

Audit Report

Maryland Technology Development Corporation

January 2023



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Executive Director

Gregory A. Hook, CPA
Legislative Auditor

January 6, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Mark S. Chang, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Technology Development Corporation (TEDCO) for the period beginning April 11, 2018 and ending March 31, 2022. TEDCO provides certain financial assistance to early-stage technology businesses, funds development and patenting of new technologies at research universities, and promotes State-funded stem cell research and cures through grants to private and public entities in the State.

Additionally, TEDCO manages the Maryland Venture Fund, which provides financial assistance to early-stage technology businesses through equity investments for the purpose of encouraging the growth of the Maryland technology sector and the Maryland economy as a whole. TEDCO also provides research and mentoring resources to entrepreneurs trying to establish start-up companies in Maryland.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge TEDCO's efforts to satisfactorily address the three findings contained in our preceding audit report. We also wish to acknowledge the cooperation extended to us during the audit by TEDCO.

Respectfully submitted,

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Technology Development Corporation (TEDCO) is a public instrumentality of the State that helps businesses get started and grow through the commercialization of technology developed in Maryland by university researchers, the private sector, and federal laboratories. TEDCO seeks to create and sustain businesses, and create jobs in technology-related industry throughout all regions of the State. In addition, TEDCO's responsibility was expanded in fiscal year 2016 when the Maryland Venture Fund, which provides capital through equity investments to qualifying early-stage technology companies, was transferred to TEDCO from the Department of Commerce. TEDCO is governed by a 19-member¹ Board of Directors, which includes the Secretary of the Department of Commerce. Four of the members are appointed by the President of the Maryland Senate and the Speaker of the Maryland House of Delegates (2 each). The remaining 14 members are appointed to the Board by the Governor with the advice and consent of the Maryland Senate.

To achieve its goals, TEDCO uses several available financing initiatives and programs, which according to its fiscal year 2022 Annual Report, were broadly categorized as Technology Transfer and Commercialization, Technology Incubator Program, Entrepreneur and Ecosystem Empowerment, Federal Laboratory Technology Initiatives, Maryland Stem Cell Research Fund, and Maryland Venture Fund. Each of these functional categories includes various purpose specific initiatives and programs, which provide, for example, financial assistance to early-stage technology businesses, funding to promote the development and patenting of new technologies at research universities, and funding to private and public entities in the State to promote State-funded stem cell research and cures. In addition, beginning in October 2017, TEDCO implemented a program with the specific purpose of making and managing certain investments on behalf of the Board of Trustees of the Maryland State Retirement and Pension System (MSRPS).

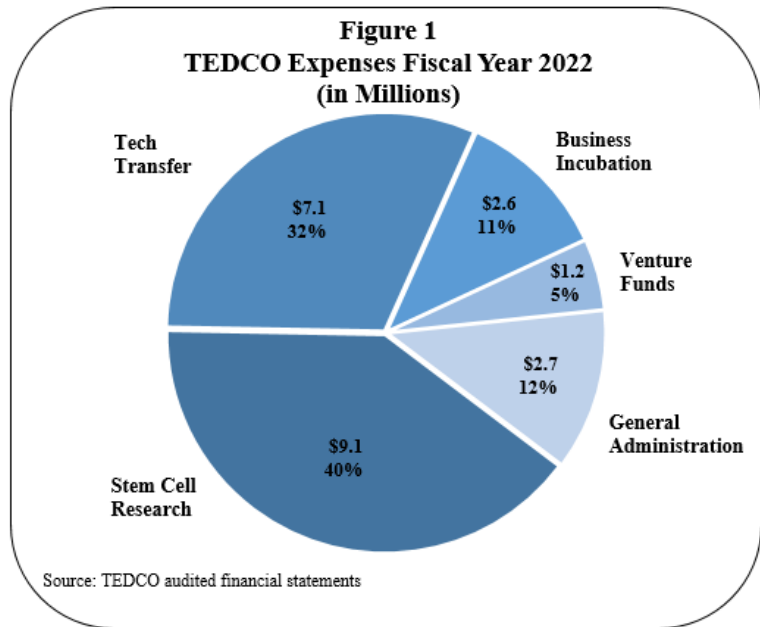
¹ Legislation passed during the audit period added an additional four members, which are included in this total.

Financial Statement Audits and Financial Activity

In accordance with the Economic Development Article, Section 10-414 of the Annotated Code of Maryland, TEDCO engaged an independent certified public accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2019, 2020, 2021, and 2022. In the related audit reports, the firm stated that TEDCO's financial statements presented fairly, in all material respects, the financial position of TEDCO, its changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

According to its audited financial statements, TEDCO's fiscal year 2022 expenses, primarily funded with State general funds, totaled approximately \$22.7 million (see Figure 1).

TEDCO's fiscal year 2022 net operating income totaled \$3.2 million and, as of June 30, 2022, its net position was \$118.3 million, an increase of \$3.7 million since fiscal year 2018.



In addition, TEDCO maintains separate financial statements for investments made and managed on behalf of MSRPS, which are subject to a separate independent audit conducted by TEDCO's certified public accounting firm. According to this program's audited financial statements, TEDCO was managing investments for MSRPS with an estimated value totaling \$6.5 million as of June 30, 2022.

Referral of Former Management Employee to the State Ethics Commission

TEDCO advised us that a management employee who resigned effective July 2019 was subsequently hired as a senior manager by a third party consulting firm, which, prior to the employee's resignation, was under contract with TEDCO for advisory services. Prior to resigning, this employee terminated the contract between TEDCO and the firm effective on the employee's resignation date. There was no documentation that the employee informed TEDCO's remaining management or legal counsel that the contract would be terminated.

Although no significant financial impact to TEDCO was identified as a result of the termination of this contract, we considered this situation questionable since the related contract with this third-party consultant had been executed in January 2018 by the same employee without being subject to a competitive procurement process. In October 2019, TEDCO's legal counsel, at the request of TEDCO's management at that time, referred this matter to the State Ethics Commission. Referral of a matter to the Commission does not mean that a violation took place. Any final decision as to whether violations of State ethics laws did or did not occur would ultimately be made by the Commission.

Security Incident and Theft

TEDCO was the victim of an information technology (IT) security incident which resulted in the theft of \$75,000 through the improper redirection of two electronic payments (\$37,500 each) in April and May of 2021. These funds were intended as investments awarded to recipients under the Maryland Innovation Initiative (MII)². When the intended recipients notified TEDCO that the funds were not received, TEDCO contacted the applicable bank and was able to recover approximately \$5,000 of the \$75,000.

In response to this theft, TEDCO contracted with an IT consultant to perform an investigation to determine the conditions and causes that resulted in the breach and theft. The consultant identified and reported to TEDCO the cause and the methodology used to perpetuate the theft. TEDCO also conducted a review of certain other payments, and concluded that the theft was limited to these two payments. In addition, TEDCO created a corrective action plan that included a number of measures intended to strengthen its information technology controls.

² MII was created as a partnership between the State of Maryland and Maryland academic research institutions. The program is designed to promote commercialization of research conducted in the partnership universities and leverage each institution's strengths.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the three findings contained in our preceding audit report dated February 5, 2019. As disclosed in Figure 2 below, we determined that TEDCO satisfactorily addressed these findings.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	TEDCO had not adopted regulations for direct equity investments through the Maryland Venture Fund (MVF), as required by State law, and documentation was lacking to support how certain investments promoted economic development in the State.	Not repeated
Finding 2	TEDCO created a three member advisory committee related to the MVF to provide investment advice without establishing adequate policies and procedures regarding the committee's membership to prevent potential conflicts of interest. We found that the committee included members associated with certain venture firms that received funding from the MVF.	Not repeated
Finding 3	TEDCO's monitoring of third-party venture firms receiving funding through the MVF's Invest Maryland Program was not sufficient.	Not repeated

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of TEDCO's internal controls. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Findings that did not warrant inclusion in this report were separately communicated to TEDCO.

A draft copy of this report was provided to TEDCO. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Technology Development Corporation (TEDCO) for the period beginning April 11, 2018 and ending March 31, 2022. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine TEDCO's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included administration of certain grants and investments (primarily related to the Maryland Innovation Initiative, the Maryland Stem Cell Research Fund, and the Maryland Venture Fund), disbursements, and payroll. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal assistance programs and an assessment of TEDCO's compliance with those laws and regulations because TEDCO engages an independent certified public accounting firm to audit such programs as appropriate.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of April 11, 2018 to March 31, 2022, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of TEDCO's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do

not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in the finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from TEDCO's automated financial accounting system for the purpose of testing related accounting transactions. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

TEDCO's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to TEDCO, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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