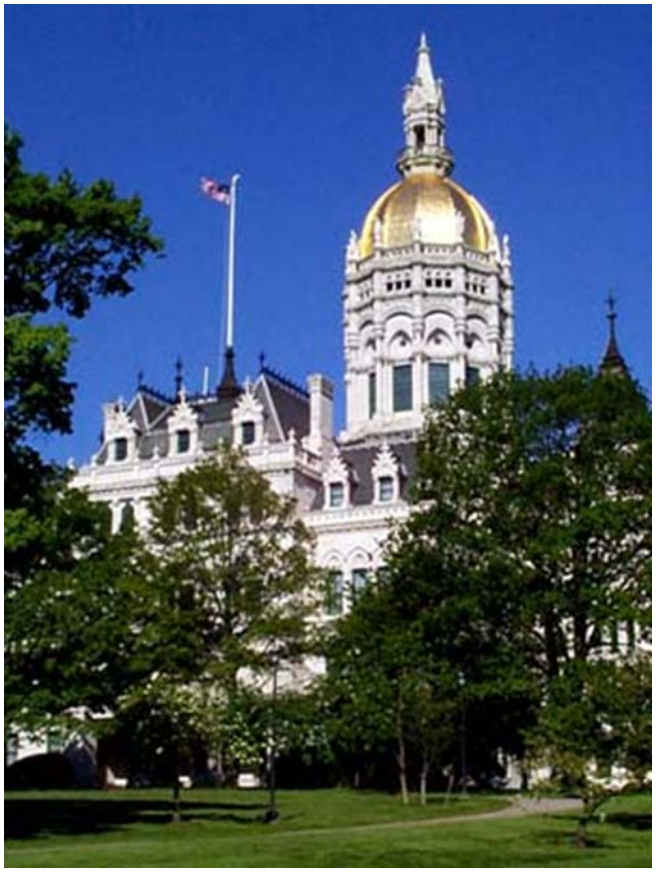
STATE OF CONNECTICUT



AUDITORS' REPORT
CONNECTICUT GREEN BANK
(FORMERLY THE CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY)
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

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

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February 15, 2018

INTRODUCTION
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FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

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 the Clean Energy Finance and Investment Authority, for the years ended June 30, 2014 and 2015. The mission of this quasi-public agency is to support the state's energy strategy to achieve cleaner, more affordable 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, CGB uses limited public resources to attract private capital investment 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 of Connecticut Green Bank resulted in a total of 3 recommendations presented below. The 3rd recommendation is repeated from the prior audit.

Finding 1	Connecticut Green Bank should consider revising its policies to determine whether established contracts should be administered through the RFP process to ensure that services are being obtained in the most cost-effective manner. It should also establish internal controls to ensure that vendors will, whenever possible, be awarded on a competitive basis.
Finding 2	Connecticut Green Bank should improve internal controls to track outstanding commitments and obtain approvals when funds are recommitted.
Finding 3	Connecticut Green Bank should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes.

OBJECTIVES AND CONCLUSIONS

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, 2014 and 2015. The objectives of our audit were to:

1. Evaluate the agency's internal controls over significant management and financial functions;

2. Evaluate the agency's compliance with its policies and procedures or those promulgated by other state agencies. In addition, evaluate compliance with 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 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 the bank's management 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 by 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 Chapter 12, Section 1-120 of the General Statutes, CGB is classified as a quasi-public agency subject to the requirements found in Chapter 12. As a quasi-public agency, the CGB 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, which was previously administered by Connecticut Innovations (CI). Originally, CGB was named the Clean Energy Finance and Investment Authority (CEFIA), but it was renamed the Connecticut Green Bank on June 6, 2014 by Public Act 14-94. CGB was within CI for administrative purposes throughout the audited period.

The Connecticut Green Bank's mission is to support the state's energy strategy to achieve cleaner, more affordable 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 to make clean energy more accessible to consumers. In accordance with Section 16-245n(d)(1)(B) of the General Statutes, the CGB duties include: (1) implementing the CGB developed comprehensive plan pursuant to Section 16-245n(c) of the General Statues, (2) developing programs to finance and otherwise support clean energy investment in residential, municipal, small business and larger commercial projects, and such other programs as CGB may determine; (3) supporting financing or other expenditures that promote investment in clean energy sources to foster the growth, development, and commercialization of clean energy sources and related enterprises; and (4) 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 Connecticut Green Bank revenue is utility customer assessments made by the Public Utility Control Utilities Regulatory Authority in accordance with Section 16-245n of the General Statutes. There is a per kilowatt-hour charge to each end-user of electrical services provided by utility companies in the state. Utility customer assessments can be used for CGB general, administrative, and program expenses. During the audited period, the charge was 1 mill per kilowatt-hour. A mill is equal to $1 of tax for each $1,000 of assessment. This assessment provides the largest source of revenue for 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 and the federal government.

When Connecticut Green Bank was established, it primarily issued grants to fund solar projects and provided incentive programs to encourage consumer participation. In the 2012-2013 fiscal year, CGB decided to reduce reliance on grants, rebates, and other incentives and move towards innovative, low-cost financing of clean energy deployment. With this transition to a financing-based organization, CGB is able to invest its funds in activities that generate a return and create revenue that can be reinvested in solar energy. CGB now invests over 80% of its resources in loans, leases, and credit enhancements.

Component Units

The Connecticut Green Bank has 4 private subsidiaries as part of its recent efforts to increase financing for different projects. These subsidiaries were established towards the end of the 2012-2013 fiscal year and are legal, separate, for-profit companies created to originate and administer the CGB solar energy programs as follows:

CEFIA Holdings, LLC

CEFIA Holdings, LLC (CEFIA Holdings) is a Connecticut limited liability corporation (LLC) that is owned by CGB (99%) and CI (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 of the solar assets and arrange for the leasing of those assets (or sale of energy under power purchase agreements) to 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 2. CEFIA Holdings sells the residential and commercial projects to CT Solar Lease 2 before the projects are placed in service. After acquiring the residential and commercial projects, CT Solar Lease 2 administers the portfolio of projects with the assistance of an outside corporation. CEFIA Holdings is presented in the CGB financial statements as a blended unit.

CEFIA Solar Loan I, LLC

CEFIA 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 the CEFIA financial statements.

CEFIA Solar Services, Inc.

CEFIA Solar Services, Inc. is a Connecticut corporation owned by CEFIA Holdings. It was established as the managing member of CT Solar Lease 2 to share in the ownership risks and benefits derived from the leasing of solar photovoltaic and solar thermal equipment, and the sale of energy. CEFIA Solar Services has an ownership interest in CT Solar Lease 2 (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 2. CEFIA Solar Services is presented as a discrete unit in the CEFIA financial statements.

CT Solar Lease 2, LLC

CT Solar Lease 2 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 of the advanced installation funds to CT Solar Lease 2, as well as revenue from production-based incentives. CT Solar Lease 2 is owned by an outside investor-member limited liability company (99%) and CEFIA Solar Services (1%) as the managing member. This entity is presented as a discrete unit in the CGB financial statements.

Significant State Legislation

Public Act 14-94 section 23(a)(10), effective June 6, 2014, changed the name of the Clean Energy Finance and Investment Authority to the Connecticut Green Bank. This act also expanded the energy improvements eligible for participation in the Commercial Property Assessed Clean Energy Program (C-PACE) to include participation in a micro grid that incorporates clean energy. It also requires CGB to report on the Residential Property Assessed Clean Energy Program (R-PACE).

Public Act 15-1 of the June 2015 Special Session increased the amount of bonds backed by a special capital reserve fund that CGB may issue from $50 million to $100 million.

Public Act 15-21, effective June 4, 2015, allowed third-party capital providers to provide loans directly to property owners participating in the C-PACE program.

Public Act 15-152, effective July 2, 2015, extended the Connecticut Green Bank anaerobic digestion pilot program by 2 years, and extends the reporting deadline to January 1, 2018.

Public Act 15-194 effective July 2, 2015 expanded the state's residential solar photovoltaic (PV) deployment target from 30 to 300 megawatts (MW) by the end of 2022 or at the end of 300 MW total deployment under the Residential Solar Incentive Program. It also creates Solar Home Renewable Energy Credits (SHREC), which are owned by CGB and generated from qualifying residential PV systems. Electric companies are required to purchase SHREC from CGB under a master purchase agreement negotiated by the parties. It also required each municipality to incorporate residential PV systems into their building permit application processes by January 1, 2016.

Public Act 16-212, effective June 10, 2016, removed the Connecticut Green Bank from Connecticut Innovations' administrative oversight. 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 administrative support.

Public Act 16-4 from the May 2016 Special Session, section 324, effective July 1, 2016, deauthorized $10,000,000 in bonding previously authorized by Public Act 15-1 of the June 2015 Special Session, section 191, for the Renewable Energy and Energy Efficiency Finance Account (REEEFA).

Subsequent Legislation

Public Act 17-2 of the June Special Session, section 446, subsection (b) indicates that as of July 1, 2010, proceeds of the sale of bonds which have been authorized as provided in subsection (a) of this section, but have not been allocated by the State Bond Commission (and removed the provision for the additional amount of five million dollars authorized by that section on July 1, 2010) shall be deposited in the Green Connecticut Loan Guaranty Fund established pursuant to section 16-a-40e, and shall be used by the Connecticut Green Bank for purposes of the Green Connecticut Loan Guaranty Fund. Such additional amounts may be deposited in the Green Connecticut Loan guaranty fund as the State Bond Commission may, from time to time authorize.

Public Act 17-2 of the June Special Session, section 682, effective October 26, 2017, required the sum of $10,000,000 to be transferred from the Regional Greenhouse Gas account and credited to the resources of the General Fund for each fiscal year ended June 30 2018 and 2019.

Public Act 17-2 of the June Special Session, section 685, transferred $14,000,000 of resources it would have previously received from the Clean Energy Fund to the General Fund in each of the two fiscal years ended June 30, 2018 and 2019.

Board of Directors and Administrative Officials

Pursuant to Section 16-245n subsection (e) of the General Statutes, the Connecticut Green Bank powers are vested in and exercised by a board of directors. The CGB board consists of 11 voting and 2 nonvoting members, each with knowledge and expertise in matters related to the purpose and activities of CGB, and shall include 4 members appointed by the Governor; 4 members appointed by various legislative leaders; and 1 member each by 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 and a member of the board of Connecticut Innovations, appointed by the chairperson of CI, shall serve on the board in an ex-officio, nonvoting capacity. The Governor shall appoint the chairperson of the board. The board shall adopt bylaws and procedures it deems necessary to carry out its functions. The members of the CGB board of directors as of June 30, 2015, were as follows:

Appointed by the Governor:

Mun Y. Choi, Ph. D.
Reed E. Hundt
John Harrity
Kevin Walsh

Legislative Appointments:

Thomas M. Flynn
Norma Glover
Matthew Ranelli
Patricia Wrice

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 (appointed by CI board)

In addition, the board established several committees and sub-committees to assist in making decisions related to CGB. During the audited period, the CGB board had the following 4 standing committees: Audit, Compliance, and Governance Committee; Budget and Operations Committee; Deployment Committee; and Technology Innovation Committee.

Bryan Garcia served as president of CGB throughout the audited period and continues to serve in that capacity.

RÉSUMÉ OF OPERATIONS

The financial position of the Connecticut Green Bank as of June 30, 2014 and 2015 is presented below. For comparative purposes, the amounts for the fiscal year ended June 30, 2013 are also presented. The information presented within the most current audited financial statements for the fiscal year ended June 30, 2015 was used. Certain amounts were restated for the fiscal year ended June 30, 2014 to reflect the capitalization of certain costs related to financing activities and the adoption of new accounting methods for pensions (GASB 68).

	Fiscal Years Ended June 30,		
	2015	**2014**	**2013**
Assets			
Current:			
Cash and Cash Equivalents	$ 39,893,649	$ 71,411,034	$ 68,105,014
Current Portion Program Solar Leases/Loans	11,068,398	1,418,533	704,032
	3,112,663	-0-	-0-
Contractor Loans	1,030,251	619,939	194,056
Prepaid Expenses and other Assets	2,867,233	8,253,318	4,545,661
Accounts and Other Receivables			
Non-Current:			
Solar Lease Notes, Loans and Certificates	$ 40,201,610	$ 23,598,162	$ 11,753,627
Capital Assets, Net of Depreciation	28,000,283	3,074,337	362,505
Restricted Cash and Cash Equivalent	8,799,005	9,513,715	9,536,656
Portfolio Investment and Bonds Receivable	2,600,000	2,600,000	4,788,094
Total Assets	**$137,573,092**	**$120,488,738**	**$ 99,989,645**
Deferred Outflows of Resources for Pensions	**$ 1,669,961**	**$ -0-**	**$ -0-**
Liabilities			
Pension Liability	$ 14,899,766	$ 14,305,410	$ -0-
Accounts Payable and Accrued Expenses	6,127,372	3,952,652	1,422,898
Long-Term Debt, Less Current Maturities	3,546,321	119,808	-0-
Other Liabilities	4,310,143	1,317,631	393,000
Total Liabilities	**$ 28,883,602**	**$19,695,501**	**$ 1,815,898**
Deferred Inflows of Resources			
Fair Value of Interest Rate Swap	$ 660,073	-0-	-0-
Deferred amount for Pensions	532,135	$ -0-	$ -0-
Total Deferred Outflows of Resources	**$ 1,192,208**	**$ -0-**	**$ -0-**
Net Position			
Invested in Capital Assets	$ 26,971,087	$ 3,074,337	$ 362,505
Restricted or Nonexpendable	8,800,005	9,096,715	8,144,655
Unrestricted (Deficit)	73,396,151	88,622,185	89,993,445*
Total Net Position	**$109,167,243**	**$100,793,237**	**$ 98,500,605***

During the fiscal year ended June 30, 2015, cash decreased $31,517,385 due mostly to funding of loan programs such as C-PACE, and to the distribution of working capital to the component units (CEFIA Holdings, CT Solar Loan I LLC, and CEFIA Solar Services, Inc.) for their residential loan and lease programs.

The current portion of Solar Leases/Loans increased by $9,649,865, primarily due to C-PACE construction loan advances during the 2014-2015 fiscal year, along with the current portion of residential solar loans and other program loans. CGB first issued C-PACE loans in the 2013-2014 fiscal year.

Capital assets increased by $2,711,832 and $24,925,946 during the 2013-2014 and 2014-2015 fiscal years, respectively. This is a result of the continued acquisition of solar equipment by CT Solar Lease 2 LLC.

The former Connecticut Clean Energy Fund invested in emerging technology companies as equity investments and technology innovation programs and projects. As of June 30, 2015, portfolio investments represent equity and debt investments in 3 companies. CGB's portfolio investments are managed by CI. 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. As is commonplace with investments such as those held by CGB and as disclosed in the CGB audited financial statements, those estimated values may differ significantly from the amounts ultimately realized from the investments due to the inherent uncertainty of valuations, and those differences could be material.

A schedule of revenues, expenses, and changes in net assets for the fiscal years ended June 30, 2014 and 2015, follows. For comparative purposes, amounts are presented for the 2012-2013 fiscal year. The amounts presented below differ from the audited financial statements, as certain items from 2013 were reclassified.

	Fiscal Years Ended June 30,		
	2015	**2014**	**2013**
Operating Revenues			
Utility Customer Assessments	$ 27,233,987	$ 27,779,345	$ 27,621,409
RGGI Auction Income	16,583,545	20,074,668	4,744,657
Grant Revenue	192,274	321,642	10,035,250
REC Sales	1,474,488	378,444	-0-
Other Income	810,124	200,114	941,777
Total Operating Revenue	**$ 46,294,418**	**$ 48,754,213**	**$ 43,343,093**
Operating Expenses			
Grants and Program Expenditures	$ 22,130,677	$ 23,439,362	$ 23,634,465
General and Administrative Expenses	3,117,376	2,536,603	1,811,227
Organizational Expenses	-0-	-0-	1,180,414
Total Operating Expenses	25,248,053	25,975,965	26,626,106
Operating Income (Loss)	**$ 21,046,365**	**$ 22,778,248**	**$ 16,716,987**
Non-Operating Income (Expenses)			
Payments to the State of Connecticut	$(19,200,000)	$ (6,200,000)	$ -0-
Interest on Solar Lease Notes	2,217,369	1,043,595	583,575
Gain (Loss) on Investments	(1,840,358)	(1)	(656,546)
Provision for Loan Losses	(563,825)	(1,310,933)	-0-

Interest Income (Expense)	(25,396)	98,383	103,928
Contributions (Distributions)	6,739,851	188,750	237,594
Total Non-operating Income (Expenses) and Contributions (Distributions)	**$(12,672,359)**	**$ (6,180,206)**	**$ 268,551**
Change in Net Position	8,374,006	16,598,042	16,985,538
Net Position – Beginning of year	100,793,237	84,195,195**	81,188,209
Net Position – End of Year	**$109,167,243**	**$100,793,237**	**$98,500,605***

*IPA restated 2013 Net Position to increase by approximately $326,858 to reflect capitalization of qualifying expenses
** IPA restated 2014 Net Position to reflect a decrease of $15,430,912 for implementation of GASB 68 and the associated pension liability. There was also an increase to net position of $1,125,502 to reflect pension contributions made after the measurement date to reflect implementation of GASB 71.

Revenues

Grant revenues decreased from $10,035,250 during the 2012-2103 fiscal year to $321,642 and $192,274 during the 2013-2014 and 2014-2015 fiscal years, respectively. This is due to a decrease in federal grant awards. The CGB goals are the reduction of reliance on grants, rebates, and other subsidies and movement towards innovative low-cost financing of clean energy deployment.

The Connecticut Green Bank 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 increased from $4.7 million during the 2012-2013 fiscal year to $20.1 million and $16.6 million during the 2013-2014 and 2014-2015 fiscal years, respectively. Typically, these proceeds range between $4 million and $5 million. 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 be used in support of energy efficiency financing opportunities. This increase in RGGI auction proceeds helped offset payments to the state by CGB as required under Public Act 13-247.

The Connecticut Green Bank 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 during the 2012-2013 fiscal year to $378,444 and $1,474,488 during the 2013-2014 and 2014-2015 fiscal years, respectively. The REC income received during the 2012-2013 fiscal year and most of the 2013-2014 fiscal year pertained to REC earned from CGB funded commercial projects. CGB did not start earning REC income on residential installations until the end of the 2013-2014 fiscal year. Residential installations increased substantially in the 2014-2015 fiscal year, which accounted for the increase in REC income over the 2013-2014 fiscal year.

Expenditures

Total expenditures for grants and programs were $23,439,362 during the 2013-2014 fiscal year and $22,130,677 during the 2014-2015 fiscal year, a decrease of $1,308,685. 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 as opposed to primarily issuing grants to fund renewable energy and energy efficiency programs.

General and administrative expenses increased by $725,376 and $580,773 during the 2013-2014 and 2014-2015 fiscal years, respectively due to the costs of hiring more employees. Certain other administrative costs have been incurred for the expanded activities of CEFIA Holdings and CT Solar Lease 2 operations during the 2013-2014 and 2014-2015 fiscal years.

During the 2012-2013 fiscal year, CGB incurred $1,180,414 in start-up costs to develop its Solar Lease 2 program and organize the subsidiary that administers the program, CT Solar Lease 2, LLC. There were no start-up costs for these programs during the 2013-2014 and 2014-2015 fiscal years.

Public Act 13-247, effective June 19, 2013, required the Connecticut Green Bank to transfer $6,200,000 and $19,200,000 to the state's General Fund during the 2013-2014 and 2014-2015 fiscal years, respectively.

Contributions increased from $188,750 during the 2013-2014 fiscal year to $6,739,851 during the 2014-2015 fiscal year. This activity represents capital contributions that the outside investor, Firstar Development Corp (a subsidiary of US Bank) made to CT Solar Lease 2 LLC (CTSL2) as solar photovoltaic systems are purchased by CTSL2 from CEFIA Holdings. Any distributions to Firstar represent contractual priority returns for the use of its capital by CTSL2. The volume increased during the 2014-2015 fiscal year as CTSL2 purchased more PV systems to eventually lease to homeowners.

The Connecticut Green Bank utilizes the services of CI for accounting and information technology support, office space, equipment, supplies, and insurance, as provided for in the General Statutes. Expenses billed to CGB by CI totaled $1,110,683 and $477,161 for the fiscal years ended June 30, 2014 and 2015, respectively. As of June 30, 2014 and 2015, amounts due to CI were $439,643 and $49,516, respectively. Expenses billed by CI decreased during the audited period as administrative functions were transitioned to CGB. At the beginning of the audited period, CI provided all accounting, recordkeeping, and financial reporting services for CGB. As CGB increased in size, it required stand-alone back office solutions to operate efficiently. Currently, only payroll processing and some Core-CT related personnel tasks are performed by CI.

Other Examinations

Independent public accountants audited the CGB financial statements for the years under review. Those audits provided opinions 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, 2014 and 2015, 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.

Independent public accountants also performed OMB Circular A-133 compliance audits for each of the fiscal years ended June 30, 2014 and 2015. The independent public accountants' reports on compliance and other matters indicated no reportable instances of noncompliance. Their reports on internal control over financial reporting indicated no material weaknesses. However, their report for the 2013-2014 fiscal year disclosed one internal control deficiency over compliance. Their review found that the CGB financial reporting was not subject to a documented review process prior to submission. This issue was corrected in the report for the 2014-2015 fiscal year.

Other Matter – Severance Packages

According to the Connecticut Green Bank severance policy, if CGB permanently eliminates a position from its workforce and obtains the approval of its board of directors, it is authorized to offer a severance package to the employee. Subsequent to the audited period, in June 2016, 3 employees received severance packages. The policy's stated purpose is to recognize the service of employees and mitigate the burden of displacement when a reduction in force is deemed necessary. According to the policy, such severance package shall be conditioned upon the employee signing a full waiver and release of claims against, and an indemnification of, CGB within a time period established by the board. It does not appear that the policy expressly allows for the separating employees to retain their rights under Whistleblower Act or similar federal law. The Auditors of Public Accounts highlighted this issue for consideration on a statewide basis within our Annual Report dated January 28, 2017.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our audit identified the following reportable conditions.

Professional Services Agreement Testing

Criteria: According to the operating procedures of the Connecticut Green Bank, contracts for professional services valued at more than $150,000 should, whenever possible, be awarded on a competitive basis. Good businesses practices include a periodic rebidding of contracts.

Condition: The Connecticut Green Bank's board of directors approved a contract in the amount of $340,000 that was not awarded on a competitive basis. The board also voted to increase a professional services agreement from the original amount of $240,000 to $1,448,000 without rebidding the contract.

Cause: The Connecticut Green Bank's board of directors will sometimes vote to extend a professional service agreement for an additional year or more without seeking competitive bids. The board also approves "strategic selections" for contractors that offer a specialized service instead of going through the request for proposal (RFP) process. In these specialized cases, CGB believes that going out to bid would prove difficult, as it would not obtain enough responses.

Effect: The lack of competitive bidding places into question whether such services could be obtained in a more cost-effective manner, especially considering the dramatic increase in costs for services for 1 of the contracts.

Recommendation: The Connecticut Green Bank should consider revising its policies to determine whether established contracts should be administered through the request for proposal (RFP) process to ensure that services are being obtained in the most cost-effective manner. It should also establish internal controls to ensure that strategically selected vendors will, whenever possible, be awarded on a competitive basis. (See Recommendation 1.)

Agency Response: "Connecticut Green Bank (Green Bank) maintains a log to track all professional service agreements (PSAs) with strategic partners who provide on-going operational support for its programs that are greater than $75,000. The Green Bank will develop a policy to issue RFP's for these core strategic services on a periodic basis to ensure we are obtaining these services in the most cost effective manner by the most qualified partners as recommended.

Both expenditures referenced above were included in annual operating budgets presented to and approved by the Board of Directors. The expenditures made under the PSA that increased from $240,000 to $1,448,000 were made during the period November 2012 through February

2016, a period of approximately 4 years, to a firm that was awarded the PSA based on an RFP issued in July of 2012 to provide technical support for a program created by the Green Bank to provide financing for renewable energy and energy efficiency projects throughout the State.

The PSA for $340,000 was awarded to a 501(c)3 non-profit organization co-founded by the predecessor of the Connecticut Green Bank (i.e., Connecticut Clean Energy Fund or CCEF) in 2004. The PSA supported a community-based marketing campaign based on a proven marketing strategy that has significantly increased the deployment of residential solar PV in participating communities by reducing customer acquisition costs and, correspondingly, total system costs.

Section 9 of the Green Bank Operating Procedures - Contracting for Professional Services states that contracts shall be awarded by the Green Bank in such manner, including on the basis of a sole-source procurement, as the Board determines to be appropriate and in the Green Bank's best interests in the circumstances.

Expenditures by the Green Bank of over $150,000 shall, whenever possible, be awarded on the basis of a process of competitive negotiation where proposals are solicited from at least 3 qualified parties.

The non-profit organization played a critical role in the early successes of the community campaign and had a thorough familiarity with all facets of the program in Connecticut. Due to the organization's unique expertise and the time constraints involved in launching the next phase of the program, it was determined that it was not possible to initiate a competitive proposal process without delaying the launch and it would be in the Green Bank's best interest to execute a sole-source procurement of the organization's unique services for the program.

In FY 2014 and FY 2015, the community campaign supported by the non-profit organization saved households over $2.6 million in total installed cost reductions."

Lack of Board Approval of Financing Agreements

Criteria: The Connecticut Green Bank board of directors bylaws state that the Deployment Committee may evaluate and approve project financing agreements between $300,000 and $2,500,000 on behalf of the board, while agreements less than $300,000 can be approved by internal staff.

Condition: The Connecticut Green Bank did not adhere to proper approval procedures, as the Deployment Committee did not evaluate and approve 1 project financing agreement for a recommitment of funds in the amount of $375,000.

Cause: CGB indicated that it did not seek the Deployment Committee approval because it had committed to disbursing the funds under the original financing agreement (FA) for certain improvements 14 years ago.

Effect: There is reduced assurance that the Deployment Committee has the opportunity to evaluate, consider, and approve the recommitment of funds.

Recommendation: The Connecticut Green Bank should improve internal controls to track outstanding commitments and obtain approvals when funds are recommitted. (See Recommendation 2.)

Agency Response: "Connecticut Green Bank (Green Bank) agrees that it is important to track outstanding commitments under financing agreements. The Green Bank does keep track of outstanding commitments and discloses these outstanding commitments in its Comprehensive Annual Financial Report.

Regarding the Condition discussed above, in 2002 the Board of Directors of the Clean Energy Fund (CCEF), the predecessor of the Green Bank, authorized the staff of the CCEF to enter into a Financing Agreement (FA) with a hospital to deploy fuel cell technology to reduce its energy costs. The FA was executed in 2003 and the CCEF was obligated to disburse funds up to the FA's expiration date in 2013. In 2011 the Green Bank executed an amendment to the original FA with the hospital to reallocate the remaining unspent $375,000 earmarked for the maintenance of the original equipment to the upgrade of the equipment to a newer fuel cell technology. The newer model fuel cell has a nameplate rating of 400 kW compared to the older 200 kW model. The newer 400 kW model produces approximately twice the amount of electricity and thermal energy than the older 200 kW model did to the hospital; 3,300,000 kWh and 14,000 MMBtu annually respectively. The newer technology fuel cell model also has a 10-year rating on the cell stack compared to 5-years on the older 200 kW model, significantly reducing maintenance costs to the hospital over the 20-year lifecycle of the fuel cell power plant. The new technology was installed before the expiration of the original FA, at which point the Green Bank was still obligated to disburse the remaining funds to the hospital.

The Green Bank acknowledges that best practice is to review proposed reallocations of funds committed under financing agreements with the Deployment Committee."

Untimely Reporting

Criteria: Section 1-123 subsection (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 1-123 subsection (c) 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 personnel status report to the legislature's Office of Fiscal Analysis.

Section 16-245aa subsection (d) of the General Statutes requires that on January 1, 2013, and annually thereafter, the Connecticut Green Bank will report on the effectiveness of the Renewable Energy and Efficient Energy Finance Program to the joint standing committee of the General Assembly having cognizance of matters relating to energy.

Section 16-245ff subsection (j) of the General Statutes requires that on or before January 1, 2017 and every 2 years thereafter, the Connecticut Green Bank shall report on the progress toward the goals identified for the residential solar investment program.

Public Act 14-94 requires that not later than January 1, 2015, the Connecticut Green Bank shall submit a report assessing the potential success and need for a residential property assessed clean energy program.

Condition: Our review disclosed that the Connecticut Green Bank did not submit the following reports in a timely manner for the fiscal years ended June 30, 2014 and 2015:

- Seven of 8 quarterly financial reports.
- Two of 8 quarterly personnel status reports;
- The report on the effectiveness of the Renewable Energy and Efficient Energy Finance Program.
- The report on Residential Solar Investment Program
- The report on Residential Property Assessed Clean Energy Program

Cause:	Connecticut Green Bank did not have adequate internal controls in place.
Effect:	The Connecticut Green Bank was not compliant 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 3.)
Agency Response:	"The Connecticut Green Bank has strengthened its internal controls to ensure compliance with reporting requirements. The reports listed in the Condition above for FY17 and FY18 will be submitted based on the following schedule:

Report	Due Date
Quarterly Financial Cash Flow Report-9/30/2016	12/31/2016
Quarterly Financial Cash Flow Report-12/31/2016	3/31/2017
Quarterly Financial Cash Flow Report-3/31/2017	6/30/2017
Quarterly Financial Cash Flow Report-6/30/2017	9/30/2017
Quarterly Financial Cash Flow Report-9/30/2017	12/31/2017
Quarterly Financial Cash Flow Report-12/31/2017	3/31/2018
Quarterly Financial Cash Flow Report-3/31/2018	6/30/2018
Quarterly Financial Cash Flow Report-6/30/2018	9/30/2018
Quarterly Personnel Status Report-9/30/2016	12/31/2016
Quarterly Personnel Status Report-12/31/2016	3/31/2017
Quarterly Personnel Status Report-3/31/2017	6/30/2017
Quarterly Personnel Status Report-6/30/2017	9/30/2017
Quarterly Personnel Status Report-9/30/2017	12/31/2017
Quarterly Personnel Status Report-12/31/2017	3/31/2018
Quarterly Personnel Status Report-3/31/2018	6/30/2018
Quarterly Personnel Status Report-6/30/2018	9/30/2018
Report on the Residential Solar Investment Program	1/1/2017 and 1/1/2019

It should be noted, that as of November 6, 2017, the following reports were submitted:

- 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 – 6/30/17 – submitted on 8/9/2017
- Quarterly Personnel Status Report – 9/30/16 – submitted on 10/5/2016
- Quarterly Personnel Status Report-12/31/2016 - submitted on 2/21/2017
- Quarterly Personnel Status Report 3/31/2017 – submitted on 4/10/2017
- Quarterly Personnel Status Report – 6/30/2017 – submitted on 7/17/2017
- Residential Solar Investment Program – 1/1/2017 submitted on 1/ 30/ 2017

It should also be noted that the Renewable Energy and Efficient Energy Finance Program was eliminated and removed as a public policy in FY 2016 through Public Act 16-4."

RECOMMENDATIONS

The prior report on the Connecticut Green Bank contained a total of 3 recommendations. Two were implemented or otherwise resolved and one is being repeated.

Status of Prior Audit Recommendations:

- **The Connecticut Green Bank should strengthen controls to ensure compliance with the compensatory time policies set forth in its employee handbook.** We noted improvements in this area and this recommendation is not repeated.

- **The Connecticut Green Bank should strengthen internal controls to ensure that contracts include all provisions required by the General Statutes.** We noted improvements in this area and this recommendation is not repeated.

- **The 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 as Recommendation 3.

Current Audit Recommendations:

1. **The Connecticut Green Bank should consider revising its policies to determine whether established contracts should be administered through the request for proposal (RFP) process to ensure that services are being obtained in the most cost-effective manner. It should also establish internal controls to ensure that vendors will, whenever possible, be awarded on a competitive basis.**

   Comment:

   Our review disclosed that a contract was not awarded on a competitive basis and the board voted to extend a professional service agreement without rebidding the contract.

2. **The Connecticut Green Bank should improve internal controls to track outstanding commitments and obtain approvals when funds are recommitted.**

   Comment:

   The Deployment Committee did not evaluate and approve 1 project financing agreement for a recommitment of funds.

3. **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 several reports were not filed in a timely manner.

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.

Lisa Drzewiecki
Auditor I

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert J. Kane
Auditor of Public Accounts