



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2003-1304-3A

INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS TECHNOLOGY PARK
CORPORATION
JULY 1, 2000 TO JUNE 30, 2003

OFFICIAL AUDIT
REPORT
FEBRUARY 5, 2004

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

The Massachusetts Technology Park Corporation (MTPC) is a quasi-public instrumentality of the Commonwealth of Massachusetts created pursuant to Chapter 40J of the Massachusetts General Laws. MTPC reports to the Department of Business and Technology but is not subject to the supervision or control of any state agency, except as provided in its enabling statute. MTPC's charter is fostering the expansion of industrial and commercial activity and employment opportunities within the Commonwealth. MTPC, which receives funding from public utilities, state appropriations, and lease revenues, has two primary areas of operations. The first operational area is the Innovation Economy Program, which sponsors a portfolio of projects that range from sponsored research on emerging economic trends to collaborative activities with specific industry clusters and associated organizations. The second operational area is the Renewable Energy Program, whose goal is to increase the use and generation of renewable energy in the state and region and enable Massachusetts companies to capture a greater share of the market for renewable energy technologies. For the three fiscal years ended June 30, 2003, MTPC had revenues totaling \$150,343,009 and expenditures totaling \$82,550,369.

The objectives of our review, which covered the period July 1, 2000 to June 30, 2003, were to determine the efficiency and effectiveness of MTPC's operations, including its internal controls over revenues and expenditures; to analyze the internal controls over receipts and expenditures from the Massachusetts Renewable Energy Trust Fund; assess MTPC's compliance with its enabling legislation, Chapter 40J and Chapter 25, Section 20, of the General Laws; and determine whether MTPC was properly administering its contracts and grants.

Based upon our review, we have determined that MTPC has adequately addressed our prior audit recommendations. In addition, our review indicated that for the three-year period ended June 30, 2003, MTPC maintained its accounting records in accordance with prescribed requirements; maintained an internal control structure that is suitably designed and implemented to adhere to the control objectives; and complied with applicable laws, rules, and regulations for the areas reviewed.

AUDIT RESULTS

12

PRIOR AUDIT RESULTS RESOLVED

12

Our prior audit report (No. 2000-1304-3) of MTPC disclosed various deficiencies pertaining to payments made to consultants and employees, questionable travel expenditures, and identified an opportunity for improvement in MTPC's investment practices. As discussed below, our follow-up review revealed that MTPC has adequately addressed these issues.

a. Internal Controls over Consultant Payments Improved

12

Our prior report noted that MTPC had not established adequate controls over payments totaling over \$2,668,514 made to 32 consultants. Specifically, our review of 12 consultant payments totaling \$451,868 revealed that six payments totaling \$31,693 lacked adequate

supporting documentation. Our follow-up review revealed that MTPC has established and implemented adequate controls over its procurement and payment process for its consultants.

b. Internal Controls over Payroll Transactions Improved **13**

Our prior review of payroll records disclosed that MTPC made questionable payments to its employees. Specifically, we found that MTPC paid over \$364,814 to its employees for annual performance, holiday, and miscellaneous bonuses and buy-backs of earned time without up-to-date policies and procedures detailing such employee benefits. Our follow-up review revealed that on February 6, 2002, MTPC's Board of Directors approved and issued an updated Employee Handbook. Additionally, MTPC has discontinued its former practice of awarding holiday and miscellaneous bonuses and buying back earned time of employees.

c. Internal Controls over Travel-Related Expenditures Improved **14**

Our prior review noted that MTPC had not established necessary internal controls to ensure the adequate and proper documentation of travel-related expenditures, resulting in \$15,812 in questionable and undocumented travel expenses. We recommended that MTPC establish and implement effective internal controls over corporate credit card use and employee expense reports. Our follow-up review revealed that on June 18, 2001, MTPC approved new policies for travel and business expenses approved by the Board of Directors. In addition, we found that adequate documentation existed to substantiate all of the \$10,624 in travel-related expenditures tested and that they were made in compliance with MTPC's new policies .

d. Investment Policy Implemented **15**

Our prior review disclosed that MTPC had not established an investment policy to ensure that all funds were adequately invested to maximize their total return. We recommended that MTPC develop an investment policy to ensure that all cash is adequately invested to maximize its interest income and explore alternative high-yield investment vehicles. Our follow-up review revealed that in February 2002, MTPC's board implemented and approved an investment policy that ensures that MTPC investment funds, which totaled \$145,517,791 as of June 30, 2003, are adequately invested.

INTRODUCTION

Background

The Massachusetts Technology Park Corporation (MTPC) is a quasi-public instrumentality of the Commonwealth of Massachusetts created pursuant to Chapter 40J of the Massachusetts General Laws (MGL). MTPC reports to the Department of Business and Technology, but is not subject to the supervision or control of any state agency except as provided in its enabling legislation. MTPC's mission is to foster the expansion of industrial and commercial activity and employment opportunities within the Commonwealth. Chapter 405 of the Acts of 1984 provided for the transfer of a parcel of land in the town of Westborough, commonly referred to as the Lyman School for Boys, to MTPC for the purposes of the Massachusetts Microelectronics Center, a collaborative effort of industry, university, and government. In 1994, MTPC formed the Massachusetts Technology Collaborative (MTC), replacing the Microelectronics Center as its operating entity for fostering economic growth within the Commonwealth.

MTPC owns, manages, and develops its Westborough headquarters as the Massachusetts Technology Park. The use of the 36-acre campus reflects MTPC's mission to promote partnerships among industrial, educational and governmental sectors. The George Kariotis Center serves as MTPC's administrative headquarters. The University of Massachusetts uses the Karl Weiss Education and Conference Center for its Center for Professional Education. Additionally, MTPC's Innovation Center houses the Renewable Energy Trust and the Innovation Initiative. The campus includes a 70,000 square foot state-of-the-art fabrication facility, currently leased by the Kopin Corporation, a Massachusetts-based manufacturer of high-resolution flat panel displays.

MTPC's activities are directed by a 23-member Board of Directors, representing senior officials from public and private colleges and universities, technology companies, and state government. In accordance with Chapter 40J, Section 3, of the General Laws, the board consists of the Director of the Department of Business and Technology, the Secretary of the Executive Office for Administration and Finance, the Chancellor of the Board of Higher Education, two members appointed by the Governor from a list of persons nominated by the President of the Senate, two persons appointed by the Governor from a list of persons nominated by the Speaker of the House of Representatives, and 16 persons appointed by the Governor.

For the three fiscal years ended June 30 2003, MTPC had expenditures of \$82,550,369 and received revenues of \$150,343,009 from public utilities, state appropriations, and lease revenues. (See schedule on pages 8 and 9 for fiscal year detail.) MTPC has two primary areas of operations: the Innovation Economy Program (also known as the Cluster Program), which sponsors a portfolio of projects that range from sponsored research on emerging economic trends to collaborative activities with specific industry clusters and associated organizations, and the Renewable Energy Program.

Innovation Economy Program

MTPC supports economic development in the Massachusetts Innovation Economy Program through activities that support the growth of technology industries. Funding for these Innovation Economy initiatives comes from state appropriations and private funds such as corporate sponsors. MTPC's Innovation Initiative meets this goal by sponsoring projects in collaboration with technology industry clusters, or with regions of the state that are developing such clusters and sponsoring projects that cultivate a climate of innovation in the Commonwealth.

Presently, MTPC has the following ongoing Innovation Economy initiatives:

- The Index: The *Index of the Massachusetts Innovation Economy* report is an objective source of economic data comparing the Massachusetts Innovation Economy to other leading technology states. The Index, which uses statistical indicators to track the performance of the state's Innovation Economy over time, is based upon the premise that innovation is a critical factor in the growth of the state's economy. These indicators tell the story of how well innovation resources are being turned into tangible results for people and business of the Commonwealth.
- Massachusetts Nanotechnology Initiative (MNI): In order to harness and expand nanotechnology activity in the Commonwealth, the Massachusetts Nanotechnology Initiative is focused on creating strategic alliances and facilitating dialogue and collaboration among the state's industry leaders, research centers, venture capital community, and entrepreneurs, in an effort to continue the growth of Massachusetts as the global center for research, development, and commercialization in nanotechnology.
- Federal Funding Program: The overall goal of MTPC's Federal Funding Program is to spur the development and commercialization of new technologies in Massachusetts by helping the research community secure needed funding from the federal government and by assisting in the formation of the strategic relationships essential to bring new technology to market.

- MassConnect: Massachusetts has a wealth of economic development organizations, services, and information resources located throughout the state, yet these resources are often difficult to identify, access and navigate. MTPC has embarked on an initiative to assist the Department of Business and Technology, in an effort to coordinate economic development resources using information technology. The initiative, currently identified as MassConnect, will introduce a new web platform that will enable citizens, firms, and organizations to access more effectively economic development resources within the Commonwealth.
- Science and Technology Initiatives: To ensure that the Commonwealth maintains a robust climate for technology-based industrial growth, MTPC is undertaking a number of initiatives that are focused on identifying leading edge technologies for the future, and on developing policies and programs that will help maintain Massachusetts' position as the global leader in technology-focused industry. One particular initiative is focused on advanced technologies that lower the cost of health care while maintaining high quality.
- I-495 Technology Corridor Initiative: This initiative addresses severe fiscal, traffic, and environmental pressure on area towns in the corridor between Route 3 to the north and Franklin/Milford to the south, which has become the fastest-growing region of the state measured by both population increase and job creation. The initiative's purpose is to provide regional action to balance growth with quality of life at an affordable cost to taxpayers.

Renewable Energy Trust Program

The Massachusetts Legislature has given MTPC the mission of designing a program that will increase the use and generation of renewable energy in the state and region, and enable Massachusetts companies to capture a greater share of the market for renewable energy technologies. Pursuant to Chapter 25, Section 20(a)(1), of the General Laws, the Department of Public Utilities was authorized and directed, beginning on March 1, 1998, to require a mandatory charge per kilowatt-hour (kwh) for all electricity consumers of the Commonwealth. This charge is not required for consumers served by a municipal lighting plant that does not supply generation service outside its own service territory, or does not open its service territory to competition at the retail level. The mandatory charge pursuant to Chapter 25, Section 20(a)(1) is as follows:

Renewable Energy Trust (RET) Charges

Calendar Year	Rate
1998	\$.00075/kwh
1999	\$.001/kwh
2000	\$.00125/kwh
2001	\$.001/kwh
2002	\$.00075/kwh
Thereafter	\$.0005/kwh

MTPC was selected to administer the renewable energy charges, and under Chapter 40J, Section 4E (a), of the General Laws, was authorized and directed to establish a separate trust fund named the Massachusetts Renewable Energy Trust Fund (RET). This trust fund is to be credited with all amounts collected from the renewable energy charges and any income derived from the investment of these amounts. The cash and investment balance of the RET on June 30, 2003, was approximately \$157,500,000.

MTPC is required to calculate and segregate the derived Waste To Energy (WTE) funds from the RET revenues pursuant to Chapter 25, Section 20, of the General Laws. Chapter 25, Section 20(a)(2) requires that, in calendar years 1998 through calendar year 2002, the revenue derived from one-quarter of one mill (\$.00025) of the renewable energy charge in each year be set aside and expended pursuant to implementing the provisions of Chapter 40J, Section 4E (f)(2), which is known as Waste To Energy.

The Waste to Energy (WTE) grant program was developed to provide financial assistance for communities incurring increased costs for waste disposal as a result of stricter environmental regulations. To be eligible for a grant, an applicant must be a Massachusetts municipality or a governmental body with a long-term waste disposal contract with a WTE facility located in the Commonwealth. There are seven privately owned WTE facilities located in the Commonwealth in Agawam, Haverhill, Millbury, North Andover, Pittsfield, Rochester, and Saugus. An eighth facility in Lawrence closed in 1998. MTPC convened the Massachusetts Waste to Energy Collaborative and invited all cities and towns in the Commonwealth to participate. During the collaborative forum, MTPC collected and analyzed information submitted by municipal leaders

and WTE facility representatives. The collaborative provided the foundation for grant program guidelines approved by MTPC's Board of Directors on October 25, 2000.

MTPC accepted grant applications from 138 Massachusetts communities and awarded almost \$54 million in grants to these 138 communities on March 26, 2001. As of our audit, \$45.5 million of this amount had been paid.

Described below are the four main programs currently administered through the RET: the Green Buildings, Green Power, Education and Awareness, and Renewable Energy Industry Support programs.

Green Buildings Program

The Green Buildings Program is focused on providing financial support for the inclusion of renewable technologies in the process of renewable energy, or "green" building development. The green building development concept includes the incorporation of renewable energy technologies into buildings (e.g., photovoltaic or wind power systems); the inclusion of energy efficiency measures such as natural lighting, efficient heating and cooling systems, and high performance insulation; and minimizing the impact of these buildings on the environment and human health. The program supports individual projects and will use the results of each to increase the knowledge of green buildings and renewable energy benefits and practices among building professionals and the public. As of June 30, 2003, this program had a financial assistance award amount of \$16,108,639, of which \$3,373,143 had been expended.

Currently the Green Buildings Program includes three separate initiatives:

- **Green Buildings Initiative** - Provides competitive awards to fund planning and construction of renewable and energy efficiency technologies in all types of green buildings. The initiative is subdivided into two categories of applicants: public, tax-exempt organizations and private/public non-tax-exempt organizations.
- **Green Schools Initiative** - Provides information services and funding for feasibility studies, design and construction, and ongoing education activities of green public schools employing renewable and energy efficient technologies.
- **Special Opportunities Partnership Initiative** - Will undertake Green Building-related activities and projects that assist the proof of concept demonstrations, promoting high performance building design, including energy efficiency and renewable energies working together. One

example of a partnership will be relating to the development of models for affordable, healthy and energy efficient housing employing renewable energies and energy efficient technologies.

Green Power Program

Green Power is electricity generated from renewable or “green” energy resources that is added to the regional electric power grid at the direction and expense of retail and wholesale consumers. Some currently developing renewable energies include wind, biomass, solar photovoltaic, landfill gas, hydroelectric, wave, and tidal power.

The goals of the Green Power Program are to encourage new renewable energy development, creating a viable market for distributed energies, and expand the consumer’s choice and demand. As of June 30, 2003, this program had a financial assistance award amount of \$32,402,196, of which \$7,124,044 had been expended.

The Green Power Program initiatives include:

- **Analysis and Assessments:** The Green Power Program sponsors research and analysis designed to enhance our understanding of regional renewable energy resources, the economic and environmental impacts of renewable energy development, and the financial issues with generating facilities.
- **Predevelopment Financing Assistance:** Under the Predevelopment Financing Initiative, MTPC helps mitigate some of the risk associated with the early stages of the development of generating renewable energies. By providing unsecured loans to project developers for predevelopment activities such as community outreach, impact, permitting and electrical studies, MTPC helps to promote the development of new renewable generating capacity for Massachusetts markets.
- **Solar to Market Initiative:** The Solar to Market Initiative is an effort to stimulate the growth of photovoltaic companies in Massachusetts, including manufacturing equipment providers, cell and module manufacturers and system designer and installers, through grants and loans.
- **Fuel Cell Initiative:** Fuel cell systems deliver superior quality power (i.e., low distortion) with low emissions and noise levels. These characteristics make fuel cell systems ideal for supporting mission-critical loads where a power interruption or disturbance can lead to substantial financial or material losses, or a security lapse. The Fuel Cell Initiative supports the investigation and installation of fuel cells in Massachusetts for premium power and security-related applications.
- **Consumer Aggregation Initiative:** The purpose of the Consumer Aggregation Initiative is to increase the availability of and demand for green power in Massachusetts. By joining an

aggregation, the Massachusetts ratepayer will be able to collectively purchase electricity generated from a renewable source. Aggregations pool purchasing power to create a critical mass for entry of retail electricity suppliers into the green power market and lower the costs to the consumer.

- Emerging Technology Demonstration Initiative: The Emerging Technology Demonstration Initiative will provide grants to developers of demonstration projects using emerging technologies. The initiative will focus on technologies that have roots in Massachusetts companies or universities and/or have significant potential for installation in Massachusetts.
- Community Wind Collaborative: Initiative focuses on stimulating and promoting the small community –initiated wind projects in Massachusetts. The community wind collaborative links existing initiatives with new marketing, technical, and project facilitation activities, focusing on community scale (1 to 10 turbines) projects.
- Community Planning Initiative: Creates the local capacity for renewable energy planning and decision-making tools at a local level. This initiative urges the creation of municipal planning tools such as bylaws and ordinances, technical assistance for assessments of a proposed facility, and general education and dialogue at the local and regional level, in an effort to spur greater interest and knowledge of renewable energy development.
- Massachusetts Green Power Partnership Initiative: MTPC has issued a solicitation for development financing assistance under the Massachusetts Green Power Partnership. The purpose of this initiative is for MTPC to provide a set of financial tools designed to facilitate development of a market for Renewal Energy Credits, thereby better enabling developers to secure financing.

Education and Awareness Program

The Education & Public Awareness Program’s primary purpose is to educate the energy consuming public about renewable energy through an enhanced school and university curriculum, to drive national and local discourse by testifying before Congress and the state Legislature on the benefits of renewable energy, to aggressively pursue coverage of renewable energy issues in the news media, and to inform editorial boards of the RET’s mission. As of June 30, 2003, this program had a financial assistance award amount of \$697,696, of which \$171,030 had been expended.

Renewable Energy Industry Support Program

The Renewable Energy Industry Support Program is currently developing a comprehensive industry support program to ensure that renewable energy companies thrive and create new green jobs in Massachusetts. By working with the Legislature and a university consortium, the

RET will help companies identify new market opportunities and manufacture new products in the Commonwealth. The RET plans to facilitate partnerships between universities and companies that spark renewable energy research and development leading to the creation of prototype products, including products utilizing power from the sun and wind, and that may be subsequently installed in state-of-the-art green schools, buildings, and housing. The Industry Support Program will launch the \$15 million Massachusetts Green Energy Fund (MGEF) in the fall of 2003. The MGEF is designed to provide seed and growth capital and management assistance to Massachusetts-based renewable energy businesses having significant potential for growth, job creation, and equity appreciation. As of June 30, 2003, this program had a financial assistance award amount of \$6,008,452, of which \$5,725,645 had been expended or disbursed.

Below is an analysis of total revenues and expenditures of MTPC for the three fiscal years ended June 30, 2003.

	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2003*
<u>Receipts:</u>			
<u>Cluster Initiative:</u>			
State Appropriations	\$ 900,000	\$ 1,110,000	\$546,500
Berkshire Connect	59,547	25,010	13,289
I-495 Initiative		-	94,531
Other	<u>45,697</u>	<u>6,463</u>	<u>101,922</u>
<u>Sub-Total</u>	<u>\$1,005,244</u>	<u>\$1,141,473</u>	<u>\$756,242</u>
<u>Massachusetts Technology Park:</u>			
Kopin Lease	\$1,005,358	\$1,021,422	\$1,035,360
Interest	245,186	101,992	57,752
Classroom Rentals and Other	<u>51,418</u>	<u>78,494</u>	<u>84,176</u>
<u>Subtotal</u>	<u>\$1,301,962</u>	<u>\$1,201,908</u>	<u>\$1,177,288</u>
<u>Massachusetts Connect</u>			
Mass Connect	\$40,000	\$1,267,505	\$ 755,140
<u>Renewable Energy Trust Fund:</u>			
Renewable Energy Initiative	\$39,852,099	\$28,474,618	\$24,014,367
Interest	4,918,533	3,514,753	5,368,749
Unrealized Gain or Loss	-	945,834	3,160,830
Renewable Loan Interest	-	3,151	116,020
Waste to Energy (WTE)	11,415,209	11,383,421	6,205,674

WTE Interest	<u>1,623,248</u>	<u>436,337</u>	<u>263,404</u>
<u>Subtotal</u>	<u>\$57,809,089</u>	<u>\$44,758,114</u>	<u>\$39,129,044</u>
Total Receipts	<u>\$60,156,295</u>	<u>\$48,369,000</u>	<u>\$41,817,714</u>
<u>Expenditures:</u>			
<u>Cluster Initiative:</u>			
Personnel	\$ 731,899	\$1,165,531	\$ 816,847
Program & Administrative Cost	675,634	741,627	349,775
Depreciation	<u>-</u>	<u>66,595</u>	<u>32,024</u>
<u>Subtotal</u>	<u>\$1,407,533</u>	<u>\$1,973,753</u>	<u>\$1,198,646</u>
<u>Massachusetts Technology Park:</u>			
Personnel	\$ 420,833	\$129,959	\$154,883
Program & Administrative Cost	549,090	320,122	328,925
Depreciation	<u>699,908</u>	<u>373,386</u>	<u>371,875</u>
<u>Subtotal</u>	<u>\$1,669,831</u>	<u>\$823,467</u>	<u>\$855,683</u>
<u>Massachusetts Connect</u>			
Personnel	\$22,611	\$ 361,203	\$308,550
Program & Administrative Cost	17,249	877,040	437,105
Depreciation	<u>-</u>	<u>38,397</u>	<u>36,603</u>
<u>Subtotal</u>	<u>\$ 39,860</u>	<u>\$1,276,640</u>	<u>\$782,258</u>
<u>Renewable Energy Trust Fund:</u>			
<u>Renewable Energy Initiative</u>			
Personnel	\$1,661,458	\$2,629,942	\$ 3,957,335
Program & Administrative Cost	1,176,474	1,903,147	2,265,472
Depreciation	-	283,501	310,743
Financial Assistance	<u>486,540</u>	<u>2,725,910</u>	<u>8,680,693</u>
<u>Subtotal</u>	<u>\$ 3,324,472</u>	<u>\$ 542,500</u>	<u>\$15,214,243</u>
<u>Waste to Energy (WTE)</u>			
Personnel	\$ 189,673	\$ 57,887	\$ 58,764
Program & Administrative Cost	581,958	31,930	12,227
Depreciation	-	3,301	2,139
Financial Assistance	<u>22,297,945</u>	<u>10,683,435</u>	<u>12,522,224</u>
<u>Subtotal</u>	<u>\$23,069,576</u>	<u>\$10,776,553</u>	<u>\$12,595,354</u>
Total Expenditures	<u>\$29,511,272</u>	<u>\$22,392,913</u>	<u>\$30,646,184</u>
Excess of Receipts over Expenditures	<u>\$30,645,023</u>	<u>\$25,976,087</u>	<u>\$11,171,530</u>

*June 30, 2003 totals are unaudited.

The fiscal year 2004 state budget, Chapter 26 of the Acts of 2003, transfers \$17 million in funding from the Renewable Energy Trust Fund to the Commonwealth's General Fund. As a condition of this transfer of funds, the Commonwealth agreed to use the \$17 million to help fund the purchase of power from renewable sources over a 20-year period beginning as early as 2005. As of the end of our audit, December 31, 2003, specifics of this commitment and transfer were not finalized.

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of MTPC during the period July 1, 2000 to June 30, 2003. Our objectives were to determine the efficiency and effectiveness of MTPC's operations, including its internal controls over revenues and expenditures; analyze the internal controls over receipts and expenditures from the Massachusetts Renewable Energy Trust Fund; assess MTPC's compliance with its enabling legislation (Chapter 40J and Chapter 25, Section 20, of the General Laws); and determine whether MTPC is properly administering all contracts and grants.

Our audit was conducted in accordance with generally accepted government audit standards for performance audits and, accordingly, included such audit tests and procedures, as we considered necessary.

To meet our objectives, our review procedures consisted of the following:

- A determination of whether MTPC had implemented effective management controls, including policies and procedures, to ensure that resource usage is efficient and consistent with laws and regulations.
- A study and evaluation of the management controls and the flow of transactions through the MTPC administrative and accounting systems. Because MTPC uses a private accounting firm to perform financial and compliance audits of its financial statements, our audit included a review of the accounting firm's work papers and reports.
- An examination of selected MTPC transactions pertaining to revenues, expenditures, payroll, equipment, and consultant payments to evaluate their completeness, reasonableness, and compliance with applicable laws and regulations.

- An assessment of MTPC's administrative procedures used to monitor the receipts and expenditures of the Massachusetts Renewable Energy Trust Fund.
- Interviews with selected MTPC officials and personnel.
- A study and evaluation of the development of financial awards presented from the Renewable Energy Trust and the award process.
- Site visits to validate the results of two Renewable Energy Trust Fund Awards.
- MTPC's progress in addressing the issues noted in our prior audit (No. 2000-1304-3.)

Based upon our review, we have determined that MTPC has adequately addressed our prior audit recommendations. In addition, our review indicated that for the three-year period ended June 30, 2003, MTPC maintained its accounting records in accordance with prescribed requirements; maintained an internal control structure that is suitably designed and implemented to adhere to the control objectives; and complied with applicable laws, rules, and regulations for the areas reviewed.

AUDIT RESULTS

PRIOR AUDIT RESULTS RESOLVED

Our prior audit report (No. 2000-1304-3) of the Massachusetts Technology Park Corporation (MTPC), which covered the period July 1, 1998 to May 31, 2000, disclosed various deficiencies pertaining to payments made to consultants and employees, as well as questionable travel expenditures. Additionally, our report identified an opportunity for improvement in MTPC's investment practices. Our follow-up review indicated that MTPC has adequately addressed these issues, as discussed below:

a. Internal Controls over Consultant Payments Improved

Our prior audit revealed that MTPC had not established adequate controls over payments made to 32 consultants totaling over \$2,668,514. Specifically, our review of 12 consultant payments totaling \$451,868 revealed that six payments totaling \$31,693 lacked adequate documentation to substantiate their propriety. These consultant payments were made based upon oral agreements and expired contracts. In other cases, purchase orders instead of contracts were used to procure services, with no specific scope of service, terms of remuneration, and no specific length of time over which the service would be provided.

We recommended that MTPC implement adequate internal control procedures over the procurement and payment of consultants by establishing policies to ensure that consultant arrangements are substantiated by a written and executed contract, that contracts are signed by both MTPC and the consultant, and that contracts are kept current. In addition, we recommended that MTPC use purchase orders only to procure limited services, and clearly establish the rate of compensation and the time period in which the services are to be provided.

During our follow-up review, MTPC provided us with its "Service Procurement Policy," which was approved by the MTPC Board of Directors on June 18, 2001 and details various policies and procedures that must now be followed to procure external services. These procedures include:

- Department Head and Executive Management approval of the proposed procurement.
- Adequate funding to be included in the fiscal year budget or an Unbudgeted Expense Authorization Form.

- The provider is to be selected through a competitive and/or open bid process, Public Agency/Commonwealth pre-qualified provider, or a sole source provider.
- Best value to be determined.
- Service agreement to be signed and executed by both parties detailing the scope of services and payment terms that clearly establish the rate upon which the total fee is based.
- Exceptions to the “Service Procurement Policy” may be authorized by the board or one of its committees.

For the audit period July 1, 2000 to June 30, 2003, we reviewed the internal control procedures over the procurement and payment for 16 consultant contracts totaling \$1,457,981 and tested each contract against MTPC’s Service Procurement Policy. We found that four contracts were awarded as sole-source procurements and 12 contracts were awarded competitively. Two of the four sole source procurements were exempt from the new Service Procurement Policy due to prior contract agreements with MTPC. On August 8, 2001 the committee recommended that vendors that were used by MTPC be exempt from the new service procurement policy and procedure. The payment terms, length of contract, and scope of services were clearly defined with each contract, and all 16 contracts were properly signed and executed by both parties. Also, during our review we noted that purchase orders were not solely utilized to procure products or services.

Additionally, we found that MTPC has established adequate controls over the payment process of these consultants. We tested 20 payments made under these 16 contracts totaling \$363,363 and found that each payment was properly reviewed, approved, and in agreement with the terms of the contract. Moreover, the original invoice, purchase order, and payment approval authorization form supported each payment.

b. Internal Controls over Payroll Transactions Improved

Our prior review of payroll records disclosed various questionable payments to MTPC employees during our prior review period. Specifically, MTPC paid over \$364,814 to its employees for annual performance, holiday, miscellaneous bonuses and buy-backs of earned time without up-to-date policies and procedures detailing such employee benefits.

Our prior review recommended that MTPC update its Employee Handbook to include all employee benefits. Moreover, we recommended that MTPC's Board of Directors approve all employee benefits identified in the Employee Handbook and ensure that employee benefit payments, such as bonuses and buy-backs of earned time, are consistent with MTPC's mission as outlined in Chapter 40J of the General Laws.

Our follow-up review revealed that MTPC's Board of Directors had approved and issued an updated Employee Handbook on February 6, 2002. Also, MTPC has established policies regarding Incentive Compensation Payments, stating that "all Performance Incentive Compensation must be approved by the Board of Directors of MTPC or an authorized committee of the Board of Directors....Any such Performance Incentive Compensation must be made pursuant to a program applicable to all employees that is designed to incent and reward employee performance in an effort to further MTPC's mission." Additionally, MTPC discontinued the use of holiday and miscellaneous bonuses, such as anniversaries, and earned time buy-backs.

In the fiscal year ended June 30, 2001, MTPC made incentive compensation payments totaling \$113,783 for 28 individuals. We tested seven awards totaling \$17,129 and found that all had been approved and calculated on the percentage basis established and approved by MTPC's Board of Directors. Subsequent to fiscal year 2001, MTPC has not awarded its annual performance incentive compensation program due to the state's fiscal climate and budgetary constraints, and only one contractually provided for incentive compensation award totaling \$20,000, which was paid in August of 2003, has been made to MTPC's current Executive Director.

c. Internal Controls over Travel-Related Expenditures Improved

Our prior report disclosed that MTPC had not established necessary internal controls to ensure the adequate and proper documentation of travel-related expenditures. As a result, \$15,812 in credit card charges was questionable because the business-related purpose was not documented or described on the employee's travel expense report.

We recommended that MTPC establish and implement effective internal controls over the use of corporate credit cards, as well as the employee expense reports used by administrative staff

members. At a minimum, these controls should require that staff members using credit cards or submitting employee expense reports sign truth and accuracy forms subject to penalties and submit original receipts. In addition, we recommended that, for each expense listed on the employee expense report, staff members submit relative documentation to support that the expense was an appropriate business-related charge. Moreover, we stated that MTPC should develop and implement formal travel policies and guidelines, which would set standards and enable MTPC to appropriately manage travel costs. Such travel policies and guidelines, which should be approved by MTPC's Board of Directors, should include proper documentation for all airfares, hotels, meals, and other business-related expenditures, and address the justification for staff retreats at off-site locations.

In response to this issue, MTPC discontinued the use of multiple corporate credit cards as of March 2001. Our follow-up review indicated that MTPC's credit card activity has been restricted to one card issued in the name of MTPC's Controller. The card is primarily used for air travel for employees assigned to go on a business trip, and Internet purchases such as computer software. In addition, we found that MTPC's board approved MTPC's new policies for travel and business expenses on June 18, 2001. Employees submit a travel authorization form, which must be approved prior to travel, and after the business trip submit an expense report for any reimbursable expenses. For our audit period the total travel expenses were \$228,062. We tested eight travel expense reports totaling \$10,624 and found that all expense reports tested had the proper authorization and documentation and were in compliance with the terms in the updated travel policy. In addition, we noted evidence that all expense reports were reviewed by accounting, and adjustments were made and noted, as necessary.

d. Investment Policy Implemented

Our prior report indicated that MTPC had not established an investment policy to ensure that all funds were adequately invested to maximize their total return. As a result, MTPC lost the opportunity to earn an estimated potential annual interest income of at least \$274,080.

As of May 1, 2000, MTPC had \$84,163,006 in cash invested in two financial institutions. Approximately \$84,057,620 was invested in multiple accounts with the Massachusetts Municipal Depository Trust (MMDT), a money market investment vehicle of the Commonwealth, all of which were earning interest of 6.18%. The remaining \$105,386 was deposited in a non-interest-

bearing checking account at Fleet bank. Although MTPC had significant cash availability, it had not established an investment policy to ensure that all cash is adequately invested to maximize its total return.

According to MTPC officials, because of the uncertainty of the outcome of the lawsuit relating to renewable energy surcharges, MTPC invested its funds almost exclusively with MMDT because these funds were completely liquid, invested with the Commonwealth, and earning moderate interest. On April 19, 2000, the pending lawsuit was concluded in favor of MTPC. With the lawsuit concluded, as of August 2000 MTPC began exploring alternative investment options to maximize its total return. However, an investment policy had not been developed.

We recommended that MTPC develop an investment policy to ensure that all cash is adequately invested to maximize its interest income, and to explore alternative high-yield investment vehicles.

During our follow-up review, MTPC's Controller provided us with an investment policy, which was implemented and approved by the Board of Directors in February 2002. This policy includes:

- Implementation of an investment committee to make recommendations to the Board of Directors
- Goals and Objectives
- Investments Guidelines
- Ineligible Investments
- Cash Flow Provisions
- Hiring and Termination of Investment Manager
- Custodian Bank

In March 2002, MTPC began utilizing New England Pension Consultants for its investments and has since diversified MTPC investments into three separate low- to moderate-risk investment funds: SSGA Russell, Merganser, and MMDT. As of June 30, 2003, the total amount invested was \$145,517,791, and from July 1, 2002 to June 30, 2003, MTPC recognized earnings from its investments of \$8,529,579.