Audit Report

Public Service Commission

December 2016

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

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December 8, 2016

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

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Public Service Commission (PSC) for the period beginning December 17, 2012 and ending February 8, 2016. PSC regulates public utilities (such as gas, electric, water, and telephone companies) operating within the State. PSC also regulates common carriers engaged in the public transportation of passengers in the State.

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

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

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Public Service Commission (PSC), which functions under the provisions of the Public Utilities Article of the Annotated Code of Maryland, regulates public utilities (such as gas, electric, water, and telephone companies) operating within the State. PSC also regulates common carriers engaged in the public transportation of passengers in the State and has jurisdiction over taxicabs operating in Baltimore City, Baltimore County, Cumberland, and Hagerstown. PSC consists of five members who are appointed by the Governor, with the advice and consent of the Senate.

In accordance with State law, the operating expenses of PSC are paid for by annual assessments which are calculated and issued by PSC to regulated companies. These annual assessments also pay the operating expenses of the Office of People's Counsel (OPC). OPC, which we audit separately, is responsible for protecting the interests of residential and non-commercial users of these regulated services relating to matters and proceedings before PSC and the courts. According to the State's records, during fiscal year 2015, the operating expenses of PSC and OPC totaled $23.6 million and $3.8 million, respectively.

Exelon – Constellation Energy Group Merger

On February 17, 2012, PSC approved the merger of Exelon Corporation (Exelon) and Constellation Energy Group (CEG), which includes Baltimore Gas and Electric (BGE), resulting in CEG becoming a subsidiary of Exelon. The merger was completed as of March 12, 2012.

Certain conditions were placed on these entities by PSC to ensure that the merger was consistent with the public interest. For example, Exelon was required to invest $113.7 million in a Customer Investment Fund for the purposes of promoting energy efficiency and providing for low income energy assistance to BGE customers. These funds are disbursed by PSC in the form of grants to a limited number of selected private and governmental entities and, as of May 31, 2016, PSC had disbursed approximately $94.9 million, with the remainder of approximately $18.8 million scheduled to be disbursed during fiscal year 2017.

Other conditions included, for example, a requirement that Exelon provide $30 million in funding for the State's use in its efforts to realize an offshore wind project, and a requirement to annually provide $7 million in charitable contributions and traditional local community support over a 10-year period.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated July 8, 2013. We determined that PSC satisfactorily addressed this finding.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of PSC's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. A less significant finding was communicated to PSC that did not warrant mention in this report.

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

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Public Service Commission (PSC) for the period beginning December 17, 2012 and ending February 8, 2016. 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 PSC'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 and disbursements, payroll, cash receipts, accounts receivable, assessments charged to regulated utilities, and PSC's role in certain trust funds established by law. We also reviewed PSC's oversight of certain provisions of the Exelon – Constellation Energy Group merger. We also determined the status of the finding contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of PSC's operations, and tests of transactions. 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.

PSC'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.

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