Valley Aviation
Audit
For the Period
January 2014 through December 2017

Michelle A. Bednar
Luzerne County Controller

Fieldwork Performed by:
Mark F. Majikes
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Background

In 2005, it was agreed upon that beginning January 1, 2006 Luzerne County (the County) would lease the Wilkes-Barre Wyoming Valley Airport, located in Forty Fort and Wyoming Boroughs, to Valley Aviation Inc. (Valley Aviation or Airport). According to the contract, Valley Aviation is required to “...submit to the County a compilation or review of financial records for its operations at the Airport for the prior year, to include at a minimum a balance sheet and income statement, as well as a copy of its Federal Income Tax Return. These documents shall be prepared in accordance with statements prepared in accordance with the generally accepted accounting principles (GAAP). Lessee shall deliver these reports to the office of the County Controller and the County Commissioners or any other place as the County shall designate in writing.” The Controller’s Office was supposed to be receiving the information from Valley Aviation; however, Valley Aviation has been sending the information to the County Treasurer’s Office. After Home Rule was implemented, Valley Aviation said they were told that sending the information to the Treasurer’s Office was appropriate. While we did not see this in writing, we agree that it makes more sense, post-Home Rule, to send it to the Treasurer’s Office.

Valley Aviation, according to the contract, must pay $12,000.00 per year in rent. Also, Valley Aviation agreed to pay a monthly flowage fee. This flowage fee is a certain factor multiplied by each gallon of fuel pumped at the Airport, and is to be paid on July 1st and February 1st each year. The rent paid and fuel flowage fee will be the focus of this audit.

Objective and Scope

The objective of this audit was to review the financial statements and verify the County received the proper funds from Valley Aviation from 2014 through 2017.

In order to accomplish the objective, the Controller’s Office obtained:

- Balance sheet for each year
- Income Statement/Profit and Loss Statement for each year
- Trial Balances for each year
- Fuel flowage reports
- Fuel invoices
- 1120S Federal Income Tax Returns
- General Ledger reports for specific accounts
- New World Systems (New World) Reports

The Luzerne County Controller’s Office strives to objectively and systematically evaluate functions, procedures, and activities to ensure that each are executed in the
best, most efficient way. Our reviews are tailored to the unique circumstances of each office, and we work with management to ensure accountability and direction.

The Luzerne County Controller’s Office is authorized by the Home Rule Charter of Luzerne County (Charter) Section 3.08 to conduct fiscal, performance, management, contract, grant, compliance, and related audits of any County division, bureau, office, agency, board, commission, elective office, The Judiciary, Office of Court Administration, or other administrative office. This review is an internal function, authorized by the Charter. Therefore, the Controller is required to transmit this review to the Manager of Luzerne County and County Council and post it for public inspection in the Controller’s Office and on the County website and/or other electronic medium for a period of at least 60 days after it is issued. The Controller will also follow up on any recommendations, to the extent practical, in order to determine if they have been considered and/or implemented.

Auditors assigned to the engagement are employed by Luzerne County under the Controller’s Office and report directly to the elected Controller. The audit staff is considered organizationally independent to conduct and report on the audit.

**Methodology**

To begin the audit, the Controller’s Office reviewed the contract in place between the County and Valley Aviation. After reviewing the contract, it was determined that the only sources of income for the County come from collecting rent and fuel flowage fees.

In the contract, it states the yearly rent of $12,000.00 is to be paid monthly. In order to verify the County was receiving the correct amount of rent, we checked the accuracy of receipts each month from January 2014 through December 2017 in New World. It was confirmed that each month Valley Aviation did pay $1,000.00, per this contract.

Next, we focused on the fuel flowage fee. According to the contract, the fuel flowage fee should increase at a minimum of one cent (1¢) per year, with an addendum made in 2011 to keep the fee at 10¢ per gallon of actual fuel pumped through 2013. According to the Solicitor’s Office, the max of 10¢ per gallon holds true even though the addendum was originally written through 2013 only. In order to check these figures, every six months Valley Aviation sends the County a fuel report. These reports show meter readings of the general aviation gas and jet fuel pumped at the Airport for the six months. Then, they show those figures multiplied by the fuel factor, which totals the amount owed to the County. After reviewing these fuel reports, it was determined Valley Aviation has been paying the correct fee each year.

Next, we reviewed the financial statements. While reviewing the financial statements, a few figures caused concerns. These figures concerned us due to the fact there were negative figures on the Profit and Loss Statement. For example, in 2017 the Profit and Loss Statement showed a negative figure for “Service Sales.” We believed this was a concern because, from our vantage point, it would be impossible for there to be negative
income for service sales. However, after discussions with Valley Aviation, it was
determined that this was due to adding or combining accounts in their accounting
software. Valley Aviation has been doing this in order to either gather more detail for the
next year or to streamline accounts. The issue materialized because Valley Aviation's
accounting system retroactively makes changes, and when we first talked with Valley
Aviation in 2018 they provided us with more detailed financial statements than what was
originally sent to the County at the end of each year. By doing this, all the retroactive
updates to the accounts changed figures within specific accounts. It's important to note
these adjustments have no affect on the net figures on the financial statements. We
verified this by going back to the financial statements that were originally given to the
County from Valley Aviation and comparing the net figures. After these discussions and
our review, our concerns were eliminated.

Finally, the Controller's Office decided to also focus on the fuel being purchased at the
Airport. We requested all invoices for both general aviation gas and jet fuel for the 2017
year. The goal was to verify that the figures on the Profit and Loss Statement were correct
compared to the invoices. After our review, it was determined the general aviation gas
and jet fuel figures on the Profit and Loss Statement were correct.

Condition —Need for Improved Process for Checking Fuel Flowage

Currently, the process for checking the fuel flowage for each six month interval consists
of someone from Valley Aviation physically checking the fuel reading on the meter. This
number is then subtracted from the previous reading, six months earlier, and represents
the total gallons of fuel pumped for those months.

Effect

The current process lacks proper checks and balances. A representative from both the
Airport and the County should perform this meter reading together to assure the meter
readings are accurate.

Cause

The process of verifying fuel flowage was not addressed in the lease agreement.

Observations

1. While reviewing the fuel invoices for 2017, we found one invoice missing from the
proper account. This was a simple journal entry misposting, and Valley Aviation
fixed the error once it was brought to their attention. The misposting had no affect
on the Profit and Loss Statement.

2. While doing our research prior to starting the audit, we noticed the Forty Fort
Airport Advisory Board (Advisory Board) has not met since 2012. While the
inclusion of a review of the Advisory Board was not within the scope of this audit, we felt it was important to note their lack of recent involvement. A well-constructed, engaged, and informed Advisory Board could be a tremendous benefit to Valley Aviation, especially with regard to locating and acquiring potential grant funding for airport improvements.

Recommendations

1. The Controller’s Office recommends at least one person from both parties be present to collect the meter reading every six months.

   The Controller’s Office is willing to be the County representative who is present when reading the meter with a member of Valley Aviation.

2. The Controller’s Office recommends the County officially put in writing where Valley Aviation should deliver the financial information to. Our recommendation would be to continue to have Valley Aviation deliver the documents to the Treasurer’s Office.
Please Note:

Luzerne County Home Rule Charter: Section 3.08 (C) 3

The audited entity shall respond in writing, specifying agreement with the audit findings and/or recommendations or the reasons for disagreement with the findings and/or recommendations, along with any plans and timetable for implementing remedies. The response shall be provided to the Controller within 14 days after the audited entity’s receipt of the draft audit. The Controller shall include the audited entity’s response in his/her final audit report.

Please respond to this audit as prescribed, by 5:00 pm, June 25, 2019.
Signature Page
Valley Aviation Audit
January 2014 through December 2017

Controller's Office:

Michelle A. Bednar, Controller
Date 6/26/19

Mark F. Majikes, Deputy Controller
Date 6/26/19

Susan Yozwiak, Internal Auditor
Date 6/26/19

County Manager's Office:

C. David Pedri, County Manager
Date 6/26/19

Solicitor's Office:

Romilda Crocamo, Chief County Solicitor
Date 6/27/19

Valley Aviation:

James Scrobola, Valley Aviation President
Date 6/25/19

Joyce Scrobola, Valley Aviation Manager
Date 6/25/19

Bill Shorts, Valley Aviation Accountant
Date 6/25/19
This report was initially distributed to the following:

Mr. David Pedri                  Luzerne County Manager
Mr. Tim McGinley                County Council Chair
Ms. Romilda Crocamo             Chief County Solicitor
Mr. James Scrobola               Valley Aviation President
Mrs. Joyce Scrobola              Valley Aviation Manager
Mr. Bill Shorts                  Valley Aviation Accountant

This report is a matter of public record and is available online at http://www.luzernecounty.org, found under Audit Reports on the Luzerne County Controller’s section of the website. A hardcopy is also available at the Luzerne County Controller’s Office. Media questions about the report may be directed to the Luzerne County Controller’s Office at 20 North Pennsylvania Blvd., Suite 213, Wilkes Barre, PA 18701 or via email to Controllers.Office@luzernecounty.org.
Luzerne County Controller's Office
Mark F. Majikes
Deputy Controller
20 North Pennsylvania Boulevard
Wilkes-Barre, PA 18711

In response to your offices report on the Valley Aviation Audit for the period January 2014 through December 2017, we are pleased that your audit findings have found no material discrepancies in our contract.

Valley Aviation is proud to be a partner of Luzerne County and by working together we can enhance the tremendous asset of the airport that the county has to offer to the community.

Your recommendation in your audit report concerning the meter reading is agreeable. We would welcome a representative of your office to verify the meter readings. The meter readings that are used for the county records are collected on June 30 and December 31. We are suggesting that you provide us with your representative and have them contact us to plan for them to be present to verify the readings.

We also agree with your recommendation that the County officially put in writing, instructions on where Valley Aviation should deliver the financial information. While we have verbally been instructed to send the information to the treasurer’s office, a formally written document will validate this agreement.

In addition to your recommendations, as stated in your observation, we strongly agree that an active Airport Advisory Board, appointed by Luzerne County would be a tremendous benefit to both Valley Aviation and Luzerne County.

Very Respectfully,

James M. Scrobola
President
DATE: June 26, 2019

TO: Michelle Bednar, Controller

CC: Mark Majikes, Controller’s Office
    Brian Swetz, Director of Budget & Finance
    Eddie O’Neill, Director of Operational Services

FROM: David Pedri, County Manager

RE: Valley Aviation Audit

In regard to recommendation #1 in the Valley Aviation Audit, I am taking you up on your offer and requesting that a member of the Controller’s Office be the County representative who is present when reading the meter with a member of Valley Aviation.

Thank you for your assistance in this matter.

Please keep us informed of your findings.