

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT GREEN BANK
(FORMERLY THE CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY)
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2017*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

Table Of Contents

Executive Summary	i
INTRODUCTION	1
Comments	2
FOREWORD	2
Component Units.....	3
CEFIA Holdings, LLC.....	3
CT Solar Loan I, LLC.....	4
CEFIA Solar Services, Inc.....	4
CT Solar Lease II, LLC	4
CT Solar Lease 3, LLC	4
CGB Meriden Hydro, LLC.....	4
Significant State Legislation.....	5
Board of Directors and Administrative Officials	5
RÉSUMÉ OF OPERATIONS	6
Revenues.....	9
Expenditures	9
Other Examinations	10
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	11
Reconciliation of Payroll Records.....	11
Questionable Severance Agreements	12
Cancellation Fees Incurred for Proposed Projects.....	17
Untimely Reporting	18
Inadequate Loans and Grants Procedures.....	22
Incomplete Inspection Reports	25
Inadequate Monitoring of Board Member Attendance	27
RECOMMENDATIONS	30
ACKNOWLEDGEMENT	33
CONCLUSION.....	34

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes we have audited certain operations of the Connecticut Green Bank (CGB), formerly known as the Clean Energy Finance and Investment Authority, for the years ended June 30, 2016 and 2017. The mission of this quasi-public agency is to support the Governor’s and Legislature’s energy strategy to achieve cleaner, cheaper and more reliable sources of energy while creating jobs and supporting local economic development. It was created to promote energy efficiency and investment in renewable energy sources. To achieve this mission the Green Bank uses limited public resources to attract private capital investment in order to make clean energy more accessible to customers.

The objectives of the audit were to evaluate internal controls over significant functions, compliance with policies, procedures and legal provisions, and the economy and efficiency of certain management practices and operations. The audit resulted in 7 recommendations. Recommendation 4 was repeated from the prior audit.

Page 12	The Connecticut Green Bank should strengthen internal controls over payroll to include a reconciliation between internal and Core-CT records.
Page 13	The Connecticut Green Bank should revise its bylaws to require separation agreements be approved by its board of directors based on the recommendations of the Budget and Operations Committee.
Page 17	The Connecticut Green Bank should consider requiring a refundable application fee that would cover costs related to the review of potential C-PACE projects.
Page 18	The Connecticut Green Bank should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes.
Page 23	The Connecticut Green Bank should strengthen internal controls by ensuring that applications are properly completed prior to the execution of a financing agreement.
Page 26	The Connecticut Green Bank should strengthen internal controls by ensuring that inspection reports are properly documented and contain the date and time of the inspections.
Page 28	The Connecticut Green Bank should strengthen internal controls to ensure compliance with the General Statutes and bylaws. If the Connecticut Green Bank determines that any of its statutes are impractical or outdated, it should request a legislative change.

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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July 31, 2019

AUDITORS' REPORT CONNECTICUT GREEN BANK (FORMERLY THE CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY) FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2017

We have audited certain operations of the Connecticut Green Bank (CGB) in fulfillment of our duties under Sections 1-122 and Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2016 and 2017. The objectives of our audit were to:

1. Evaluate the bank's internal controls over significant management and financial functions;
2. Evaluate the bank's compliance with policies and procedures internal to the bank or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether CGB has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance, as applicable; and
3. Evaluate the effectiveness, economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the bank, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could

occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the department's management and the state's information systems, and was not subjected to the procedures applied in our audit of the bank. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents findings arising from our audit of CGB.

COMMENTS

FOREWORD

The Connecticut Green Bank (CGB) was established through Public Act 11-80, effective July 1, 2011. CGB operates primarily under Chapter 283, Section 16-245n of the General Statutes. Subsection (d)(1)(A) of that section includes CGB as a public instrumentality and political subdivision of the state. Pursuant to Section 1-120 of the General Statutes, CGB is a quasi-public agency subject to the requirements in Chapter 12. As a quasi-public agency, CGB's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

The Connecticut Green Bank administers the Connecticut Clean Energy Fund that was previously administered by Connecticut Innovations (CI). Originally the Clean Energy Finance and Investment Authority (CEFIA), it was renamed the Connecticut Green Bank on June 6, 2014 through Public Act 14-94.

The Connecticut Green Bank's mission is to support the Governor's and Legislature's energy strategy to achieve cleaner, cheaper and more reliable sources of energy while creating jobs and supporting local economic development. It was created to promote energy efficiency and investment in renewable energy sources. To achieve its mission, CGB uses limited public

resources to attract private capital investment in order to make clean energy more accessible to consumers. In accordance with Section 16-245n(d)(1)(B), CGB's purpose includes: (1) developing separate programs to finance and otherwise support clean energy investment in residential, municipal, small business and larger commercial projects and such others as CGB may determine, (2) supporting financing or other expenditures that promote investment in clean energy sources in accordance with a comprehensive plan developed by it to foster the growth, development and commercialization of clean energy sources and related enterprises, and (3) stimulating demand for clean energy and the deployment of clean energy sources within the state that serve end use customers in the state.

The principal source of CGB revenue is utility customer assessments made by the Public Utilities Regulatory Authority in accordance with Section 16-245n of the General Statutes. It is a charge per kilowatt-hour to each end-user of electrical services provided by utility companies in the State. Utility customer assessments can be used for both general and administrative expenses and program expenses of the CGB. During the audited period, the charge was 1 mill per kilowatt-hour. It is this assessment that provides the largest source of revenue for the CGB. CGB also receives a portion of Connecticut's funds from the Regional Greenhouse Gas Initiative (RGGI) for the financing of energy efficiency and renewable energy projects. Funds from RGGI auctions are used to fund commercial property assessed clean energy program (C-PACE) loans. Other sources of revenue include renewable energy certificate (REC) sales, clean renewable energy bond (CREB) sales, and the federal government.

When the Connecticut Green Bank was formed, it was primarily a grant organization. It issued grants to fund solar projects and provided incentive programs to encourage the participation of energy users. In fiscal year 2013, CGB decided to transition to innovative, low-cost financing of clean energy deployment to reduce reliance on grants, rebates, and other subsidies. This transition enabled CGB to invest its funds in activities that generate a return and create revenue that can be reinvested in solar energy for Connecticut. CGB now invests over 80% of its resources in loans, leases, and credit enhancements.

Component Units

The Connecticut Green Bank has 6 private subsidiaries intended to increase financing for different projects. The subsidiaries are legal, separate for-profit companies created to originate and administer the CGB solar and hydro energy programs as follows:

CEFIA Holdings, LLC

CEFIA Holdings, LLC (CEFIA Holdings) is a Connecticut limited liability corporation, owned by the Connecticut Green Bank (99%) and Connecticut Innovations (1%). It funds a portfolio of residential solar loans and investments in solar photovoltaic and solar thermal equipment for the benefit of Connecticut homeowners, businesses, not-for-profits and municipalities through its CT Solar Lease 2 program. CEFIA Holdings acquires the initial title to the solar assets and contracts with independent solar installers to complete the installation and arrange for the leasing of the solar assets (or sale of energy under power purchase agreements) to the end users. CEFIA Holdings is also responsible for procuring insurance, maintenance and warranty services for the ultimate owner of the solar assets, CT Solar Lease II. CEFIA Holdings

sells the residential and commercial projects to CT Solar Lease II before the projects are placed in service. After acquiring the residential and commercial projects, CT Solar Lease II administers the portfolio of projects with the assistance of an outside corporation. CEFIA Holdings is presented in CGB's financial statements as a blended unit.

CT Solar Loan I, LLC

CT Solar Loan I is a limited liability corporation wholly owned by CEFIA Holdings established to make loans to residential property owners for the installation of photovoltaic equipment. It is presented as a blended unit in CGB's financial statements.

CEFIA Solar Services, Inc.

CEFIA Solar Services is a Connecticut corporation, owned by CEFIA Holdings. It was established to share in the ownership risks and benefits derived from the leasing of solar photovoltaic, solar thermal equipment and the sale of energy, as it is the managing member of CT Solar Lease II. CEFIA Solar Services has an ownership interest in CT Solar II (1%) and is the managing member of the entity responsible for performing all management and operational functions pursuant to the operating agreement of CT Solar Lease II. CEFIA Solar Services is presented as a discrete unit in CGB's financial statements.

CT Solar Lease II, LLC

CT Solar Lease II is a Connecticut limited liability corporation that acquires the title to residential and commercial solar projects from the developer, CEFIA Holdings, using capital from its members along with non-recourse funding from participating banks. Repayment to participating banks is predicated upon the property owners' repayment to CT Solar Lease II of the advanced installation funds, as well as revenue from production-based incentives. CT Solar Lease II is owned by an outside investor-member limited liability company (99%) and by CEFIA Solar Services (1%) as the managing member. This entity is presented as a discrete unit in CGB's financial statements.

CT Solar Lease 3, LLC

CT Solar Lease 3 is a Connecticut limited liability company and is a subsidiary of CEFIA Solar Services Inc. It was formed to acquire title to solar photovoltaic equipment and related power purchase agreements (PPA) for not-for-profits, commercial enterprises and municipalities, from CEFIA Holdings LLC using capital from its members. The company has two members, CEFIA Solar Services Inc. (its managing member) and Firststar Development, LLC (its investor member). This entity is presented as a discrete unit in CGB's financial statements.

CGB Meriden Hydro, LLC

CGB Meriden Hydro, LLC is a single member limited liability corporation created for the purchase and leaseback of a hydroelectric facility. The hydroelectric facility was purchased from the facility's developer, Hanover Pond Hydro LLC (Hanover Pond), pursuant to a sale and

leaseback agreement. Hanover Pond remits a monthly lease payment to CGB Meriden Hydro equal to the monthly payment made by the City of Meriden to Hanover Pond for the purchase of electricity generated by the hydroelectric facility.

Significant State Legislation

Public Act 16-212, effective June 10, 2016, removed CGB from under CI for administrative purposes only. CGB may enter into a memorandum of understanding or other arrangement with CI with respect to the provision or sharing of space, office systems or staff administrative support. In addition, CGB was granted additional powers including to have perpetual succession as a body corporate and to adopt bylaws, policies and procedures for the regulation of its affairs and the conduct of its business; to make and enter into all contracts and agreements that are necessary or incidental to the conduct of its business; to invest in, acquire, lease, purchase, own, manage, hold, sell and dispose of real or personal property or any interest therein; to borrow money or guarantee a return to investors or lenders; and to hold patents, copyrights, trademarks, marketing rights, licenses or other rights in intellectual property.

Public Act 17-2 (June 2017 Special Session), effective October 30, 2017, diverted \$14 million from the Clean Energy Fund to the General Fund, and \$10 million from the Regional Greenhouse Gas Account to the General Fund in fiscal years 2018 and 2019.

Board of Directors and Administrative Officials

Pursuant to Section 16-245n subsection (e) of the General Statutes, the powers of CGB are vested in and exercised by a board of directors. The CGB board consists of eleven voting and 2 nonvoting members, each with knowledge and expertise in matters related to the purpose and activities of CGB, and includes 4 members appointed by the Governor, 4 members appointed by various legislative leaders, the State Treasurer, the commissioner of the Department of Energy and Environmental Protection (DEEP), and the commissioner of the Department of Economic and Community Development (DECD). In addition, the president of CGB serves on the board in an ex-officio, nonvoting capacity. The Governor appoints the chairperson of the board. The board adopts bylaws and procedures it deems necessary to carry out its functions. The members of CGB's board of directors as of June 30, 2017, were as follows:

Appointed by the Governor:

Reed E. Hundt
John Harrity
Kevin Walsh
Gina McCarthy

Legislative Appointments:

Thomas M. Flynn
Vacant * Eric Brown appointed on August 3, 2017
Matthew Ranelli
Elizabeth Crum

Ex-Officio:

Catherine H. Smith, Chairperson, Commissioner, DECD
Robert Klee, Commissioner, DEEP
Denise L. Nappier, State Treasurer

Non-voting Members:

Bryan Garcia, President of CGB
Vacancy

In addition, the board set up several committees and sub-committees to assist it in making decisions related to CGB. During the audited period, the CGB board had 4 standing committees: Audit, Compliance, and Governance Committee; Budget and Operations Committee; Deployment Committee; and the Joint Committee of the CT Energy Efficiency Board and the CGB Board of Directors. Bryan Garcia served as president throughout the audited period and continues to serve in that capacity.

RÉSUMÉ OF OPERATIONS

The financial position of CGB as of June 30, 2016 and 2017 is presented below. For comparative purposes, the amounts for the fiscal year ended June 30, 2015 are also presented. The financial position of CGB as of June 30, 2017, per its audited financial statements, is presented below.

	<u>Fiscal Years Ended June 30,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current:			
Cash and Cash Equivalents	\$ 37,148,283	\$ 48,072,061	\$ 39,893,649
Accounts Receivable	404,807	1,430,622	35,155
Utility Remittance Receivable	2,507,659	2,670,634	2,518,850
Other Receivables	770,003	430,002	313,228
Due from Component Unit	-	-	-
Prepaid Expenses and Other Assets	10,012,025	4,245,806	1,030,251
Contractor Loans	-	2,272,906	3,112,663
Current Portion of Solar Lease Notes	869,831	845,479	803,573
Current Portion of Program Loans	<u>1,910,048</u>	<u>1,378,242</u>	<u>10,264,825</u>
Total Current Assets	<u>53,622,656</u>	<u>61,345,752</u>	<u>57,972,194</u>

Non-Current:			
Portfolio Investments	\$1	\$ 1,000,000	\$1,000,000
Bonds Receivable	3,328,530	3,492,282	1,600,000
Solar Lease Notes, less Current Portion	7,242,822	8,162,635	9,015,437
Program Loans, less Current Portion	40,296,113	31,889,275	30,253,119
Renewable Energy Credits	654,767	812,770	933,054
Investment in Component Units	-	-	-
Capital Assets, Net of Depreciation and Amortization	61,510,207	58,114,914	26,971,087
Asset Retirement Obligation, Net	2,535,104	2,261,472	1,029,196
Restricted Assets:			
Cash and Cash Equivalents	<u>22,063,406</u>	<u>9,749,983</u>	<u>8,799,005</u>
Total Noncurrent Assets	<u>137,630,950</u>	<u>115,483,331</u>	<u>79,600,898</u>
Total Assets	<u>\$191,253,606</u>	<u>\$176,829,083</u>	<u>\$137,573,092</u>
Deferred Outflows of Resources			
Deferred Amount for Pensions	<u>9,978,107</u>	<u>2,575,368</u>	<u>1,669,961</u>
Total Deferred Outflows of Resources	<u>9,978,107</u>	<u>2,575,368</u>	<u>1,669,961</u>
Liabilities			
Current Maturities of Long-Term Debt	\$2,647,159	\$1,794,181	\$ 307,203
Accounts Payable and Accrued Expenses	8,660,946	2,984,746	5,820,170
Due to Component Units	-	-	-
Due to Outside Agency	-	30,127	49,516
Custodial Liability	1,844,791	2,155,128	647,964
Unearned Revenue	<u>871,714</u>	<u>6,258,204</u>	<u>2,518,537</u>
Total Current Liabilities	14,024,610	13,222,386	9,343,390
Asset Retirement Obligation	3,020,405	2,528,335	1,094,125
Long-Term Debt, Less Current Maturities	29,736,999	18,567,419	3,546,321
Fair Value of Interest Rate Swap	540,877	1,627,864	660,073
Pension Liability	<u>25,245,439</u>	<u>16,096,113</u>	<u>14,899,766</u>
Total Liabilities	<u>\$72,568,330</u>	<u>\$52,042,117</u>	<u>\$ 29,543,675</u>
Deferred Inflows of Resources			
Deferred Amount for Pension	-	-	<u>532,135</u>
Net Position			
Invested in Capital Assets	\$560,527	\$655,737	\$ 26,971,087
Restricted Net Position:			
Nonexpendable	60,026,996	58,709,303	1,000
Restricted for Energy Programs	16,843,271	5,294,983	8,799,005
Unrestricted (Deficit)	<u>51,232,589</u>	<u>62,702,311</u>	<u>73,396,151</u>
Total Net Position	<u>\$128,663,383</u>	<u>\$127,362,334</u>	<u>\$ 109,167,243</u>

During the fiscal year ended June 30, 2017, cash decreased \$10,923,778 compared to fiscal year 2016 mostly due to an increase in payments for the Residential Solar Incentive Program and a decrease in RGGI auction proceeds.

Capital assets increased by \$31,143,827 and \$3,395,293 in fiscal years 2016 and 2017, respectively, as a result of the continued acquisition of solar equipment by CT Solar Lease 2 LLC.

The Connecticut Green Bank has invested in emerging technology companies as equity investments and technology innovation programs and projects. As of June 30, 2017, portfolio investments represent equity and debt investments in 3 companies. CI manages CGB's portfolio investments. In the absence of readily determinable market values, investments are carried at fair value as estimated by the Valuation Committee of CI, using United States Private Equity Valuation Guidelines promulgated by the Private Equity Investment Guidelines Group. Those estimated values may differ significantly from the amounts ultimately realized from the investments due to the inherent uncertainty of valuations, and the differences could be material. This is commonplace with investments such as those held by CGB and disclosed in CGB's audited financial statements.

A schedule of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2016 and 2017, follows. The financial position of CGB as of June 30, 2017, per its audited financial statements, is presented below.

	Fiscal Years Ended June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
Utility Remittances	\$26,404,349	\$26,605,084	\$ 27,233,987
Grant Revenue	98,486	589,917	192,274
RGGI Auction Proceeds	2,392,647	6,481,562	16,583,545
Energy System Sales	-	-	16,689
REC Sales	2,570,647	2,653,783	1,474,488
Other Income	<u>2,500,419</u>	<u>1,457,889</u>	<u>793,435</u>
Total Operating Revenue	<u>\$ 33,966,548</u>	<u>\$ 37,788,235</u>	<u>\$ 46,294,418</u>
Operating Expenses			
Cost of Goods Sold – Energy Systems	\$-	\$-	\$ -
Grants and Program Expenditures*	-	-	22,130,676
Grants and Incentive Programs*	17,084,211	10,644,334	-
Program Administration Expenses*	16,824,382	16,497,328	-
General and Administrative Expenses	<u>5,725,394</u>	<u>4,706,315</u>	<u>3,117,376</u>
Total Operating Expenses	<u>39,633,987</u>	<u>31,847,977</u>	<u>25,248,052</u>
Operating Income (Loss)	<u>\$ (5,667,439)</u>	<u>\$ 5,940,258</u>	<u>\$ 21,046,366</u>
NonOperating Revenue (Expenses)			
Interest Income –Promissory Notes	\$2,921,710	\$2,895,504	\$ 2,217,368
Interest Income – Short Term Cash Deposits	223,298	120,613	93,949
Interest Expense LT Debt	(1,222,384)	(730,839)	(119,345)
Interest Income – Component Units	-	-	-
Interest Expense – Component Units	-	-	-
Payments to State of Connecticut	-	-	(19,200,000)
Distributions to Member	(436,452)	(301,548)	(104,579)
Realized Gain (Loss) on Investments	(93,974)	(33,723)	(1,180,285)
Unrealized Gain (Loss) on Investments	(999,998)	-	-
Unrealized Gain (Loss) on Interest Rate Swap	1,086,987	(967,791)	(660,073)
Provision for Loan Losses	<u>(956,489)</u>	<u>(1,021,826)</u>	<u>(563,825)</u>
Total Nonoperating Revenue (Expenses)	<u>\$522,698</u>	<u>\$(39,610)</u>	<u>\$ (19,516,790)</u>

Change in Net Position before Payments to State of Connecticut and Capital Contributions	(5,144,741)	5,900,648	1,529,576
Capital Contributions	<u>6,445,790</u>	<u>12,294,443</u>	<u>6,844,430</u>
Change in Net Position	1,301,049	18,195,091	8,374,006
Net Position – Beginning of year	<u>127,362,334</u>	<u>109,167,243</u>	<u>100,793,237</u>
Net Position – End of Year	<u>\$128,663,383</u>	<u>\$127,362,334</u>	<u>\$109,167,243</u>

*Program Administration Expenses were broken out of the Grant and Program Expenditures line item in 2016

Revenues

During the fiscal year ended June 30, 2017, grant revenue decreased \$491,431 compared to fiscal year 2016 due to a decrease in federal grant awards. CGB’s goal is to reduce reliance on grants, rebates, and other subsidies and move towards innovative low-cost financing of clean energy deployment.

CGB received payments from the state for the Regional Greenhouse Gas Initiative (RGGI) for the financing of energy efficiency and renewable energy projects through the CGB C-PACE Program. RGGI auction proceeds decreased from \$16.5 million during the 2014-2015 fiscal year to \$6.4 million and \$2.3 million in fiscal years 2016 and 2017, respectively. Public Act 13-247 allowed the Commissioner of the Connecticut Department of Energy and Environmental Protection to transfer additional RGGI auction proceeds to CGB to support energy efficiency financing opportunities. This allocation was not continued during fiscal years 2016 and 2017.

CGB owns Class 1 Renewable Energy Certificates (REC) that are generated by certain commercial renewable energy facilities for which CGB provided the initial funding. Through its Residential Solar Incentive Program, CGB owns the rights to future REC generated by facilities installed on residential properties. Revenues from REC sales increased from \$1,474,488 in fiscal year 2015 to \$2,570,647 in fiscal year 2017.

Expenditures

Total expenditures for grants and programs were \$27,141,662 in fiscal year 2016 and \$33,908,593 in fiscal year 2017, an increase of \$6,766,931. General and administrative expenditures increased \$1,019,079 from \$4,706,315 in fiscal year 2016 to \$5,725,394 in fiscal year 2017. Total operating expenditures increased \$7,786,010 from \$31,847,977 in fiscal year 2016 to \$39,633,987 in fiscal year 2017. Grant expenditures fluctuate from year to year, as the expenditures are based on the achievement of contract milestones by the grantee. In addition, CGB is transitioning to a financing model from primarily issuing grants to fund renewable energy and energy efficiency programs.

Other Examinations

Independent public accountants audited the Connecticut Green Bank's financial statements for the years under review. Those audits provided assurance that the financial statements presented fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of CGB as of June 30, 2016 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As an integral part of their financial statement audits, the independent public accountants provided reports on compliance and internal control over financial reporting. These reports disclosed no instances of noncompliance concerning these requirements. The reports on internal control indicated that no material weaknesses in internal control over financial reporting were identified.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our audit identified the following reportable conditions.

Reconciliation of Payroll Records

Criteria: Effective internal control monitoring procedures dictate that internal records should be reconciled to those maintained by other state fiscal offices.

Condition: We noted discrepancies regarding payroll account balances between Core-CT and Connecticut Green Bank (CGB) internal records for fiscal years ended June 30, 2016 and 2017, totaling \$552,214 and \$89,365, respectively. CGB uses Core-CT to process its payroll and uses the Intacct Financial Management and Accounting System for its remaining accounting functions. According to Core-CT, the total CGB payroll and fringe benefit balance for fiscal years ended June 30, 2016 and 2017 totaled \$8,195,757 and \$8,776,143 respectively. Additionally, CGB was unable to identify \$12,250 in payroll costs recorded in Core-CT.

Cause: CGB was not reconciling the payroll records in its accounting system to Core-CT.

Effect: Inadequate reconciliation procedures increase the risk that errors will go undetected and could result in the financial statements being misstated.

Recommendation: The Connecticut Green Bank should strengthen internal controls over payroll to include a reconciliation between internal and Core-CT records. (See Recommendation 1.)

Agency Response: “The Green Bank acknowledges that reconciling its financial records to records maintained by the State Comptroller’s CORE accounting system has not been a part of its internal accounting controls over its own accounting and financial reporting system because it does not use the CORE system for accounting and financial reporting. On a bi-weekly basis the Green Bank accesses CORE to generate payroll and benefits registers. The Green Bank uses these registers as support for its bi-weekly remittance to the State Treasurer for employee compensation and benefits paid on its behalf. The Green Bank has not been informed by the State Comptroller’s office that it owes the State additional reimbursement for employee compensation and benefits for fiscal years 2017 and 2016.

The Green Bank’s financial records are audited each year by an independent certified public accounting firm. Part of the audit includes a review of its internal controls over its accounting records. These audited financial records become a part of its published Comprehensive Annual

Financial Report. The Green Bank was not made aware of any adjustments or material internal control weakness in the area of accounting for payroll disbursements for fiscal years 2017 and 2016.

Subsequent to receiving this finding the Green Bank was able to reconcile its records to the CORE records. The unreconciled differences that require further review were \$1,325 for fiscal 2017 and \$89 for fiscal 2016. Reconciling items include year-end accounting accruals and payments to third parties for employee related expenses. Since the Green Bank does not use the CORE system for its accounting system, this activity is not recorded in CORE.”

Questionable Severance Agreements

Criteria: Sound business practices dictate that quasi-public agency payroll expenses should be necessary and reasonable in nature and amount.

Section 5.3.2 of the Connecticut Green Bank bylaws states that the Budget and Operations Committee’s responsibilities includes matters of employee separation and severance.

The CGB severance policy is intended to recognize the service of employees and mitigate the burden of displacement when a reduction in force is deemed necessary. It is not intended to set a standard for termination of employees under other circumstances.

Condition: During the audited period, CGB eliminated 3 positions yet made corresponding severance payments equal to 26 weeks of salary for all 3 employees, totaling \$148,526. The employees received benefits in addition to salary while employed. CGB refilled these positions at lower compensation levels within 1 to 11 months. Furthermore, the severance agreements were approved by the Budget and Operations Committee as required by the bylaws but not approved by the board of directors.

In addition, CGB provided a transition agreement to one of these employees in which it allowed the employee to maintain employment until vesting for retirement benefits. Furthermore, it appears that the employee’s duties did not change during the transition agreement. The transition agreement specified the following:

“WHEREAS, Employee is currently an Associate Director of Outreach; and WHEREAS, Employer has made the decision to eliminate the position of Employee, and thus wishes to transition Employee’s role with Employer according to the terms specified below.

Employee will continue to be paid his salary through January 31, 2017, and will retain his title as Associate Director of Outreach.

Employee's employment with Employer will end on January 31, 2017, and will be characterized as an immediate job elimination in conjunction with a retirement.

Employee shall devote his best efforts in performing duties of his position as Associate Director of Outreach during the transition period."

In response to budget sweeps enacted by Public Act 17-2, CGB eliminated 4 positions during fiscal year 2018 and made corresponding severance payments to the 4 employees, totaling \$130,450. One of the employees whose position was eliminated in fiscal year 2018 was considered a new hire due to the severance payments during fiscal year 2017. That employee worked for CGB for 10 months before receiving a severance agreement.

Cause: CGB informed us that it eliminated the positions as part of a reallocation of resources within the marketing department.

The CGB bylaws do not require the full board of directors to approve employee separations and severance agreements. Instead, the board assigns its Budget and Operations Committee, by a majority vote, (consisting of 3 of the board's members) the approval of severance payments.

Effect: The severance payments may not have been a prudent use of CGB resources.

Recommendation: The Connecticut Green Bank should revise its bylaws to require separation agreements be approved by its board of directors based on the recommendations of the Budget and Operations Committee. (See Recommendation 2.)

Agency Response: "Severed Employees

Per the Employee Handbook¹ of the Connecticut Green Bank, employment with the organization is "at will," which means "that either party may terminate the relationship at any time for any reason, with or without cause".

¹ Employee Handbook of the Connecticut Green Bank (p. 10)

In order to further the mission of the Green Bank, the Marketing Department underwent a restructuring to better align its support of the organization. On June 7, 2016, the Budget & Operations Committee exercised its powers as stated in the Bylaws of the Green Bank (i.e., Section 5.3.2) to assure “the just and fair treatment of all employees of the Green Bank, including employment policies and practices, employee training, development, evaluation and advancement, employee compensation and benefits, and matters of employee separation and severance” by unanimously accepting and approving the recommendation of the President and CEO and VP of Human Resources to release three employees – see Table 1.

Table 1. Breakdown of Employees Severed in FY 2016 and FY 2017

Position	Salary	Benefits	Years of Service	Date of Notice	Last Day of Service
Senior Manager	\$ 85,589	\$ 68,200	11.5	6/8/16	6/30/16
Senior Manager	\$ 93,920	\$ 75,136	15.0	6/8/16	6/30/16
Associate Director	\$117,542	\$ 94,033	10.0	6/8/16	1/31/17
Total	\$297,051	\$ 237,369	36.5		

These employees collectively served the State of Connecticut for 36.5 years of public service with total salaries of \$297,051 and benefits of \$237,369, receiving a maximum severance of \$148,526, or 26-weeks of salary. Per the Severance Policy of the Green Bank, the Budget & Operations Committee can determine the nature and amount of the severance considering such factors as the length of service and circumstances of separation.

For the Associate Director position, the individual was allowed to stay onboard through a transition agreement to complete the closure of a program (i.e., Clean Energy Communities Program). Having led and administered the program for 10 years, the employee had developed valuable relationships with many of its stakeholders and beneficiaries. As such, the employee’s tenure enabled them to close the program down in the most efficient and diplomatic way possible. To this end, the employee’s ability to not only wind down the program on schedule but also preserve the organization’s community and stakeholder relationships in the process, was not seen as one that could have been replicated with an immediate termination, and therefore the employee was offered a transition agreement. The employee’s final responsibilities were to

determine what incentives cities and towns were to receive through the program, notice the cities and towns of the end of the program and the process for them to redeem their incentives, and to ensure that proper paperwork was in place to payout the remaining incentives earned by the town.

The Green Bank considers the termination of “at will” staff thoughtfully, especially those that have served the State of Connecticut a total of 36.5 years at the Green Bank and its predecessor organizations (i.e., Connecticut Clean Energy Fund administered by Connecticut Innovations). In an effort to better adjust our marketing resources to better serve the mission and new direction of the organization, the President and CEO, with support from the Director of Marketing, felt it necessary to sever the employees with the review and approval of the Budget & Operations Committee. As difficult as this decision was, acknowledging the service of those severed with maximum severance, reducing organizational operating expenses, and maintaining the stability, continuity, and productivity of those staff not severed, was a management decision that reflects how the organization treats its people with just and fair treatment.

New Hired Employees

Following the severance of these employees, three (3) new staff were hired at different levels – see Table 2.²

Table 2. New Staff Hires into the Marketing Department

Position	Salary	Benefits	Start Date
Assistant	\$ 35,000	\$ 28,000	5/8/17
Senior Associate	\$ 75,000	\$ 60,000	10/18/16
Associate Director	\$ 109,641	\$ 87,713	1/17/17
Total	\$ 219,641	\$ 175,713	

These new hires not only saved the organization \$139,066 in salary and benefits, but more importantly, their knowledge, skills, and abilities were more in line with the direction the organization was taking – leading to an improvement in overall performance of the Marketing Department in support of the mission of the organization.

It should be noted that an additional four (4) employees were severed in FY 2018 as a result of State of Connecticut sweeps of \$16.3 million a year for each of FY 2018 and FY 2019 – see Table 3.

² It should be noted that one (1) of the new hires was terminated on February 15, 2018 and received a severance of \$4,712 or 7 weeks of service per the Employee Handbook, as a result of the State of Connecticut sweeps of \$16.3 million in each of FY 2018 and FY 2019.

Table 3. Employees Severed in FY 2018 as a Result of the Sustainability Plan Approved by the Board of Directors of the Connecticut Green Bank in Response to the Sweeps

Position	Salary	Benefits	Years of Service	Date of Notice	Last Day of Service
Assistant	\$ 35,000	\$ 28,000	0.5	1/8/18	2/15/18
Senior Associate	\$ 74,684	\$ 59,747	8.0	1/8/18	3/1/18
Associate Director	\$ 119,746	\$ 95,797	10.5	1/8/18	3/1/18
VP of HR	\$ 71,410	\$ 57,128	11.0	1/8/18	6/28/18
Total	\$ 300,840	\$240,672	29.0		

Given the unfortunate circumstances of the State of Connecticut’s fiscal situation and its sweep of the Green Bank, the Board of Directors approved of a Sustainability Plan on December 15, 2017 that included severance of these employees, including the recognition that “Given the nature of the situation, there will also need to be a transition and reduction in staff that will need to be handled in a compassionate, thoughtful, and methodical manner, which we can discuss in executive session.”³ Per the Employee Handbook, all severed staff members were provided the maximum severance per the policy totaling \$130,450 based on the time they have served the State of Connecticut. The Vice President of Human Resources stayed on an additional six months to assist the organization through this period of transition.

The President and CEO of the Green Bank raised the Auditors of Public Account’s recommendation for the organization to revise its bylaws to require separation agreements be approved by the Board of Directors based on the recommendation of the Budget and Operations Committee at its October 26, 2018 Board of Directors meeting. After a full discussion, the Board instructed staff for any severances involving more than one person or one package with a value of more than \$125,000, then they will be brought through the Budget and Operations Committee for a review and recommendation with final approval and authorization by the Board of Directors. With the passage of Public Act 18-137 (the “Act”), Green Bank staff intends to modify its Severance Policy, and subsequent Agreements, to be consistent with the Act.”

³ Sustainability Pathway – FY 2018, FY 2019 and Beyond memo from Bryan Garcia, President and CEO, to the Board of Directors of the Connecticut Green Bank on December 15, 2017.

Cancellation Fees Incurred for Proposed Projects

Criteria: Sound business practices dictate that applicants share responsibility over loan application processing fees.

Condition: During the audited period, Connecticut Green Bank incurred \$141,500 in cancellation fees for Commercial Property Assessed Clean Energy (C-PACE) projects that did not move forward. Our review disclosed that CGB incurred 28 \$1,750 cancellation fees for one C-PACE financing applicant, totaling \$49,000. CGB provided documentation on all \$141,500 in C-PACE cancellation fees. The cancellation fees reflect costs for project review. The applicant is not responsible for these costs, regardless of whether they move forward with the project.

Cause: CGB does not require C-PACE applicants to share in costs related to project review.

Effect: The cancellation fees are not a prudent use of CGB resources.

Recommendation: The Connecticut Green Bank should consider requiring a refundable application fee that would cover costs related to the review of potential C-PACE projects. (See Recommendation 3.)

Agency Response: “In many projects, project development work still needs to be done after a preliminary loan application comes to the Green Bank. The Green Bank has contracted with Sustainable Real Estate Solutions (SRS) to work with contractors and customers to develop these projects. The potential customer is still in a sales process at this point and economic projections for a project still need to be created and presented to the customer. They will then decide whether to “buy” the loan from the Green Bank. Like any traditional business sales process, the potential customer does not carry responsibility for the work done by the seller to develop a proposal for that potential customer. The market would not support an attempt to charge customers directly. The Green Bank and SRS, as the parties who benefit from a closed deal, share the upfront risk in these customer acquisition activities. Since most of the upfront project development work, and therefore risk, is borne by SRS, the Green Bank pays SRS these cancellation fees to partly offset that and keep them providing this essential service to the market. The Green Bank recoups these costs through closing fees and interest earned on deals that close.”

Auditors’ Concluding Comment:

C-PACE applicants can choose to seek alternative funding with other providers after development work has been performed, leaving Connecticut Green Bank to cover the cost of associated fees for projects that did not move forward. It is not realistic nor customary for financial

institutions to cover a loan applicant's project proposal costs if they decide to go to another lender. We believe that it is good business practice for the applicant to have a stake in the financing process by charging a refundable application fee as to avoid applicants shopping for a better deal at the expense of the Green Bank.

Untimely Reporting

Criteria:

Section 1-123 (b) of the General Statutes requires that, for the quarter commencing July 1, 2010, and for each quarter thereafter, the board of directors of each quasi-public agency shall submit a financial report to the legislature's Office of Fiscal Analysis.

Section 16-245 (n)(f)(1) of the General Statutes requires that the board shall issue annually a report to the Department of Energy and Environmental Protection reviewing the activities of the Connecticut Green Bank (CGB) in detail and shall provide a copy of such report, in accordance with the provisions of section 11-4a, to the joint standing committees of the General Assembly having cognizance of matters relating to energy and commerce.

Public Act 11-80, Section 103 (a) states that CGB shall, on or before March 1, 2012, establish a three-year pilot program to promote the development of new combined heat and power projects in Connecticut. Public Act 11-80, Section 103 (c) requires on or before January 1, 2016 CGB shall report to the joint standing committee of the General Assembly having cognizance of matters relating to energy regarding the program established pursuant to subsection (a) of this section and whether such program should continue.

Section 1-123 (a) of the General Statutes requires that the board of directors of each quasi-public agency shall annually submit a report to the Governor and the Auditors of Public Accounts. Such report shall include, but not be limited to, the following: (6) the affirmative action policy statement, a description of the composition of the agency's work force by race, sex, and occupation, and a description of the agency's affirmative action efforts.

Section 4-33a of the General Statutes requires that all boards of trustees of state institutions, state department heads, boards, commissions, other state agencies responsible for state property and funds and quasi-public agencies, as defined in section 1-120, shall promptly notify the Auditors of Public Accounts and the Comptroller of any unauthorized, illegal, irregular or unsafe handling or expenditure of state or quasi-public agency funds or breakdowns in the safekeeping of any other resources of the state

or quasi-public agencies or contemplated action to do the same within their knowledge.

Condition: Our review disclosed that CGB did not submit the following reports in a timely manner for the fiscal years ended June 30, 2016 and 2017:

- Two of the 8 quarterly financial reports.
- Both annual reports on programs and activities undertaken.
- The report on Combined Heat and Power Pilot Program.

Review of the Section 1-123(a) Annual Report revealed section 6 of the 2016 report lacked a description of the composition of the agency's workforce by race, sex, and job title as well as a description of the agency's affirmative action efforts.

CGB failed to promptly notify the Auditors of Public Accounts of the improper use of funds by 2 contractors involved in the Residential Solar Investment Program as required by Section 4-33a of the General Statutes. The improper use of funds consisted of a contractor receiving CGB funds, totaling \$80,357 in outstanding loans, for projects never completed. Additionally, another contractor incurred numerous violations including the submission of fraudulent equipment packing slips for payment on 66 projects.

Cause: CGB did not have adequate internal controls in place for reporting.

Effect: CGB did not comply with statutory reporting requirements.

Recommendation: The Connecticut Green Bank should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes. (See Recommendation 4.)

Agency Response: "Statutorily Required Reporting

Section 1-123 subsection (b) quarterly financial report:

The Green Bank was late in filing two quarterly financial reports. Both the 9/30/2015 report and the 12/31/2015 report were filed on 5/31/2016, respectively beyond the close of their respective quarters. Beginning with the quarter ended 3/31/2016 CGB has and continues to submit quarterly financial reports on a timely basis as follows:

- Quarterly Financial Cash Flow Report – 3/31/2016 – submitted on 5/31/2016
- Quarterly Financial Cash Flow Report – 6/30/2016 – submitted on 8/10/2016

- Quarterly Financial Cash Flow Report – 9/30/2016 – submitted on 11/8/2016
- Quarterly Financial Cash Flow Report – 12/31/2016 – submitted on 2/23/2017
- Quarterly Financial Cash Flow Report – 3/31/2017 – submitted on 5/10/2017
- Quarterly Financial Cash Flow Report – 6/30/2017 – submitted on 8/9/2017
- Quarterly Financial Cash Flow Report – 9/30/2017 – submitted on 12/21/2017
- Quarterly Financial Cash Flow Report – 12/31/2017 – submitted on 2/28/2018
- Quarterly Financial Cash Flow Report – 3/31/2018 – submitted on 5/17/2018

Section 16-245 subsection (n)(f)(1):

The Green Bank submitted its FY 2016 annual report to the DEEP and to the legislative energy and commerce committees on 12/1/2017. The FY 2017 annual report was sent on 8/24/2018.

By statute the Green Bank “shall issue [these reports] annually.” To date, the Green Bank has strived to include all activity during that calendar year and then submit the report in the following calendar year. Knowing now that this is considered to be a late filing, the Green Bank will work to produce and submit said reports, during the same calendar year that the fiscal year ends.

Public Act 11-80, Section 103 (a):

A 2015 law (Public Act 15-152(c)) had extended a reporting deadline for a separate program in an adjacent subsection of existing law, and was misinterpreted as applying to the broader section of that law. Public Act 11-80, Section 103 - as amended by Public Act 12-2, Section 156 - was in 2015 amended by Public Act 15-152(c) to split the reporting deadlines for the Combined Heat and Power Pilot Program and the Anaerobic Digester Pilot Program.

This was also explained in the introductory paragraph of the Green Bank’s report to the legislative Energy and Technology Committee – pertaining to this statutory mandate - on the Combined Heat and Power Pilot Program, filed 1/1/17:

“This report is being filed later than the statutory deadline due to confusion with interpreting the amended language of Public Act 15-152, which extended the reporting filing date for the Anaerobic Digestion Pilot

Program from January 1, 2016 to January 1, 2018. This same extension was thought to apply to the CHP Pilot Program deadline as well (see amended statute in Appendix 1).”

Section 1-123 (a) (6) Affirmative Action Policy:

We did locate the Affirmative Action Policy document meant to be submitted with the FY16 annual report in our files that was unintentionally omitted. We did properly submit this report in FY17.

State Auditor Notification Finding

The use of funds by one contractor involved in the Residential Solar Investment Program (RSIP) relates to loans from the Green Bank to the contractor that went into default and were not paid back. Both the State Police and the Connecticut Department of Consumer Protection were notified by the Green Bank and involved early on due to alleged improper behavior by the contractor and concern over the potential negative impact on the contractor’s customers.

For the second contractor involved in the RSIP referenced in this finding, the Green Bank initiated misconduct proceedings against the contractor, and subsequently the contractor entered into a settlement agreement where all RSIP projects were completed and contractual obligations were met. Although both contractors were alleged to have acted improperly, at no time was there “any unauthorized, illegal, irregular or unsafe handling or expenditure of state or quasi-public agency funds or breakdowns in the safekeeping of any other resources of the state or quasi-public agencies” which would trigger the statutory requirements under CT General Statute Section 4-33.

As such, it is the Green Bank’s position that the (i) failure of a third-party borrower to repay a loan, and (ii) settlement agreement entered into by the Green Bank to resolve alleged improper behavior by such third-party contractor does not trigger the statutory requirements under CT General Statute Section 4-33. The Green Bank also took appropriate actions with relevant authorities and notified the State Auditors as it relates to the first contractor referenced above in an abundance of caution.

Voluntary Reporting

It should be noted that beyond all of the statutory reporting requirements of the Connecticut Green Bank in which it provides materials directly to the legislative and executive branches of government, that the organization also voluntarily reports out to the general public in other meaningful ways as well.

For example, the Connecticut Green Bank makes all of its Annual Reports, Comprehensive Annual Financial Reports, and Auditors of Public Account reports easily accessible on its website.⁴

And given that the Green Bank receives a majority of its funding from electric ratepayers (i.e., Clean Energy Fund per Section 16-245n(b) and regional greenhouse gas initiative allowance proceeds (per Section 22a-200(c)), it was among the first quasi-public agencies to participate in Open Connecticut. Through Open Connecticut, the Green Bank voluntarily provides check-book level vender payment data (i.e., from FY 2015 through FY 2017). Whether its funding is through ratepayers or taxpayers, the Connecticut Green Bank has voluntarily provided additional information to the general public to make it easier for them to follow where their dollars are going as they have a right to know.

All those public, quasi-public, private, or nonprofit organizations that receive such ratepayer and/or taxpayer funds to support the implementation of various public policies on energy, should consider beyond statutory reporting and include voluntary reporting such as through Open Connecticut.”

Auditors’ Concluding Comment:

The second RSIP contractor committed violations including the submission of fraudulent equipment packing slips for payment on 66 projects. This would require Connecticut Green Bank to notify the Auditors of Public Accounts in accordance with Section 4-33a of the General Statutes.

Inadequate Loans and Grants Procedures

Criteria: Section 16-245n(a) of the Connecticut General Statutes requires that projects involve clean energy technology, which include solar photovoltaic energy, solar thermal, geothermal energy, wind, ocean thermal energy, wave or tidal energy, fuel cells, landfill gas, hydropower, hydrogen production and hydrogen conversion technologies, low emission advanced biomass conversion technologies, alternative fuels, used for electricity generation including ethanol, biodiesel, usable electricity from combined heat and power systems with waste heat recovery systems, thermal storage systems, other energy resources and emerging technologies which have significant potential for commercialization and which do not involve the combustion of coal, petroleum or petroleum products, municipal solid waste or nuclear fission.

⁴ <https://www.ctgreenbank.com/strategy-impact/reporting-transparency/>

Sound business practices dictate that applications be properly completed prior to the execution of a financing agreement.

Sound business practices dictate that agencies maintain adequate supporting documentation for all stages of a project, which must be kept on file for audit purposes.

Condition: CGB informed us that it notifies Commercial Property Assessed Clean Energy Program(C-PACE) applicants of the documents they need to provide, but they are initially not required to submit a formal application when seeking financing.

We were unable to determine the scope and compliance of projects related to energy efficiency solutions for colleges and universities, because the Connecticut Green Bank did not maintain adequate documentation.

We were unable to determine compliance with Section 16-245n(a) of the General Statutes for 2 projects related to the Clean Energy Communities Program, because CGB did not maintain project completion reports.

Cause: CGB does not have a formal application process in place.

CGB does not maintain adequate supporting documentation for all stages of a project.

Effect: Without a formal application, CGB could grant financing to unqualified recipients.

We are unable to determine whether CGB complied with CGS 16-245n(a) without adequate documentation.

Recommendation: The Connecticut Green Bank should strengthen internal controls by ensuring that applications are properly completed prior to the execution of a financing agreement. (See Recommendation 5.)

Agency Response: “C-PACE Program

The Green Bank does not require an application for financing for C-PACE projects that are funded by third party capital providers since the Green Bank does not provide any funding or financing for those projects. In those cases, the Green Bank fulfills an administrative function to ensure the statutory obligation for a C-PACE assessment is met and collects the necessary documents from the third-party capital providers to ensure that obligation is met. The Green Bank maintains an internal checklist for each of these projects to ensure the required documentation is collected to fulfill the statutory obligation.

For projects that request CPACE funding from the Green Bank, an application is required and can be found at <http://www.cpace.com/Building-Owner/Get-Started/Apply-Now>. In addition to this application, the information is collected to ensure the statutory obligation for a CPACE assessment is collected along with the following financial information from the applicant:

- Current year budget OR YTD income/expense statement for the property
- Documentation showing rental relationship between sole tenant and property ownership entity *FOR OWNER-OCCUPIED BUILDINGS ONLY*
- Previous two years' income/operating statements, statements of cash flows and balance sheets for the property (e.g. Building Owner Entity). Audited or reviewed for all statements is preferred; if unaudited/unreviewed, supply complete copy of most recent 2 years tax return packages
- Previous two years' audited (if available) income/operating statements, statements of cash flows, and balance sheets (audited or reviewed, if available) for the tenants' business (e.g. Business Entity). *This is for buildings where at least 2/3 of currently leased square footage is occupied by a tenant controlled totally or in part by the owner of the real estate.*
- Table listing all tenants, their monthly (or annual) lease payments, the percentage of the building they occupy and the end date of their existing leases. *This is for properties with tenants only.*

Campus Efficiency Now

In 2012, the Clean Energy Finance and Investment Authority (CEFIA) Board approved entering into a partnership with GreenerU to offer the Campus Efficiency Now (CEN) pilot program to members of the Connecticut Conference of Independent Colleges. Through CEN, GreenerU and CEFIA would finance and implement energy efficiency projects through an Energy Savings Agreement structure to allow colleges and universities to avoid debt financing and pay for the projects through realized energy savings. As a result of internal staff turnover, the final project documentation from GreenerU for projects financed by the Green Bank at the University of New Haven and University of Hartford were not properly filed. After learning of this issue, the Green Bank requested and received the required documentation from GreenerU. No further investments were made through the CEN.

Clean Energy Communities Program

The Clean Energy Communities program was a point-based grant program that encouraged cities and towns to invest in clean energy. The Green Bank executed a memorandum of understanding with each town and

municipality participating in the program. The MOU, as well as several subsequent communications explained the reward process and the types of documentation required to qualify the municipalities' planned use of the grant funds. Among the criteria cited in the MOU were the Green Bank's right to review any contract for which reward funds were being requested, as well as a requirement for all participating municipalities to submit purchase orders and invoices resulting from the work performed under their respective contracts. The MOUs did not demand subsequent review of disbursement documents (e.g. checks or wires), due to the fact that Connecticut municipalities' internal accounting control procedures and records are required by statute to be subject to the scrutiny of independent, annual audits."

Auditors' Concluding Comment:

CGB informed us during our review that it does not require an application for C-PACE projects it funds or those that are funded by third-party providers. We identified the lack of an application for C-PACE projects funded by Connecticut Green Bank during our testing.

Incomplete Inspection Reports

Criteria: Sound business practices dictate that inspection reports include customer name, date of inspection, and an inspection checklist or other method of project review.

Condition: We found that four employees of the State Department of Education (SDE) Connecticut Technical High School System performed inspections of Connecticut Green Bank programs. SDE did not consider this to be a dual employment issue and did not document the lack of an overlap in hours worked. Our audit testing sought to confirm that these inspectors performed consulting services on their own time and that a conflict did not occur. We could not confirm this because none of the 16 SDE employee inspection reports we reviewed included the date and time of the inspections. Additionally, 3 reports only consisted of photos and 3 did not include the address or project name.

Cause: CGB does not have adequate procedures in place for the review of inspection reports.

Effect: We were unable to determine if a conflict existed between services performed for each entity.

We were unable to determine when inspections took place or whether an adequate inspection took place.

CGB is issuing payments for inspections without knowing the date, time, and location of the inspection.

Recommendation: The Connecticut Green Bank should strengthen internal controls by ensuring that inspection reports are properly documented and contain the date and time of the inspections. (See Recommendation 6.)

Agency Response: “The Green Bank administers the Residential Solar Investment Program (RSIP) per Public Act 15-194. The RSIP has provided incentives to nearly 28,000 households totaling \$115 million in incentives and nearly \$870 million in total investment in the state economy since its inception in 2012.

The RSIP program currently has 12 inspectors who are responsible for:

- Inspecting residential solar PV projects assigned to them by Green Bank staff, including contacting the customer, conducting the inspection, and writing up a report; and
- Inspecting Smart-E projects and measures as assigned by Green Bank staff.

Of the 12 inspectors, the four (4) inspectors sited are employees with the Connecticut Technical High School System working for the State Department of Education (SDE), where they have expertise in energy-related matters.

The Human Resources Administrator for the SDE determined that since the Green Bank is a quasi-public agency, that it is not considered a state agency and thus there is not a dual employment situation. Therefore, it was determined that SDE employees may enter into contractual agreements with the Green Bank as a result. Regardless of this determination by SDE, the Green Bank believes that no conflict of interest would exist for the performance of these inspections.

The Human Resources Administrator for the SDE subsequently informed the state employees that if they held a second job outside of the state, that they must complete an Outside Employment Form. Each of the four state employees who have outside employment completed an Outside Employment Form.

The four (4) inspectors in question have inspected 777 projects during FY2016 and FY2017 – see Table 5

Table 5. Overview of Inspectors in Question

Inspector	# of Inspections FY2016	# of Inspections FY2017
Inspector #1	244	226
Inspector #2	4	0
Inspector #3	4	23
Inspector #4	159	117
Total	411	366

Given that the APA is raising a concern that employees of the SDE who have dual employment with the Green Bank as inspectors, the Green Bank has revised all inspection reports, specifically SMART-E inspection report, to include site arrival and departure times, total travel time and mileage (see the attached revised SMART-E inspection report). Also, Green Bank will require site arrival and departure times, total travel time and mileage on invoices submitted for payment.”

Auditors’ Concluding Comment:

We were unable to determine if a conflict existed due to inadequate procedures regarding review of inspection reports.

Inadequate Monitoring of Board Member Attendance

Criteria:

Section 16-245n(e)(1) of the Connecticut General Statutes states that the powers of the Connecticut Green Bank (CGB) shall be vested in and exercised by a board of directors, which shall consist of 11 voting and 2 nonvoting members.

Article 4.6 of the CGB bylaws states that directors or their designees who miss more than 3 consecutive meetings shall be asked to become more active on the Board.

Condition:

The Connecticut Green Bank Board of Directors has not filled a nonvoting position since August 2011.

Three board members missed more than 3 consecutive board meetings and CGB could not provide adequate documentation that it asked the board members to become more active.

Cause:

CGB did not have adequate procedures in place to ensure that it followed board membership and attendance requirements.

Effect:

CGB was not operating in compliance with the General Statutes and its bylaws related to board membership and attendance.

Recommendation: The Connecticut Green Bank should strengthen internal controls to ensure compliance with the General Statutes and bylaws. If the Connecticut Green Bank determines that any of its statutes are impractical or outdated, it should request a legislative change. (See Recommendation 7.)

Agency Response: “Per Section 16-245n(e)(1), the following is a breakdown of the Board of Directors of the Green Bank – see Table 4.

Table 4. Overview of the Board of Directors of the Connecticut Green Bank

Position	Appointee	Voting
Commissioner of DECD (or designee)	Ex Officio	Yes
Commissioner of DEEP (or designee)	Ex Officio	Yes
State Treasurer (or designee)	Ex Officio	Yes
Finance of Renewable Energy	Governor	Yes
Finance of Renewable Energy	Governor	Yes
Labor Organization	Governor	Yes
R&D or Manufacturing	Governor	Yes
Investment Fund Management	Minority Leader of House	Yes
Environmental Organization	President Pro Tempore of Senate	Yes
Finance or Deployment	Minority Leader of Senate	Yes
Residential or Low Income	Speaker of the House	Yes
President of the Green Bank	Ex Officio	No
Connecticut Innovations	Ex Officio	No

The three (3) members that missed more than three (3) consecutive meetings included:

- two (2) appointees of the Governor, and
- one (1) appointee of the Minority Leader of the Senate.

One of the Governor’s appointees (i.e., R&D or Manufacturing) was in a career transition. Both the Governor’s second appointee and the Minority Leader of the Senate’s appointee have been noticed of their missing three

(3) consecutive meetings and were asked by the Chair, President and CEO, and General Counsel and CLO to become more active on the board.

As a result of the revisions to the Board of Directors of the Green Bank through Public Act No. 16-212, Connecticut Innovations' ex officio board position was explicitly removed from the Board of Directors in 2016. However, the Public Act was passed without a conforming change in the same statutory subsection of C.G.S. Sec. 16-245n(e)(1); presently this subsection still erroneously references two "non-voting" members even though Connecticut Innovations was removed, leaving only one remaining non-voting member - the President and CEO of the Connecticut Green Bank. This discrepancy can only be remedied through a legislative change that is to some extent outside the control of the Green Bank. Although this change was requested during the 2018 Regular Session, the request was not incorporated into any bill proposals enacted by the General Assembly. In 2019 this same legislative change was actively sought out by the Green Bank and was incorporated into Senate Bill 960 as amended and passed by the Senate by 33-0 with three abstentions; this legislation failed to receive action in the House.

For the unfilled "nonvoting" member of the Board of Directors, it is the Green Bank's position that no such unfilled position exists pursuant to the passage of Public Act No. 16-212. To address the discrepancy, the Green Bank will continue to request a legislative change (commonly referred to as a technical fix) to remove the erroneous reference to a second nonvoting member from the Board of Directors.

In the future, the Green Bank will notify the appointing authority of their appointee's violation of Article 4.6 in the Bylaws for them to determine an appropriate course of action for their designee."

RECOMMENDATIONS

The prior report on the Connecticut Green Bank contained 3 recommendations. Two were implemented and one is repeated.

Status of Prior Audit Recommendations:

- Connecticut Green Bank should consider revising their policies to address when established contracts should go through the RFP process to ensure that services are being obtained in the most cost-effective manner. They should also establish internal controls to ensure that strategically selected vendors will, whenever possible, be picked on a competitive basis. **We noted improvements in this area and this recommendation is not repeated.**
- Connecticut Green Bank should improve internal controls to track outstanding commitments and obtain approvals when funds are recommitted. **We noted improvements in this area and this recommendation is not repeated.**
- Connecticut Green Bank should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes. **We found that reports were not filed in a timely manner, and this recommendation is repeated within Recommendation 4.**

Current Audit Recommendations:

1. **The Connecticut Green Bank should strengthen internal controls over payroll to include a reconciliation between internal and Core-CT records.**

Comment:

We noted discrepancies regarding payroll account balances between Core-CT and Connecticut Green Bank (CGB) internal records for fiscal years ended June 30, 2016 and 2017, totaling \$552,214 and \$89,365, respectively. CGB uses Core-CT to process its payroll and uses the Intacct Financial Management and Accounting System for its remaining accounting functions. According to Core-CT, the total CGB payroll and fringe benefit balance for fiscal years ended June 30, 2016 and 2017 totaled \$8,195,757 and \$8,776,143, respectively. Additionally, CGB was unable to identify \$12,250 in payroll costs recorded in Core-CT.

2. **The Connecticut Green Bank should revise its bylaws to require separation agreements be approved by its board of directors based on the recommendations of the Budget and Operations Committee.**

Comment:

During the audited period, CGB eliminated 3 positions yet made corresponding severance payments equal to 26 weeks of salary for all 3 employees, totaling \$148,526. The employees received benefits in addition to salary while employed. CGB refilled these positions at lower

compensation levels within 1 to 11 months. Furthermore, the severance agreements were approved by the Budget and Operations Committee as required by the bylaws but not approved by the board of directors.

In addition, CGB provided a transition agreement to one of these employees in which it allowed the employee to maintain employment until vesting for retirement benefits. Furthermore, it appears that the employee's duties did not change during the transition agreement.

In response to budget sweeps enacted by Public Act 17-2, CGB eliminated 4 positions during fiscal year 2018 and made corresponding severance payments to the 4 employees, totaling \$130,450. One of the employees whose position was eliminated in fiscal year 2018 was considered a new hire due to the severance payments during fiscal year 2017. That employee worked for CGB for 10 months before receiving a severance agreement.

3. The Connecticut Green Bank should consider requiring a refundable application fee that would cover costs related to the review of potential C-PACE projects.

Comment:

During the audited period, Connecticut Green Bank incurred \$141,500 in cancellation fees for Commercial Property Assessed Clean Energy (C-PACE) projects that did not move forward. Our review disclosed that CGB incurred 28 \$1,750 cancellation fees for one C-PACE financing applicant, totaling \$49,000. CGB provided documentation on all \$141,500 in C-PACE cancellation fees. The cancellation fees reflect costs for project review. The applicant is not responsible for these costs, regardless of whether they move forward with the project.

4. The Connecticut Green Bank should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes.

Comment:

Our review disclosed that CGB did not submit the following reports in a timely manner for the fiscal years ended June 30, 2016 and 2017:

- Two of the 8 quarterly financial reports.
- Both annual reports on programs and activities undertaken.
- The report on Combined Heat and Power Pilot Program.

Review of the Section 1-123(a) Annual Report revealed section 6 of the 2016 report lacked a description of the composition of the agency's workforce by race, sex, and job title as well as a description of the agency's affirmative action efforts.

CGB failed to promptly notify the Auditors of Public Accounts of the improper use of funds by 2 contractors involved in the Residential Solar Investment Program as required by Section 4-33a of the General Statutes. The improper use of funds consisted of a contractor receiving CGB funds, totaling \$80,357 in outstanding loans, for projects never completed.

Additionally, another contractor incurred numerous violations including the submission of fraudulent equipment packing slips for payment on 66 projects.

5. The Connecticut Green Bank should strengthen internal controls by ensuring that applications are properly completed prior to the execution of a financing agreement.

Comment:

CGB informed us that it notifies Commercial Property Assessed Clean Energy Program(C-PACE) applicants of the documents they need to provide, but they are initially not required to submit a formal application when seeking financing.

We were unable to determine the scope and compliance of projects related to energy efficiency solutions for colleges and universities, because the Connecticut Green Bank did not maintain adequate documentation.

We were unable to determine compliance with Section 16-245n(a) of the General Statutes for 2 projects related to the Clean Energy Communities Program, because CGB did not maintain project completion reports.

6. The Connecticut Green Bank should strengthen internal controls by ensuring that inspection reports are properly documented and contain the date and time of the inspections.

Comment:

We found that four employees of the State Department of Education (SDE) Connecticut Technical High School System performed inspections of Connecticut Green Bank programs. SDE did not consider this to be a dual employment issue and did not document the lack of an overlap in hours worked. Our audit testing sought to confirm that these inspectors performed consulting services on their own time and that a conflict did not occur. We could not confirm this because none of the 16 SDE employee inspection reports we reviewed included the date and time of the inspections. Additionally, 3 reports only consisted of photos and 3 did not include the address or project name.

7. The Connecticut Green Bank should strengthen internal controls to ensure compliance with the General Statutes and bylaws. If the Connecticut Green Bank determines that any of its statutes are impractical or outdated, it should request a legislative change.

Comment:

The Connecticut Green Bank Board of Directors has not filled a nonvoting position since August 2011.

Three board members missed more than 3 consecutive board meetings and CGB could not provide adequate documentation that it asked the board members to become more active.

ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

JoAnne Sibiga
Joseph Onion

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Green Bank during the course of our examination.



Joseph Onion
Staff Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor