



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

Making government work better

Official Audit Report – Issued November 10, 2021

Massachusetts Department of Energy Resources— Green Communities Division

For the period July 1, 2018 through June 30, 2020





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Making government work better

November 10, 2021

Mr. Patrick Woodcock, Commissioner
Massachusetts Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

Dear Mr. Woodcock:

I am pleased to provide this performance audit of the Department of Energy Resources' Green Communities Division. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2018 through June 30, 2020. 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 the Department of Energy Resources for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Kathleen A. Theoharides, Secretary of the Executive Office of Energy and Environmental Affairs
Joanne Bissetta, Deputy Director of the Green Communities Division, Department of Energy Resources

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LIST OF ABBREVIATIONS

DOER	Department of Energy Resources
EEA	Executive Office of Energy and Environmental Affairs
GCD	Green Communities Division
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor

EXECUTIVE SUMMARY

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 the Department of Energy Resources' (DOER's) Green Communities Division (GCD) for the period July 1, 2018 through June 30, 2020. In this performance audit, we determined whether GCD ensured that municipalities applying for green community designation met all of the required criteria, whether municipalities that were designated as green communities submitted their required annual reports, and whether grant funding distributed through DOER's Green Communities Designation and Grant Program was used for its intended purposes.

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

Finding 1 Page <u>8</u>	GCD did not ensure that all green communities submitted their required annual reports.
Recommendation Page <u>9</u>	GCD should establish monitoring controls over its green communities' reporting process that will allow it to identify green communities that have not submitted their required annual reports in a timely manner and prompt them to do so.
Finding 2 Page <u>10</u>	GCD did not ensure that green communities documented the need for \$46,471 of designation grant fund expenditures.
Recommendation Page <u>10</u>	GCD should establish monitoring controls over the use of Green Communities Designation and Grant Program funding to ensure that funds used by grantees to pay for administrative expenses are properly documented.

OVERVIEW OF AUDITED ENTITY

The Department of Energy Resources (DOER) was established in accordance with Chapter 25A of the Massachusetts General Laws within the Executive Office of Energy and Environmental Affairs (EEA). DOER is administered by a commissioner, who is appointed by the Secretary of EEA, with the approval of the Governor.

According to DOER's website,

[DOER] develops and implements policies and programs aimed at ensuring the adequacy, security, diversity, and cost-effectiveness of the Commonwealth's energy supply to create a clean, affordable and resilient energy future for all residents, businesses, communities, and institutions.

Five divisions carry out DOER's mission: the Emerging Technologies Division, the Energy Efficiency Division, the Energy Policy Planning and Analysis Division, the Renewable Energy Division, and the Green Communities Division (GCD).

For fiscal years 2019 and 2020, DOER received state appropriations totaling \$4,978,014 and \$4,437,101, respectively, to fund its operations. During our audit period, DOER had 66 employees.

GCD

GCD was created by the Green Communities Act (Chapter 169 of the Acts of 2008) to help municipalities become more sustainable in terms of their energy needs, control rising energy costs, and facilitate the use of clean energy technologies (e.g., solar). GCD disseminates information about clean energy resources on its website and has four regional coordinators who provide direct support to cities and towns.

To be designated as a green community, a city or town must apply to DOER to be designated as such and demonstrate that it has done the following:

- adopt and maintain a local zoning bylaw or ordinance that allows as-of-right siting¹ for renewable and/or alternative energy generation, research and development, or manufacturing facilities
- adopt and maintain an expedited application and permit process for as-of-right energy facilities
- establish a municipal energy use baseline and develop and implement a plan to reduce energy use by 20% within five years
- purchase only fuel-efficient vehicles for municipal use whenever they are commercially available and practical
- set and maintain requirements to minimize lifecycle energy costs for new construction.

Green Communities Designation and Grant Program

To encourage communities to use clean energy, Section 10 of Chapter 25A of the General Laws requires GCD to offer grant opportunities to municipalities designated as green communities. These designation grants are targeted to help municipalities reduce their carbon footprints and lower their energy costs. Designation grant money can be used to fund energy-related programs and activities, such as energy efficiency programs for municipal light plants; funding for municipalities to hire energy managers; clean energy projects at drinking water and wastewater facilities; and funding of independent third parties to help municipalities, regional school districts, or water and wastewater districts study, negotiate, develop, and/or manage clean energy projects. Designation grants are capped at \$200,000 per community. During our audit period, DOER awarded the following designation grants, totaling \$9,916,438, to 61 Massachusetts cities and towns:

Green Community Designation Grants Fiscal Years 2019 through 2020

Fiscal Year	Designation Grants Awarded
2019	\$4,866,648
2020	5,049,790
Total	<u>\$9,916,438</u>

1. According to DOER's "Model As-of-Right Zoning Bylaw: Allowing Use of Large-Scale Ground-Mounted Solar Photovoltaic Installations," as-of-right siting means that development of a site may proceed without the need for a special permit, variance, amendment, waiver, or other discretionary approval.

Once a municipality is designated as a green community, it must submit to GCD annual reports that contain, among other things, information that substantiates that the municipality continues to meet the five criteria above. DOER uses the information in these reports to produce its own annual report for the state Legislature, which is required by Section 10 of Chapter 25A of the General Laws.

As of November 2020, 271 of the 351 cities and towns in the Commonwealth had been designated as green communities.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of the Department of Energy Resources' (DOER's) Green Communities Division (GCD) for the period July 1, 2018 through June 30, 2020.

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 finding.

Objective	Conclusion
1. Does GCD ensure that cities and towns that are designated as green communities have submitted all the required documentation to meet the criteria outlined in Section 10(c) of Chapter 25A of the General Laws?	Yes
2. Does GCD review the status of green communities to ensure that they continue to annually meet the required standards for green community designation in accordance with DOER's <i>Guide to Internal Controls</i> , GCD's policy "Being a Green Community," and Section 10(f) of Chapter 25A of the General Laws?	No; see Finding <u>1</u>
3. Does GCD provide oversight and monitoring of the Green Communities Designation and Grant Program to ensure that grant funds are spent for their intended purposes in accordance with GCD's <i>Green Community and Grant Program Guidance</i> and Sections 2.01 through 2.08 of Title 815 of the Code of Massachusetts Regulations?	No; see Finding <u>2</u>

To achieve our objectives, we gained an understanding of GCD's internal control environment as it relates to the objectives by reviewing DOER and GCD policies and procedures and by conducting inquiries with DOER management regarding the administration of the Green Communities Designation and Grant Program. We evaluated the design of GCD's green community designation process and the collection and review of the annual reports submitted by green communities, and we tested the design and the operating effectiveness of the administration of Green Communities Designation and Grant Program expenditures.

We performed the following procedures to obtain sufficient, appropriate audit evidence to address the audit objectives.

- To determine whether GCD ensured that municipalities applying for green community designation met all the required criteria, we selected a nonstatistical, judgmental sample of 20 of the 61 municipalities that GCD designated as green communities during the audit period. We obtained and reviewed the application documentation that these 20 municipalities submitted in DOER's iMeet Central system, the Web portal that GCD uses to allow municipalities to submit their green community designation applications. We reviewed documentation (such as zoning bylaws, energy reduction plans, and an inventory of vehicles) and determined whether these 20 municipalities had submitted all the required application documentation and whether the documentation they submitted substantiated that they met all five criteria to be eligible for green community designation. We used nonstatistical sampling methods and therefore did not project the results of our testing to the population.
- To determine whether GCD received and assessed required annual reports from all green communities, we requested, and received from GCD officials, GCD's list of all the annual reports it received during the audit period. We compared the list to the population of green communities that were required to submit annual reports during the audit period and determined which, if any, green communities had not submitted their required annual reports.
- To determine whether Green Communities Designation and Grant Program funds were used for their intended purposes, we reviewed all the invoices and contracts for designation grant expenses paid by the 21 municipalities that had been designated as green communities during the audit period and had received grant funding.

Data Reliability

To determine the reliability of GCD's list of green communities, we obtained the list from GCD management. We selected a random sample of 10 green communities from the list and determined whether the green community designation dates on the list matched the dates on the green community designation letters that GCD sent to the municipalities when they were granted the designation. We also compared the names on the list to the list of municipalities in Massachusetts from the Secretary of the Commonwealth's website to ensure that all the green communities on GCD's list were municipalities in Massachusetts.

To determine the reliability of GCD's list of municipal annual reports it received during our audit period, we selected a random sample of 15 green communities' annual reports and determined whether the reports appeared on GCD's list and whether the submission dates matched those on the list.

In 2018, OSA conducted a data reliability assessment of the Massachusetts Management Accounting and Reporting System (MMARS), the state's accounting system, for the period April 1, 2017 through March 31, 2018. This assessment focused on reviewing selected system controls, including access, security awareness, auditing and accountability, configuration management, identification, authentication, and personnel security. During the current audit, to determine the reliability of GCD's list of green communities that received Green Communities Designation and Grant Program funds during the audit period, we selected a random sample of 10 communities that had sent invoices to GCD during the audit period. We requested all DOER's MMARS Records Management / Authorized Signature Forms reflecting disbursements made to these communities during the audit period. In addition, we selected a random sample of these designation grant disbursements in MMARS for 10 green communities and compared their payment information to DOER's MMARS Records Management / Authorized Signature Forms to determine whether the information matched. Further, we obtained from GCD a list of all 21 green communities that had been awarded designation grants and expended them during our audit period and compared the designation grant award amounts on GCD's list to those in the municipalities' designation grant agreements.

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

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Department of Energy Resources' Green Communities Division did not ensure that all green communities submitted their required annual reports.

During our audit period, the Department of Energy Resources' (DOER's) Green Communities Division (GCD) did not ensure that all the municipalities it had designated as green communities submitted their required annual reports. Specifically, GCD did not receive annual reports from 11 green communities during fiscal year 2019 or from 17 green communities during fiscal year 2020.

As a result, GCD cannot be sure that these municipalities are compliant with the five criteria in the Green Communities Act. Compliance with the criteria would allow them to maintain their green community designation. Further, since DOER uses the information in these municipal reports to produce its annual report for the state Legislature, the information in DOER's annual report may be incomplete and inaccurate.

Authoritative Guidance

DOER's *Guide to Internal Controls*, dated July 2017, states,

Designated Green Communities are required to submit to [GCD] by November 30 each year annual reports detailing their compliance with the five criteria in the Green Communities Act. Through review of these reports, [GCD] staff can determine if communities are out of compliance, and take appropriate steps to help them comply. These reports also determine if initial designation grants are spent and projects complete, making a Green Community eligible for the annual competitive grant round. Based in part on data and information in Green Communities' annual reports, [GCD] submits an annual report to the Legislature detailing the accomplishments of the Green Communities Designation and Grant Program.

According to the GCD "Being a Green Community" policy in effect during our audit period,

Green Communities are required to submit an Annual Report to demonstrate they still meet the Five Designation Criteria.

Finally, Section 10(f) of Chapter 25A of the Massachusetts General Laws states,

[GCD] shall annually, not later than April 1, submit a report to the clerks of the senate and the house of representatives, the joint committee on telecommunications, utilities and energy, the joint committee on state administration and regulatory oversight, and the senate and house

committees on ways and means detailing the expenditures and results relative to the green communities program.

Reasons for Issue

GCD has not established effective monitoring controls over its green communities' reporting process that would allow it to identify green communities that have not submitted their required annual reports in a timely manner and prompt them to submit the reports.

Recommendation

GCD should establish monitoring controls over its green communities' reporting process that will allow it to identify green communities that have not submitted their required annual reports in a timely manner and prompt them to do so.

Auditee's Response

DOER requires annual reports from green communities that receive grant funding on an annual basis. DOER engages with these communities about reporting deadlines, hosts webinars with municipalities with instructions for successful submission of reports, responds to questions about reporting and tasks its green communities' regional coordinators to personally reach out to their respective communities to ensure grantees are aware of key dates they need to comply with in the green communities program. Unfortunately, municipalities sometimes fail to provide annual reports even after this outreach has been done. In [fiscal year] 2019, for example, 164 out of 185 green communities submitted annual reports; and in [fiscal year] 2020, 199 out of 210 submitted annual reports.

DOER has a well-established process for reviewing annual reports after they are submitted and notifying municipalities of their eligibility status for future green communities grants. However, DOER does not have a documented procedure for notifying municipalities that fail to submit annual reports. In response to the recommendation, DOER will revise its report review procedures and will notify green communities that haven't submitted their annual reports and request that they do so. Green communities that fail to submit their annual report are not considered to be a green community in good standing. Under current practices, and throughout the audit period, failure by a green community to submit its annual report results in that green community being ineligible to receive green communities grant funds for the following year. These communities reinstate their eligibility for green communities grants by submitting the most recent annual report along with green communities data from the missing year(s) regarding adherence to the green communities requirements.

Auditor's Reply

Based on its response, DOER is taking measures to address our concerns on this matter.

2. GCD did not ensure that green communities documented the need for \$46,471 of designation grant fund expenditures.

During our audit period, GCD did not obtain documentation to justify \$46,471 of administrative expenses for which 8 of the 21 green communities in our sample requested reimbursement through the Green Communities Designation and Grant Program. Without this documentation, GCD cannot ensure that the administrative expenses were consistent with the designation grants' requirements.

Authoritative Guidance

GCD's *Green Community and Grant Program Guidance* states,

If any funds are to be used for administrative costs, justification to demonstrate that Green Community grant administration would not proceed without administrative funds must be provided. In no case shall more than 10 percent of grant awards be used to fund administrative costs.

Section 2.07(1) of Title 815 of the Code of Massachusetts Regulations states,

Grantees are required to report to the Grantor Department [in this case, DOER] on the use of Grant funds as prescribed in the Standard Contract Form, or as otherwise provided in a Grant Application or Grant terms. If a formula Grant, Subsidy or other disbursement is made to a recipient, that recipient shall be required to provide any information related to the use of the Grant or Subsidy Funds provided by the Department.

Reasons for Issue

Although GCD has policies and procedures for the administration of Green Communities Designation and Grant Program funding that include requiring grantees to submit documentation to support the use of designation grant funds for administrative expenses, it has not established monitoring controls to ensure that agency personnel adhere to these policies and procedures.

Recommendation

GCD should establish monitoring controls over the use of Green Communities Designation and Grant Program funding to ensure that funds used by grantees to pay for administrative expenses are properly documented.

Auditee's Response

GCD has controls in place regarding how grant funds are used that are largely effective, which is why the Auditor's finding represents only .5% of the total grant funds distributed in fiscal year

2019. In response to the recommendation, GCD has bolstered controls focused on administrative costs to ensure that funds paid to grantees for management or administration are properly documented. Specifically, GCD will require grantees to submit invoices delineating administrative tasks completed by municipal staff and associated costs and expenses which will require DOER approval prior to grant funding disbursement.

Auditor's Reply

Based on its response, DOER is taking measures to address our concerns on this matter.