

Technology

Commercialization Royalties

Office of Technology Commercialization

February 2021



The University of Texas at Austin
Office of Internal Audits
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February 22, 2021

President Jay C. Hartzell
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Hartzell,

We have completed our audit of the Office of Technology Commercialization (OTC), as part of our Fiscal Year 2020 Audit Plan. The objective of the audit was to evaluate the effectiveness of internal controls for the intellectual property royalty income distribution process. The report is attached for your review.

Overall, OTC's internal controls for intellectual property royalty income distributions are effective. However, there are opportunities for OTC to perform timely reconciliations and for the Office of the Vice President for Research (VPR) to strengthen oversight and assessment of OTC royalty reporting. Management has provided their action plans and implementation plans.

Please let me know if you have questions or comments regarding this audit.

Sincerely,

A handwritten signature in blue ink that reads "Sandy Jansen".

Sandy Jansen, CIA, CCSA, CRMA
Chief Audit Executive

cc: Ms. Christine Dixon Thiesing, Assoc. VP for Research, Innovation and Economic Impact
Ms. Monica Horvat, Director of Administration, Office of the President
Dr. Daniel Jaffe, Interim Executive Vice President and Provost
Mr. Les Nichols, Director, Office of Technology Commercialization
Dr. Alison Preston, Interim Vice President for Research
Dr. Cathy Stacy, Interim Chief of Staff, Office of the Executive Vice President & Provost



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Executive Summary

Technology Commercialization Royalties

Project Area

Project Number: 21.014

Audit Objective

The objective of this audit was to:

- Review the intellectual property royalty income distribution process, noting key controls or weaknesses
- Determine whether FY20 revenue was properly allocated

Conclusion

Overall, OTC’s internal controls for intellectual property royalty income distributions are effective. However, there are opportunities to perform timely reconciliations and for VPR to strengthen oversight and assessment of OTC royalty reporting.

Audit Observations¹

Recommendation	Risk Level	Estimated Implementation Date
Reconciliations	High	January 2021

Engagement Team

- Ms. Jennifer Clark, McCombs School of Business Student
 Ms. Autumn Gray, CIA, Auditor III
 Mr. Alexander Merrill, McCombs School of Business Student
 Mr. Rohin Patel, McCombs School of Business Student
 Mr. Jeff D. Treichel, CPA, Associate Director

¹ Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



Audit Results

Overall, OTC's internal controls for intellectual property royalty income (royalty income) distributions are effective. OTC staff has clear separation of duties, utilizes a specialized software (Inteum)², and has established internal procedures to accommodate the current remote working environment.³ Additionally, OTC has fully digitized the royalty income distribution documentation process, including routing income distribution packets electronically to the director for review and approval.

There are opportunities for OTC to perform timely reconciliations and for the VPR to strengthen oversight and assessment of OTC royalty reporting. The following recommendation and management considerations were made.

Observation #1 – Reconciliations

Reconciliations have not been completed since March 2020. Prior to March, an OTC staff member regularly reconciled⁴ royalty income to distributions. When the staff member took a leave of absence the reconciliations were no longer completed. Performing reconciliation at regular intervals allows for the discovery of errors or fraudulent activity.

Recommendation: OTC should regularly reconcile the royalty income to distributions.

Management's Corrective Action Plan: Beginning with the month of January 2021, we have implemented a procedure to create a reconciliation report of the Intellectual Property account on a monthly basis for the OTC director's review and approval.

Responsible Person: Assistant Director of Finance, Operations and Accounting

Planned Implementation Date: January 2021

² Inteum – an intellectual property management software

³ OTC staff began working from home March 2020

⁴ OTC staff reconciled Inteum to *DEFINE to an Access database



Management Considerations

Oversight

Opportunities exist to strengthen the VPR's oversight of the royalty income distribution process. Currently, the OTC director approves distribution packets and the Office of Accounting approves documents in *DEFINE, but the VPR is not regularly involved in the approval process. The VPR should consider implementing the following to corroborate OTC royalty reports:

- Review all distribution transactions \$50,000 and greater
- Review a sample of distribution transactions and conduct detailed reviews at least quarterly

Management's Response: All distributions have always required approval of the OTC director. On December 10, 2020, we implemented a procedure for VPR review and approval by the Associate Vice President for Research, Innovation, and Economic Impact of all distributions over \$50,000. Distributions over \$100,000 also require approval by the Provost's Office. When all required approvals are received, the document, which includes the complete distribution package, is sent to the Office of Accounting for processing. To assist the VPR office in an ongoing review of distributions, we have started uploading all distribution payment documents to the Office of Accounting's Image Retrieval System (IRS) so that VPR can review any document. In the past, only documents requiring final approval in the Office of Accounting were uploaded to IRS. The additional documents we are now including in the uploads are cash receipt vouchers created in our office for actual checks received (wire transfers and Automated Clearing House transfers are created in the Office of Accounting so they are already in the IRS), interdepartmental transfer documents for payments to departmental accounts, and correction documents.

Spreadsheets

OTC has an opportunity to decrease reliance on Excel spreadsheets to complete distribution calculations. While spreadsheets offer flexibility, ease of use, and other advantages that make them useful, these advantages also increase risk. Such risks include accidental data-entry, formula errors, loss of data, etc. OTC mitigates some of these risks by using Inteum to verify distribution amounts. However, OTC should consider working with Inteum to explore opportunities to customize the software. Customization would ensure all licensing agreements are tracked electronically and decrease reliance on spreadsheets for distribution calculations.

Management's Response: The technology commercialization software we use, Inteum, while having a financial component, is not a true financial system and customization of reports is limited. Because our distribution documents contain payroll information that the Office of Accounting requires, solely relying on Inteum reports is not feasible. Our office creates distribution spreadsheets from templates to lessen the chance of creating errors. We run almost all distributions in Inteum and compare the results with the spreadsheet to confirm that the spreadsheet is correct.



Background

OTC is responsible for the transfer of university discoveries to the marketplace for the benefit of society. OTC works with researchers and potential licensees to negotiate agreements to grant them the permission to use the researchers' (and The University of Texas at Austin's) intellectual property for commercial products and services in exchange for royalty payments. A royalty is a legally-binding payment made to an individual, for the ongoing use of his or her originally-created assets, including copyrighted works, franchises, and natural resources. In accordance with The University of Texas System Board of Regents Rule 90101: Intellectual Property, the revenues from the license are split roughly 50/50 between the university and the researcher, and in FY 2019-2020, that amounted to \$8,857,152 of which \$4,154,769 went to the inventors.

Scope, Objectives, and Methodology

The scope of this review included the FY20 Revenue and Accounting transactions by OTC. Specific audit objectives were to:

- Review the royalty income distribution process, noting key controls or weaknesses
- Determine whether FY20 revenue was properly allocated

To achieve these objectives, we:

- Reviewed all relevant policies, procedures, and guidelines
- Interviewed OTC director and staff
- Flowcharted the revenue distribution process
- Obtained data for all University of Texas at Austin FY20 royalty income and revenue distributions
- Selected a judgmental sample to conduct transaction testing, including all distributions over \$50,000



Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of The University of Texas at Austin (UT Austin) or the UT System as a whole.
High	Considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
Medium	Considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
Low	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

In accordance with directives from UT System Board of Regents, Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.

Report Distribution

- The University of Texas at Austin Institutional Audit Committee
 - Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
 - Mr. Cameron Beasley, Chief Information Security Officer
 - Mr. James Davis, Vice President for Legal Affairs
 - Mr. Jeffery Graves, Chief Compliance Officer, University Compliance Services
 - Dr. Jay C. Hartzell, President
 - Dr. Daniel Jaffe, Interim Executive Vice President and Provost
 - Dr. John Medellin, External Member
 - Mr. J. Michael Peppers, CAE, The University of Texas System Audit Office
 - Dr. Alison Preston, Interim Vice President for Research
 - Ms. Christine Plonsky, Chief of Staff/Executive Sr. Associate Athletics Director
 - Dr. Soncia Reagins-Lilly, Vice President for Student Affairs and Dean of Students
 - Ms. Susan Whittaker, External Member
 - Ms. Elizabeth Yant, External Member, Chair

- The University of Texas System Audit Office
- Legislative Budget Board
- Governor’s Office
- State Auditor’s Office