordance with the report's recommendations, will undertake to re-establish the referenced account as an "interest-bearing" account in order to fully comply with the terms of the underlying grant agreement.

This action will be undertaken immediately and correspondence will follow indicating the location, account identification and reference number for your records. Should you have any further questions, please do not hesitate to contact me.

Thank you for your consideration and continued support.

Very truly yours,

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

Ronald T. Unger  
Vice President of Administration