

Audit Report

Maryland Technology Development Corporation

June 2015



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

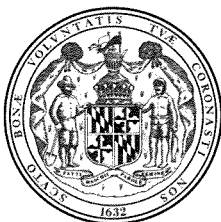
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DEPARTMENT OF LEGISLATIVE SERVICES
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Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

June 15, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Technology Development Corporation (TEDCO) for the period beginning May 22, 2012 and ending January 6, 2015. 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 and loans to private and public entities in the State.

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

We wish to acknowledge the cooperation extended to us during the course of this audit by TEDCO.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities and Financial Activity

The Maryland Technology Development Corporation (TEDCO) was created by the Maryland General Assembly in 1998 as a public instrumentality of the State to help businesses get started and grow through commercialization of technology developed in Maryland by university researchers, the private sector, and federal laboratories. TEDCO seeks to create and sustain business, and create jobs in technology-related industry throughout all regions of the State. TEDCO is governed by a 15-member Board of Directors, which includes the Secretary of the Department of Business and Economic Development. 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 provides certain financial assistance to early-stage technology businesses, and funds development and patenting of new technologies at research universities. In addition, TEDCO develops relationships with federal research facilities in the State and helps companies pursue research funds from federal and other sources. Through its Maryland Stem Cell Research Commission, an independent entity, TEDCO also promotes State-funded stem cell research and cures through grants and loans to private and public entities in the State.

In February 2013, TEDCO created a for-profit limited liability corporation, TEDCO Capital Partners (TCP), to manage four planned targeted investment funds. The goal of these investment funds is to raise capital from private sources to provide venture capital for specific recipients. As of March 2015, TCP had recruited a management team for two investment funds. The Propel Baltimore Fund provides investments to early-stage technology companies located in Baltimore City. The Veterans' Opportunity Fund provides investments to entrepreneurs who served in the United States military.

According to its audited financial statements, TEDCO's fiscal year 2014 expenses, funded primarily with State general funds, were \$22.5 million, including \$603,000 in administrative expenses. TEDCO's fiscal year 2014 net operating income totaled \$825,000 and, as of June 30, 2014, its net position was \$8.5 million. Since fiscal year 2010, net position has increased \$3.8 million through accumulated earnings, including from non-State sources (such as investment royalties and management fees from TCP).

Financial Statement Audits

In accordance with the Economic Development Article, Title 10-414 of the Annotated Code of Maryland, TEDCO engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2012, 2013, and 2014. In the related audit reports, the firm stated that TEDCO's financial statements presented fairly, in all material respects, the financial position of TEDCO and its changes in financial position and its cash flows for the years ended in accordance with the accounting principles generally accepted in the United States of America.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 11, 2012. We determined that TEDCO satisfactorily addressed this finding.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of TEDCO's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to TEDCO that did not warrant mention in this report.

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 May 22, 2012 and ending January 6, 2015. 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 grants and disbursements. We also determined the status of the finding included in our preceding audit report.

TEDCO engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2012, 2013, and 2014. In the related audit reports, the firm stated that TEDCO's financial statements presented fairly, in all material respects, the financial position of TEDCO and its changes in financial position and its cash flows for the years ended in accordance with the accounting principles generally accepted in the United States of America. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent audits. Accordingly, we have relied on the work of the independent accounting firm to provide audit coverage of certain aspects of TEDCO's operations (payroll processing functions). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance. Finally, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of TEDCO's compliance with those laws and regulations because TEDCO engages an independent accounting firm to audit such programs as appropriate.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of TEDCO's operations, and tests of transactions. We also performed other auditing procedures that we considered necessary to achieve our 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.

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.

AUDIT TEAM

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Audit Manager

David O. Mauriello
Senior Auditor