



***Lease Contract Audit
of
Valley Aviation Inc.

For the Period
January 2020 through December 2021***

**Walter Griffith, Jr.
Luzerne County Controller**

Table of Contents

Background and Introduction3

Objective and Scope.....3

Methodology4

Observations5

Recommendations.....5

Charter and Response Date.....6

Signature Page.....7

Distribution.....8

Introduction and 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).

The County has a Fixed Base Operator lease agreement with Valley Aviation Inc. located at 2001 Wyoming Ave Forty Fort PA 18704. The Luzerne County Division of Operational Services is responsible to oversee and execute the lease agreement and provide oversight regarding expiration of the lease and compliance of the terms of the lease agreement.

Valley Aviation Inc. leases from the county the Wilkes-Barre Wyoming Valley Airport located in Forty Fort. The lease, which was approved by Luzerne County Commissioners on December 30, 2005 was for an initial term 5 years beginning on January 1, 2006, with the option to renew for an additional 5 terms of 3 years each or an additional 15 years, for an expiration date of January 2025. The Fixed Base Operator (FBO) paid an annual use fee of \$6,000 until January 2010 when the annual use fee increased to \$12,000.00, with an additional monthly fuel flowage fee.

Objective and Scope

The objective of this audit was to determine if the lease terms for rent, escalation and fees were being properly followed and to review financial information and verify the County received the proper funds from Valley Aviation. In addition, compliance with other provisions of the lease were subjected to certain audit procedures.

The lease requires the submittal of reports to the County. These reports are the compilation of the financial statements, federal income tax return, and the annual operating budget. The insurance requirements were verified and sub-leases and contracts for fuel equipment and maintenance were reviewed. In addition, county owned fixed assets and additions or repairs in excess of \$5000 were tested.

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 Reports – (Luzerne County’s accounting software system)

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 audit 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

The Controller's Office analyzed the lease for Valley Aviation Inc. and the Controller's Office made an appointment with the Airport and verified a fuel reading in July of 2022.

The fuel usage fee (fuel flowage fee) was analyzed. According to the contract, the fuel flowage fee should increase at a minimum of one cent (1¢) per year from a base of 5 cents. An addendum made in 2011, raised the fee to 10 cents a gallon with no clause for escalation through 2013. The previous administration asked the Solicitor's Office to rule on the 10-cent fee. The Solicitor's Office ruled that the max of 10¢ per gallon will carryover even though the clause was originally written through 2013 only. In order to verify amounts, 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 prior. The readings are multiplied by the fuel factor, which totals the amount owed to the County. The Controller's Office used the readings to verify the amounts submitted were accurate.

The yearly rent of \$12,000.00 is to be paid monthly to the County by Valley Aviation. The County accounting records were utilized to verify all rent payments from Valley Aviation were correctly made for the audited period.

The Controller's Office obtained the Financial Statements for Valley Aviation Inc.

The Controller's Office reviewed the lease for other provisions such as insurance, advisory board meetings, lease renewal, and third-party payments.

The Controller's office also reviewed previous audit reports to verify compliance with findings in prior audits by our office.

Observations

1. The Valley Aviation Inc. lease allows for negotiation of annual rents and percentage of sales receipts to the County. Section F 3 (c) of Contract.
2. During the previous audit of Valley Aviation, a review of the Advisory Board was performed. The previous audit found that the Forty Fort Airport Advisory Board (Advisory Board) had not met since 2012. This has not been corrected and no meetings have taken place. There is a requirement in Section J that requires quarterly updates by the Airport Manager to the Advisory Board. Since the Board has not met this cannot be performed.
3. The required insurance was reviewed and complies with the contract.
4. An annual budget is required but the County or Valley Aviation has provided no proof of budget submittal. Section F (7)
5. The hangar and other fees schedule are to be provided to the County and approved. No approval of these current fees can be found due to lack of an active Advisory Board.
6. The Valley Aviation Profit and Loss statement was reviewed for accuracy to County records regarding lease payments and Fuel Flowage fees and the correct amounts were remitted according to the signed contracts.
 - Lease agreement revenue remitted to Luzerne County for 2020 and 2021 were \$12,000.00 and \$12,000.00 respectively.
 - Fuel Flowage fees remitted for 2020 and 2021 were \$4,781.99 and \$5,631.57 respectively.

Recommendations:

1. County Administration needs to review the current terms and conditions of the lease agreement related to the rate of rental fees for property as well as incidental items that include Tie Down Fees, Fuel Flowage Fees and Hanger Rental Fees.
2. County Council must take appropriate actions to facilitate the development of an active and useful Airport Advisory Board. The past audit findings identified the lack of an active Advisory Board. An Advisory Board has not met since 2012.
3. The County Administration needs to review the current Fuel Flowage rate provided by Valley Aviation Inc. to verify market reasonableness.

4. Valley Aviation Inc., according to the Lease agreement, Section F (7) Lessee shall also provide to the Luzerne County Advisory Board and Luzerne County Operational Division a proposed annual operating budget and capital expense budget for the Airport at least 90 days before the start of the calendar year, the County shall adopt and approve all Capital expense budgets relating to Airport improvements. The Controller's Office recommends this become an annual process and integrated with an active Advisory Board.
5. The County Council Authority, Boards and Commissions committee needs to determine the reason the Airport Advisory Board has not met in over 10 years and provide proper guidance for this problem to be corrected ASAP.
6. The previous audit recommended that at least one person from both parties to the lease be present to collect the meter reading every six months. The Controller's office during the exit conference to this audit has coordinated future meter readings.

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 March 21, 2023

Audit Signature Page
January 2020 through December 2021

Controller's Office:

Walter Griffith

Mar 15, 2023

Walter L Griffith Jr. County Controller

Date:

Managers' Office:

Brian A Swetz

Mar 24, 2023

Mr. Brian Swetz Interim County Manager

Date:

Operational Division Head:

Greg Kurtz

Mar 28, 2023

Mr. Greg Kurtz Operational Division Head

Date:

Valley Aviation:

James M. Scrobola

Mar 16, 2023

Mr. James Scrobola President

Date:

Valley Aviation Accountant:

William Shorts

Mar 20, 2023

Mr. William P. Shorts

Date:

Audit
Wyoming Valley Airport Leases
January 2020 through December 2021

This report was initially distributed to the following:

Mr. Brian Swetz	Interim County Manager
Ms. Kendra Radle	County Council Chairperson
Mr. James Scrobola	James Scrobola Aircraft Inc Valley Aviation Inc. President
Mr. William P. Shorts	CKSR Accounting Services

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.

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Brian A Swetz (Mar 24, 2023 09:00 EDT)

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Signature: James M. Scrobola
James M. Scrobola (Mar 16, 2023 15:20 EDT)

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William Shorts (Mar 20, 2023 09:00 EDT)

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Final draft Audit Wyoming Valley Airport 1-1-2020 to 12-31-2021 Rev2


Final Audit Report

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