

MARYLAND CLEAN ENERGY CENTER

**Single Audit Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2011



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2011

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Maryland Clean Energy Center

We have audited the statements of net assets of the Maryland Clean Energy Center (the Center), as of June 30, 2011, and the related statement of revenue, expenses, and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center as of June 30, 2011, and the respective changes in its financial position and its cash flows, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note 5 to the financial statements, the Center incurred a loss of \$248,931 during the year ended June 30, 2011, had \$400,000 of debt outstanding as of June 30, 2011, and does not presently have sufficient grants and other revenue to cover its expenses. These matters raise substantial doubt about the Center's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



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In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Hunt Valley, Maryland
September 29, 2011

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Maryland Clean Energy Center

We have audited the basic financial statements of the Maryland Clean Energy Center (the Center) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. And therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs item 2011-01, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.



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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-02.

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hunt Valley, Maryland
September 29, 2011

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Directors
Maryland Clean Energy Center

Compliance

We have audited the compliance of the Maryland Clean Energy Center (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major Federal programs for the year ended June 30, 2011. The Center's major Federal programs are identified in the summary of independent public accountants' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.



Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-02.

The Center's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Maryland State agencies, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hunt Valley, Maryland
September 29, 2011

MARYLAND CLEAN ENERGY CENTER

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Energy			
State Energy Program (Outreach Program) - ARRA	81.041	2011-01-471FA	\$ 357,687
State Energy Program (Loan Program) - ARRA	81.041	2010-01-516F3	253,142
TOTAL EXPENDITURES			<u>\$ 610,829</u>

The accompanying notes are an integral part of this schedule.

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Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of the Maryland Clean Energy Center (the Center) are included in the scope of Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133, Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the grant program noted below. This program represent all Federal award programs and other grants with fiscal year 2011 cash and non-cash expenditures in excess of \$300,000 to ensure coverage of at least 50% of Federally granted funds. Actual coverage is 100% of total cash and non-cash Federal award program expenditures.

<u>Major Program</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Energy			
State Energy Program (Outreach Program) - ARRA	81.041	2011-01-471FA	\$ 357,687
State Energy Program (Loan Program) - ARRA	81.041	2010-01-516F3	253,142
Toal Major Program			<u>\$ 610,829</u>

2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of Federal awards includes all Federal grants to the Center that had activity during the fiscal year ended June 30, 2011. This schedule has been prepared on the accrual basis of accounting.

3. STATE ENERGY LOANS

During the year ended June 30, 2011, the Center issued \$132,383 of loans under the State Energy Program of which \$124,949 was outstanding as of June 30, 2011.

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**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section I –Summary of Independent Public Accountants’ Results

Financial Statements

Type of Report of Independent Public Accountants issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? None Reported
- Noncompliance material to financial statements? Yes

Federal Awards

Type of Independent Public Accountants’ report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? None Reported
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

Identification of Major Program:

<u>Major Program</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Energy			
State Energy Program (Outreach Program) - ARRA	81.041	2011-01-471FA	\$ 357,687
State Energy Program (Loan Program) - ARRA	81.041	2010-01-516F3	253,142
Toal Major Program			<u><u>\$ 610,829</u></u>

Dollar threshold used to determine Type A programs: \$ 300,000

Did the Center qualify as a low risk auditee? No

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**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section II –Financial Statement Findings

Finding 2011-01

Section III –Federal Award Findings

Finding 2011-02

MARYLAND CLEAN ENERGY CENTER

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

Finding Number 2011-01 Loan Receivable Recording
Federal Program: State Energy Program (Loan Program) – ARRA
CFDA Number: 81.041

Loan Receivable was recorded as expenditure instead of receivable.
Type of Finding: Internal Control over Financial Reporting, Material Weakness

Condition:

During the audit, we noted the loan disbursements were recorded as expenditure instead of loan receivable.

Criteria:

Per the grant agreement, the Center shall retain all repaid principal amounts or initial investments, and use those funds in a revolving fund for additional loan program development, capitalization, and deployment.

Cause:

The Center used a third party loan servicer to administrate the loans. After the loan is underwritten and issued, the Center reimburses the loan servicer for the amount of the loans made to the customers. The personnel responsible for recording these transactions did not fully understand the transaction. The loans were treated as expenditure when the payments were made to the loan servicer.

Effect:

The loan receivable was understated by \$124,949, and the expenditure was overstated by \$124,949.

Questioned Cost:

None noted.

Recommendation:

We recommend the Center to communicate with its third party loan servicer to get an understanding of the ownership of the loan. We also recommend the Center monitor the loan balance and reconcile the cash disbursed to the loan servicer to the loan trial balance and loan documentation it receives from the servicer and reconcile the cash receipt of principal and interest from repayment of loans to the loan trial balance.

Management's Response:

Management concurs with the finding. The adjusting entry was recorded for the financial statements. Management will implement new procedures going forward.

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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

Finding Number 2011-02 Loan Underwriting
Federal Program: State Energy Program (Loan Program) – ARRA
CFDA Number: 81.041

The Loans underwriting was not properly monitored.
Type of Finding: Internal Control over Compliance, Material Weakness

Condition:

During the audit, we noted the Center did not review the application and underwriting documents of loans made by the loan services or approve the underwriting.

Criteria:

Per the grant agreement, the Center shall use the funds to design, develop, and promote a program that provides financing for energy-efficiency improvements and renewable-energy installations.

Cause:

The Center has not established monitoring procedures for the underwriting by the third party loan servicer.

Effect:

The Center uses a third party loan servicer to underwrite the loans and does not review the documents obtained to perform the underwriting. The loans may not be use for financing for energy-efficiency improvements or renewable-energy installations.

Questioned Cost:

Unknown.

Recommendation:

We recommend the Center to design internal control procedures to ensure the loans are made in compliance with the grant agreement and monitor the underwriting of the loan servicer to ensure they comply with the guidelines established.

Management's Response:

Management concurs with the finding. The Center had subsequently reviewed all outstanding loans, and no non-compliance was noted. The Center has implemented new procedures going forward.

MARYLAND CLEAN ENERGY CENTER

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011**

The Center was not required to perform an audit under OMB Circular A-133 in fiscal year 2010.