Overall Conclusion

Overall, the controls established over trademark licensing programs within the Texas A&M University System provide reasonable assurance that the A&M System and its members’ trademark licenses are controlled and protected and the royalty revenues are collected in accordance with the contracts. In fiscal year 2014, Texas A&M University earned $4.6 million in trademark licensing royalty revenues, an increase of 16% over fiscal year 2013. As of July 2014, Texas A&M University earns a standard 14% royalty from the sale of licensed items which is one of the highest royalty rates in the nation among its peer institutions. The other A&M System members combined earned $433,000 in fiscal year 2014, an increase of 3% over fiscal year 2013. The other A&M System members earn a 10% standard royalty rate.

Opportunities for improvement were noted in the cash handling controls and manual filing system in the Texas A&M University Trademark Licensing Office. Additionally, improvement should be made in the monitoring of the Strategic Marketing Affiliates’ contract for compliance with the contractor’s liability insurance coverage requirements by the A&M System Office of Marketing and Communication.

Texas A&M University’s retail related trademark licensing activities have been contracted out to Collegiate Licensing Company since 2009. In fiscal year 2014, Texas A&M University ranked 9th in Collegiate Licensing Company’s list of top-selling institutions. The retail related trademark licensing activities for all other A&M System members has been contracted out to Strategic Marketing Affiliates since September 2011. The Strategic Marketing Affiliates contract is an A&M System contract.

Detailed Results

1. Texas A&M University Trademark Licensing Office

The Texas A&M University Trademark Licensing Office (Office) needs to improve its departmental cash handling controls related to its crafter’s agreements and manual records filing system.
Cash Handling

The Office did not restrictively endorse checks for crafter's agreements and other small dollar contracts when they were received. The checks were also held up to five business days in order for the Office to review and approve the related contracts prior to depositing the checks. Copies of the checks which contain confidential client information were stored in a folder with the related contract on top of a cabinet. The Office received $17,350 in fiscal year 2013 for royalty fees on agreements for crafters, murals, photography, and video licenses for which checks would have been received. Unsecured check copies could result in a loss of confidential client information. Office personnel were unaware of the cash handling requirements which resulted in noncompliance with A&M System regulations. A&M System Regulation 21.01.02 Receipt, Custody and Deposit of Revenues states:

- Checks must be endorsed "For Deposit Only" immediately upon receipt.
- Fees and other charges collected must be deposited to the applicable fiscal department on a daily basis or at least once every three business days if the amount collected is less than $200.
- Checks must be deposited in the bank within seven (7) calendar days of the original date of collection as required by Section 51.003, Texas Education Code.

The Office uses Texas A&M University's Departmental Accounting Services to handle the majority of their accounting needs including preparing deposits, processing purchase and travel vouchers, reconciling their accounts, and preparing their financial reports. Departmental Accounting Services endorsed the checks upon their receipt of them. Departmental Accounting Services did not inform the Office that the person who receives the checks is responsible for endorsing them. Additionally, Departmental Accounting Services was unaware that the Office was holding the checks.

Manual Records Filing System

The Office's manual records are not well organized, well secured, or backed up. Files containing all of their old contracts and invoices are kept in two unlocked, wooden file cabinets. These historical records are kept in case they are ever needed to defend the university's trademarks. Original signed crafter's agreements and other small revenue agreements were kept in a folder on top of a cabinet. They were organized by the date received.

Although some newer documents have been scanned and stored electronically, there is no backup for the older documents and the crafter's agreements.
software is available at the university; however, the Office has not requested the resources necessary to implement the use of the software.

The use of electronic imaging provides for more efficient operating processes by reducing physical space needed for storage and simplifying the records retention process. Imaging the files would also allow the ability to store electronic backups of critical data in a secure offsite location that could be readily accessed in the event of a disaster.

**Recommendation**

Texas A&M University needs to implement procedures to ensure that payments received by the university's Trademark Licensing Office are handled in compliance with A&M System cash handling regulations and that confidential information, including check copies, is secured.

The university needs to implement an organized and secured filing system for the Trademark Licensing Office's records. The organization, security, and retention of the Office’s records could be significantly enhanced through the use of an electronic filing system.

**Management’s Response**

*Cash Handling*

*Procedures implemented as of August 2014:*

- ‘For Deposit Only’ stamp purchased. Checks are now immediately endorsed upon receipt.
- Crafter agreements are the only contracts that require a deposit before the university will consider granting a license to an individual to hand make a small quantity of licensed products. Based on the nature of the products made, the university may choose not to enter into an agreement with the crafter and currently holds their check until the types of products being requested for production has been reviewed. The delay in checks being deposited was due to the time it took for the Assistant Vice President (AVP) of Business Development to review the physical document and provide a signature. To remove the delay, the document is now sent electronically to the AVP or his designee for signature to ensure checks/fees collected are taken to the fiscal department for deposit either on the day of signature or within 3 days to ensure checks are deposited in the bank within 7 business days as required by Section 51.003, Texas Education Code.
- Keys to the file drawers have been located. Copies of checks which contain confidential licensee/client information are now secured in locked file drawer.

**Procedure to be implemented by January 31, 2015:**
- Currently gathering information to implement an online payment system for customers to have the option to pay fees due which will result in faster approvals and deposits.

*We plan to have all audit findings addressed and proper procedures in place by January 31, 2015.*

**Manual Records Filing System**

_Procedures implemented as of August 2014:_
- Keys to the file drawers have been located. Old contracts/invoices/historical records are now secured in locked file drawer.
- Original signed crafter agreements and other small revenue agreements which contain personal information are now secured in a locked file drawer.

**Procedure to be implemented by January 31, 2015:**
- Currently gathering information to implement a secure filing/scanning system for all Trademark Licensing Office records and files.
- The current filing system has two sections, one for contracts or legal incidents (i.e. Buffalo Bills use of 12th Man) and another for trademark registrations. The filing system is alphabetical for each and then within each folder it is by date. Not all folders are internally organized by date and this needs to be corrected. After the physical move of the office from Bizzell to the Williams Building, the filing system will be organized as outlined and digitally scanned to have a better preservation of records.

2. **A&M System Offices’ Monitoring of Contractor Liability Insurance**

_While Strategic Marketing Affiliates’ insurance coverage met the contract’s minimum requirements for most of the required coverage amounts, the A&M System Office of Marketing and Communications was not monitoring the contract to ensure all required coverage was being maintained._ The following liability insurance areas did not meet the minimum requirements listed in the contract:

- Aggregate limit coverage for commercial general liability insurance - Strategic Marketing Affiliates only has $2 million in coverage when the contract calls for $3 million.
• Damage to premises coverage for commercial general liability insurance – Strategic Marketing Affiliates only has $500,000 in coverage, but the contract calls for $1 million.

• Automobile liability insurance for all owned autos – Strategic Marketing Affiliates does not have this coverage, but the contract calls for $1 million in coverage.

Liability insurance is necessary to limit the A&M System’s liability in the event of a lawsuit stemming from vendor services, to ensure the vendor’s ability to provide continued services to the A&M System, and to provide the A&M System coverage under the vendor’s policy. Procedures were not in place to monitor compliance with this aspect of the contract. Noncompliance with the insurance requirements could result in Strategic Marketing Affiliates not having adequate coverage in the event of a lawsuit.

Recommendation

The A&M System’s Office of Marketing and Communications needs to implement monitoring procedures to ensure Strategic Marketing Affiliates maintains insurance in compliance with contractual requirements.

Management’s Response

The A&M System’s Office of General Counsel and Risk Management have both reviewed the insurance coverage maintained by Strategic Marketing Affiliates and concluded that it is adequate. The Office of General Counsel will amend the insurance requirements in the contract. The Office of Marketing and Communications will have the amendment executed on or before January 31, 2015. Strategic Marketing Affiliates will send a certificate of coverage indicating proper insurance coverage to be reviewed by the A&M System on an annual basis to ensure compliance with insurance as required by the contract.
Basis of Review

Objective and Scope

The overall objective of this audit was to determine if policies and procedures are in place to provide reasonable assurance that the Texas A&M University System and its members’ trademark licenses are controlled and protected and that royalty revenues are collected in accordance with the contracts. A system-wide trademark licensing activity survey was performed and used to select members for additional review based on assessed risk. The review of trademark licensing at A&M System members focused on the Collegiate Licensing Company and Strategic Marketing Affiliates’ contract compliance. It also included a review of affiliation agreements with affiliated fund raising organizations and the Texas A&M University Trademark Licensing Office’s cash handling and filing practices. The audit period focused primarily on activities from September 1, 2012 to April 30, 2014. Fieldwork was conducted from May to August, 2014.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; Texas A&M University Standard Administrative Procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
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