

**ARIZONA STATE UNIVERSITY  
OFFICE OF TECHNOLOGY COLLABORATIONS  
AND LICENSING  
Management Letter  
Year Ended June 30, 2001**



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

January 10, 2002

Members of the Arizona State Legislature

The Arizona Board of Regents

Dr. Lattie F. Coor, President  
Arizona State University

**Subject: Management Letter**

In planning and conducting our audit of the Schedule of Intellectual Property Royalties for the year ended June 30, 2001, we performed the following as required by U.S. generally accepted auditing standards:

- Considered the Arizona State University, Office of Technology Collaborations and Licensing's internal controls over financial reporting, and
- Performed tests of the University's compliance with policies, procedures, and contracts that could have a direct and material effect on the University's Schedule of Intellectual Property Royalties.

Our audit disclosed an internal control weakness. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is described below.

**The Office Should Recover  
All Legal Fees Before  
Distributing Net Royalties**

The Office did not recover \$53,071 in legal fees incurred in the support of its patent cases. During fiscal year 2001, the Office began researching and establishing a documented history of its legal fees incurred prior to April 1996, which had previously not been maintained. Fiscal year 2001 royalties were distributed prior to completion of the research. Once the research was completed, the Office discovered that it had not recovered some of the legal fees it was entitled to. As a result of understating the amount of legal fees recovered on the Schedule of Intellectual Property Royalties for the year ended June 30, 2001, net royalties were not distributed net of legal fees as required by University policy.

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Procedures should be established to ensure that information about legal fees incurred in support of patent cases is adequately maintained. Such procedures will help ensure that the Office recovers the cost of legal fees when related royalties are collected and accurately calculates the net royalties to be distributed to the benefiting parties.

This letter is intended solely for the information of the Arizona State Legislature, the Arizona Board of Regents, and Arizona State University and is not intended to be and should not be used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Debbie Davenport  
Auditor General



ARIZONA STATE UNIVERSITY

TEMPE, ARIZONA 85287

OFFICE OF TECHNOLOGY COLLABORATIONS AND LICENSING

ASU's Response to the Audit Finding

ASU appreciates the acknowledgement of the extremely time-consuming and complex effort that the Office undertook during the fiscal year that ended June 30, 2001 to create a comprehensive history of prior years legal fees. During Fiscal Year 2001/2002, the Office intends to complete the work of analyzing and recording the history of legal fees incurred and recovered, and to also review its practices on the timing of royalty payments made to recipients so that all incurred legal fees are recovered before any further distributions.

In regards to the \$53,071 of unrecovered legal fees noted by the auditors, the \$53,071 represented legal fees that had been incurred since inception of the Office in 1985 and represents the cumulative effect of prior years unrecovered legal fees, rather than the activity of a single fiscal year. The unrecovered legal fees, when taken in relation to fees recovered from licensing revenue since Fiscal Year 1986, rather than only for Fiscal Year 2001, would represent a much smaller amount. The overall result of this situation was for the respective inventors and their laboratories, primarily Cancer Research Institute, to have received more funds than they should have because of the under recovery of the legal fees.