

Audit Report

Maryland Technology Development Corporation

February 2010



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

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

February 3, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland Technology Development Corporation (TEDCO) for the period beginning June 16, 2006 and ending June 30, 2009. TEDCO provides certain financial assistance to early-stage technology businesses, and funds development and patenting of new technologies at research universities. Additionally, in 2006, the General Assembly established the Maryland Stem Cell Research Fund as a new fund within TEDCO to promote State-funded stem cell research and cures through grants and loans to private and public entities in the State.

Our audit disclosed that TEDCO lacked adequate procedures and controls to ensure that stem cell research and technology development grants were spent in accordance with the agreements. In fiscal year 2009, these grant awards totaled \$21.2 million. In addition, controls over disbursement transactions were not sufficient.

TEDCO's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by TEDCO.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

The Maryland Technology Development Corporation (TEDCO) was created by the Maryland General Assembly in 1998 as a public instrumentality of the State to help commercialize the results and products of scientific research and development conducted by higher education institutions and private sector organizations, as well as to promote entrepreneurship and the creation of jobs in technology-related industry. In doing so, TEDCO aims to create and sustain business throughout all regions of the State. TEDCO is governed by a 15-member Board of Directors, including 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. TEDCO also develops relationships with federal research facilities in the State and helps companies pursue research funds from federal and other sources.

The Maryland Stem Cell Research Commission (MSCRC) was established by law in 2006 as an independent entity within TEDCO to provide oversight for the Maryland Stem Cell Research Fund (MSCRF). The MSCRC is governed by a 15-member Board of Directors in which individual members are appointed by the Governor, the General Assembly, the University System of Maryland, Johns Hopkins University, or the Attorney General. The MSCRF was established to promote State-funded stem cell research and cures through grants and loans to public and private entities in the State.

According to its records, TEDCO's fiscal year 2009 expenses, primarily funded through State general funds, were \$22.6 million, including \$2.7 million in administrative expenses.

Financial Statements

In accordance with the Economic Development Article, Title 10-414 of the Annotated Code of Maryland, TEDCO engaged an independent certified public accounting firm to audit its financial statements for fiscal years 2006, 2007, 2008, and 2009. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of TEDCO as of June 30, of the related fiscal year, and the changes in its net assets for the years

then ended were in conformity with 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 one finding contained in our preceding audit report dated November 6, 2006. We determined that the finding was repeated, and it appears in this report.

Findings and Recommendations

Grant Monitoring

Finding 1

TEDCO lacked adequate procedures, controls, and accountability over stem cell research and technology development grants.

Analysis

TEDCO lacked adequate procedures, controls, and accountability over stem cell research and technology development grants. Specifically, our review disclosed that TEDCO did not independently verify that such grant funds were spent as intended. In this regard, although grantees are required to provide expenditure reports on a regular basis, TEDCO did not independently verify the accuracy of the reports, even on a test basis, to ensure that the funds were spent in accordance with the grant agreements. In addition, our test of eight stem cell research grants awarded in 2008, totaling \$6.4 million, disclosed that, for three grants totaling \$1.4 million, the grantees had not submitted the required expenditure reports. As a result of these conditions, TEDCO lacked assurance that grant funds were spent in accordance with the grant agreements.

The grant agreements authorized TEDCO to audit grantee records as a means to verify grantee expenditures. According to TEDCO records, in fiscal year 2009, stem cell research and technical development grants awarded totaled \$18.9 and \$2.3 million, respectively.

Recommendation 1

We recommend that TEDCO establish controls to properly monitor grant expenditures. Specifically, we recommend that TEDCO

- a. take appropriate action to verify grantee expenditures (such as, through audits of grantee records); and**
- b. for stem cell research grants, obtain the aforementioned expenditure reports and ensure that, in the future, grantees submit all required expenditure reports.**

Disbursements

Finding 2

Controls over disbursement transactions were not sufficient.

Analysis

Controls over disbursement transactions were not sufficient. Specifically, one employee had the capability to initiate and approve disbursement transactions and print the related checks using TEDCO's automated accounting system without being subject to independent review and approval. In addition, this employee had access to the blank check stock, and was an authorized check signer.

Consequently, errors or other discrepancies could occur without timely detection. According to its records, TEDCO processed disbursements on the system totaling approximately \$5.7 million during fiscal year 2009, including certain grant expenditures. A similar condition was noted in our preceding audit report.

Recommendation 2

We recommend that an employee who can initiate disbursement transactions using the automated accounting system not have the capability to approve the transactions, and prepare and sign the related checks (repeat). We advised TEDCO on accomplishing the necessary separation of duties using existing personnel.

Legal Settlement

Finding 3

TEDCO paid a settlement to its landlord as a result of terminating its lease without ensuring that the related notification provisions were adhered to.

Analysis

TEDCO paid a settlement of \$25,000 to its landlord as a result of terminating its office space lease early without ensuring compliance with the related lease notification provisions. In this regard, TEDCO management maintains that its landlord informed it in March 2006 that TEDCO would need to vacate the premises prior to August 2007 and that the landlord would provide TEDCO with reasonably similar office space. However, TEDCO did not receive this information in writing, as required by the lease agreement. In February 2007, when TEDCO informed the landlord, in writing, that it intended to terminate the lease six months early rather than move to other office space to be provided by the landlord, the landlord disputed ever informing TEDCO that it needed to vacate the premises. Therefore, the landlord considered TEDCO's termination of

the lease as a default and claimed that TEDCO was liable for the lease payments for the last six months of the lease, which totaled \$50,700. Subsequently, TEDCO and the landlord settled for TEDCO paying the landlord \$25,000.

As a result of TEDCO terminating its lease, it signed a 10-year lease for office space with another landlord in which the related monthly rent increased by approximately \$2,000 after an initial six months of no charges for the rent.

Recommendation 3

We recommend that, in the future, TEDCO ensure that it is in compliance with all lease provisions.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Technology Development Corporation (TEDCO) for the period beginning June 16, 2006 and ending June 30, 2009. 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. The areas addressed by the audit included grants, disbursements, financial reporting, and payroll. We also determined the status of the finding contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of TEDCO's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

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.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect TEDCO's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit also included a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to TEDCO that did not warrant inclusion in this report.

TEDCO's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise TEDCO regarding the results of our review of its response.

APPENDIX



February 2, 2010

Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
301 West Preston Street
Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

Thank you for the opportunity to respond to the draft audit of the Maryland Technology Development Corporation (TEDCO) for the period beginning June 16, 2006 and ending June 30, 2009. I offer the following responses to the findings:

Finding 1

- a. TEDCO is in agreement with this Finding and will take the appropriate actions to verify grantee expenditures. However, TEDCO does not have the staff capacity to audit each of our grantees. That level of review is part of our annual audit by our independent auditor. Supporting documentation for a sample of our grantees is reviewed by TEDCO's audit firm during our annual audit.

In order to address this Finding, TEDCO will get source documentation from its awardees on a test basis and review such to determine that grant funds were spent in accordance with the grant agreements. This action will begin by April 1, 2010.

- b. In two of the three Stem Cell grants referenced in the draft report (JHU and UMBI), estimated financial reports were included in the progress reports on file. However, TEDCO will obtain the expenditure reports referenced in the draft report and take the appropriate actions to ensure that all required reports will be submitted by the grantees.

Finding 2

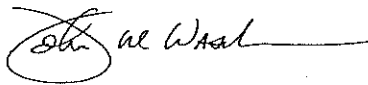
TEDCO agrees with this Finding and has already taken the necessary steps to remove the printing authority of the President/Executive Director, thereby eliminating a required step in the check-development process. This programming modification was performed in January, 2010 by NetSuite, the online accounting system utilized by TEDCO.

Finding 3

TEDCO agrees with this Finding and will ensure that it is in compliance with all lease provisions in the future.

If you have any questions, please contact me 410-715-4167.

Sincerely,

A handwritten signature in black ink, appearing to read "John M. Wasilisin", with a horizontal line extending to the right.

John M. Wasilisin
Acting President/Executive Director

Cc: Jay Steinmetz, Chair, Board of Directors, TEDCO
Karen Rothenberg, J.D., Chair, Maryland Stem Cell Research Commission

AUDIT TEAM

Joshua S. Adler, CPA, CFE
Audit Manager

Menachem Katz, CPA
Senior Auditor