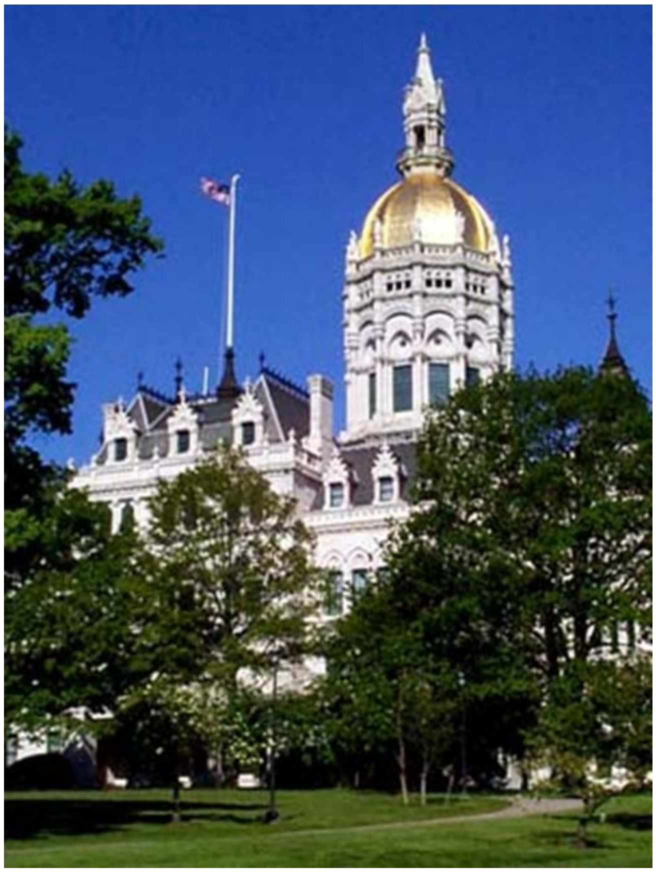
STATE OF CONNECTICUT



AUDITORS' REPORT
CONNECTICUT GREEN BANK
(FORMERLY THE CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY)
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

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

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May 6, 2021

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 (Green Bank), formerly known as the Clean Energy Finance and Investment Authority, for the fiscal years ended June 30, 2018 and 2019. Our audit identified internal control deficiencies, and instances of noncompliance with laws, regulations, and policies, and the need for changes in management practices that warrant the attention of management. The significant findings and recommendations are presented below:

Page 13	Our review disclosed that the Green Bank's 2019 annual report did not contain a complete set of financial statements. Green Bank did not always submit quarterly financial reports on time. The Connecticut Green Bank should comply with the reporting requirements in the Connecticut General Statutes. (Recommendation 1.)
Page 15	Two Green Bank employees remained employed months after they signed separation agreements and one employee who received severance, returned to his position at Green Bank in his prior position less than two years after it was eliminated. The Connecticut Green Bank should offer its severance agreements more closely to the employee's separation date. Green Bank should confirm that the position is not needed before entering into a separation agreement. (Recommendation 2.)
Page 18	The Connecticut Innovations employee who processes Green Bank's payroll approved 394 and 241 timesheets in fiscal years 2018 and 2019, respectively, because the employees' supervisors did not always approve their timesheets. The CI employee does not work in the same building as Green Bank employees. Connecticut Green Bank supervisors should promptly approve employee timesheets each pay period. If a supervisor is not available, an appropriate designee with knowledge of the employee's attendance should approve their timesheet. (Recommendation 3.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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ROBERT J. KANE

May 6, 2021

AUDITORS' REPORT
CONNECTICUT GREEN BANK
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

We have audited certain operations of the Connecticut Green Bank (Green Bank) in fulfillment of our duties under 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, 2018 and 2019. The objectives of our audit were to:

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

2. Evaluate the department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; 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 department, as well as certain external parties; and testing selected transactions. Our testing is not designed to project to a population unless specifically stated. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 department. For the areas audited, we reached the following conclusions:

1. Identified deficiencies in internal controls;

2. Identified apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and

3. Identified need for improvements in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Green Bank.

COMMENTS

FOREWORD

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

The Connecticut Green Bank administers the Connecticut Clean Energy Fund that was previously managed by Connecticut Innovations. 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 supports the Governor's and Legislature's energy strategy to achieve cleaner, more affordable and more reliable sources of energy while creating jobs and supporting local economic development. Its mission is to confront climate change and provide all of society a healthier and more prosperous future by increasing and accelerating the flow of private capital into markets that energize the green economy. In accordance with Section 16-245n(d)(1)(B), Green Bank'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 Green Bank 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 Green Bank's 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 Green Bank's general, administrative, and program expenses. During the audited period, the charge was 1 mill per kilowatt-hour. It is this assessment that provides Green Bank's largest source of revenue. Green Bank also receives a portion of Connecticut's funds from the Regional Greenhous Gas Initiative (RGGI) for the financing of renewable energy projects. Funds from RGGI auctions are used to fund commercial property assessed clean energy program (C-PACE) loans or other Class I renewable projects. Other sources of revenue include renewable energy certificate (REC) sales, energy system sales, sale of Solar Home Renewable Energy Credits (SHREC) generated by facilities it has financed, and the federal government.

Since 2013, Green Bank decided to transition to innovative, low-cost financing of clean energy deployment. This enabled Green Bank to invest its funds in activities that generate a return and create revenue that can be reinvested in clean energy for Connecticut. Green Bank invests over 80% of its resources in loans, leases, and credit enhancements, and spends the other 20% on program and operating expenses.

Component Units

The Connecticut Green Bank manages nine for-profit entities that administer the Green Bank's clean energy program as follows:

CEFIA Holdings, LLC

CEFIA Holdings, LLC (CEFIA Holdings) is a Connecticut limited liability corporation, wholly owned by the Connecticut Green Bank. Connecticut Innovation Inc. held a 1 % interest until May 7, 2019, when it notified the Connecticut Green Bank to redeem and repurchase its share pursuant to a redemption agreement. Green Bank established CEFIA Holdings to acquire and develop a portfolio of commercial and residential solar photovoltaic equipment for the benefit of Connecticut homeowners, businesses, not-for-profits and municipalities. 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, operation, maintenance and warranty services for the ultimate owner of the solar assets, CT Solar Lease 2 LLC or CT Solar Lease 3 LLC. CEFIA Holdings sells the residential and commercial projects before the projects are placed in service. After acquiring the residential and commercial projects, CT Solar Lease 2 or CT Solar Lease 3 administers the portfolio of projects with the assistance of an outside corporation. CEFIA Holdings is presented in Green Bank'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 and established to make loans to residential property owners for the purchase and installation of photovoltaic equipment. It is presented as a blended unit in Green Bank'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 and the sale of energy, as it is the managing member of CT Solar Lease 2 and CT Solar Lease 3. CEFIA Solar Services has an ownership interest in CT Solar 2 and CT Solar Lease 3 (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 and CT Solar Lease 3. CEFIA Solar Services is presented as a discrete unit in Green Bank's 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 to CT Solar Lease 2 of their obligations under leases and power purchase agreements, as well as revenue from production-based incentives. CT Solar Lease 2 is owned by an outside-investor-member limited liability company (99%) and by CEFIA Solar Services (1%) as the managing member. The capital contribution account in CT Solar Lease 2's financial statements reflect the amounts contributed. Green Bank provides management services through Solar Services, Inc. to directly enhance its ability to provide financing options to commercial entities and residents that want to install renewable energy equipment. This entity is presented as a discrete unit in Green Bank's financial statements.

CT Solar Lease 3, LLC

CT Solar Lease 3 is a Connecticut limited liability company. It was formed to acquire title to commercial solar projects from the developer, CEFIA Holding, using capital from its members. Its primary sources of revenue are from the sale of electricity generated by its solar photovoltaic (PV) facilities to property owners through power purchase agreements and the sale of renewable energy certificates generated from facility electrical production to third parties. It is owned by an outside-investor-member limited liability company (99%) and by CEFIA Solar Services (1%) as the managing member. The capital contribution account in CT Solar Lease 3's financial statements reflect the amount contributed. Green Bank provides management services through Solar Services, Inc. to directly enhance its ability to provide financing options to commercial entities and residents that want to install renewable energy equipment. This entity is presented as a discrete unit in Green Bank's financial statements.

CGB Meriden Hydro, LLC

CBG 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 set price 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. CGB Meriden also receives revenues from the sale of renewable energy credits generated by the facility and sold to the local utility company under a sales and purchase contract. It is presented as a blended unit in Green Bank's financial statements.

CGB KCF LLC

CGB KCF LLC is a Connecticut corporation owned solely by Green Bank. It was established on November 7, 2017 to hold the loan liability resulting from draws made on a $3,000,000 loan facility provided by the Kresge Foundation. CGB KCF LLC drew $1,000,000 in funds held in a restricted Green Bank cash account. Quarterly interest payments are made on the outstanding balances. It is presented as a blended unit in Green Bank's financial statements.

SHREC ABS 1 LLC

SHREC ABS 1 LLC, is a Delaware corporation that is owned solely by Green Bank. It was established on February 19, 2019 to issue $38,600,000 of SHREC Collateralized Notes, Series 2019-1 (SHREC notes), $36,800,000 Class A notes and $1,800,000 Class B notes, with Bank of New York Mellon acting as trustee. The SHREC notes were sold to a single investor on April 2, 2019. Green Bank used the proceeds to retire its short-term debt and support its investment and operational activities. Green Bank funds quarterly scheduled principal and interest payments over 14 years by billing two Connecticut utilities for SHREC revenues generated by approximately 14,000 solar PV systems on residential rooftops. It is presented as a blended unit in Green Bank's financial statements.

CT Solar Lease 1 LLC

CT Solar Lease I LLC is a Connecticut corporation, owned solely by Green Bank. It was created on April 23, 2019 based on an agreement with Amalgamated Bank for a $5,000,000 secured revolving line of credit (the Revolving Credit Facility - RCF). Amalgamated Bank provided the RCF to meet the Green Bank's short-term liquidity and working capital needs. Along with a general repayment obligation by the Green Bank, Amalgamated Bank is secured by a first priority security interest in, and an absolute assignment of all cash flows associated with the CT Solar Lease Notes portfolio. CT Solar Lease 1 receives note payments and maintains a loan loss reserve for the portfolio. It is presented as a blended unit in Green Bank's financial statements.

Significant Legislation

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 (RGGI) to the General Fund for each fiscal year of this audit. The Green Bank receives 23% of quarterly RGGI auction proceeds.

Public Act 18-42, effective May 31, 2018, authorized the Green Bank to secure, with a special capital reserve fund, its obligations to make basic rental payments, consisting of principal and interest, under the equipment lease-purchase agreement it entered into in December 2017 for the installation of solar equipment at various locations of the Connecticut State Colleges and Universities. The authorization applies as long as Green Bank obtains the required approvals after the obligation's issuance and regardless of whether the obligation is established in the form of a lease agreement.

Board of Directors and Administrative Officials

Pursuant to Section 16-245n (e) of the General Statutes, the powers of Green Bank are vested in and exercised by a board of directors. The board consists of eleven voting and one nonvoting members, each with knowledge and expertise in matters related to Green Bank's purpose and activities, 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 Green Bank president 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 Green Bank's board of directors as of June 30, 2019, were as follows:

Appointed by the Governor:

John Harrity
Kevin Walsh
Two Vacancies, one of which is the chairperson

Legislative Appointments:

Eric Brown
Elizabeth Crum
Thomas M. Flynn
Matthew Ranelli

Ex-Officio:

Bettina Bronisz, designee for the Office of the State Treasurer
Binu Chandy, designee for the Department of Economic and Community Development
Mary Sotos, designee for the Department of Environmental Protection

Non-voting Member:

Bryan Garcia, President of Green Bank, acting chair for meetings

In addition, the board set up several committees and subcommittees to assist it in making Green Bank decisions. During the audited period, the Green Bank board had four 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 Green Bank 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 Green Bank as of June 30, 2018 and 2019 is presented below. For comparative purposes, the amounts for the fiscal year ended June 30, 2017 are also presented. The financial position of Green Bank as of June 30, 2019, per its audited financial statements, is presented below.

	Fiscal Year Ended June 30,		
	2019	**2018**	**2017**
Assets			
Current:			
Cash and Cash Equivalent	$ 18,947,214	$ 19,830,102	$ 37,148,283
Accounts Receivable	1,774,990	1,018,419	404,807
Utility Remittance Receivable	1,893,965	2,377,065	2,507,659
Other Receivables	3,004,780	1,641,354	770,003
Due from Component Unit	-	-	-
Prepaid Expenses and Other Assets	1,846,104	1,847,848	10,012,025
Current maturities of prepaid warranty management	259,148	259,148	-
Current Portion of Solar Lease Notes	942,056	908,541	869,831
Current Portion of SBEA promissory notes	1,709,491	-	-
Current Portion of Program Loans	3,756,932	2,138,512	1,910,048
Total Current Assets	$ 34,134,680	$ 30,020,989	$ 53,622,656
Non-Current			
Portfolio Investments	1	1	1
Fair value of interest rate swap	-	171,148	-
Bonds Receivable	3,288,656	3,328,530	3,328,530
Prepaid Warranty management, less current portion	3,984,883	4,244,031	-
Solar Lease Notes, less Current Portion	5,361,206	6,358,184	7,242,822
SBEA Promissory Notes, less Current Portion	1,799,007	-	-
Program Loans, less Current Portion	64,800,014	43,525,021	40,296,113
Renewable Energy Credits	468,736	547,556	654,767
Investment in Component Units	-	-	-
Capital Assets, Net of Depreciation and Amortization	80,523,040	73,417,221	61,510,207
Asset Retirement Obligation, Net	-	-	2,535,104
Restricted Assets:			
Cash and Cash Equivalents	16,667,797	24,368,185	22,063,406
Total Noncurrent Assets	176,893,340	155,960,207	137,630,950
Total Assets	**$211,028,020**	**$185,981,196**	**$191,253,606**

Deferred Outflows of Resources			
Deferred Amount for Pensions	7,756,235	8,778,670	9,978,107
Deferred Amount for OPEB	1,732,147	1,999,011	1,856,261
Deferred Amount for Asset Retirement Obligations	2,828,461	2,927,687	-
Deferred Payments to State of Connecticut	-	14,000,000	-
Total Deferred Outflow of Resources	**12,316,843**	**27,705,368**	**11,834,368**
Liabilities			
Current Maturities of Long-Term Debt	4,598,103	847,491	2,647,159
Current Maturities of Warranty Management	1,669,539	689,746	-
Accounts Payable and Accrued Expenses	7,873,645	6,544,078	8,660,946
Due to Component Units	-	-	-
Line of Credit	-	1,000,000	-
Custodial Liability	2,695,326	1,893,526	1,844,791
Unearned Revenue	879,512	3,144,218	871,714
Total Current Liabilities	17,716,125	14,119,059	14,024,610
Asset Retirement Obligation	3,824,355	3,658,993	3,020,405
Long-Term Debt, Less Current Maturities	73,028,810	38,532,393	29,736,999
Warranty Management, less Current Maturities	187,934	1,857,473	-
Fair Value of Interest Rate Swap	523,224	-	540,877
Pension Liability	25,805,346	24,636,114	25,245,439
OPEB Liability	24,000,448	24,875,889	23,803,688
Payable to State of Connecticut	-	14,000,000	-
Total Noncurrent Liabilities	127,370,117	107,560,862	82,347,408
Total Liabilities	**145,086,242**	**121,679,921**	**96,372,018**
Deferred Inflows of Resources			
Deferred Amount for Pension	80,906	47,042	-
Deferred Amount for OPEB	1,895,599	624,950	-
Total Deferred Inflows of Resources	**1,976,505**	**671,992**	**-**
Net Position			
Invested in Capital Assets	3,794,400	2,250,706	1,387,893
Restricted Net Position:			
Nonexpendable	66,901,619	66,496,304	55,975,002
Restricted for Energy Programs	11,537,185	19,250,169	16,843,634
Unrestricted (Deficit)	(5,951,088)	3,337,472	32,509,427
Total Net Position	**$ 76,282,116**	**$ 91,334,651**	**$106,715,956**

During the fiscal year ended June 30, 2018, total current assets decreased by $23.6 million. Cash decreased $17,318,181 compared to fiscal year 2017 mainly due to the payment of $14,000,000 to the General Fund in accordance with Public Act 17-2 of June 2017 Special Session. Prepaid expenses and other assets mainly decreased due to the completion and sale of $6.4 million in solar photovoltaic projects by CEFIA Holdings LLC.

Total noncurrent assets grew in fiscal year 2019, due to an $18 million increase in C-PACE loans.

Capital assets increased by $11.9 million in fiscal year 2018, due to the purchase of the hydroelectric facility in Meriden, CT by the Green Bank and the purchase of commercial solar PV facilities by CT Solar Lease 3 LLC. Capital assets increased by $7.1 million in fiscal year 2019, due to energizing 7 of the 8 CSCU (Connecticut State Colleges & Universities) solar photovoltaic systems. Electricity generated from these systems is sold through power purchase agreements with CSCU.

Liabilities increased in fiscal year 2018 due to the issuance of $9.1 million of CREB (Clean Renewable Energy Bonds) and the transfer to the State of Connecticut. Liabilities increased in fiscal year 2019, due to the issuance of $38.6 million in SHREC (Solar Home Renewable Energy Credits) collateralized notes.

A schedule of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2018 and 2019, follows. The Green Bank's financial position as of Jun 30, 2019, per its audited financial statements, is presented below.

	Fiscal Year Ended June 30,		
	2019	**2018**	**2017**
Operating Revenues			
Utility Remittances	$ 26,094,682	$ 25,943,182	$ 26,404,349
Grant Revenue	200,779	81,952	98,486
RGGI Auction Proceeds	2,130,255	1,250,260	2,392,647
Energy System Sales	2,795,336	2,782,406	-
REC Sales	6,489,479	3,659,520	2,570,647
Other Income	4,012,334	3,164,336	2,500,419
Total Operating Revenue	**41,722,865**	**36,881,656**	**$ 33,966,548**
Operating Expenses			
Cost of Goods Sold – Energy Systems	2,877,040	2,997,798	-
Grant and Incentive Programs	14,671,750	17,930,437	17,084,211
Program Administration Expenses	17,505,206	16,882,804	16,824,382
General and Administrative Expenses	5,722,397	5,630,001	5,725,394
Total Operating Expenses	**40,776,393**	**43,441,040**	**39,633,987**
Operating Income (Loss)	**946,472**	**$ (6,559,384)**	**$ (5,667,439)**
Nonoperating Revenue (Expenses)			
Interest Income-Promissory Notes	$ 3,909,495	$ 3,293,338	$ 2,921,710
Interest Income-Short Term Cash Deposits	416,258	338,476	223,298
Interest Expense-Long Term Debt	(1,983,502)	(1,388,869)	(1,222,384)
Interest Income – Component Units	-	-	-
Interest Expense – Component Units	(429)	-	-
Debt Issuance Costs	(1,738,746)		
Payments to State of Connecticut	(14,000,000)	(14,000,000)	-
Distributions to Member	(588,663)	(540,171)	(436,452)
Distribution to Former Member	(1,000)	-	-
Realized and Unrealized Gain (Loss) on Investments	(104,466)	(510,207)	(1,093,972)
Unrealized Gain (Loss) on Interest Rate Swap	(694,702)	712,355	1,086,987
Provision for Loan Losses	(2,908,974)	(361,711)	(956,489)

Total Nonoperating Revenue (Expenses)	**$(17,694,729)**	**$(12,456,789)**	**$ 522,698**
Change in Net Position before Capital Contributions	(16,748,257)	(19,016,173)	(5,144,741)
Capital Contributions	1,695,722	2,175,941	6,445,790
Change in Net Position	(15,052,535)	(16,840,232)	1,301,049
Net Position – Beginning of Year	91,334,651	108,174,883[1]	105,414,907
Net Position – End of Year	**$ 76,282,116**	**$ 91,334,651**	**$106,715,956**[2]

Revenues

Total operating revenue increase by $2,915,108 in fiscal year 2018 and $4,841,209 in fiscal year 2019.

The increase in fiscal year 2018 revenue was from energy sales. CEFIA Holdings LLC sold $2.8 million of partially constructed projects to a third party in fiscal year 2018. Increases in 2018 and 2019 revenue was attributable to renewable energy certificate (REC) sales. Green Bank owns Class 1 RECs generated by certain commercial renewable energy facilities for which Green Bank provided the initial funding. Through its Residential Solar Incentive Program, Green Bank owns the rights to future REC generated by facilities installed on residential properties. Revenues from REC sales increased $1.1 million and $2.8 million for fiscal years 2018 and 2019, respectively, from sales to Connecticut's two public utility companies.

Expenses

Total operating expenses increased by $3,807,053 in fiscal year 2018 and decreased by $2,664,647 in fiscal year 2019. The increase in fiscal year 2018 was due to CEFIA Holdings LLC selling partially constructed projects to a third party for $2,997,798 and an increase of $846,226 in grant and incentive programs. The decrease in fiscal year 2019 was due to lower interest rate buy downs related to the termination of the Smart-E buy down program. This program went to Inclusive Prosperity Capital, discussed in other matters below. Performance based incentive (PBI) payments comprised the largest component of incentives paid out in both these years. PBI payments are payable to third-party owners of photovoltaic (PV) systems.

Nonoperating expenses were the main cause of the decrease in net position of Green Bank for fiscal years 2018 and 2019 due to payments of $14,000,000 each year to the General Fund.

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 Green Bank as of June 30, 2018 and 2019, and the

[1] Net Position – Beginning of year was adjusted due to an error of previously expensing warranty management costs instead of amortizing the costs as a prepaid expense over the life of the contracted management period of 20 years.

[2] Net Position – End of Year was $128,663,383 and was adjusted from the previous audit to reflect implementation of GASB 75, *Accounting and Financial Report for Postemployment Benefits Other than Pension*.

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.

Other Matters

In response to $32.6 million in sweeps from the Clean Energy Fund and the Regional Greenhouse Gas Initiative to the General Fund in fiscal years 2018 and 2019, Green Bank prepared a sustainability plan to reduce its costs. The plan included the formation of a nonprofit, Inclusive Prosperity Capital (IPC), which was incorporated on June 6, 2018. Green Bank funded IPC, in partnership with the Department of Energy and Environmental Protection (DEEP) and a private foundation. The mission of IPC is to attract investors in low-to-moderate income single and multifamily properties by administering programs on behalf of the Green Bank. Green Bank based the formation of this entity on Section 16-245n(d)(1)(D)(ix) of the General Statutes which allows the Green Bank to "enter into joint ventures and invest in, and participate with any person, including, without limitation, government entities and private corporations, in the formation, ownership, management and operation of business entities, including stock and nonstock corporations, limited liability companies and general or limited partnerships, formed to advance the purposes of said bank."

Green Bank entered into a memorandum of understanding (MOU) with IPC to provide office space at its Rocky Hill location and administrative support. The MOU is in effect from August 3, 2018 through June 30, 2024. The agreement includes a revolving line of credit of up to $150,000. The agreement outlined the services Green Bank would provide to IPC and their associated costs. For the most part, Green Bank did not charge IPC for many services.

Green Bank entered into four personal service agreements with IPC effective August 3, 2018, for IPC to administer some Green Bank programs that included Smart-E, Multifamily, Solar PPA and investment management of the Posigen Solar for All program. Green Bank employees who were operating these programs resigned and began working for IPC.

The Department of Energy and Environmental Protection entered into two personal service agreements with Green Bank with Regional Greenhous Gas Initiative funding those agreements. Subsequently, Green Bank transferred the funds to IPC. One $5,000,000 personal service agreement was for the development of solar energy efficiency projects in low-income communities. In 2019, IPC purchased a participation interest from Green Bank for $4.1 million using RGGI grant funds it received from DEEP. The $4.1 million was transferred to Posigen, which has received loans from Green Bank for the development of solar energy projects in low-income communities. Funding of $901,583 remained with IPC. IPC entered a participation agreement with Green Bank on November 29, 2018. Under this agreement, Green Bank would repay the IPC its $4.1 million ownership interest over 6 years in monthly installments of principal and interest of 6.75 percent per annum. The repayment would commence on January 1, 2019 and end December 31, 2024. The other personal service agreement was for $1,500.000 for the energize CT Health & Safety Revolving Loan fund.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Connecticut Green Bank disclosed the following three recommendations, of which one has been repeated from the previous audit:

Failure to Include All Reporting Requirements and Late Reporting

Criteria: Section 1-123 (a) of the General Statutes requires each quasi-public agency to submit an annual report to the Governor and Auditors of Public Accounts. The report is required to include a complete set of financial statements.

Section 1-123 (b) of the General Statutes requires each quasi-public agency to submit a quarterly financial report to the legislature's Office of Fiscal Analysis. Quarterly financial reports do not have a specific due date, but their submission should be shortly after the end of the quarter.

Condition: A review of the Section 1-123(a) annual report for 2019 found that it did not include a complete set of financial statements, but only included a balance sheet.

Green Bank did not submit its quarterly financial reports on time. Green Bank submitted its report for the quarter ended December 31, 2018 on July 11, 2019 and its report for the quarter ended March 31, 2019 on September 23, 2019. The other reports were submitted one and one half to three months after the quarter ended.

Effect: Green Bank did not fully comply with statutory reporting requirements as set forth by the General Statutes.

Cause: Public Act 18-137, effective June 11, 2018, changed the reporting requirement from a balance sheet presenting all revenue and expenditures to a complete set of financial statements.

Green Bank informed us that the reports were late due to the retirement of a staff member who prepared them, and a new format required by the Office of Fiscal Analysis.

Prior Audit Finding: This finding concerning untimely reporting has been previously reported in the last 3 audit reports covering the fiscal years ended 2012 through 2017.

Recommendation: The Connecticut Green Bank should comply with the reporting requirements in the Connecticut General Statutes. (See Recommendation 1.)

Agency Response: "We agree with the finding.

With respect to Section 1-123(a) and Section 1-123(b), the VP of Finance and Administration retired on February 1, 2019. This employee was responsible for assembling the information to be submitted to the Office of Fiscal Analysis (OFA).

On Section 1-123(a), the main reason the report did not contain the additional required Statement of Income and Expenditures was a lack of awareness of the amendment to the statute. Although the Green Bank's submission of its Fiscal Year 2019 Section 1-123(a) reporting did not include the Statement of Income and Expenditures, the Green Bank's Comprehensive Annual Financial Reports (CAFRs) are available on its website for anyone to review. Fiscal Year 2019's CAFR was posted on October 31, 2020. As required by Section 1-123(a), the Green Bank submitted a full set of financial statements on December 30, 2020 for Fiscal Year 2020 and will continue to do so for future fiscal years.

With respect to Section 1-123(b), the main reason why these reports were late, was due to the lack of a timely transition of reporting responsibilities to the successor. In an effort to improve the efficiency of the data collection process for the report, the Green Bank staff subsequently reached out the OFA on September 11, 2019 to propose revising the contents of the cash flow report, and to confirm that the report filing dates with respect to the fiscal year quarter is correct. OFA determined that (1) the revised contents of the quarterly cash flow report "sufficiently fulfills the requirements of CGS 1-123(b)" and "also provides OFA with sufficient information needed to provide information and analysis – as it relates to the Green Bank – to the legislature"; and (2) that the quarterly report filing dates for the cash flow and personnel reports within the memo (see Table 1 below) are "correct and consistent with past practice". The Green Bank provided an update on the OFA process to the APA by e-mail on September 20, 2019.

Table 1. Connecticut Green Bank's Interpretation of CGS 1-123b-c Deadlines for Report Filings

	Quarter	Quarter Beginning	Quarter Ending	Report Filing Date
Fiscal Year	1	July 1	September 30	December 31
	2	October 1	December 31	March 31
	3	January 1	March 31	June 30
	4	April 1	June 30	September 30

With OFA's assistance and clarification, it is the expectation that the Green Bank will improve the efficiency and effectiveness of its compliance with CGS 1-123(b) as it applies to quarterly reporting to

OFA. The Green Bank has developed an automated cash flow report that can be produced to support the timely and sufficient submission of the report. The following is a breakdown of the quarterly cash flow reports submitted during the FY2018 and FY2019 periods:

- Quarterly Financial Cash Flow Report – 06/30/2018 – submitted on 09/05/18 (On Time)
- Quarterly Financial Cash Flow Report – 09/30/2018 – submitted on 11/28/18 (On Time)
- Quarterly Financial Cash Flow Report – 12/31/2018 – submitted on 07/11/2019 (Late due to VP transition – 102 Days – due on March 31, 2019)
- Quarterly Financial Cash Flow Report – 3/31/2019 – submitted on 09/23/2019 (Late due to VP transition – 85 Days – due on June 30, 2019)
- Quarterly Financial Cash Flow Report – 06/30/2019 – submitted on 09/23/2019 (On Time)
- Quarterly Financial Cash Flow Report – 09/30/2019 – submitted on 12/27/2019 (On Time)
- Quarterly Financial Cash Flow Report – 12/31/2019 – submitted on 03/26/2019 (On Time)
- Quarterly Financial Cash Flow Report – 03/31/2020 – submitted on 06/22/20 (On Time)”

Unreasonable Period of Employment After Signing of Separation Agreement

Background: Green Bank board of directors, at its December 15, 2017 meeting, authorized its president to permanently eliminate positions consistent with the Sustainability Pathway Strategy set forth in a December 15, 2017 memorandum, and offer a severance package consistent with its policy. The Sustainability Pathway Strategy was in response to the $28 million transferred from Green Bank’s Clean Energy Fund to the General Fund and a $4 million decrease in Regional Greenhous Gas Initiative funds during fiscal years 2018 and 2019. This memorandum stated that Green Bank needed to adjust its strategy and implement a plan to manage with limited resources, including personnel expenses. It also removed the 3% of salary merit pool for fiscal year 2018. The memorandum also detailed and approved many other cost savings measures.

Criteria: The Connecticut Green Bank's severance policy states that if it "permanently eliminates one or more positions from its workforce, the Green Bank, with approval of its Board of Directors or the Budget and Operations Committee of its Board of Directors, is authorized to offer the employees separated" a severance package. According to its severance policy, employees receive six weeks of severance based on their current pay and an additional week of salary for each six-month period of continuous service. This is in addition to any accrued vacation compensation due the employee at termination and any additional pay for sick time if the employee is eligible to retire.

Green Bank's separation agreement states that it shall not become effective or enforceable until 7 days after the employee signs it. Execution date is normally defined as the date in which the contract is signed by all necessary parties. Severance packages should be signed and dated by both parties to determine the revocation date.

Separation agreements should be effective within a reasonable period from the date the employee and Green Bank execute the agreement. Transitional agreements should also be for reasonable periods.

Condition: Terminations based on job elimination did not appear to be timely for two of the five employees offered severance pay. Two employees signed separation agreements on January 29, 2018. These two employees also signed transitional agreements to continue their employment. The transitional period ended on June 30, 2018, for one employee and December 31, 2018, for the other employee. The employee who had the end date of December 31, 2018, also received a merit increase effective September 28, 2018. The employee was hired as a rehired retiree from January 4, 2019 until September 11, 2020.

An employee who received a severance package and who separated February 27, 2018, was rehired October 5, 2020, with the same title. This employee received two lump sum payments totaling $30,161 as part of their separation agreement.

Effect: Green Bank may not achieve intended savings from job eliminations if it does not promptly complete employee separations and does not reinstate eliminated position. Employees may continue to accrue additional severance, vacation, and sick pay if the employee chooses to retire.

It appears that it was imprudent for Green Bank to offer one of the employees a severance package, as that employee later filled that same position.

Cause: It appears that Green Bank delayed two employees' separations because it considered their duties necessary. In addition, it appears that the other job elimination may have been for cost savings without consideration of the need for the position.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Green Bank should offer its severance agreements more closely to the employee's separation date. Green Bank should confirm that the position is not needed before entering into a separation agreement. (See Recommendation 2.)

Agency Response: "We partially agree with the finding.

As the APA notes within the background description, this was a stressful period of time for the organization in which the legislature had transferred over 50% of the organization's resources (i.e., $28 million from the Clean Energy Fund and $4 million from RGGI) to help address the state budget deficit during FY2018 and FY2019. In response to that, the Board of Directors approved a Sustainability Pathway Strategy that included a reduction of operating expenses by over 25%, resulting in the need to sever personnel.

The severance of the employee dated June 30, 2018, around four (4) months following the first cohort of severances was planned due to the human resource responsibilities of that employee. That employee, with service to the State of Connecticut for twenty-three years, led the organization in managing through the various human resource challenges that occurred as a result of the situation.

The severance of the employee dated December 31, 2018, around ten (10) months following the first cohort of severances, was also planned due to the programmatic responsibilities of that employee. That employee, with service to the State of Connecticut for fourteen years, still to this day, assists the organization with the implementation of a complex program that involves a significant amount of public investment in clean energy deployment.

Although it is good practice for organizations to offer severance agreements more closely to a separation date, given the circumstances, it was best for this situation to communicate to these employees a timeline for such agreement, along with being clear with respect to their roles and responsibilities during this period of time. And looking back on the situation, those difficult decisions had to be made at the time given the nature of the circumstances.

And lastly, with respect to the employee who was severed on February 27, 2018, and then rehired on October 5, 2020, this employee was competitively hired through an open position process for a durational position through 2022 to support the increased demands on the program."

Timesheets Not Always Approved by Supervisor

Background: Connecticut Innovations, Inc. (CI) provides administrative support for the payroll function at Green Bank as provided for in Section 16-245n(d)(1)(D)(x) of the General Statutes.

The Green Bank's full-time employees use Core-CT self-service timesheets. Timesheets initially indicate that an employee worked a full pay period. Employees must change their timesheets if they did not work those hours or took leave time. Interns must enter hours for each day worked.

The CI employee ensures that all timesheets have been entered, that the hours agree with their schedule, and the codes are correct.

Criteria: Supervisors should approve employee timesheets to verify that they worked the required hours and used the proper Core-CT time work or leave time (sick, vacation, etc.) codes.

Condition: The CI employee assigned to process payroll approved 394 and 241 timesheets in fiscal years 2018 and 2019, respectively, because the employees' supervisors did not always approve their timesheets. The CI employee does not work in the same building as Green Bank employees.

Context: Green Bank paid 47 and 41 employees as of June 30, 2018 and 2019, respectively.

Effect: Timesheets not approved by the employee's supervisor may not have time accurately reported. The CI employee may not be aware of whether an employee was at work or worked the required hours.

If the CI employee does not approve the timesheets, employees may not be paid.

Cause: Some supervisors did not always approve employee timesheets in order to process payroll. Supervisors have several days to approve the timesheet before payroll is processed.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: Connecticut Green Bank supervisors should promptly approve employee timesheets each pay period. If a supervisor is not available, an appropriate designee with knowledge of the employee's attendance should approve their timesheet. (See Recommendation 3.)

Agency Response: "We agree with the finding.

Going back to the Green Bank's inception as a part of Connecticut Innovations, the two organizations have shared some administrative support functions. As a part of this support for human resources, the Director of Human Resources from Connecticut Innovations (CI) would regularly monitor the CORE timesheet portal for unapproved timesheets so that deadlines for payroll would be met. The CI Director of Human Resources would raise these to Green Bank supervisors. The managers would usually approve themselves, but if it were close to the weekly deadline, would give the Director of Human Resources permission to approve on their behalf.

As per the recommendation, an appropriate designee with knowledge of the employee's attendance will approve if needed."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Connecticut Green Bank contained 7 recommendations. Six have been implemented or otherwise resolved and one has been repeated or restated with modifications during the current audit.

- The Connecticut Green Bank should strengthen internal controls over payroll to include a reconciliation between internal and Core-CT records**. This recommendation has been resolved.**

- 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. **This recommendation has been resolved.**

- The Connecticut Green Bank should consider requiring a refundable application fee that would cover costs related to the review of potential C-PACE projects. **This recommendation has been resolved.**

- The Connecticut Green Bank should strengthen internal controls to ensure compliance with reporting requirements as prescribed by the Connecticut General Statutes. **This recommendation is being repeated. (See Recommendation 1.)**

- The Connecticut Green Bank should strengthen internal controls by ensuring that applications are properly completed prior to the execution of a financing agreement. **This recommendation has been resolved.**

- 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. **This recommendation has been resolved.**

- 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. **This recommendation has been resolved.**

Current Audit Recommendations:

1. **The Connecticut Green Bank should comply with the reporting requirements in the Connecticut General Statutes.**

   Comment:

   Our review disclosed that the Green Bank's 2019 annual report did not contain a complete set of financial statements. Green Bank did not always submit quarterly financial reports on time.

2. **The Connecticut Green Bank should offer its severance agreements more closely to the employee's separation date. Green Bank should confirm that the position is not needed before entering into a separation agreement.**

   Comment:

   Two Green Bank employees remained employed months after they signed separation agreements and one employee who received severance, returned to his position at Green Bank in his prior position less than two years after it was eliminated.

3. **Connecticut Green Bank supervisors should promptly approve employee timesheets each pay period. If a supervisor is not available, an appropriate designee with knowledge of the employee's attendance should approve their timesheet.**

   Comment:

   The Connecticut Innovations employee who processes Green Bank's payroll approved 394 and 241 timesheets in fiscal years 2018 and 2019, respectively, because the employees' supervisors did not approve their timesheets. The CI employee does not work in the same building as Green Bank employees.

ACKNOWLEDGMENTS

The Auditors of Public Accounts 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.

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

Theodore Cha
JoAnne Sibiga

JoAnne Sibiga
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Approved:

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