

Audit Report

Maryland Energy Administration

December 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

December 22, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland Energy Administration (MEA) for the period beginning November 5, 2007 and ending May 31, 2010. MEA manages various programs related to the reduction of energy consumption, the use of renewable energy resources, and the promotion of energy efficiency. MEA also provides grants and loans to governmental units, nonprofits, and private entities.

Our audit disclosed that MEA made two disbursements, totaling \$3.2 million, from the Strategic Energy Investment Fund to the Maryland Department of the Environment without sufficient documentation. In addition, cash receipts were not always deposited in a timely manner.

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

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Energy Administration (MEA) manages programs that help reduce energy consumption in State facilities and operations, encourage the use of renewable energy resources, and promote energy efficiency in the industrial, commercial, and residential sectors. MEA also provides grants and loans for State agencies, local governments, nonprofit organizations, and the commercial sector. MEA's alternative fuel vehicles programs work to develop the infrastructure to support alternative fuel vehicles while encouraging the use of alternative fuel vehicles in the public and private sectors. MEA advises the Governor's Office on energy policy and the management of energy disruptions and emergencies. MEA is the state conduit for federal energy programs from the U.S. Department of Energy. According to the State's records, total expenditures for fiscal year 2010 were \$63 million.

As part of its energy management responsibilities, MEA manages the Strategic Energy Investment Fund (SEIF). The SEIF is established to fund various programs designed to promote changes in electric usage of customers, including the promotion, development, and implementation of cost-effective energy efficiency and conservation programs; renewable and clean energy resources; climate change programs; and demand response programs. In addition, SEIF funds are used to provide supplemental funds for low-income energy assistance, to provide rate relief by offsetting electricity rates, to provide grants and loans, and to implement energy-related public education and outreach initiatives. MEA receives funds from quarterly auctions of carbon allowances, sold to entities such as power companies, through the Regional Greenhouse Gas Initiative (RGGI). These funds are maintained in the SEIF. The RGGI is the first mandatory, market-based effort in the United States to reduce greenhouse emissions.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated August 27, 2008. We determined that MEA satisfactorily addressed these findings.

Findings and Recommendations

Strategic Energy Investment Fund

Finding 1

There was insufficient documentation to support \$3.2 million in payments to the Maryland Department of the Environment from the Strategic Energy Investment Fund.

Analysis

There was insufficient documentation to support certain expenditures made from the Strategic Energy Investment Fund (SEIF). Specifically, the Maryland Energy Administration (MEA) did not have any documentation, such as a memorandum of understanding (MOU), to support two payments totaling \$3.2 million made to the Maryland Department of the Environment (MDE) during fiscal years 2009 and 2010. We were advised by MEA management that MEA and MDE had a verbal agreement specifying the amount of funds that MDE would receive for expenditures related to Regional Greenhouse Gas Initiative (RGGI) activities. Essentially, MEA paid MDE the agreed-upon amounts based on annual invoices that MDE submitted.

Chapter 127, Laws of Maryland, 2008, effective June 1, 2008, established the Maryland Strategic Energy Investment Program and SEIF with the purpose of decreasing energy demand and increasing energy supply to promote affordable, reliable, and clean energy. The SEIF is funded from quarterly auctions of carbon allowances through the RGGI. Since the first auction in September 2008 through June 2010, MEA has received funds from eight RGGI auctions totaling \$128 million.

Although the law stipulates that MEA shall provide SEIF funds to MDE to fund the cost of MDE's programs to reduce or mitigate the effects of climate change, a formal written agreement should be executed to substantiate both parties' concurrence regarding the amount, terms, and use of the funds. Such an agreement would serve to help ensure that the funds were used appropriately.

Recommendation 1

We recommend that MEA ensure that all SEIF expenditures are supported by a properly executed written agreement.

Cash Receipts

Finding 2

Adequate controls were not established to ensure that cash receipts were deposited timely.

Analysis

MEA did not always deposit cash receipts in a timely manner. For example, our test of receipts collected on 10 days during our audit period, totaling approximately \$526,000, disclosed that receipts from 5 days, totaling \$284,000, were not deposited for periods ranging from two to five business days after the dates of receipt. In addition, we were unable to verify the timeliness of deposits for another \$22,000 in receipts as the documentation did not indicate the dates of receipt. Recording the dates of receipts would help MEA ensure that the collections were deposited timely. In this regard, the Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts be deposited no later than the first business day after receipt. Untimely deposits increase the possibility of loss or misappropriation and result in a loss of investment income to the State. According to MEA's records, cash receipts collected during fiscal year 2010 totaled \$964,000.

Recommendation 2

We recommend that MEA deposit all cash receipts in a timely manner, as required by the *Accounting Procedures Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Energy Administration (MEA) for the period beginning November 5, 2007 and ending May 31, 2010. 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 MEA'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 findings included 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 grant programs, loan programs, cash receipts, and special funds, including the Strategic Energy Investment Fund. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MEA'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.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of MEA's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MEA. Our audit also did not include certain support services provided to MEA by the Executive Department – Governor. These support services (such as maintenance of FMIS accounting records and related fiscal functions) are included within the scope of our audits of the Executive Department – Governor.

MEA'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 did not disclose any conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MEA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations.

The response from MEA 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 MEA regarding the results of our review of its response

APPENDIX



Martin O'Malley, *Governor*
Anthony G. Brown, *Lt. Governor*
Malcolm D. Woolf, *Director*

December 21, 2010

Mr. Bruce A. Myers, CPA
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Myers,

Attached please find this agency's response to the draft audit report on the Maryland Energy Administration for the period beginning November 5, 2007 and ending May 31, 2010.

Regards,

Malcolm Woolf,
Director

Attachment

cc: L. Myers

Attachment for Maryland Energy Administration's final audit response:

Finding 1 - Concur.

MEA will execute a formal written agreement with MDE to document and substantiate amounts, terms and use of Strategic Energy Investment Funds. This written agreement will be completed by March 31, 2011.

Finding 2 - Concur

MEA will make the appropriate changes going forward effective January 1, 2011.

AUDIT TEAM

William R. Smith, CPA
Audit Manager

David S. Propper
Senior Auditor