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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 8, 2021

Dr. Jeff Cheek
President
The Research Foundation for the State University of New York
35 State Street
Albany, NY 12207

Re: Technology Transfer Program and
Royalty Payments
Report 2020-F-32

Dear Dr. Cheek:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Research Foundation for the State University of New York to implement the recommendations contained in our audit report, *Technology Transfer Program and Royalty Payments* (Report [2019-S-10](#)).

Background, Scope, and Objective

The mission of the Research Foundation for the State University of New York (Research Foundation) is to provide talent, services, and technology that empower the State University of New York (SUNY) to research, innovate, and transfer discoveries that transform the world's knowledge economy.

As part of its duties, the Research Foundation supports SUNY's technology transfer activity – the formal transfer of rights for intellectual property (IP) developed using SUNY resources. Technology transfer is a collaborative process that requires efforts from the Research Foundation, IP creators, and industry partners to translate such discoveries into commercial products and services that benefit society. According to the Association of University Technology Managers (AUTM), academic technology transfer adds billions of dollars to the U.S. economy and supports hundreds of thousands of jobs.

The Research Foundation follows SUNY's Patents and Inventions Policy (Policy). The Policy aims to encourage innovation, assist creators, and ensure the public receives the benefit of such innovation. Steps toward this end include encouraging disclosure of IP, securing protections, marketing IP through licensing and other arrangements, and managing royalties and other related income, such as litigation proceeds.

Creators are required to submit a signed disclosure form to help the Central Office and local Technology Transfer Offices (located at five SUNY campuses) perform an initial evaluation of the IP's patentability and marketability and determine whether to retain title of the IP or release ownership to the creator. When the Research Foundation retains ownership

and the IP is licensed and generating revenue, the Research Foundation is entitled to receive royalty payments based on executed agreements with the licensee, and the creator is entitled to receive specified shares of such royalty. If the Research Foundation does not retain ownership and the IP becomes a revenue-generating product or service, it is entitled to 10 percent of the resulting net proceeds. According to the Policy, campus shares of any royalty must be used to support SUNY research.

For the period January 1, 2015 through December 31, 2020, the Research Foundation received 1,092 disclosures for IP created at SUNY campuses. Of these, the Research Foundation retained the IP rights for 1,041. Additionally, since January 1, 2015, the Research Foundation received over 1,305 royalty payments from IP developed at SUNY campuses, totaling over \$53 million.

Our initial audit report, issued on January 17, 2020, sought to determine whether the Research Foundation had taken the appropriate steps to protect SUNY's interest in the transfer of technology and royalties received for IP developed at SUNY campuses. The initial audit covered the period January 1, 2015 through August 14, 2019. During the initial audit, we found that, generally, the Research Foundation had taken steps to protect SUNY's interest in the transfer of technology and royalties for projects developed at SUNY schools. We found the Research Foundation retained ownership rights for 94 percent of all IP disclosures from January 1, 2015 through March 12, 2019; made decisions about retaining ownership rights for disclosed IP within the applicable time frames; verified that royalty payments were correctly calculated by the licensees based on the license agreement and the licensees' royalty reports; and correctly allocated royalties to the applicable campus and creator accounts. However, the Research Foundation had not developed standardized monitoring mechanisms to determine whether a licensee was accurately reporting net sales and paying the full royalty owed. Additionally, SUNY Downstate (Downstate) had accumulated \$1,019,390 in campus royalty revenues, none of which had been reinvested to support SUNY research programs.

The objective of our follow-up was to assess the extent of implementation, as of January 26, 2021, of the two recommendations issued in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

Research Foundation officials have made progress in addressing the audit findings identified in the initial audit report. Both of the initial report's audit recommendations have been implemented.

Follow-Up Observations

Recommendation 1

Develop monitoring mechanisms to provide reasonable assurance that the royalty payments received comply with licensing agreements.

Status – Implemented

Agency Action – On July 15, 2020, the Research Foundation implemented License Agreement Monitoring Guidelines, which incorporate best practices and recommendations based on guidance from AUTM. Additionally, the Research Foundation's internal audit team has begun, and plans to continue, reviewing risks associated with technology transfer activity. The Research Foundation also plans additional actions to optimize existing

information technology to develop and implement additional controls to ensure a robust license agreement monitoring function, including:

- Implementing a technology solution to enable the automation of licensee receivable records and optimize existing solutions to support better tracking and reporting of licensee receivables;
- Exploring an engagement with a vendor that specializes in licensee royalty audits to audit the Research Foundation's license agreement on a contingency basis; and
- Creating and filling a new position focused on managing the obligations of the Research Foundation's licensees.

Recommendation 2

Work with Downstate to develop policies and procedures for the use of funds in the campus project account and for the distribution of future royalty revenue.

Status – Implemented

Agency Action – Downstate developed a Royalty Distribution Policy, which was unanimously endorsed by its Research Advisory Council. The policy was formally approved by Downstate's President and adopted on January 25, 2021. Implementation and distribution of the campus share was expected to occur shortly after the policy was put in place. As of December 24, 2020, the cash position of the Downstate royalty award stood at approximately \$1.3 million.

Major contributors to this report were Amanda Eveleth, Andrew Philpott, Joseph Bachinsky, and Jeffrey Herrmann.

We thank the management and staff of the Research Foundation for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Bob Mainello, CPA
Audit Manager

cc: Dr. Jim Malatras, Chancellor, SUNY
Ms. Emily Kunchala, Research Foundation CFO
Mr. Ryan Farrell, Research Foundation VP of Internal Audit Services
Ms. Amy Montalbano, University Auditor