

Audit Report

Canal Place Preservation and Development Authority

April 2021



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

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

April 23, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Canal Place Preservation and Development Authority for the period beginning July 12, 2016 and ending November 30, 2020. 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 recreation, commercial, civic, transportation, educational, and ecological values.

Our audit disclosed that the Authority did not engage an independent certified public accountant (CPA) in a timely manner to conduct annual audits of its financial statements as required by State law. Specifically, as of February 2021, the Authority had not engaged a CPA to conduct audits of its financial statements for its fiscal years ending June 30, 2019 and June 30, 2020. In addition, although the Authority engaged a CPA firm in July 2018 to conduct the annual audit of its financial statements for fiscal year 2018, this audit had not been completed.

The Authority's response to this audit is included as an appendix to this report. We reviewed the response to our finding and related recommendation, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by the Authority and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large initial 'G' and a distinct 'A'.

Gregory A. Hook, CPA
Legislative Auditor

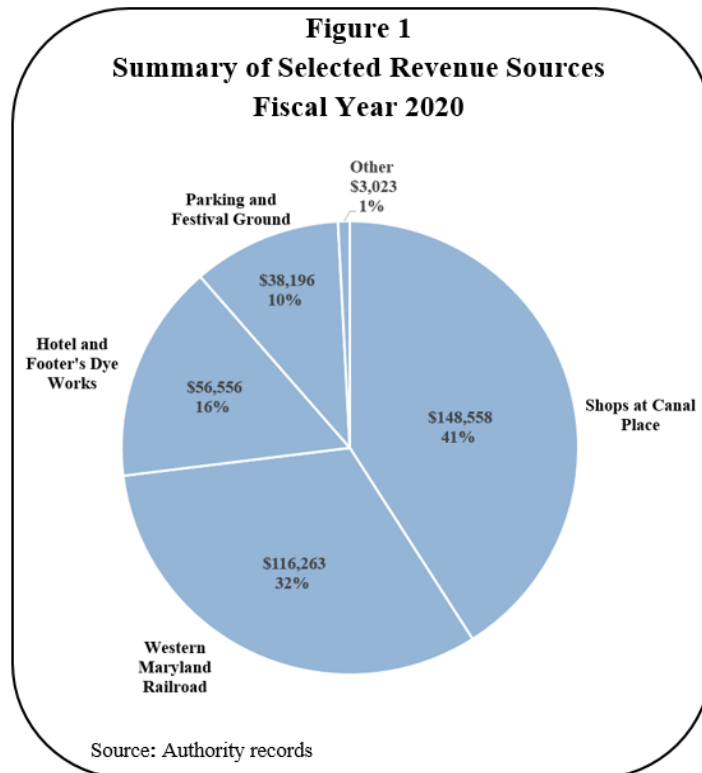
Background Information

Agency Responsibilities

The Canal Place Preservation and Development Authority, an independent unit of State government, consists of nine members and is responsible for transforming 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 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, during fiscal year 2020, the Authority's operating expenditures totaled approximately \$721,000, the vast majority of which represented payroll costs for its three employees and contractual services to maintain its property. The Authority's property includes the Shops at Canal Place, the Footer's Dye Works building, the Western Maryland Railway Station, festival grounds, the ground on which the a hotel operates, two pedestrian bridges, a

full scale replica canal boat, and three parking lots. According to the State's records, funding sources covering the Authority's operating expenditures consisted of approximately \$453,000 in special funds (primarily from tenant rents, fees, and lease revenue), \$168,000 in State general funds and a \$100,000 Maryland Heritage Area grant from the Maryland Department of Planning. See Figure 1 for a summary of the rents and fees collected by the Authority during fiscal year 2020.



The Authority has been impacted by the COVID-19 pandemic health crisis with the cancellation of events and the loss of some leaseholders, including the Western Maryland Railroad. As noted in Figure 1, the Western Maryland Railroad accounted for 32 percent of the Authority's rent and fee collections during fiscal year 2020. The Authority's rent and fee collections could continue to be impacted until the COVID-19 crisis is over.

Capital Project

According to the Department of Budget and Management's fiscal year 2021 Capital Budget *White Book*, the Authority had authorized a capital improvement project with budgeted funds totaling approximately \$1.15 million for the design, construction, repair, renovation, and capital improvements to the historic Footer's Dye Works building (listed on both National and Maryland Historic Registries) in partnership with a private developer. The project included transforming the building into luxury loft apartments, commercial office space, and a brewery. The project began in August 2015 and was completed in December 2017.

The Authority executed a 55-year commercial lease agreement with the private developer, which was approved by the Board of Public Works, and commenced January 1, 2016, with two ten-year renewal options. The agreement requires the developer to pay an annual base rent each calendar year beginning with \$6,000 in 2016, which increases incrementally each year until the end of the lease (a predetermined annual increase of approximately three percent for the first ten years and a calculated increase based on the consumer price index thereafter). In addition, when certain financial conditions are met (net income in relationship to debt obligations) the developer is required to pay additional rent known as participation rent. Any participation rent due shall be established by the developer's certified financial statements, which must be provided to the Authority by June 1st each year.

Task Force on the Canal Place Preservation and Development Authority

Chapter 789, Laws of Maryland 2018, established a Task Force to study the future options of the Authority. The Task Force consists of seven members, designated or appointed, from the Authority, Allegany County Delegation to the General Assembly, Mayor of the City of Cumberland, Secretaries of Budget and Management, General Services, and Planning, and a current leaseholder at the Shops at Canal Place.

The Task Force was to determine how to alter the powers of the Authority as a State agency in order to align the mission and purpose of the Canal Place Heritage Area with that of other certified heritage areas. At a minimum, the Task Force was to determine the most feasible method to restructure or continue the operations of the Authority as a State entity, and the best method for the disposition of the assets of the Authority. Such disposition may include the transfer of all or part of the assets to another State agency or the sale and transfer of all or part of the assets to a private entity. The Task Force was required to submit its findings and recommendations to the Senate Budget and Taxation Committee and the House Appropriations Committee of the Maryland General Assembly by June 1, 2019. However, a report was not completed and authorization for the Task Force ended in August 2019.

Chapters 618 and 619, Laws of Maryland 2020, reestablished the Task Force to complete its work. The Task Force was required to report its findings and recommendations to the Senate Budget and Taxation Committee and the House Appropriations Committee by September 1, 2020. However, as of January 2021, the report had not been completed and an extension for submitting the report had not been requested. The Authority advised us that according to the Chairman of the Task Force, the work was essentially complete and it planned to issue a report by the summer of 2021.

Findings and Recommendations

Financial Statement Audits

Finding 1

The Canal Place Preservation and Development Authority did not ensure required annual audits of its financial statements were conducted in a timely manner.

Analysis

The Authority did not ensure that required annual audits of its financial statements were conducted in a timely manner. Specifically, as of February 2021, the Authority had not engaged an independent certified public accounting (CPA) firm to conduct audits of its financial statements for its fiscal years ending June 30, 2019 and June 30, 2020. In addition, although the Authority engaged a CPA firm in July 2018 to conduct the annual audit of its financial statements for fiscal year 2018, this audit had not been completed as of February 2021.

The Authority advised us that the delay in completing the 2018 annual audit was due to the CPA firm it had engaged being busy with other work. Additionally, the Authority advised us that it decided to wait on engaging a CPA firm for the 2019 and 2020 annual audits since the 2018 audit had not been completed. However, the Authority could have solicited competitive bids from other CPA firms to perform the annual audits, including multiple prequalified firms through the Department of General Services master contract for auditing services. Financial statements 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.

As specified in the Financial Institutions Article of the Annotated Code of Maryland, the Authority is required to engage an independent CPA at the conclusion of each fiscal year to perform an audit of its financial statements. In related audit reports for fiscal years ended June 30, 2016 and 2017 the firm stated that the financial statements presented fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, and the respective changes in financial position for the aforementioned years in accordance with accounting principles generally accepted in the United States of America.

Recommendation 1

We recommend that the Authority ensure that annual audits of its financial statements are conducted as required by law and that these audits are completed timely.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Canal Place Preservation and Development Authority for the period beginning July 12, 2016 and ending November 30, 2020. 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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included procurements, disbursements, and cash receipts.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 12, 2016 to November 30, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of the Authority's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Authority, were considered by us during the course of this audit.

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.

This report includes a finding relating to conditions that we consider to be significant instances of noncompliance with applicable laws, rules, or regulations. Our audit did not disclose any 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. Other less significant findings were communicated to the Authority that did not warrant inclusion in this report.

Our audit period and subsequent fieldwork includes the COVID-19 pandemic health crisis which has impacted the Authority's operations. Specifically, events were cancelled and tourism reduced resulting in a loss of some leaseholders and a correlating reduction in the Authority's fiscal year 2021 special fund revenues. The Authority's revenues will most likely continue to be impacted until the COVID-19 crisis is over. Although the Authority's operations were impacted during our fieldwork, the objectives and scope of our audit were not significantly impacted.

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

Lawrence J. Hogan, Jr.
Governor

Boyd K. Rutherford
Lt. Governor

Authority Members

Janice Keene
*Evergreen Heritage
Center,
Chair*

Jeremy Bender
*ServiceMaster of
Allegany County*

Tina Cappetta
*U.S. Department of the
Interior, NPS*

Stuart Czapski
*Allegany County
Chamber of Commerce*

Al Feldstein
*Maryland
Historical Trust*

Leanne Mazer
Tri County Council

Ray Morris
*Mayor, City of
Cumberland*

Rebecca Ruppert
*Allegany College
of Maryland,
Vice-Chair*

Robert Smith
Allegany Aggregates

Deidra Ritchie
Executive Director



April 20, 2021

Mr. Gregory A. Hook
CPA, Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Hook:

I am in receipt of the draft of the legislative audit performed for the Canal Place Preservation and Development Authority (CPPDA) by your office. Attached to this letter you will find the Agency Response to the draft documents.

In regards to the audit finding about the FY18, 19, and 20 audits being late, the CPPDA has taken the advice of the Office of Legislative Services (OLA) and submitted a bid to auditing firms recommend by the Department of Budget and Management. The RFP requested the audits be completed, at the latest, July of 2022. We have received those bids and are in the process of awarding them, but we are hindered by the lack of funding in our operating budget to pay for the work.

If you have any questions, or need additional information, please do not hesitate to contact me.

Sincerely,

Deidra L Ritchie
Executive Director
CPPDA

Canal Place Preservation and Development Authority

Agency Response Form

Financial Statement Audits

Finding 1

The Canal Place Preservation and Development Authority did not ensure required annual audits of its financial statements were conducted in a timely manner.

We recommend that the Authority ensure that annual audits of its financial statements are conducted as required by law and that these audits are completed timely.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	
Recommendation 1	Agree Estimated Completion Date: July 2022
Please provide details of corrective action or explain disagreement.	The FY18 Annual Audit is underway and should be completed soon. The FY19 and 20 audits were placed out to bid from the list of auditors approved by DBM. We have received those bids and will be awarding the bids by the end of April 2021.

AUDIT TEAM

Raymond G. Burton Jr., CPA, CFE
Audit Manager

Sandra C. Medeiros
Senior Auditor