



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

Making government work better

Official Audit Report – Issued September 14, 2011

Massachusetts Clean Energy Center's Use of American Recovery and Reinvestment Act Funds

For the period August 31, 2009 through December 31, 2010



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INTRODUCTION**1**

The Massachusetts Clean Energy Center (CEC) was established on August 12, 2008 by Chapter 307 of the Acts of 2008 and codified in Chapter 23J of the Massachusetts General Laws as a quasi-public entity to accelerate job growth and economic development in the state's clean energy industry. The Massachusetts Alternative and Clean Energy Investment Trust Fund was also established, which is to be held by the CEC separate and apart from the other sources of funding and is to finance the CEC activities. Subsequently, in November 2009, *An Act Relative to Clean Energy* (Chapter 158 of the Acts of 2009) was signed into law, which among other things transferred the Massachusetts Renewable Energy Trust Fund (RET) from the Massachusetts Technology Collaborative to the CEC. In order to achieve its goals, the CEC makes direct investments in new and existing companies, assists companies in obtaining capital and other resources, promotes workforce development through job training programs, and supports the installation of renewable energy projects throughout the Commonwealth.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of American Recovery and Reinvestment Act (ARRA) funds awarded, received, and expended by the CEC for the period of August 31, 2009 through December 31, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objectives of our audit were to determine how the federal funds were being used and to examine and evaluate the reasonableness of administrative costs, the sub-recipient award (and subsequent monitoring) process, the adequacy of controls over receipts and expenditures, and the CEC's compliance with job reporting requirements.

Based on our review we have concluded that, for the period August 31, 2009 through December 31, 2010, CEC maintained adequate controls over receipts and expenditures of ARRA funds, implemented an adequate process for awarding ARRA funds to subrecipients, and identified and reported on the number of jobs created or retained by ARRA funding in compliance with applicable laws, rules, and regulations.

INTRODUCTION

Background

The Massachusetts Clean Energy Center (CEC) was established on August 12, 2008 by Chapter 307 of the Acts of 2008 and codified in Chapter 23J of the Massachusetts General Laws as a quasi-public entity to accelerate job growth and economic development in the state's clean energy industry. The Massachusetts Alternative and Clean Energy Investment Trust Fund was also established, which is to be held by the CEC separate and apart from the other sources of funding and is to finance the CEC activities. Subsequently, in November 2009, An Act Relative to Clean Energy (Chapter 158 of the Acts of 2009) was signed into law, which among other things transferred the Massachusetts Renewable Energy Trust Fund (RET) from the Massachusetts Technology Collaborative to the CEC. In order to achieve its goals, the CEC makes direct investments in new and existing companies, assists companies in obtaining capital and other resources, promotes workforce development through job training programs, and supports the installation of renewable energy projects throughout the Commonwealth.

The CEC is governed by a 12-member Board of Directors consisting of the Secretary of Energy and Environmental Affairs, the Secretary of Housing and Economic Development, the Secretary of Administration and Finance, the Secretary of Labor and Workforce Development¹, the President of the University of Massachusetts, the Executive Director of the Massachusetts Workforce Alliance, the Commissioner of the Department of Energy Resources, and five members appointed by the governor.

Federal Funding – American Recovery and Reinvestment Act (ARRA) Funds

The CEC has been the recipient of a significant amount of federal ARRA funding. The bulk of this federal stimulus money was awarded to the CEC to fund the construction of a state-of-the-art wind blade testing facility in Charlestown known as the Wind Technology Testing Center (WTTC). On August 31, 2009, the CEC was awarded \$24,700,000 in ARRA funds from the U.S. Department of Energy (DOE). The \$24,700,000 award was retained by DOE and was to be distributed to the CEC in the form of reimbursements for the “hard costs” of the WTTC's construction, only. As of the

¹ Prior to her swearing in as State Auditor on January 19, 2011, Suzanne M. Bump served as Secretary of the Executive Office of Labor and Development for the period 2007 to 2009. This disclosure is made for informational purposes only, and this circumstance did not interfere with our ability to perform our audit work and report the results impartially.

last reporting period ended December 31, 2010, the CEC had expended \$22,653,275 in ARRA funds.

Construction on the WTTC project commenced in December 2009 and is expected to be completed in March 2011. When completed, the WTTC will be the first commercial large-blade testing facility in the nation, testing commercial-sized wind turbine blades to help reduce costs, improve performance, and expedite the deployment of newer, more efficient models. In addition to creating many temporary construction and design jobs over the project's lifespan, the goal of the facility is to attract companies to design, manufacture, and test their blades in the United States, and more specifically, Massachusetts. According to CEC officials, ARRA spending created 50 full-time jobs.

Additionally, in 2010 the CEC received two ARRA sub-awards totaling \$8,000,000 from the Massachusetts Department of Energy Resources (DOER) as part of the State Energy Program's (SEP) Commonwealth Solar Stimulus Rebate (CSSR) initiative. The first sub-award of \$4,100,000 was received on March 3, 2010, whereas the second sub-award of \$3,900,000 was received on July 7, 2010. The SEP/CSSR sub-award was disbursed to the CEC as part of the CEC's ongoing effort to encourage the development and utilization of clean energy technologies by supplementing the energy costs of entities and individuals who install photovoltaic (solar) power systems in their homes or businesses. As of December 31, 2010, the CEC has dispersed \$1,215,580 of the sub-award to CSSR applicants.

On October 5, 2010, the CEC received another \$4,000,000 sub-award from DOER as part of the SEP's Energy Efficiency and Conservation Block Grant (EECBG) program. The SEP/EECBG funds were dispersed to the CEC from DOER to develop a program to further expand energy-efficient financing options available to residents of the Commonwealth. As of December 31, 2010, none of these EECBG funds had been expended.

Although the CEC was the beneficiary of SEP/ARRA funds totaling \$12,000,000 (for both SEP/CSSR grants and the EECBG grant), the CEC is classified by the OMB's ARRA guidelines as a sub-recipient, and not a prime recipient. As such, the CEC reports on the status and use of the SEP/ARRA funds to DOER, but is not subject to ARRA-related guidelines regarding accounting, reporting, or procurement. As the prime recipient, DOER is the receiving entity responsible for ARRA reporting.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of federal stimulus funds awarded, received, and expended by the CEC for the period August 31, 2009 through December 31, 2010. We conducted this 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. The objectives of our audit were to determine how the federal funds were being used and to examine and evaluate the reasonableness of administrative costs, the sub-recipient award (and subsequent monitoring) process, the adequacy of controls over receipts and expenditures, and the CEC's compliance with job reporting requirements.

The CEC has received and expended the ARRA funds as follows:

**Massachusetts Clean Energy Center
Report on Funds Received and Expended by Quarter**

| Year/ Quarter | Section 1512 Report Date | Funds Received | Funds Expended |
|--------------------------|-------------------------------------|---------------------------|---------------------------|
| 2009/4 | January 8, 2010 | \$1,805,975 | \$ 1,805,975 |
| 2010/1 | April 21, 2010 | 9,656,272 | 5,556,272 |
| 2010/2 | July 6, 2010 | 5,956,390 | 5,956,390 |
| 2010/3 | October 7, 2010 | 8,646,488 | 4,512,524 |
| 2010/4 | December 31, 2010 | <u>8,589,150</u> | <u>6,037,694</u> |
| Total | | <u>\$34,654,275</u> | <u>\$23,868,855</u> |

To achieve our objectives, we performed the following audit procedures:

- Tested a sample of ARRA expenditures from four of the 18 months in which federal stimulus funds were expended. We performed this test to ensure that the expenditure amounts were equal to the amounts of the invoices and that the CEC recouped all of the expenses that were eligible for reimbursement from the DOE grant. We also sought to evaluate the CEC's controls over ARRA expenditures by identifying key control points in the disbursement process and ensuring that the appropriate supervisory reviews and approvals were present before funds were released.
- Tested the procurement of the design and construction contractors selected for the ARRA-funded WTTTC project to evaluate the CEC's process for awarding and monitoring ARRA funds to sub-recipients. We achieved this objective by reviewing the CEC's policies and

procedures for at-risk construction management procurement, and ensuring that any applicable laws, rules, and regulations were followed to ensure that the selection process was open, fair, and represented the “best value” for the Commonwealth.

- Performed tests to determine whether the CEC has identified and reported on the number of jobs created or retained as a result of ARRA funds. We achieved this objective by obtaining and reviewing the CEC’s progress reports on ARRA project spending, known as Section 1512 reports. These reports, which are to be filed with the federal government on a quarterly basis, outline the progress of the W/TTC project and contain other vital information regarding the status of funding, construction, and job creation/retention. We tested these Section 1512 reports to ensure that the CEC was reporting on the W/TTC project in compliance with applicable laws, rules, and regulations, and that they contained all of the required information on ARRA project spending, completion status, and job creation/retention.

Based on our review we have concluded that, for the period August 31, 2009 through December 31, 2010, the CEC maintained adequate controls over receipts and expenditures of ARRA funds, implemented an adequate process for awarding ARRA funds to subrecipients, and identified and reported on the number of jobs created or retained by ARRA funding in compliance with applicable laws, rules, and regulations.

We have also conducted an audit (No. 2011-1469-3A) of the CEC’s controls and oversight activities over its trust funds, which will be issued separately.