



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued March 19, 2020

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## MassVentures

For the period July 1, 2017 through June 30, 2019





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*Making government work better*

March 19, 2020

Mr. Charles Hipwood, President and Chief Executive Officer  
MassVentures  
308 Congress Street, Fifth Floor  
Boston, MA 02210

Dear Mr. Hipwood:

I am pleased to provide this performance audit of MassVentures. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2017 through June 30, 2019. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to MassVentures for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump  
Auditor of the Commonwealth

cc: Michael Kennealy, Chair of the Board of Directors

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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>OVERVIEW OF AUDITED ENTITY .....</b>	<b>2</b>
<b>AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY.....</b>	<b>4</b>
<b>DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE .....</b>	<b>8</b>
<b>1. MassVentures did not have documentation to support the review procedures completed to verify employment survey data.....</b>	<b>8</b>
<b>2. The members of the board of directors had not signed the Certificate of Receipt of Open Meeting Law Materials.....</b>	<b>9</b>
<b>OTHER MATTERS.....</b>	<b>12</b>

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## EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of MassVentures (MV) for the period July 1, 2017 through June 30, 2019.

In this performance audit, we reviewed and assessed selected management activities of MV, including summarization and verification of employment data from companies that receive funding from its investment and grant programs, compliance with Chapter 30A of the General Laws (the Open Meeting Law), outreach reporting procedures for the purpose of reaching MV's target audience, and administration of MV's grant award processes.

Below is a summary of our findings and recommendations, with links to each page listed.

<b>Finding 1</b> <b>Page <a href="#">8</a></b>	MV did not have documentation to support the review procedures completed for the verification of employment survey data.
<b>Recommendation</b> <b>Page <a href="#">8</a></b>	MV should document procedures for data collection, verification, and reporting to provide supporting evidence that reviews have been completed.
<b>Finding 2</b> <b>Page <a href="#">9</a></b>	The members of the board of directors had not signed the Certificate of Receipt of Open Meeting Law Materials.
<b>Recommendation</b> <b>Page <a href="#">10</a></b>	Management should develop a formal policy informing newly appointed and reappointed board members that they are required to sign a Certificate of Receipt of Open Meeting Law Materials within two weeks of qualifying for office.

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## OVERVIEW OF AUDITED ENTITY

Chapter 497 of the Acts of 1978<sup>1</sup> established the Massachusetts Technology Development Corporation, now MassVentures (MV), as a quasi-public corporation to provide financial assistance to startup companies in Massachusetts, with the primary purpose of increasing employment in the state. According to the MV website,

*MassVentures was founded in 1978 when there were fewer than 20 venture capital firms in the world. . . .*

*MassVentures is mission oriented with a mandate to support the early stage ecosystem across Massachusetts. . . .*

*Formerly known as the Massachusetts Technology Development Corporation (MTDC), MassVentures was formed . . . to address the capital gap for start-up companies and to encourage the growth of early-stage technology firms.*

Initial funding of MV came from a grant awarded by the US Department of Commerce (\$2,972,000) and appropriations from the Commonwealth (\$13,700,000). MV is governed by an 11-member board of directors. Eight of these members are appointed from the private sector by the Governor, and three are public officials.

From its inception in 1978 through June 2019, MV invested \$91.9 million in 152 Massachusetts companies. In addition, MV launched its Small Business Innovation Research Targeted Technologies grant program in 2012; from 2012 through June 2019, the organization awarded \$22.1 million to 79 companies, helping to finance 85 projects, under this program. The total numbers of employees at the companies in which MV has invested or to which it has awarded grants, combined, were 2,114 as of December 31, 2017 and 2,716 as of December 31, 2018.

MV primarily invests in technology companies across various industries. The typical initial investment size is between \$250,000 and \$500,000, and MV may also provide subsequent funding. In return for this funding, MV receives either stock or debt instruments<sup>2</sup> from the companies. All companies in which MV invests must maintain a significant portion of their operations in Massachusetts.

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1. MassVentures' enabling and governing legislation is Chapter 40G of the Massachusetts General Laws, as amended in 1993 and 2002.  
2. A debt instrument is a document that serves as legally enforceable evidence of a debt and the promise of its timely repayment.

MV is located at 308 Congress Street in Boston. According to its organizational chart, as of June 30, 2019, MV had three full-time employees and two part-time employees. Staff members are responsible for administering and evaluating candidate companies for the equity portfolio, administering the grant program, marketing and conducting outreach for the equity and grant programs, and performing accounting activities.

During the audit period (fiscal years 2018 and 2019), the organization’s financial position, revenue, and expenses, as reported by its independent accounting firm, included the following selected data.

	June 30, 2018	June 30, 2019
<b>Total Assets</b>	\$21,387,162	\$18,628,604
<b>Total Liabilities</b>	337,041	543,229
<b>Total Fund Balance</b>	<u>\$21,050,121</u>	<u>\$18,085,375</u>

The Total Assets category includes investments of \$7,692,832 and \$6,486,138, net of unrealized net loss<sup>3</sup> on investments of \$3,244,861 and \$5,817,716, respectively, for fiscal years 2018 and 2019.

Revenue and expenses during fiscal years 2018 and 2019 were as follows.

	Fiscal Year 2018	Fiscal Year 2019
<b>Total Revenue</b>	\$2,100,526	\$ 1,861,819
<b>Total Expenses</b>	4,950,290	4,826,565
<b>Deficiency</b>	<u>\$2,849,764</u>	<u>\$ 2,964,746</u>

The table below shows the number and total value of the equity investments made and grants awarded during the audit period, according to MV’s audited financial statements and internal records.

Type of Financing	Number of Companies	Amount
	July 1, 2017–June 30, 2019	July 1, 2017–June 30, 2019
<b>New Investments</b>	6	\$ 1,065,000
<b>Follow-on Investments</b>	12	2,276,629
<b>Total Investments</b>	<u>18</u>	<u>\$ 3,341,629</u>
<b>Grants</b>	<u>39</u>	<u>\$ 6,700,000</u>
<b>Totals</b>	<u>57</u>	<u>\$ 10,041,629</u>

3. An unrealized net loss is a loss that results from holding an asset (or security) after it has decreased in price (rather than selling it and realizing the loss).

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of MassVentures (MV) for the period July 1, 2017 through June 30, 2019.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does MV accurately summarize and verify employment data it collects from the businesses it funds and supports?	No; see Finding <u>1</u>
2. Does MV follow Chapter 30A of the General Laws (the Open Meeting Law)?	No; see Finding <u>2</u>
3. Does MV conduct outreach activities with its target audience of industries, companies, and founders not served by traditional venture capital funding?	Yes
4. Does MV comply with its established award criteria and process guidelines in administering its Small Business Innovation Research Targeted Technologies grant program?	Yes

To achieve our audit objectives, we gained an understanding of the internal control environment by reviewing MV's internal control plan and agency policies and procedures, as well as conducting interviews with MV management. We tested the design and effectiveness of controls we determined to be relevant to our audit objectives regarding the administration and awarding of grants, as well as outreach activities. We also performed the following procedures.

## **Summarization and Verification of Employment Data**

We obtained the summary reports for the equity and grant programs from MV to determine whether it summarized the employment data collected from the businesses it funds and supports.

From the summary reports, we selected a nonstatistical random sample of 30 from the population of 181 companies that submitted surveys during our audit period. For the sample selected, we matched quarterly payroll amounts and numbers of employees from the summary reports to the individual surveys received.

From the same population, we selected a nonstatistical judgmental sample of 20 companies to determine whether MV verified the summarized data. For the sample selected, we reviewed correspondence between MV and the companies that submitted surveys for evidence that survey data were verified.

## **Open Meeting Law Compliance**

To determine whether MV complied with the Open Meeting Law, we selected a nonstatistical random sample of 5 from the population of 19 board meetings held during the audit period. For the sample selected, we reviewed internal documents, emails, meeting notices, and meeting minutes to verify that MV met the law's requirements related to (1) notices of board meetings, (2) board meeting minutes, and (3) executive sessions held during board meetings.

Further, we reviewed certification forms for each member of the board of directors to determine whether MV complied with the certification requirements of the Open Meeting Law.

## **Outreach Activities**

To determine whether MV conducted outreach activities with its target audience of industries, companies, and founders not served by traditional venture capital funding, we obtained MV's Deal Log Pipeline report, an Excel workbook that summarizes all the companies to which MV has conducted some level of outreach, with changes in status and outcomes added as they occur. We selected a nonstatistical random sample of 30 companies from the population of 673 companies added to the pipeline during the audit period and reviewed the following information for each company:

- whether the Deal Log Pipeline Report contained a submission date to document commencement of the outreach process



- whether status changes were recorded in the report
- whether a resolution date had been recorded for each company (or the company remained “open” or “pending”)
- whether indicator codes for attributes such as interaction level, rank, and status were recorded in the report

## **Grant Awards**

To determine whether MV administered the grant program in accordance with established policies and procedures for reviewing, evaluating, and awarding grants, we selected a nonstatistical random sample of 20 from the population of 150 grant applications received during the audit period. We reviewed the grant files and other pertinent information (applications, external evaluations, and scoring sheets) to determine the following:

- whether grant applications were complete and accurate
- whether external evaluations and related scoring sheets were prepared
- for applicants that were granted interviews, whether a panel of judges conducted an internal evaluation and whether detailed scoring sheets and rankings were completed
- whether all eligibility requirements were met

## **Data Reliability**

To determine the reliability of the data on MV’s spreadsheets of (1) employment statistics from survey respondents, (2) company names and demographic information from outreach activities, and (3) grant applications and grant awards, we interviewed management personnel responsible for the source data.

In addition, to ensure completeness and accuracy of the data, we verified the number of items in each population (including company names) by determining whether the data on the MV spreadsheets matched the source documents (returned surveys, submitted applications, and the Deal Log Pipeline Report) from MV’s internal records and files and testing each population for duplicates.

To determine the completeness of the list of board members provided by MV, we reconciled the list to internal documents (appointment and reappointment records) maintained by MV’s office manager. In addition, we determined whether the number of board seats (11) was in accordance with the enabling legislation.

Further, to verify the list of the 19 board of directors' meetings held during our audit period, we compared the meeting dates to the meeting schedules proposed and approved by the board each year.

Based on the results of these data reliability assessment procedures, we determined that the information obtained for our audit period was sufficiently reliable for the purposes of our audit work.

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## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### 1. MassVentures did not have documentation to support the review procedures completed to verify employment survey data.

MassVentures (MV) did not maintain documentation that employment survey information collected from companies receiving financial support from MV was consistently reviewed. The absence of this documentation hinders management's ability to detect potentially inaccurate employment data.

#### Authoritative Guidance

The US Government Accountability Office's document *Standards for Internal Control in the Federal Government*, dated September 2014, which represents an industry best practice, contains 17 principles that must be present in an effective system of internal control. Section 10.01 states, "Management should design control activities to achieve objectives." Control activities such as documenting a review process provide evidence to support management decisions, as well as reasonable assurance that MV will achieve its mission.

#### Reasons for Issue

Management appears to follow a consistent set of procedures with respect to the collection, verification, and reporting of employment survey data; however, MV does not consistently maintain documentation to support the review procedures. Because of the organization's small size, written policies and procedures have not yet been developed.

#### Recommendation

MV should document procedures for data collection, verification, and reporting to provide supporting evidence that reviews have been completed.

#### Auditee's Response

*We agree with this finding and with the reason. While we acknowledge that we do not have documented procedures for our documentation collection, verification and review process of survey data, we have an unwritten, but consistently applied, process that provides us with confidence that the employment survey information we report on our current companies receiving financial [support] is materially accurate and has been effectively collected, verified and reviewed. By way of example, within our investment portfolio:*

- *MassVentures annually requests, in writing, employment data from its portfolio companies. These companies complete a documented survey and provide both Federal and State payroll tax filings (Form 941 and WR-1) to verify employment data. MassVentures then reviews and records the underlying data, verifies the reported data matches the underlying companies' tax return data, and saves both the underlying company reports as well as the email trail of communications.*
- *Further, MassVentures' investment staff is actively involved with these portfolio companies to various degrees, including attending board meetings, company visits and meetings with other investors and management. Precise headcount figures are typically part of a company's standard report to their board or investors. As such, the investment staff typically has an accurate sense of the overall employment figures of the company that serves as a reasonableness test of the provided employment data.*

*Further, on the grant side:*

- *On a semi-annual basis, employment data is requested via email from grant recipients that remain in operation. This email request includes a survey file for them to complete. The email is saved by MassVentures. Completed survey files, as well as email trails, are also saved by MassVentures.*
- *Completed surveys are reviewed for reasonableness with any issues being communicated to grant recipients via email, and remedied when applicable. The email trails are saved.*
- *MassVentures' controller then reviews all completed information including, but not limited to, reviewing against prior year information.*
- *Once all grant recipient data has been received, logged and reviewed [by] MassVentures' controller, summary level data is reviewed by MassVentures' [chief executive officer].*

*The Recommendation provided by your office for this finding was that MassVentures should "document procedures for data collection, verification, and reporting to provide supporting evidence that reviews have been completed."*

*In response to this Recommendation: MassVentures, upon becoming aware of this issue, has since developed a written review and sign-off process that documents its current process and procedures for data, collection, verification, and reporting as well as creates documented evidence to show reviews have been completed.*

## **Auditor's Reply**

Based on its response, MV is taking measures to address this issue.

## **2. The members of the board of directors had not signed the Certificate of Receipt of Open Meeting Law Materials.**

No member of MV's board of directors had signed a Certificate of Receipt of Open Meeting Law Materials acknowledging receipt of the materials, the requirements of the law, and the consequences of

violating it. During the audit, we brought the issue to management's attention, and all board members signed the certification in May 2019.

Without evidence that newly appointed or reappointed board members had received the Open Meeting Law educational materials, there was an elevated risk that board members were unaware of their responsibilities under the law.

## **Authoritative Guidance**

Section 20(h) of Chapter 30A of the Massachusetts General Laws states,

*Within 2 weeks of qualification for office, all persons serving on a public body shall certify, on a form prescribed by the attorney general, the receipt of a copy of the open meeting law, regulations promulgated under section 25 [of Chapter 30A] and a copy of the educational materials prepared by the attorney general explaining the open meeting law and its application under section 19 [of Chapter 30A]. Unless otherwise directed or approved by the attorney general, the appointing authority, city or town clerk or the executive director or other appropriate administrator of a state or regional body, or their designees, shall obtain certification from each person upon entering service and shall retain it subject to the applicable records retention schedule where the body maintains its official records. The certification shall be evidence that the member of a public body has read and understands the requirements of the open meeting law and the consequences of violating it.*

In addition, the Attorney General's *Open Meeting Law Guide and Educational Materials* states,

*A public body member must sign a new Certificate [of Receipt of Open Meeting Law Materials] upon reelection or reappointment to the public body.*

## **Reasons for Issue**

MV management and board members told us they were not aware of the certification requirement. MV did not have a policy informing newly appointed and reappointed members that they are required to sign the certification.

## **Recommendation**

Management should develop a formal policy informing newly appointed and reappointed board members that they are required to sign a Certificate of Receipt of Open Meeting Law Materials within two weeks of qualifying for office.

## **Auditee's Response**

*While we agree with this finding, upon becoming aware of the requirement, MassVentures promptly requested and received, from each current Board member, a Certificate of Receipt of Open Meeting Law Materials acknowledging receipt of the materials, the requirement of the law, and consequences of violating it.*

*The Recommendation provided by your office for this finding was for MassVentures to "develop a formal policy informing newly appointed and reappointed board members that they are required to sign a Certificate of Receipt of Open Meeting Law Materials within two weeks of qualifying for office."*

*In response to this Recommendation: MassVentures will document its procedures for forms and information to be provided to, and receipts required by, newly appointed board members which will include a Certificate of Receipt of Open Meeting Law Materials within two weeks of qualifying for office.*

## **Auditor's Reply**

Based on its response, MV is taking measures to address this issue.

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## OTHER MATTERS

### **MassVentures' management and board of directors should consider preparing a comprehensive strategic plan.**

MassVentures (MV) was established to provide a funding mechanism for emerging technology companies with the goal of creating economic development and increased employment. According to documents MV provided to us, the organization's mission statement can be summarized as follows:

- helping to create primary employment in technology-based enterprises in the Commonwealth
- fostering the development of such enterprises in the Commonwealth through the following:
  - purchasing qualified equity securities to provide seed capital
  - awarding grants to assist growth companies with the commercialization technologies developed under Small Business Innovation Research and Small Business Technology Transfer contracts
- attracting and managing the investment of both public and private capital among the citizens of the Commonwealth to stimulate long-term economic development and to realize appropriate financial returns that enable MV to be self-sufficient

Many agencies use a written strategic plan to establish their overall mission, define and document the strategies and resources necessary to accomplish it, determine their vision for the future, and define their core beliefs and long- and short-term goals.

MV does not use a formal strategic plan. Mentoring, technical assistance, and other forms of business support, beyond the financial support provided by MV's equity investment and Small Business Innovation Research Targeted Technologies grant programs, are embedded in MV's broad mission statement. MV should document each of the types of informal outreach strategy it conducts and establish policies and procedures, based on best practices, for how, when, and why mentoring, technical assistance, and other forms of business support will be offered to companies in need. Since MV was initially established with government funding and operates as part of state government, it has an obligation to serve the greater good of all Massachusetts citizens. A strategic plan could augment MV's enabling legislation and formally define and broaden its overall mission and stated target audience.

In response to our report, MV provided the following comments.

*We are in process of considering our strategic plan including its components, objectives and goals. This strategic plan will encompass the more significant role MassVentures serves in the Commonwealth above its enabling legislation. For instance, although not required by our enabling legislation, MassVentures provides a significant level of technical assistance, management support and start-up guidance to both companies it invests in or awards grants to, as well as to companies which are not yet ready for MassVentures investment. While MassVentures does not measure or maintain statistics to document achievement levels in this endeavor, we believe the value MassVentures adds to the early stage ecosystem in the Commonwealth is much broader than what is summarized in our enabling legislation. Further, although not required by our enabling legislation, MassVentures has broadened its target audience to include other groups/attributes which incorporate diversity (be it gender or ethnicity). MassVentures focuses on diversity (on its Board, in its [Small Business Innovation Research Targeted Technologies] award winners, and in its portfolio) without specifically measuring or maintaining statistics or documenting achievement levels. The process of preparing and finalizing a comprehensive strategic plan will continue.*