

# STATE-OWNED INTELLECTUAL PROPERTY

---

## ***Opportunities Exist for the State to Improve Administration of Its Copyrights, Trademarks, Patents, and Trade Secrets***

REPORT NUMBER 2000-110, NOVEMBER 2000

---

### ***Audit Highlights . . .***

*Our review of the administration of state-owned intellectual property disclosed the following:*

- A lack of sufficient knowledge by state agencies of the intellectual property that they own can hamper the State's protection of its interests.*
  - Not only is state-level direction for administering intellectual property limited, but state agencies have either no or incomplete policies for its management.*
  - Although our survey of state agencies and other work we performed identified more than 113,000 items of state-owned intellectual property, the State likely owns more.*
- 

Intellectual property typically consists of copyrights, trademarks, patents, and trade secrets. We concluded that many state agencies were not sufficiently knowledgeable about the intellectual property they own. Lacking adequate knowledge of their intellectual property ownership and rights, state agencies could fail to act against those who use the State's intellectual property inappropriately. Inappropriate use includes unauthorized use of state trademarks and improperly profiting on products developed at state expense. Further, we noted that state-level direction for administering intellectual property was limited. The few state laws that addressed intellectual property did so in piecemeal fashion. We also pointed out that state agencies had either no or incomplete written policies for managing their intellectual property. Finally, although our survey of state agencies and other work we performed identified more than 113,000 items of state-owned intellectual property, the State likely owns more. We reported the following specific findings:

### **Finding #1a: State agencies do not always know about the intellectual property they own or their rights to own it.**

Our survey of state agencies and other work we performed revealed that many agencies do not realize they own intellectual property, are not aware of the quantity of intellectual property they own, or are unclear or incorrect about their ability to own or formally protect through registration their intellectual property. Not being knowledgeable about intellectual property increases the risk that state agencies will not act against others that misuse their protected material. Indications that all state agencies may not be aware of all intellectual property they own and that the State actually owns more intellectual property than we disclose in our report include:

- Some state agencies did not identify all intellectual property they own in their survey responses. Although our search of the copyright database of the federal Copyright Office disclosed approximately 1,600 registered copyrights owned by 60 state agencies, only 23 agencies identified 400 such copyrights in their survey responses.
- Some agencies either did not or could not tell us how much intellectual property they own. For instance, despite acknowledging that it possesses intellectual property, one state agency reported that it did not have the resources to quantify its holdings. The Copyright Office database shows that this agency in fact owns 303 registered copyrights.
- Some state agencies appear to be unclear or incorrect about their ability or right to own or register intellectual property. Although decisions in two courts cases support state agencies' legal authority to own and protect their intellectual property, nine state agencies stated in their survey responses that they had either no legal authority to formally register their intellectual property or no authority to own it.
- Some state agencies indicated that they own more intellectual property than they disclosed in their survey responses. For example, one department stated that because of the vast array of its programs and the extensive number of contracts and grants awarded, it is difficult to provide an exact count of the intellectual property it owns.
- Our reviews at seven state agencies to verify information on their survey responses, although limited in scope, resulted in the identification of additional intellectual property.

**Finding #1b: State-level direction for administering intellectual property is limited, and state agency policies are generally incomplete.**

State law does not expressly authorize all state agencies to own and protect all their intellectual property. When it does address intellectual property, it typically allows a specific state agency to own a certain type of intellectual property or authorizes state agencies to protect certain products such as software that can be safeguarded by copyrights. Further, statewide policies, such as those found in the State Administrative Manual or the State Contracting Manual, do not address intellectual property. When it comes to internal policies, only 43 of the 220 state agencies report having

written policies concerning intellectual property. Interestingly, none of these policies provides state agencies with complete guidance for, among other things, identifying products that could be intellectual property, determining whether to formally protect intellectual property, and enforcing their rights against those infringing on the intellectual property. These findings indicate a need for centralized state guidance concerning intellectual property administration and a campaign to educate state agencies on their intellectual property rights and responsibilities.

To help resolve the above concerns, we recommended that the Legislature designate a single state agency as the lead for developing overall policies and guidance related to state-owned intellectual property. This lead agency should also, as necessary, recommend any statutory clarifications necessary to better protect the State's intellectual property. This agency should also have the ability to issue guidelines that all state entities could follow. The lead agency should be responsible for, among other tasks:

- Developing an outreach campaign informing state agencies of their rights and responsibilities concerning intellectual property.
- Establishing guidelines for use by state agencies in administering their intellectual property, including establishing policies concerning the criteria for determining which products will be treated as intellectual property and which should be placed into the public domain.

We also recommended that the Legislature clarify state law to specifically allow state agencies to own, and if necessary, formally register intellectual property they create or otherwise acquire when it is deemed to be in the public's best interest.

***Legislative Action: Unknown.***

We are unaware of any legislative action implementing this recommendation.

**Finding #2: Possible conflict between intellectual property laws and information access laws can be addressed.**

A concern arising from state ownership of intellectual property is that ownership conflicts with the principle of open government—as embodied in the California Public Records Act—by restricting the dissemination of information. The argument is that state agencies could use intellectual property laws to deny access to information they create that would otherwise be accessible. Although

this threat seems remote in California, it could be addressed by the Legislature's declaration that intellectual property law protection does not necessarily preclude state agencies from disclosing information. The State could also address this issue by structuring its ownership rights to encourage information dissemination while discouraging unauthorized economic gain or other inappropriate use. For example, the State could provide the public with information that is subject to a license or terms-of-use agreement. This license or agreement would restrict the information's use to private, noncommercial purposes. Consequently, the license or agreement would allow public access to the information and, indeed, the right to use the information in any acceptable manner.

We recommended that the Legislature clarify existing law to declare its intent that protection of state-developed products under intellectual property laws does not preclude state agencies from disclosing information otherwise accessible under the California Public Records Act. We also recommended that the agency designated by the Legislature to be the lead for issuing intellectual property-related policies and guidance be responsible for developing sample language for licenses or terms-of-use agreements that state agencies can use to limit the use of their intellectual property by others to only appropriate purposes.

***Legislative Action: Unknown.***

We are unaware of any legislative action implementing this recommendation.

**Finding #3: Poor patent practices could prove costly to the State.**

The State does not have a statewide policy for patents to help ensure that it retains ownership of the rights to potentially patentable products or processes developed by its employees working on state time using state resources. Under some circumstances, state employees could secure the patent rights to inventions created on the job and require the State to acquire licenses to use them. To avoid the possible loss of patent rights, private-sector firms and research universities can require their employees to sign documents acknowledging that the rights to any patentable products developed as part of their jobs belong to the employers. These documents are called invention assignment agreements. These agreements can help the State preserve its rights to assert patent ownership and could help strengthen the State's claim of ownership in court should a patent dispute arise.

We recommended that the agency designated by the Legislature to be the lead for issuing intellectual property-related policies and guidance be responsible for developing sample invention assignment agreements that state agencies can consider if they believe it is necessary to secure the rights to potentially patentable items created by their employees on state time using state resources.

***Legislative Action: Unknown.***

We are unaware of any legislative action implementing this recommendation.

**Finding #4: Standard contract language raises questions that should be considered further.**

During our review, we noted standard contract language regarding intellectual property rights that raises questions as to whether it is in the public's best interest. The State's inclusion of this language in its contracts may result in missed opportunities to either lower contract costs or, if a licensing arrangement can be made, to establish additional revenue sources. The Department of General Services requires state funded contracts for the development of information technology that exceed \$500,000 to include standard language that essentially gives the contractors a free license to use and sell intellectual property developed under these contracts. Thus, it raises the question as to why the State is apparently giving a portion of its intellectual property rights to contractors without considering the potential value of these rights.

The chief counsel of the Department of General Services comments that the existing language is an appropriate balance of certain financial factors plus others, including the unknown value of the rights to intellectual property before contracts are begun and the need for contractors to use incremental discoveries for other customers without being burdened by costly tracking and accounting procedures. Although the chief counsel's arguments against changing the standard language may have merit, it still seems questionable to us that the State would enter the competitive process for selecting contractors having already given them a free license to use and sell intellectual property they ultimately develop for the State.

We recommended that the Legislature consider whether the interest of the public is best served when the State uses standard contract language that essentially gives contractors a free license to use and sell intellectual property they develop for the State.

***Legislative Action: Unknown.***

We are unaware of any legislative action implementing this recommendation.