



December 1, 2019

The Honorable Adrienne A. Jones
Speaker of the House of Delegates
Maryland General Assembly
State House, H-101
Annapolis, Maryland 21401

The Honorable Thomas V. Miller, Jr.
President of the Senate
Maryland General Assembly
State House, H-107
Annapolis, Maryland 21401

Dear Speaker Jones and President Miller:

Re: Report required by Section 2 of Chapter 487 and 488 of 2019 (MSAR #12169)

Pursuant to Section 2 of Chapter 487 and 488 of 2019, and in accordance with Section 2-1257 of the State Government Article, I am pleased to submit, on behalf of the Board of Directors of the Maryland Technology Development Corporation (TEDCO), a status report on TEDCO's efforts to address the findings of the fiscal compliance audit of the Corporation as conducted by the Office of Legislative Audits for the period beginning January 7, 2015 and ending April 10, 2018.

The Board greatly appreciates the support that the Administration and General Assembly have provided TEDCO to carry out its mission, and we trust that we have satisfied the concerns of the legislative auditors.

Sincerely,

Stephen Auvil
Acting Executive Director

cc: The Honorable Nancy King
The Honorable Maggie McIntosh
Sarah Albert, DLS



**Maryland Technology Development Corporation
(TEDCO)**

Report on the Status of Legislative Audit Findings

December 2019

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Introduction

Chapter 487 and 488 of 2019 include an uncodified provision that requires the Maryland Technology Development Corporation (TEDCO) to report to the General Assembly on the status of TEDCO's efforts to address the findings of the fiscal compliance audit of the Corporation as conducted by the Office of Legislative Audits for the period beginning January 7, 2015 and ending April 10, 2018. This report details each finding in the legislative audit and how TEDCO has sought to remedy each finding.

Finding 1

TEDCO had not adopted regulations for direct equity investments through the MVF, as required by State law, and documentation was lacking to support how certain investments promoted economic development in the State.

Over the past several months, TEDCO has carefully crafted regulations that address the auditors' findings as well as the provisions that were enacted under House Bill 543 and Senate Bill 340 of 2019 (Chapter 487 and 488). The proposed regulations were submitted to the Administrative, Executive and Legislative Review Committee and the public comment period has recently closed. The proposed regulations govern the investment criteria for all of TEDCO's investment programs, not just the Maryland Venture Fund program, which was the focus of the audit. TEDCO incorporated the standard of Qualified Business, which was defined in the legislation, with our eligibility requirements to ensure that State funds are supporting Maryland companies. Further, the regulations require TEDCO to consider geographic and social diversity when considering companies for an investment; they require the inclusion of a claw back provision to ensure that companies are committed to staying in Maryland after they receive an investment; they include clear investment criteria and a standard scoring rubric to standardize how companies are evaluated; and they include diversity and inclusion benchmarks for each program. This will ensure that all stakeholders, including policy makers, companies, auditors, and the public in general have clear guideposts for each investment program, with clear expectations and clear standards for eligibility and success. The regulations will also ensure that TEDCO remains mindful of its dual mission of fostering statewide, inclusive, technology-based economic development and executing responsible stewardship of the State's funds entrusted to the organization.

Also, in adherence to the auditors' recommendations, TEDCO is establishing a formal, more rigorous, and more transparent application process to ensure that TEDCO's investment programs are open, fair, and consistent with the economic development mission of the organization. As soon as the regulations are adopted and the Maryland Venture Fund Authority is established, TEDCO will resume investments with a comprehensive set of verifiable, documented, and clear standards for investments. TEDCO will then issue quarterly reports, submitted to this committee and others, that will document the economic impact of each investment. The first of these reports was submitted on October 1.

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.

In keeping with the auditors' recommendation, the legislation that was enacted this session requires that such committees be created consistent with approved regulations and that members of such committees submit a financial disclosure statement to the State Ethics Commission annually. TEDCO has decided that it will not use advisory committees associated with investments. Rather, it will rely on its staff to perform due diligence and to make recommendations for investment. Under existing law, staff is subject to annual financial disclosures. Additionally, TEDCO is working with its Office of Attorney General counsel to develop an internal conflict of interest policy for staff.

As an additional layer of review, the Maryland Venture Fund Authority is currently being reappointed by the presiding officers and the Governor. The Authority will be tasked with reviewing TEDCO's investments on a quarterly basis for adherence to the statute and to the regulations.

Finally, the TEDCO Board has established an investment committee, again, as an additional layer of review of TEDCO's programmatic activity, and an Audit and Compliance Committee to ensure that TEDCO's operations and finances are in compliance with State statutes, regulations, as well as GAAP standards.

Finding 3

TEDCO's monitoring of the third-party venture firms receiving funding through the MVF's Invest Maryland Program was not sufficient.

TEDCO is now more closely monitoring third-party venture firms including hiring a contractual CFO to assist with this function. We have implemented a mechanism to enforce the quarterly report requirement and are now in receipt of comprehensive data from each firm related to the number of jobs created and the average employee compensation for each qualified business. Going forward, this data will be provided in each annual report that TEDCO submits to the Governor and the General Assembly. This data, as the auditors contend, will help TEDCO and the State monitor the investment activity of the venture funds, ensure that management fees are appropriate, and assess the impact of investments made on the Maryland economy. The CFO will be tasked with ensuring that all management fees charged by the third-party firms are complying with State law and with the contractual agreements. The CFO will have expertise on the management of venture funds and will be well suited to identify areas that will require greater scrutiny and action by TEDCO.

TEDCO continually assesses whether there is a risk of potential shortfalls with each of the venture firms, and if any are identified, consults with the related venture firm and TEDCO's OAG legal counsel to determine if any necessary corrective action is merited. The audit, quite rightly, calls attention to a third-party venture firm, who was awarded funds, but has not made any investments in Maryland companies. As such, TEDCO has established a more robust review process, using the newly created Investment Committee of the Board, to remedy this particular situation.

We would like to thank the diligence and the thoughtful analysis of the legislative auditors. TEDCO is committed to taking all corrective actions to address their findings and to operate in a fully transparent and cooperative manner. TEDCO is mindful of the responsibilities entrusted to us by the State. We are thankful for the support provided by the Governor and by the General Assembly in giving us our charge to enhance economic development through the fostering of an inclusive entrepreneurial and innovation ecosystem.