

Audit Report

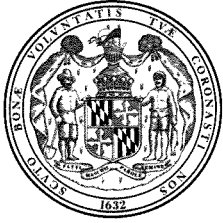
Public Service Commission

July 2013



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

Thomas J. Barnickel III, CPA
Legislative Auditor

July 8, 2013

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 Public Service Commission (PSC) for the period beginning October 27, 2009 and ending December 16, 2012. The PSC regulates public utilities (such as gas, electric, water, and telephone companies) operating within the State. The PSC also regulates common carriers engaged in the public transportation of passengers in the State.

Our audit disclosed that adequate documentation was not always obtained to support the validity of certain contractual payments.

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

Respectfully submitted,

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

Thomas J. Barnickel III, CPA
Legislative Auditor

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. The 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. The 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 the PSC, as well as the Office of People's Counsel (OPC), are paid for by annual assessments which are calculated and issued by the PSC to regulated companies. According to the State's records, during fiscal year 2012, the operating expenses of the PSC and the OPC totaled \$18.4 million and \$3.4 million, respectively. The 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 the PSC and the courts.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated April 15, 2010. We determined that the PSC satisfactorily addressed four of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Contractor Billings

Finding 1

Adequate documentation was not obtained to support certain payments to a contractor.

Analysis

Adequate supporting documentation was not obtained by the Public Service Commission (PSC) to verify certain payments to a contractor. Our review of two

fiscal year 2011 payments totaling approximately \$412,000 made to one contractor for various consulting services, disclosed that a significant portion of those payments (\$127,000) represented amounts paid for the services of other consultants and experts used by the contractor. Although the amounts charged to PSC for these services were shown separately on the contractor's invoices, other documentation supporting the amounts billed, such as itemized invoices from the other consultants and experts, a description of the specific work they performed, or the individuals who performed the work was not provided. PSC made payments totaling approximately \$910,000 to this contractor during fiscal years 2011 to 2013 (through December 16, 2012). A similar condition was commented upon in our preceding audit report.

Recommendation 1

We recommend that the PSC obtain adequate documentation supporting amounts billed by primary contractors for work performed by consultants, experts, and other subcontractors (repeat).

Audit Scope, Objectives, and Methodology

We have audited the Public Service Commission (PSC) for the period beginning October 27, 2009 and ending December 16, 2012. 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 PSC's financial transactions, records and internal controls, 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 cash receipts, accounts receivable, procurements and disbursements, payroll, assessments charged to regulated utilities, and the PSC's role in certain trust funds established by law. Our audit procedures included inquiries of appropriate personnel, inspections of documents and

records, and observations of the PSC'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.

PSC 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.

This report includes a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect the PSC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to the PSC that did not warrant inclusion in this report.

The PSC'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 PSC regarding the results of our review of its response.

APPENDIX

COMMISSIONERS

W. KEVIN HUGHES
CHAIRMAN

HAROLD D. WILLIAMS
LAWRENCE BRENNER
KELLY SPEAKES-BACKMAN

STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

July 3, 2013

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

Re: Public Service Commission Response – Legislative Audit

Dear Mr. Barnickel:

Attached please find the Public Service Commission's ("Commission") response to the Department of Legislative Services' ("DLS") draft audit for the period beginning October 27, 2009 and ending December 16, 2012.

An electronic version of this document has been sent to response@ola.state.md.us as requested in your June 27, 2013 letter. If you have any questions regarding this matter, please do not hesitate to contact David J. Collins at 410-767-8067.

Sincerely,

A handwritten signature in black ink that reads "W. Kevin Hughes".

W. Kevin Hughes
Chairman

Attachment

Findings and Recommendations

Finding 1

Adequate supporting documentation was not obtained to support certain payments to a contractor.

Recommendation 1

We recommend that the PSC obtain adequate documentation supporting amounts billed by primary contractors for work performed by consultants, experts, and other subcontractors (repeat).

Public Service Commission Response

The Commission agrees with this finding and notes that consulting services contracts require that primary contractors provide documentation supporting amounts billed for work performed by consultants, experts, and other subcontractors. The Commission has instituted a reinforcement procedure for Commission contract managers to ensure that during the review of invoices, the necessary documentation is submitted as required by the contract.

AUDIT TEAM

Paul R. Denz, CPA
Audit Manager

W. Thomas Sides
Senior Auditor

Jaime A. DeWitt
Tu N. Vuong
Staff Auditors