

Audit Report

Public Service Commission

March 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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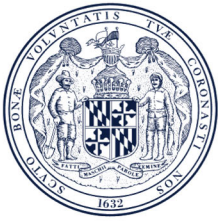
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

March 17, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 Public Service Commission (PSC) for the period beginning March 12, 2020 and ending February 29, 2024. 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 disclosed that PSC did not have adequate controls over accounts receivables. For example, two employees with access to the accounts receivable records could post payments and credits without independent approval.

In addition, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of the three findings contained in our preceding audit report. We determined that PSC satisfactorily addressed two of these findings. The remaining finding is repeated in this report.

PSC's response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of PSC's response related to the cybersecurity audit findings. We reviewed the response and noted general agreement to our findings and related recommendations. Based on our review of the written responses and additional clarification obtained from PSC, we believe the corrective actions identified are sufficient to address all audit issues.

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

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

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 as well as transportation network companies throughout the State. 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 State records, during fiscal year 2023, the operating expenses of PSC and OPC totaled \$22.8 million (as shown in Figure 1 on the following page) and \$6.9 million, respectively.

Figure 1
Public Service Commission
Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	131	92.9%
Vacant	10	7.1%
Total	141	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$18,185,670	79.8%
Technical and Special Fees	304,271	1.3%
Operating Expenses	4,314,526	18.9%
Total	\$22,804,467	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
Special Fund	\$21,955,956	96.3%
Federal Fund	848,511	3.7%
Total	\$22,804,467	

Source: State financial and personnel records

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 January 15, 2021. As disclosed in Figure 2, we determined that PSC satisfactorily addressed two of these findings. The remaining finding is repeated in this report.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Public Service Commission (PSC) did not have an adequate process to ensure that utility companies complied with certain requirements of merger orders.	Not repeated
Finding 2	PSC did not obtain required control agency approval for three sole source contracts for consulting services totaling approximately \$605,000.	Not repeated
Finding 3	PSC did not establish adequate controls over cash receipts and accounts receivable.	Repeated (Current Finding 1)

Findings and Recommendations

Accounts Receivable

Finding 1

PSC did not establish adequate controls over accounts receivables.

Analysis

PSC did not establish adequate controls over accounts receivables. PSC maintained accounts receivable records for assessments, permits, and other fees due from regulated entities. According to PSC records, as of June 2023 the accounts receivable balance was approximately \$28.9 million.

- Two of the five employees with access to the accounts receivable records could post payments and credits without independent approval, and three employees could delete account information without independent approval. We were unable to obtain a system report of adjustments or deletions to determine whether any such transactions processed by these employees were proper.
- PSC did not maintain an accounts receivable control account. PSC historically relied on a control account to monitor the accounts receivable transactions, but the control account was discontinued in December 2019. Consequently, errors or other discrepancies could occur without timely detection.

The Comptroller of Maryland's *Accounting Procedures Manual*¹ requires accounts receivable adjustments to be approved by supervisory personnel. In addition, the *Manual* requires the maintenance of an accounts receivables control account and for it to be reconciled with the aggregate balance of the detailed records.

Similar conditions were noted in our preceding audit report. In response to that report, PSC agreed to implement our recommendations by January 15, 2021. During our current audit, PSC was unable to explain why the recommendations were not implemented.

¹The updated *Accounting Policies and Procedures Manual*, effective June 2024, has the same requirements.

Recommendation 1

We recommend that PSC

- a. ensure all accounts receivable transactions are subject to independent review and approval (repeat),**
- b. determine the feasibility of creating system reports of adjustments and deletions to enable oversight of such transactions, and**
- c. maintain an independent control account and periodically reconcile it to the detailed records (repeat).**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 2 and 3 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with PSC’s responses, have been redacted from this report copy.

Finding 2

Redacted cybersecurity-related finding.

Finding 3

Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Public Service Commission (PSC), for the period beginning March 12, 2020 and ending February 29, 2024. 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 distribution and oversight of federal relief funding. In addition, we reviewed PSC's oversight of certain provisions of several mergers and information systems security and control. We also determined the status of the findings contained in our preceding audit report.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our test of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of March 12, 2020 to February 29, 2024, 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 PSC's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 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 audit 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. 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 PSC, 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 findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect PSC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of

noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to PSC that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to PSC and those parties responsible for acting on our recommendations in an unredacted audit report.

PSC’s response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise PSC regarding the results of our review of its response.

APPENDIX

COMMISSIONERS

STATE OF MARYLAND

FREDERICK H. HOOVER, JR.
CHAIR

MICHAEL T. RICHARD
KUMAR P. BARVE
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PUBLIC SERVICE COMMISSION

March 12, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen,

Thank you for providing the draft legislative audit report on the Public Service Commission (PSC) for the period beginning March 12, 2020 and ending February 29, 2024. Please find the PSC's response enclosed.

The PSC appreciates the time and effort of the Office of Legislative Audits on this matter and is committed to resolving the findings identified in the audit report. If you have any questions regarding this matter, please do not hesitate to contact Ms. Amanda Best at amanda.best@maryland.gov.

Sincerely,

Frederick H. Hoover, Jr.
Chair

Public Service Commission

Agency Response Form

Accounts Receivable

Finding 1

PSC did not establish adequate controls over accounts receivables.

We recommend that PSC

- a. ensure all accounts receivable transactions are subject to independent review and approval (repeat),
- b. determine the feasibility of creating system reports of adjustments and deletions to enable oversight of such transactions, and
- c. maintain an independent control account and periodically reconcile it to the detailed records (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The PSC agrees with the finding but would like to clarify that it did attempt to address the finding in the previous audit. As a result of the previous audit finding, the PSC procured a new accounts receivable system that was custom made for the agency. Unfortunately, the system did not work as intended and was never fully completed by the vendor to address the issues outlined in the previous audit. The PSC is currently setting up a new accounts receivable system that will have proper controls in place.		
Recommendation 1a	Agree	Estimated Completion Date:	6/30/2025
Please provide details of corrective action or explain disagreement.	The agency is in the process of setting up a new accounts receivable system. The new system has clear user roles and will be set to require review and approval by other division members.		
Recommendation 1b	Agree	Estimated Completion Date:	6/30/2025
Please provide details of corrective action or explain disagreement.	The new accounts receivable system can generate reports to account for adjustments and voiding transactions. This function will be utilized upon the new system being completed to enable oversight of these transactions.		
Recommendation 1c	Agree	Estimated Completion Date:	6/30/2025
Please provide details of corrective action or explain disagreement.	The agency will set up a control account procedure to reconcile its records and maintain an independent record of the account transactions. The agency anticipates the issue identified here will be resolved upon the completion of the new accounts receivable system.		

Public Service Commission

Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including Findings 2 and 3 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with PSC’s responses, have been redacted from this report copy, PSC’s responses indicated agreement with the findings and related recommendations.

Finding 2

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 3

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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