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Audit Report

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DISTRIBUTION**

As of June 30, 2016

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



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February 7, 2017

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, 2016.

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 (NC DCED) and Fiscal Affairs, 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**

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The Northampton County Department of Community and Economic Development (NC DCED) should ensure that these grants are monitored for compliance with Ordinance No. 484 and the terms of the grant agreements. Monitoring is a valuable tool that can result in the avoidance or correction of non-compliance issues.

ArtsQuest was in compliance with the requirements listed in Ordinance No. 484 and the grant agreement during the audit period.

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 with the exception of Article 6 Fiscal Responsibilities, Records and Audit. They did not submit their annual report in a timely manner as required by the grant agreement under Article 6.

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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 \$880,793 through 12/31/2015 and Lehigh Valley Public Telecommunications Corporation (PBS-39) has received a total of \$949,068 through 6/30/2016.

Per page 3 of Ordinance No. 484, after the total of \$1,000,000 is distributed to each organization, funding shall cease. The final payments that resulted in the cumulative sum of \$1,000,000 being paid to each organization were made on October 14, 2016, subsequent to this period being audited.

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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 1/1/2015 to 12/31/2015 (\$152,398). 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 7/1/2015 to 6/30/2016 (\$154,675).

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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).

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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 – Compliance**

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#### **1. Grant Monitoring and Compliance with Article 6 – Timely Filing of Annual Reports**

##### **OBSERVATION**

Monitoring for compliance with the grant terms of the executed grant agreements with organizations receiving funding under Ordinance No. 484 is the responsibility of NC DCED. During this audit period it was noted that there was turnover with key personnel in NC DCED that were responsible for this monitoring.

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.”

While NC DCED ensured compliance with the timely submission of the annual report by ArtsQuest, NC DCED did not ensure compliance with regard to the submission of the annual report for Lehigh Valley Public Telecommunications Corporation (PBS-39). Specifically, their annual report was not received within 90 days of the fiscal year end June 30, 2016.

##### **RECOMMENDATION**

NC DCED should develop policies and procedures for monitoring grant agreements and should ensure monitoring is done as required based on the specific terms of each grant agreement. Follow-up on audit findings and compliance issues should also be performed to ensure grantees adhere to grant terms.

Lehigh Valley Public Telecommunications Corporation (PBS-39) 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

**Tim Herrlinger, Director, Community and Economic Development**

NC DCED has developed policies and procedures for monitoring grant agreements and is in the process of extending these to all grant programs the department manages.

**Timothy S. Fallon, CEO, PBS 39**

See Exhibit A for the response from Lehigh Valley Public Telecommunications Corporation (PBS 39).





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Easton, PA 18042

Attn: Kathleen A. Kuzma  
Lead Auditor, Controller's Office

PBS39 had 100% turnover in its Finance Department in early 2016 and the deadline was missed. The final annual report has been put on Finance Administrator's calendar for completion within the 90 day period.

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

Timothy S. Fallon  
CEO