

OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

Official Audit Report – Issued June 17, 2025

MassVentures

For the period July 1, 2021 through June 30, 2023



OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

June 17, 2025

Charles Hipwood, President and Chief Executive Officer
MassVentures
1075 Main Street, Suite 100
Waltham, MA 02451

Dear Mr. Hipwood:

I am pleased to provide to you the results of the enclosed performance audit of MassVentures. As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2021 through June 30, 2023. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and all your efforts at MassVentures. The cooperation and assistance provided to my staff during the audit went a long way toward a smooth process. Thank you for encouraging and making available your team. I am available to discuss this audit if you or your team has any questions.

Best regards,



Diana DiZoglio
Auditor of the Commonwealth

cc: Yvonne Hao, Chair of the MassVentures Board of Directors

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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 a performance audit of certain activities of MassVentures (MV) for the period July 1, 2021 through June 30, 2023.

In this performance audit, we reviewed and assessed selected management activities of MV, including whether (1) MV submitted annual reports in accordance with the guidelines set by Section 6 of Chapter 40G of the General Laws, (2) whether MV monitored its investments to ensure that it met the requirements of Section 4(9)(2)(a) of Chapter 40G of the General Laws, and (3) whether MV established a formal strategic plan as recommended in our prior audit (Audit No. 2019-0136-3A).

Below is a summary of our findings, the effects of those findings, and our recommendations, with hyperlinks to each page listed.

| | |
|---|--|
| Finding 1 Page 8 | MV did not file its annual reports to the clerks of the Massachusetts House of Representatives and Senate in a timely manner. |
| Effect | If MV does not submit its annual reports to the clerks of the Massachusetts House of Representatives and Senate on time, then these governing bodies will not have the information necessary to adequately review MV's activities for the preceding year. Without this oversight, MV is at greater risk of inappropriate investments in companies that do not align with its mission. Further, failure to file these reports in a timely manner may deprive the Legislature of important information it needs to support its work. |
| Recommendation Page 8 | MV should ensure that it submits its annual report to the clerks of the Massachusetts House of Representatives and Senate within 90 days after the end of the fiscal year, in accordance with Section 6 of Chapter 40G of the General Laws. |
| Finding 2 Page 9 | MV did not disclose some required information in its annual report. |
| Effect | If the annual report does not contain information about the activities of MV investees, then the Legislature will not have the information necessary to adequately review MV activities for the preceding year. Further, failure to file these reports in a timely manner may deprive the Legislature of important information it needs to support its work. |
| Recommendation Page 10 | MV should ensure that all investees provide all of the information required to prepare the annual report, and MV should include all of the required information in its annual report. |

In addition to the conclusions we reached regarding our audit objectives, while conducting our audit work, we noted an issue regarding annual cybersecurity training compliance. See [Other Matters](#) for more information.

OVERVIEW OF AUDITED ENTITY

Chapter 497 of the Acts of 1978 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 MV's website, "MassVentures was established . . . to address the capital gap for startup companies and to encourage the growth of early-stage technology firms."

MV's website also states, "The mission of MassVentures is to support the innovation economy and the economic growth initiatives of the Commonwealth by transferring research and early-stage innovations to viable businesses and jobs."

Funding of MV from its inception through June 30, 2023 came from grants awarded by the US Department of Commerce, totaling \$3,472,000, and appropriations from the Commonwealth, totaling \$33,700,000. 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.

MV is located at 1075 Main Street in Waltham. According to its organizational chart, as of June 30, 2023, MV had five full-time employees and one part-time employee.

During the audit period (fiscal years 2022 and 2023), MV's financial position, as reported by its independent accounting firm, included the following data.

| | Reported on June 30, 2022 | Reported on June 30, 2023 |
|---------------------------|---------------------------|---------------------------|
| Total Assets | \$34,020,510 | \$58,760,286 |
| Total Liabilities | (\$2,443,104) | (\$2,372,460) |
| Total Fund Balance | \$31,577,406 | \$56,387,826 |

The Total Assets category above includes investments of \$16,321,211 for fiscal year 2022 and \$24,151,984 for fiscal year 2023, including unrealized net gains on investments of \$5,979,741 and \$11,956,953 for fiscal years 2022 and 2023, respectively.

Investments

The map below shows investees' locations in economic target areas.¹ The map below displays the number of companies in which MV invested during the audit period, by city or town.

Map of MV Investees—Fiscal Years 2022 and 2023



Annual Reports

Section 6 of Chapter 40G of the General Laws requires MV to submit an annual report to the clerks of the Massachusetts House of Representatives and Senate so that the Legislature can review and provide oversight of MV's activities.

MV is required to report annually on the additional jobs created and the number of people hired because of the activities of MV investees. Specifically, Section 6 of Chapter 40G of the General Laws requires MV to report on investees with "benefits" for veterans, emergency aid programs for older adults and people with disabilities, and "benefits" for parents with dependent children.

1. Section 3G of Chapter 23A of the General Laws defines an economic target area as an area of Massachusetts that could benefit from economic development based on the area's unemployment rate, median income, and/or economic need. (See [Section 3G of Chapter 23A of the General Laws](#) for more information.)

The “benefit” types, as defined in the General Laws, are as follows:

- Chapter 115 of the General Laws states that veteran benefits include “‘state aid’, ‘military aid’, ‘soldiers’ relief’, ‘soldiers’ burial’, or any words or phrases connoting the same.”
- Chapter 117A of the General Laws states that emergency aid programs for older adults and people with disabilities include public welfare programs for providing emergency aid to older adults and people with disabilities.
- Chapter 118 of the General Laws states that aid to parents with dependent children includes “money payments with respect to families with a dependent child or children.”

Additionally, Section 6 of Chapter 40G of the General Laws requires the annual report to “detail the corporation’s experience over the previous year in meeting the requirements of clause (2) of the fifth paragraph of Section 4 [of Chapter 40G of the General Laws].” The referenced clause requires the following:

At least 50 percent of all [MV] investments shall be made in enterprises that will: (a) locate in, or provide substantial employment to residents of, economic target areas designated pursuant to section 3G of chapter 23A [of the General Laws] or municipalities that satisfy the criteria for economic target areas.

Strategic Plan

Strategic plans document an organization’s goals and the manner in which they will be achieved. As described in more detail below, strategic plans typically contain the following elements:

1. a vision statement;
2. a mission statement;
3. goals;
4. core values;
5. action items;
6. strength, weakness, opportunity, and threat analyses; and
7. key performance indicators.

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, 2021 through June 30, 2023.

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. Did MV submit annual reports to the clerks of the Massachusetts House of Representatives and Senate in accordance with the guidelines set by Section 6 of Chapter 40G of the General Laws? | No; see Findings <u>1</u> and <u>2</u> |
| 2. Did MV monitor investments, and remediate noncompliance, so that at least 50% of its investments followed the guidelines set forth in Section 4(9)(2)(a) of Chapter 40G of the General Laws? | Yes |
| 3. Did MV establish a formal strategic plan as recommended in our prior audit (Audit No. 2019-0136-3A)? | Yes |

To accomplish our audit objectives, we gained an understanding of the internal controls we determined to be relevant to our objectives by reviewing MV's policies and procedures and by interviewing MV staff members and management. In addition, to obtain sufficient, appropriate evidence to address our audit objectives, we performed the procedures described below.

Annual Reports

To determine whether MV submitted its fiscal years 2022 and 2023 annual reports to the clerks of the Massachusetts House of Representatives and Senate within 90 days of the end of each fiscal year as required by Section 6 of Chapter 40G of the General Laws, we requested and reviewed all four email submissions of the annual reports—two for each year. In addition, we requested and reviewed all two of

the annual reports to determine whether Chapter 115 (veteran benefits), Chapter 117A (emergency aid for older adults and people with disabilities), and Chapter 118 (aid to families with dependent children) benefits were detailed in each annual report, as required. We performed multiple word searches to find any terminology that included keywords in the criteria. In addition, we reviewed the annual reports and the audited financial statements for fiscal years 2022 and 2023 for details of the corporation's experience over the previous year and investee municipalities satisfying the criteria for economic target areas.

See Findings 1 and 2 for more information regarding the results of our testing related to the development and submission of MV's annual report.

Investments

To determine whether MV monitored investments to ensure that it complied with the requirements set forth in Section 4(9)(2)(a) of Chapter 40G of the General Laws, we reviewed all investments made during the audit period. We reconciled a list provided to us by MV of the total dollar amount of investments to the independently audited financial statements for each year in the audit period. We reconciled all investments made during the audit period to bank wire transfer receipts to determine whether MV made the investment. We confirmed each investment company's location to determine whether it was in an economic target area.

We calculated that at least 50% of the investments made by MV during the audit period were to companies located in an economic target area.

We determined that, during the audit period, MV followed Section 4(9)(2)(a) of Chapter 40G.

Strategic Plan

To determine whether MV established a formal strategic plan as recommended in our prior audit (Audit No. 2019-0136-3A), we reviewed the strategic plan that was in effect during the audit period. We reviewed analyses of strategic plans from credible sources² and found seven common elements that should be included in a strategic plan. These elements were also found in agencies that report to the Massachusetts Office of Performance Management and Oversight.³ We verified that MV established a

2. A credible source is a source that is unbiased and backed up with evidence. Our credible sources included "How to Write a Strategic Plan" from Harvard University, "The Seven Keys to Successful Strategic Planning" from Forbes, and "How to Write a Strategic Plan: Seven Steps for Effective Execution" from Spider Strategy.

3. According to its website, "The Office of Performance Management and Oversight [OPMO] measures the performance of all public and quasi-public entities engaged in economic development," for example, other agencies required to report annually to OPMO.

strategic plan that included the seven basic common elements of a strategic plan as a basis for its strategic plan. We confirmed that MV's strategic plan included the following seven common elements:

- a vision statement;
- a mission statement;
- goals;
- core values;
- action items;
- strength, weakness, opportunity, and threat analyses; and
- key performance indicators.

In addition, we reviewed the board of directors meeting minutes as supporting documentation that the board of directors was informed of the strategic plan.

For the audit period, we determined that MV created a strategic plan for the organization.

Data Reliability Assessment

To determine the reliability of the fiscal year 2022 and 2023 lists of 30 investments that we received from MV, created from its portfolio management database, we performed validity and integrity tests on the data, including testing for hidden rows and columns, blank fields, and duplicate records, and confirming that all investments made were during the audit period. We interviewed employees who were knowledgeable about the data. (See Other Matters for more information.) Of the 30 investments, 25 were equity investments and 5 were debts (loans or notes).

For all 25 equity investments from MV's list, we matched the dates, company names, and dollar amounts from MV's portfolio management database to the purchase agreements.

For all five debt investments (three notes and two loans) from MV's list, we matched the dates, company names, and dollar amounts from MV's portfolio management database to their respective agreements.

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

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. MassVentures did not file its annual reports to the clerks of the Massachusetts House of Representatives and Senate in a timely manner.

MassVentures (MV) did not file its annual reports to the clerks of the Massachusetts House of Representatives and Senate on time. For fiscal year 2023, the annual report was filed 22 days late, and for fiscal year 2022, the annual report was filed 21 days late.

If MV does not submit its annual reports to the clerks of the Massachusetts House of Representatives and Senate on time, then these governing bodies will not have the information necessary to adequately review MV's activities for the preceding year. Without this oversight, MV is at greater risk of inappropriate investments in companies that do not align with its mission. Further, failure to file these reports in a timely manner may deprive the Legislature of important information it needs to support its work.

Authoritative Guidance

According to Section 6 of Chapter 40G of the Massachusetts General Laws, "[MV] shall annually submit a complete and detailed report of the corporation's activities within ninety days after the end of the fiscal year to the clerk of the house of representatives and to the clerk of the senate."

Reasons for Issue

MV stated that it submitted the annual report to the clerks of the Massachusetts House of Representatives and Senate late because MV's practice is to receive and present the audited financial statements to its board of directors first—before submitting the annual report to the House of Representatives and Senate.

Recommendation

MV should ensure that it submits its annual report to the clerks of the Massachusetts House of Representatives and Senate within 90 days after the end of the fiscal year, in accordance with Section 6 of Chapter 40G of the General Laws.

Auditee's Response

- *MV agrees that it did not file the report within 90 days as MV had to wait on audited financials.*
- *MV does annually submit a complete and detailed report of the corporation's activities.*

Auditor's Reply

The purpose of our audit objective was to assess MV's compliance with Section 6 of Chapter 40G of the General Laws. We understand that the annual report takes time to complete, given the reason MV states in its response above, but MV still submitted the fiscal year 2022 and fiscal year 2023 annual reports beyond the 90-day timeframe required by the General Laws. We encourage MV to find a way to complete this annual report within the timeframes required by law.

2. MassVentures did not disclose some required information in its annual report.

MV did not disclose in its annual report in detail the number of additional jobs created, and the number of people hired, as a result of the activities of the corporations that were recipients of programs provided for in Chapters 115 (Veteran's Benefits), 117A (Support by the Commonwealth), or 118 (Aid to Families with Dependent Children) of the General Laws, as required by Section 6 of Chapter 40G of the General Laws. In addition, MV did not provide details of the corporations' experiences over the previous year in investing in at least 50% of all MV investments in municipalities that satisfy the criteria for economic target areas.

If the annual report does not contain information about the activities of MV investees, then the Legislature will not have the information necessary to adequately review MV activities for the preceding year. Further, failure to file these reports in a timely manner may deprive the Legislature of important information it needs to support its work.

Authoritative Guidance

According to Section 6 of Chapter 40G of the General Laws,

The report shall contain the number of additional jobs created and the number of persons hired as a result of the activities of the corporation who were recipients of programs provided for in chapter 115, 117A, or 118. The report shall detail the corporation's experience over the previous year in meeting the requirements of clause (2) of the fifth paragraph of section 4 [of Chapter 40G of the General Laws].

According to the requirements of clause (2) of paragraph 5 of Section 4 of Chapter 40G of General Laws,

At least 50 per cent of all [MV] investments shall be made in enterprises that will:

(a) locate in . . . municipalities that satisfy the criteria for economic target areas;

Reasons for Issue

MV stated the following in a response to our draft report dated March 21, 2025:

MV does compel investees to provide annual jobs data and maintains contractual job rights agreements with each company to report jobs data on an annual basis. It does not compel investees to provide a number of jobs created and the number of people hired who are classified under chapter 115 (military veterans), chapter 117a (eligible for public assistance) or chapter 118 (families in need with dependent children) for its annual report because MV considers it inappropriate and in some cases it has become unlawful to ask job applicants to report this type of information.

Regarding the requirement that 50% of MV investments be in economic target areas, MV stated in a response to our draft report on April 29, 2025 that it does disclose the town or city in which the investee is based; however, "MV does not explicitly state which of those municipalities are deemed [economic target areas] by the Commonwealth or that those investees, along with the historical portfolio, exceed 50%." This is because, MV stated in an email dated May 1, 2025, "MV thought listing the towns and cities was sufficient, as the Commonwealth determines which towns and cities are [economic target areas]."

Recommendation

MV should ensure that all investees provide all of the information required to prepare the annual report, and MV should include all of the required information in its annual report.

Auditee's Response:

- MV does not provide the number of additional jobs created and the number of persons hired as a result of the activities of the corporation who were recipients of programs provided for in chapter 115 (military veterans), 117A (eligible for public assistance), or 118 (families in need with dependent children) for its annual report because in some cases it has become unlawful to ask job applicants to report this type of information.*
- MV does disclose the town or city in which the investee is based but MV does not explicitly state which of those municipalities are deemed [economic target areas (ETAs)] by the Commonwealth or that those investees, along with the historical portfolio, exceed 50%.*
 - MV will add more specific ETA language to the annual report going forward.*

Auditor's Reply

The additional jobs created and the number of people hired who were recipients of programs provided for in Chapters 115, 117A, and 118 of the General Laws are required to be included in the annual report, according to the General Laws.

While MV's annual reports do include high-level information, for example, as stated in MV's 2023 Annual Report, dated October 19, 2023, "job creation from these Massachusetts' companies is measured in the thousands. The current portfolio companies . . . employed over 3,000 people in Massachusetts," we believe there is room for improvement to fully comply with the statute.

MV indicated in its response that it may be unlawful to ask job applicants to report this type of information. Our audit focused solely on MV's compliance with the statute—specifically, whether MV included all the information in its report that is required by the statute. This could include information that MV has learned from voluntary disclosure or a statement that MV has no knowledge of the relevant personnel statuses for job applicants. We recommend that MV discuss this issue with the Legislature and pursue a potential amendment to the statute if it believes that the current requirement is unlawful and, therefore, contradictory to the reporting requirements set forth in other laws.

Based on its response, MV appears to be taking measures to address our concerns regarding the economic target area language. As part of our post-audit review process, we will follow up on this matter in approximately six months.

OTHER MATTERS

During the audit, we became aware that MassVentures (MV) employees did not receive any cybersecurity awareness training. If MV does not ensure that all employees complete cybersecurity awareness training, then MV may expose itself to an increased risk of cybersecurity attacks and financial and/or reputational losses.

Sections 6.2.3 and 6.2.4 of the Executive Office of Technology Services and Security's Information Security Risk Management Standard IS.010, effective October 15, 2018, stated that an initial cybersecurity awareness training course is required for all newly hired employees and annual refresher cybersecurity awareness training is required for existing employees. Although MV is not an executive branch state agency that is required to comply with the Executive Office of Technology Services and Security's standards, we consider it best practice.

MV's employees did not receive any cybersecurity awareness training because, as MV stated, no one notified it or let it know that cybersecurity awareness training was even available.

MV should develop and implement a policy that requires its employees to complete cybersecurity awareness training upon hire and annually thereafter. MV should track and monitor its employees' completion of cybersecurity awareness training.

Auditee's Response

MassVentures agrees with the auditor's assessment that MassVentures should formally track and monitor employees' completion of cybersecurity awareness training.

Subsequent to the completion of the audit, all staff members completed cybersecurity awareness training offered by Amazon and a cybersecurity awareness training policy is being drafted and implemented.

Auditor's Reply

Based on its response, MV has taken measures to address our concerns regarding this matter.