

Audit Report

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**Canal Place Preservation and Development Authority**

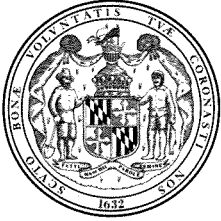
November 2013

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**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

November 19, 2013

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Canal Place Preservation and Development Authority for the period beginning May 19, 2010 and ending April 8, 2013. The Authority's primary purpose is to transform the Chesapeake and Ohio Canal and adjacent areas in the City of Cumberland, Maryland into a showpiece of historic preservation that will enhance recreational, commercial, civic, transportation, educational, and ecological values.

Our audit disclosed that adequate supporting documentation was not always obtained to support payments for janitorial and facilities maintenance services and to verify certain revenue. Additionally, the Authority did not engage an independent certified public accountant in a timely manner to conduct annual audits of its financial statements.

The Authority's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by the Authority during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Tom J. Barnickel III".

Thomas J. Barnickel III, CPA  
Legislative Auditor



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## **Background Information**

### **Agency Responsibilities**

The Canal Place Preservation and Development Authority functions under the provisions of the Financial Institutions Article, Sections 13-1001 through 13-1031 of the Annotated Code of Maryland, and is constituted as a public instrumentality of the State of Maryland. The Authority was created to transform the Chesapeake and Ohio Canal and adjacent areas in the City of Cumberland, Maryland into a showpiece of historic preservation that will enhance recreational, commercial, civic, transportation, educational, and ecological values. The affairs of the Authority are managed by its nine members. The administrative affairs and activities of the Authority are directed and supervised by an executive director who is appointed by the Authority, subject to the approval of the Governor. According to the State's records, the Authority's operating expenditures totaled approximately \$610,000 during fiscal year 2013.

### **Financial Statement Audits**

As specified in the Financial Institutions Article, Section 13-1010 of the Annotated Code of Maryland, the Authority engaged an independent certified public accounting firm to perform annual audits of its financial statements. In related audit reports for fiscal years ended June 30, 2010, 2011, and 2012 the firm stated that the financial statements presented fairly, in all material respects, the financial position of the Authority, and the respective changes in financial position for the aforementioned years in conformity with accounting principles generally accepted in the United States of America.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the finding contained in our preceding audit report dated August 27, 2010. We determined that the Authority satisfactorily addressed this finding.

# Findings and Recommendations

## Contractual Services

### **Finding 1**

**The Authority did not obtain and review required supporting documentation prior to approving payments to its janitorial and facilities maintenance contractor.**

### **Analysis**

The Authority did not obtain and review required supporting documentation prior to approving payments to its janitorial and facilities maintenance contractor. Specifically, we noted the Authority made monthly payments in advance to the contractor and did not subsequently obtain adequate supporting documentation reflecting the actual number of hours worked. Specifically, the Authority paid the contractor one-twelfth of the not-to-exceed contract amount at the beginning of the month for services to be rendered during the month. Although the contractor submitted logs to the Authority at the end of each month describing the work performed each day during the month, the logs did not include the actual number of hours worked by the contractor as required by the contract. Consequently, there is a lack of assurance that the contractor provided the minimum number of work hours (that is, 6,000 hours per year) required by the janitorial and facilities maintenance contract.

During the three-year period from July 1, 2010 through June 30, 2013, the Authority paid the contractor approximately \$320,000 under the janitorial and maintenance contract.

### **Recommendation 1**

**We recommend that the Authority**

- a. obtain and review documentation of the actual hours worked by the contractor prior to approving invoices for payment, and**
- b. ensure services are rendered in accordance with the contract prior to approving invoices for payment.**

## Hotel Revenue

### **Finding 2**

**The Authority did not obtain supporting documentation to ensure the proper amount of lease and tax revenue was received in accordance with related agreements with a hotel located on its property.**

### **Analysis**

The Authority did not obtain supporting documentation to ensure the proper amount of lease and tax revenue was received in accordance with related agreements with a hotel located on its property. We noted the following conditions:

- The Authority did not obtain required supporting documentation of room sales from the hotel to determine the accuracy of its portion of hotel tax revenue collected by the city and county. Allegany County and the City of Cumberland have agreed to contribute a certain percentage of the hotel taxes collected during fiscal years 2010 through 2014 to the Authority. These payments totaled approximately \$120,300 during fiscal year 2012. According to the hotel's lease agreement with the Authority, the hotel is required to submit monthly and annual documentation certifying the amount of gross hotel room sales revenue it collected.
- The Authority did not determine whether the hotel collected non-hotel revenue (for example, subleases or licenses for use of any portion of the premises) that should be paid to the Authority. Effective August 2009, the Authority entered into a fifty-year lease agreement with the hotel which required annual lease payments totaling \$6,000 plus one and one-half percent of gross non-hotel revenue during the first four years of the lease. The Authority has collected \$6,000 annually from the hotel for a total of \$24,000 as of April 2013 and no revenue has been collected based on non-hotel revenue.

According to the Authority's records, the \$126,300 of lease and tax revenues collected during fiscal year 2012 represented approximately twenty-five percent of the Authority's total revenue during fiscal year 2012.

## **Recommendation 2**

**We recommend that the Authority**

- a. obtain the monthly and annual supporting documentation required by the lease agreement to verify hotel tax revenue due to the Authority, and**
- b. determine the amount of non-hotel revenue collected and ensure the Authority is paid the correct amount based on the lease agreement .**

## **Financial Statements Audit**

### **Finding 3**

**The Authority did not engage an independent certified public accountant in a timely manner to conduct annual audits of its financial statements.**

### **Analysis**

The Authority did not engage an independent certified public accountant (CPA) in a timely manner to conduct annual audits of its financial statements for fiscal years 2011 and 2012. Financial statement audits should be conducted as soon as possible to provide timely information to interested parties on the Authority's financial position and results of operations. Subsequent to our inquiries, on May 13, 2013 (approximately 10 months after the end of fiscal year 2012), the Authority engaged a CPA to conduct the audit of the fiscal year 2012 financial statements and the related report was issued on September 17, 2013. For the fiscal year 2011 audit of its financial statements, the Authority did not engage a CPA to conduct the audit until approximately seven months after the fiscal year end.

According to State law, the Authority is required to engage an independent CPA at the conclusion of each fiscal year to perform an audit of its financial statements.

### **Recommendation 3**

**We recommend that the Authority engage an independent CPA in a timely manner to annually audit its financial statements.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Canal Place Preservation and Development Authority for the period beginning May 19, 2010 and ending April 8, 2013. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Authority's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the finding contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included procurements, disbursements, and cash receipt collections. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Authority's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

The Authority's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

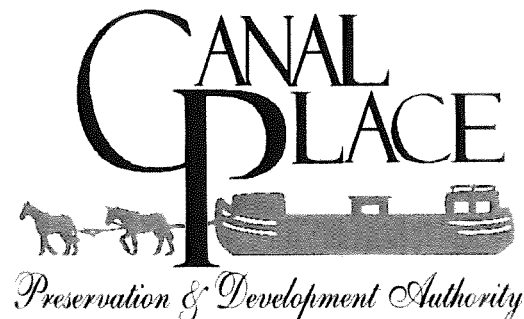
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

Our audit disclosed conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Authority's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to the Authority that did not warrant inclusion in this report.

The Authority's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Authority regarding the results of our review of its response.

## APPENDIX



*Martin O'Malley  
Governor*

*Anthony G. Brown  
Lt. Governor*

### **Authority Members**

*Andy Vick, Chairman  
Allegany  
Arts Council*

*John F. Bowman, II  
Frostburg State  
University*

*Kevin Brandt  
U.S. Department  
of the Interior*

*Brian Grim  
Mayor  
City of Cumberland*

*Janice Keene  
Evergreen Heritage  
Center*

*Michael W. McKay  
President  
Allegany Co.  
Commissioners*

*Douglass Reed  
Maryland  
Historical Trust*

*Bob Smith  
Allegany Aggregates*

*Rick Thayer  
Member at Large*

*Deidra Ritchie  
Executive Director*

November 14, 2013

Thomas J. Barnickel III, CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
Maryland General Assembly  
301 West Preston Street, Room 1202  
Baltimore, MD 21201

Dear Mr. Barnickel:

The Authority appreciates having the opportunity to respond to the draft audit report for the Canal Place Preservation & Development Authority's Legislative Audit for the period of May 19, 2010 through April 8, 2013.

The first finding in the draft audit report is related to obtaining and reviewing supporting documentation prior to approving payments to the Authority's janitorial and facilities maintenance contractor. In July of 2009, in an attempt to reduce administrative burden on staff, the former executive director requested that the facilities manager submit one monthly invoice for services rendered in order to reduce the number of invoices processed each month. The facilities manager would submit an invoice for one twelfth of his contract on the first of each month. Throughout the year, the facilities manager would submit time sheets outlining the hours utilized for the various services he provided under his contract. The executive director and facilities manager met frequently to determine the hours spent and hours remaining under the terms of the agreement. Hours were cut back when possible during winter months so that he would not exceed the man-hours identified in his contract.

The Authority's last legislative audit, conducted in May of 2010, did not discuss or present this compensation practice as an audit finding, so the Authority had no reason to believe that this practice was not appropriate, and had been compensating the facilities manager in the same manner since 2009.

As of October 1, 2013, Authority has complied with OLA's documentation recommendation contained in the OLA's preliminary audit report, by requiring supporting documentation outlining the number of hours actually worked by the facilities manager and each member of his staff for each month, and ensuring that only the actual hours worked are compensated.

The second finding relates to obtaining supporting documentation to ensure that the proper amount of rent and tax revenue is received in accordance with related agreements with a hotel located on the Authority's property. The hotel lease requires the hotel to submit monthly statements of its room sales revenue. During the initial 4-year lease term, the hotel did not submit these statements to the Authority, nor did the Authority request them. Because the rent during the initial 4-year term was an annual

base rent of \$6,000, the lack of monthly statements had no impact on the rent amount the Authority was entitled to receive. Following this initial 4-year lease term, commencing August 2014 the annual rent will be calculated in part on a percentage of hotel room sales. As of September 18, 2013, the Authority has complied with the OLA's documentation recommendation contained in the OLA's preliminary audit report, by requiring monthly statements of hotel room sales. Additionally, on September 18, 2013, the Authority requested and received documentation from the City of Cumberland and Allegany County regarding the hotel/motel tax each collected from the hotel.

The third finding relates to engaging an independent certified public accountant in a timely manner to conduct annual audits of the Authority's financial statements. Canal Place has undergone four changes in its management over the past six years. Additionally, for four months of FY12, the Authority had just one employee, who was the administrative aide. Understaffing over an extended period of time and management turnover have contributed significantly to the delays in the completion of the independent audits. When the current executive director was appointed in June of 2012, the Authority was able to focus on completing the FY11 and FY12 audits. The Authority has since completed the FY11 audit as of March 8, 2013 and the FY12 audit as of September 17, 2013. The Authority will assure that all future audits are conducted in a timely manner. An engagement letter has already been signed for the FY 13 audit, and it is expected that the audit will be completed by December 31, 2013.

Please do not hesitate to contact me if you have any questions or need additional information.

Thank you.

Sincerely,



Deidra L. Ritchie  
Executive Director

Cc: Andrew Vick, CPPDA Chairman

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