

Audit Report

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**Maryland Environmental Service**

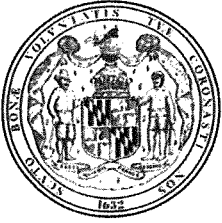
July 2012

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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

Bruce A. Myers, CPA  
Legislative Auditor

July 26, 2012

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 Maryland Environmental Service (MES) for the period beginning May 6, 2009 and ending December 8, 2011. MES provides water supply, wastewater treatment, and waste management services to public and private entities.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us by MES during the course of this audit.

Respectfully submitted,

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

Thomas J. Barnickel III, CPA  
Acting Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Maryland Environmental Service (MES) was created as an instrumentality of the State and a public corporation to provide water supply, wastewater treatment, and waste management services to public and private entities. MES constructs, operates, and maintains various water, sewer and solid waste plant facilities under contracts with the State of Maryland, its political subdivisions, and private enterprises. Additional services offered include sludge and dredged materials management. According to its fiscal year 2011 audited financial statements, MES' operating expenditures totaled approximately \$106.5 million and MES received revenue totaling approximately \$108.8 million, of which approximately \$99.6 million was received from State and local government entities.

### **Financial Statement Audits**

In accordance with the Natural Resources Article, Section 3-126 of the Annotated Code of Maryland, MES engaged an independent accounting firm to audit its financial statements annually. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of MES as of June 30, 2009, 2010, and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

We reviewed the status of the two findings included in our preceding audit report dated October 14, 2009. We determined that MES satisfactorily addressed both of these findings.

## **Findings and Recommendations**

Our audit did not disclose any significant deficiencies in the design or operation of MES' internal control. Nor did our audit disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Certain less significant findings were communicated to MES that did not warrant mention in this report.

A draft copy of this report was provided to MES. Since there are no recommendations in this report, a written response was not necessary.

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

We have audited the Maryland Environmental Service (MES) for the period beginning May 6, 2009 and ending December 8, 2011. 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 MES' 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 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 accounts receivable, cash receipts, procurements and disbursements, and payment advances from project participants. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MES 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.

MES engaged an independent accounting firm to audit its financial statements annually. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of MES as of June 30, 2009, 2010, and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firm to provide audit coverage of certain aspects of MES's operation (such as, internal controls and testing for debt financing, personnel and payroll processing, and certain accounts receivable activities). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

MES' 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.

AUDIT TEAM

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**J. Alexander Twigg**  
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**Roger E. Jaynes III, CFE**  
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