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Internal Audit Division

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Report Date: March 2006

University of Oregon
Technology Transfer
Audit Report

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Technology Transfer
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Executive Summary

The Office of Technology Transfer (OTT) was created in 1992, and focuses on helping University of Oregon (UO) inventions successfully make the transition from academia to the commercial marketplace.

The technology transfer audit was a routine scheduled audit. It was selected during our annual audit planning process, which is based upon a high-level risk assessment and input from campus management.

The objective of the audit was to determine if the internal control structure over the selected key areas, which are identified in the objectives and scope section of the report, was adequate. Our fieldwork took place from December 2005 through February 2006.

Based upon the results of procedures performed, the controls over the key areas tested are satisfactory. Satisfactory means controls are in place and functioning effectively except for those noted in the recommendations section.

We commend OTT for:

- Responsive and open communication with the UO research community to ensure compliance with federal rules and regulations.
- Utilization of the INTEUM database for technology project management. The use of INTEUM allows for greater efficiency in management's review process and enables OTT to more accurately track the status of disclosed inventions.
- Actions taken to submit invention disclosures electronically to respective federal agencies for greater efficiency.
- Management's monitoring and documentation of essential fiscal review for completeness and accurate receipt of royalty revenue.

We noted the following two recommendations:

1. Expand and strengthen the potential conflict of interest disclosure reporting requirements for faculty.
2. Clarify conditions of employment regarding the development of intellectual property.

Management's response to this audit indicates that they are taking steps to address the above areas. The Internal Audit Division plans to follow up in August 2006.

Background

OTT was created in 1992 and focuses on helping UO inventions successfully make the transition from academia to the commercial marketplace. The major objectives for OTT are to transfer new knowledge and technology for the benefit of the public, diversify and increase corporate support of faculty research, and protect and manage the intellectual property assets of the University.

For FY 2005, the OTT reported that University faculty members have generated 45 new invention disclosures, completed 30 out-license agreements, and formed 3 spin-off companies. Annual licensing revenue has increased about tenfold in the past five years, rising to $3.4 million for the most recent year. The University's return on investment is expressed as annual licensing revenue per research dollar expended. For FY 2005, it reached four percent, and University management expects the University will place in the top twenty-five of the research institutions that report to the Association of University Technology Manager (AUTM).

The following table depicts the recent growth of UO Research and Technology Transfer performance metrics for the period FY2002 through FY2005.

	FY2002	FY2003	FY2004	FY2005
Total UO Research Activity	$75M	$76M	$85M	$86M
Inventions	29 0.4 per $1M	36 0.5 per $1M	40 0.5 per $1M	45 0.5 per $1M
Licensing Income	$0.54 M 0.7¢ per $1	$1.8 M 2¢ per $1	$1.9 M 2¢ per $1	$3.4 M 4¢ per $1
Start-Ups	1	1	3	3

In fiscal year 2005, OTT distributed royalties of approximately $227,000 to UO inventors and just under $3 million to respective UO academic units.

OTT staff consists of the Director, who reports to the Vice President for Research and Graduate Studies, two Assistant Directors, one half-time Technology Development Associate, and one Office Manager. OTT plans to increase the Technology Development Associate position to full time and add another Office Administrative Support staff position beginning in July 2006.

Objectives and Scope

The technology transfer audit was a routine scheduled audit. It was selected during our annual audit planning process, which is based upon a high-level risk assessment and input from campus management.

The objective of the audit was to determine if the internal control structure over the selected key areas listed below was adequate based upon the audit procedures performed. Our assessment utilized the *Internal Control Integrated Framework* components as published by the Treadway Commission's Committee of Sponsoring Organizations (COSO) located at www.coso.org.

We performed audit procedures in the following key areas:

- Establishment of authority
- Completeness of policy
- Adequacy of communication
- Adequacy of disclosure procedures
- Completeness of royalty billing and collection
- Adequacy of managerial monitoring

Our audit procedures included interviewing key personnel, reviewing written policies and procedures and other appropriate documentation for adequacy, and testing a judgmentally selected sample of invention disclosures, patent applications, and royalty billings for completeness. We also reviewed the disclosure practices at five out-of-state universities in comparison to UO.

Our fieldwork took place from December 2005 through February 2006. We reviewed procedures in place at the time of the fieldwork. Our test procedures were focused on invention disclosures, related technology project activities, patents, and royalty transactions from January 2002 through January 2006.

Our test work and conclusions are based upon representations made to us by management, which were verified on a judgmental basis.

Results

Conclusion

Based upon the results of procedures performed, the controls over the key areas tested are satisfactory. Satisfactory means controls are in place and functioning effectively except for those noted in the recommendations section.

Commendations

We commend the Office of Technology Transfer for:

- Responsive and open communication with the UO research community to ensure compliance with federal rules and regulations.
- Utilization of the INTEUM database for technology project management. The use of INTEUM allows for greater efficiency in management's review process and enables OTT to more accurately track the status of disclosed inventions.
- Actions taken to submit invention disclosures electronically to respective federal agencies for greater efficiency.
- Management's monitoring and documentation of essential fiscal review for completeness and accurate receipt of royalty revenue.

Recommendations

1. **Expand and strengthen the potential conflict of interest disclosure reporting requirements for faculty.**

   Our review noted an opportunity to strengthen the disclosure requirements relative to the potential conflict of interest reporting process. Currently, the *UO Potential Conflict of Interest Policy (University Policy 3.095 – Personnel Practices)* requires disclosure at the time an external funding proposal is submitted for approval. Otherwise, it is up to faculty to provide the University with a voluntary disclosure based upon certain circumstances and guidance in the policy.

   Given that an award may be for a multi-year period, a conflict may result without the University's knowledge subsequent to the original disclosure. Further, there is an increased risk faculty may not provide a voluntary disclosure due to interpreting the policy differently than the University.

Many universities require mandatory potential conflict of interest statements annually as a condition of employment to identify, manage, or eliminate conflicts of interest.

We recommend that the Vice President for Research and Graduate Studies initiate a requirement for all faculty members to report annually any financial interests or activities that could be construed as a conflict of interest or represent that no interest exists.

Management Response:

Management agrees that Conflict of Interest (COI) policy and implementation is an important dimension of the University's compliance efforts. COI lies outside of the direct responsibilities of the Office of Technology Transfer. The UO has designated the recently established Office of the Responsible Conduct of Research (ORCR) to take lead responsibility for implementation of COI policies, as one of its duties in support of research compliance. Through the ORCR, the UO will move toward a more comprehensive COI disclosure process than the one currently in place. An implementation will begin July 1, 2007 and mandatory disclosure will be implemented by June 30, 2008.

2. **Clarify conditions of employment regarding the development of intellectual property.**

Our review noted an opportunity to clarify conditions of employment relative to the development of intellectual property. We noted that academic employees do not sign a document demonstrating their understanding and agreement to assign rights to inventions conceived and materials developed while employed by the University.

By not clearly providing for and documenting an agreement to conditions of employment specific to the development of intellectual property, faculty may not be aware of the implications of this rule or might mistakenly believe they own the intellectual property. Further, the lack of properly signed agreements and specific wording to indicate transfer of future intellectual property increases the risk of losing faculty's cooperation in implementing licensing documents

and may greatly reduce the value of a patent for the University.

We recommend the University require a signed statement documenting faculty understanding and agreement to assign rights to ensure faculty understands that the University is the owner of intellectual property developed while employed by the institution. We also recommend the University should consider whether all employees, not just faculty, should sign such agreements.

Management Response:

Management agrees that there is value in adding measured and appropriate language to the Notice of Appointment, even though UO employees are already legally obligated to assign rights to inventions conceived and materials developed while employed by the University consistent with state and federal law and sponsored research agreements. Thus, the University will add the following to annual notices of appointments by the start of Fiscal Year 06-07:

> You are obligated to disclose to the Office of Technology Transfer and assign to the University inventions conceived and materials developed with institutional resources and to execute all documents reasonably necessary to establish all rights in the subject inventions and materials.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the OTT staff. We would like to thank each person who assisted us in the completion of this project.

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