



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Special Report

Allegations of Conflict of Interest
Regarding Licensing of PROTECT
by Argonne National Laboratory

DOE/IG-0819


August 2009



Department of Energy
Washington, DC 20585

August 5, 2009

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Special Report on "Allegations of Conflict of Interest Regarding Licensing of PROTECT by Argonne National Laboratory"

SUMMARY

In February 2009, the Office of Inspector General received a letter from Congressman Mark Steven Kirk of Illinois, which included constituent allegations that an exclusive technology licensing agreement by Argonne National Laboratory was tainted by inadequate competition, conflicts of interest, and other improprieties. The technology in question was for the Program for Response Options and Technology Enhancements for Chemical/Biological Terrorism, commonly referred to as PROTECT. Because of the importance of the Department of Energy's technology transfer program, especially as implementation of the American Recovery and Reinvestment Act matures, we reviewed selected aspects of the licensing process for PROTECT to determine whether the allegations had merit. In summary, under the facts developed during our review, it was understandable that interested parties concluded that there was a conflict of interest in this matter and that Argonne may have provided the successful licensee with an unfair advantage. In part, this was consistent with aspects of the complaint from Congressman Kirk's constituent.

BACKGROUND

PROTECT was developed in response to the 1995 sarin gas attacks in Tokyo. In 1997, a five-year effort was initiated between the Departments of Energy, Transportation, and Justice to develop a chemical/biological warning system. Three of the Department's National Laboratories -- Argonne, Sandia and Livermore, were involved in developing various aspects of PROTECT. The effort concluded with the commencement of tests of the system at the Washington Metropolitan Area Transit Authority. Argonne National Laboratory applied for a copyright of PROTECT's intellectual property in November 2002. Argonne, operated for the Department under contract with UChicago Argonne LLC, subsequently installed PROTECT at other transit systems to demonstrate its capabilities.

In 2006, Argonne concluded that PROTECT had commercial application and decided to transfer the technology to the private sector. In October 2006, based on consultations with its own research staff, Argonne sent out solicitations to eight potential licensees.

Argonne announced the successful offeror in February 2007 and, in July 2007, awarded an exclusive license for PROTECT. Beginning in 2002 through the award of the license, the winning firm had been a sole-source subcontractor employed by Argonne in direct support of PROTECT. As a condition of the award, Argonne agreed to transfer the technology to the licensee by providing access to its expertise through "work-for-others" arrangements.

RESULTS OF REVIEW

We found that:

- Despite a contractual requirement that it provide "fairness of opportunity" in its licensing activities, Argonne did not list the licensing opportunity on its web site and instead relied only on personal knowledge of Laboratory employees when deciding what firms would be provided the opportunity to compete for the exclusive PROTECT license;
- Argonne's actions to avoid or ameliorate conflicts of interest prior to awarding the license were less than satisfactory. Specific conflict of interest mitigation measures were not applied in spite of Argonne's long-standing business relationship with the firm that was ultimately awarded the exclusive license for PROTECT;
- Researchers at Argonne provided officials at two transit agencies interested in installing PROTECT the option of awarding work to the subcontractor to which Argonne had not yet granted the PROTECT license. In one instance, before the competition and award of the exclusive license, an Argonne official went so far as to recommend that an interested transit agency contract directly with Argonne's subcontractor so it could avoid Laboratory overhead and indirect costs. Under the proposal, the transit agency would have avoided a portion of the overhead and indirect costs because Argonne would have provided technology, advice and assistance necessary for system installation indirectly through a work-for-others arrangement with its subcontractor; and,
- Once it became aware of the complaint related to unfair competition, Argonne informed the Laboratory's ombudsman of the issue but chose not to use his services to help resolve the issue. This action could not be explained to our satisfaction and appeared to undermine one of the basic purposes of having ombudsmen at the Department's laboratories.

Under these circumstances, we concluded that the competition and licensing process for PROTECT had not completely satisfied Department objectives related to ensuring that technology partnering programs provide fair opportunities to interested parties. Further, as a result of Argonne's actions to permit the subcontractor to enter into direct agreements with transit system customers for PROTECT-related work prior to the award of the

license, the Department was not reimbursed for overhead and indirect costs expenditures incurred by Argonne. Such reimbursements would have appropriately benefited the U.S. taxpayers by absorbing relevant costs of Argonne National Laboratory operations.

The Department's oversight of Argonne's competition and licensing activities was limited. The Department's directive, *DOE Facilities Technology Partnering Program*, DOE Order 482.1, requires reviews and appraisals of facilities contractors, like Argonne, to ensure they carry out their technology partnering activities in accordance with applicable laws, regulations, policies, and delegations of authority. Officials at the Department's local offices, the Argonne Site Office and the Chicago Office, informed us that the Department does not require that the laboratories document their "fairness of opportunity" procedures, and, thereby, relies on the contractors to decide what mechanism they should employ to meet this requirement. We noted, however, that the contract with the Department specifically required that Argonne prepare such procedures. The position expressed to us by responsible Federal officials was inconsistent with the plain language of the contract.

Local Federal officials told us that they were familiar with PROTECT and Argonne's working relationship with its subcontractor, and had reviewed the work-for-others agreements to verify that there was no competition with the private sector. While these same officials indicated that they were briefed on the exclusive license after it was awarded, they pointed out that they were not required to and did not review or approve the licensing agreement prior to award. The Argonne Site Office did, however, approve Argonne's work-for-others request to engage in PROTECT work with the subcontractor that ultimately would be awarded the exclusive license. However, these Federal officials asserted that they were unaware that the subcontractor was presenting itself as the licensee and "business partner" before Argonne competed the PROTECT license. As best we could determine, Argonne did not inform the Federal officials of this fact. In our judgment, this sequence of events was one of the most troubling aspects of this matter and may have contributed to the concerns raised by the complainant.

Collaboration with and technology transfer to the private sector will increase substantially through continued growth of the Department's patent portfolio, and as the Department implements the science elements of the *American Recovery and Reinvestment Act of 2009*. The Department's National Laboratory system, including Argonne, is heavily involved in this taxpayer-funded effort. As such, it is essential that the Department's "fairness of opportunity" doctrine, a practice that embodies the requirement to widely disseminate information on technology transfer opportunities, is rigorously adhered to. As noted in the Department's policy statement on technology transfer, this doctrine, among other things, is a guiding principle to help improve the deployment of energy technology and applications that address both public and private needs. Under the circumstances, we made several recommendations designed to help improve the safeguards associated with technology transfer license competitions. We also recommended that the cognizant contracting officer evaluate Argonne's actions as they relate to the relationship with the subcontractor and license award and make performance fee and/or other adjustments, as appropriate.

MANAGEMENT REACTION

Management indicated that it shared our concern regarding ensuring "fairness of opportunity" at all of the Department's laboratories. Although it supported the development of formalized procedures for applying this doctrine and agreed that more robust standards of conduct could help prevent the appearance of conflicts of interest, management disagreed with a number of the conclusions contained in the report. Management's comments are included as Appendix 3. Specific reasons for management's disagreements and our responses are summarized in the body of the report.

Attachment

cc: Deputy Secretary
Under Secretary for Science
Chief of Staff
Director, Office of Science
Acting Technology Transfer Coordinator
Assistant General Counsel for Technology Transfer and Intellectual Property
Manager, Argonne Site Office

SPECIAL REPORT ON ALLEGATIONS OF CONFLICT OF INTEREST REGARDING LICENSING OF *PROTECT* BY ARGONNE NATIONAL LABORATORY

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LICENSING OF PROTECT

Transparency in Competition and Licensing

As a Government-funded entity, it is important that actions at Argonne National Laboratory (Argonne or Laboratory), a contractor-operated facility, meet the Department of Energy's (Department) standards for fairness and accountability. We identified several issues related to Argonne's competition and licensing of PROTECT (Program for Response Options and Technology Enhancements for Chemical/biological Terrorism) that, in our opinion, rendered Argonne's process less than satisfactory.

Fairness of Opportunity

While Argonne appeared to generally follow procedures used by other Departmental Office of Science laboratories, its actions may have been insufficient to ensure that its license offering provided adequate notice to potential bidders. Argonne's prime contract with the Department requires that: "In conducting its technology transfer activities, the Contractor shall prepare procedures and take all reasonable measures to ensure widespread notice of availability of technologies suited for transfer and opportunities for exclusive licensing...." This requirement, referred to as "fairness of opportunity," is included in the technology transfer clause of Argonne's contract.

Despite such language, our review disclosed that Argonne had not developed specific, documented policy regarding how it would provide "fairness of opportunity" in its licensing methods. In fact, we observed that there were no specific, documented policies related to ensuring that interested parties were provided the opportunity to bid or compete for licenses. Technology Transfer officials at the Laboratory told us, and we confirmed, that there is no requirement for Argonne to abide by the licensing regulations that the Federal government is required to follow, as contained in 35 U.S.C. 209, when it engages in licensing activity. In particular, officials noted that they were not specifically required to publish the intent to license technologies or the actual award of exclusive licenses. In the absence of a documented and approved methodology, Laboratory officials used ad-hoc or informal approaches for identifying firms that were permitted to compete for licensing opportunities.

According to Argonne officials within the Office of Technology Transfer, the primary means of providing notice of opportunities are through website postings, various media sources, and contacts made at conferences. While we confirmed that Argonne had posted information seeking collaboration on PROTECT on its

website as early as 2003, it never posted information regarding the opportunity to compete for the exclusive license. As noted earlier, actions taken by Argonne appeared to be generally consistent with the practices of other Office of Science laboratories we contacted. However, with regard to PROTECT competition, Technology Transfer officials told us that they did not maintain records of who, if anyone, had contacted the Laboratory regarding collaboration opportunities, and instead developed the list of eight firms that it permitted to compete for the exclusive license solely by canvassing its principal investigators. These same officials believed that these individuals were in the best position to know the market and know who might be interested in competing because of their attendance at trade shows and conferences. The complainant in this case indicated Argonne's approach was not completely effective in that it did not identify his firm, an organization he claimed to be interested in competing. Argonne stated that its primary intent of the competition was to maximize the application of the technology in the private sector and to maximize the value to Argonne.

We evaluated the actual process Argonne employed to select the firm granted the PROTECT exclusive license. Our review disclosed that Argonne officials, independent of the actual developers/inventors of the system, performed a comparative evaluation of the proposals it received in response to the limited solicitation. We found no reason to take issue with the specific evaluation and selection procedures in this case; and, we noted that after consideration of a number of evaluation factors, the firm selected for the exclusive license outscored other bidders by a wide margin. As with any situation in which an incumbent bids for related contracts or follow-on work, such a firm may have some unavoidable, inherent advantage over other bidders because of its previous involvement with PROTECT. Such was the fact pattern in this case. Officials at Argonne expressed their view that the practice of having officials independent of inventors/researchers perform the bid evaluations helped neutralize the impact of any advantage that may have existed.

Conflict of Interests

The complainant in this case also alleged that Argonne unlawfully competed with the private sector in that it referred to the firm to which the PROTECT license was awarded as a "business partner." The complaint also indicated that Argonne permitted the firm to refer to itself in advertisements and solicitations as an Argonne "business partner." The complainant believed that such references permitted its competitor to unfairly leverage the significant

investment made by the Government (i.e., taxpayer provided funds) in Argonne's research to its advantage. In 2002, the firm which was eventually granted the exclusive license was awarded a sole-source contract by Argonne to provide equipment and implementation assistance for PROTECT. This firm provided cameras, software for accessing and controlling the cameras, and assisted Argonne in the PROTECT demonstration installations in several major public transportation systems. In various literature and business communications, the firm referred to its relationship with Argonne as that of a "business partner." Laboratory officials were also alleged to have used the same term when describing the firm. Argonne officials, in discussing the "business partner" reference, indicated that the true nature of the relationship was that of a licensee. Argonne officials did, however, concede that the reference to "business partners" may have been inappropriately used and indicated that they had advised researchers and program officials to be more judicious in their descriptions in the future.

Consistent with the terminology used to describe its relationship with its subcontractor, we also found that Argonne may have improperly become an advocate for its subcontractor during negotiations with a Federal transportation agency interested in PROTECT. In particular, we identified two situations in which Argonne suggested to potential clients that the Laboratory could install PROTECT directly or that the system could be procured through one of Argonne's subcontractors. In one instance a researcher went as far as to recommend contracting directly with the subcontractor, noting that using Argonne would most likely add additional time and cost to the contracting process. In the second instance, Argonne allowed its subcontractor to enter into an agreement with a transit authority before it had received the exclusive license for the technology. The fact that the subcontractor was performing the work for the transit authority was subsequently published in a prominent periodical. In our opinion, these actions, taken before Argonne competed and awarded the exclusive license, essentially gave the subcontractor exclusive access to the work without providing the same opportunity to other firms.

Argonne officials told us that one factor that influenced their decision to permit the subcontractor to contract directly for PROTECT in the second instance was one of indemnification. They stated that the transit system customer with which they were dealing demanded that Argonne provide indemnification in the event of terrorist attacks. Argonne explained that the issue sometimes came up with States or other local government entities,

however, Federally-funded organizations are prohibited from providing indemnification. We were told the firm that ultimately received the exclusive license was willing to provide the requested coverage. However, the evidence we examined did not mention the indemnification issue. On the contrary, the evidence showed that the subcontractor was eager to start work on the project and was concerned about the financial impacts resulting from further delays.

While Argonne had conflict of interest policies and had developed a conflict of interest management plan for the license, it had not documented standards of conduct to guide employee actions when developing and promoting intellectual property. The standards of conduct, for example, could address how Argonne employees are to interact with and refer to potential customers, subcontractors, sponsors, and end-users; define acceptable outreach activities; describe authorities for negotiating agreements, and establish periodic reviews. Such standards could serve to educate researchers about their responsibilities to protect the interests of Argonne and the Department and help to prevent the appearance of and actual conflicts of interest during the commercialization of Laboratory inventions.

Complaint Resolution

As we observed in our Audit Report on *Management of Patent and Licensing Activities at Department-Owned, Contractor-Operated Laboratories* (DOE/IG-0479, August 2000), expanded technology transfer activities were likely to give rise to complaints that Laboratories were competing with the private sector. To address those issues, the Department's Technology Transfer Working Group recommended the laboratories establish ombudsmen to help resolve disputes or complaints. We noted, however, that for complaints it received regarding the PROTECT licensing agreement, Argonne did not involve its ombudsman, other than to inform him of the complaint. Instead, according to an official we spoke to, the Laboratory noted that since the matter was political in nature and had been referred by a Congressman, they decided to route the complaint through the Government Affairs Office. While Argonne's responses provided a good deal of information and we found no reason to question their veracity, Argonne did not involve the normal presumptively impartial, collaborative, and participative resolution style normally associated with actions handled by ombudsmen. There is no guarantee that these issues would have been resolved differently had the ombudsman been

more directly involved, however, the interaction with an impartial individual may have facilitated resolution of the issue.

Departmental Oversight

The Department's oversight of Argonne's competition and licensing activities was limited. The Department's directive, *DOE Facilities Technology Partnering Program*, DOE Order 4821.1, requires reviews and appraisals of facilities contractors, like Argonne, to ensure they carry out their technology partnering activities in accordance with applicable laws, regulations, policies, and delegations of authority. Officials at the Department's local offices, the Argonne Site Office and the Chicago Office, informed us that the Department does not require that the laboratories document their "fairness of opportunity" procedures, and thereby relies on the contractors to decide what mechanism they should employ to meet this requirement. As noted earlier, however, such is not the case in that Argonne's contract with the Department specifically requires that it prepare such procedures.

Local Federal officials stated that they were familiar with PROTECT and Argonne's working relationship with its subcontractor. They had reviewed, for example, the work-for-others agreements for developing and demonstrating PROTECT to verify that Argonne was not competing with the private sector. They were also briefed on the exclusive license after Argonne had awarded it. These officials pointed out that they were not required to review or approve licensing agreements prior to enactment. As a result, they did not review or approve Argonne's process for competing PROTECT nor the licensing agreement prior to award. Our review established that the Argonne Site Office did, in fact, approve Argonne's work for others request to engage in PROTECT work with the subcontractor that ultimately would be awarded the exclusive license. However, these Federal officials apparently were unaware, because Argonne did not inform them, that the subcontractor was presenting itself as the licensee and "business partner" before Argonne competed the PROTECT license. In our judgment, the sequence of events was problematic and may have contributed to the concerns raised by the complainant.

Need for Increased Transparency

Collaboration with and technology transfer to the private sector will increase substantially through continued growth of the Department's patent portfolio and as the Department moves to implement the requirements of the *American Recovery and Reinvestment Act of 2009*. As such, it is essential that the Department make the process as transparent as possible by ensuring "fairness of opportunity," thereby permitting a full-range of interested and capable firms to participate in activities designed

to stimulate research and decrease dependence on foreign energy sources. In this particular case, permitting the subcontractor to contract directly for PROTECT related work prior to the award of the license also resulted in the Department and Argonne not receiving overhead and indirect costs which would have benefited the U.S. taxpayer by absorbing relevant costs of Laboratory operations. Further, Argonne did not receive royalties that would have been paid had the licensing agreement been in effect.

RECOMMENDATIONS

We recommend that the Director, Office of Science, direct the Argonne Site Office Contracting Officer to:

1. Make a determination as to whether Argonne's actions relating to PROTECT development and licensing were appropriate. If not, make performance fee and/or other adjustments, as appropriate.

As noted previously, our review disclosed that the practices used by Argonne during the competition for the PROTECT license may be similar to those employed by other Office of Science-managed laboratories. To address concerns at Argonne and those that may also exist at other Office of Science and Departmental laboratories, we recommend that the Technology Transfer Coordinator, in conjunction with cognizant program offices, direct the laboratories to:

2. Develop policies on how they intend to disseminate licensing opportunities to provide "fairness of opportunity" during competitions, especially as a part of the American Recovery and Reinvestment Act Process;
3. Maintain records of the requests for individual inventions and the actions taken regarding collaborations/technology licensing;
4. Develop standards of conduct to guide employee actions when developing and then promoting intellectual property; and,
5. Involve ombudsmen in complaint resolution activities where practical and possible.

**MANAGEMENT
AND AUDITOR
COMMENTS**

Management indicated that it shared our concern regarding ensuring "fairness of opportunity" at all of the Department's laboratories. It expressed support for the development of formalized procedures for applying the "fairness of opportunity" doctrine (Recommendation 2) and agreed that more robust standards of conduct could help prevent the appearance of conflicts of interest (Recommendation 4). Management, however, disagreed with a number of the conclusions contained in the report and did not specifically indicate whether it agreed with Recommendations 1, 3 and 5. To that extent, we consider management's comments to be non-responsive.

Management did not agree with the report's assertion that Argonne did not satisfy Department objectives in providing "fairness of opportunity" in that Argonne took several steps to ensure fair dissemination of PROTECT-related licensing. While we do not disagree that Argonne took a number of actions in this regard, its process could have been strengthened by developing and publishing the procedures it would follow when offering inventions for licensing. In our opinion, publishing the licensing procedures and the opportunity specific information on Argonne's web site could have provided a relatively easy and inexpensive means to widely disseminate needed information. We also note Argonne's contract specifically requires it to develop procedures for satisfying the "fairness of opportunity" doctrine.

Management also asserts that contractor-operated laboratories such as Argonne are not required to follow the same strict licensing requirements as Federal laboratories. We recognize that this is the case, as noted in the body of our report, but point out that absent controlling Federal standards and a formal policy for the Department's laboratories, that Argonne relied on ad-hoc or informal procedures to identify firms that it would permit to compete.

While management recognized that references to the ultimate licensee as a "business partner" were inappropriate and agreed to strengthen conflict of interest procedures, it nevertheless disagreed with our conclusion that Argonne's efforts to avoid or ameliorate conflicts of interests were less than satisfactory. We do not find management's comment to be persuasive in this area, particularly since it noted that, "The use of the term business partner is clearly erroneous and may have contributed to an appearance that the eventual PROTECT licensee may have had an advantage during the selection process."

Management also noted that statements in the report regarding Argonne's actions to permit the ultimate licensee to use and install PROTECT technology prior to the award of the exclusive license were misleading. Management noted that if work can be performed by the private sector, then that is the appropriate and preferred course of action. We do not dispute, in general, this is the preferred course of action. In this case, the technology had not yet been licensed, however, the ultimate licensee was permitted to represent itself as the owner or licensee of PROTECT. These actions serve to perpetuate the appearance that there was indeed a conflict of interest in this case and that the company was pre-selected.

With regard to fees or royalties discussed in the report, management indicates that since both of the transit agencies were Federal organizations, costs to the Government as a whole would have been reduced by having the subcontractor perform the work. We concede that the Laboratory's contracting fees may have been greater than those charged by the subcontractor, resulting in greater costs to the transit agencies by contracting with the Laboratory, but note that funds appropriated for one agency may not be expended to support another. The other fees and license royalties should have been paid by the subcontractor. It is unknown or arguable as to whether these costs would have been passed on to the transit agency.

Finally, management believed that our report infers that Argonne had a duty to use the services of the Technology Transfer Ombudsman. Management noted that the Technology Transfer Commercialization Act of 2000 created the position and that the Laboratory could have enlisted the services of the ombudsman but was under no obligation to do so. Again, we do not dispute management's interpretation of the law in this area. As noted in our report, however, having an ombudsman and not utilizing the services of his office, in our opinion, appears to defeat the purpose and intent of the law.

Appendix 1

OBJECTIVE

Our objective was to review selected aspects of PROTECT (Program for Response Options and Technology Enhancements for Chemical/biological Terrorism) to determine whether allegations that the licensing of PROTECT was tainted by inadequate competition, conflicts of interest, and other improprieties had merit.

SCOPE

The review was performed from March 2009 through July 2009 at Argonne National Laboratory, and the Office of Science's Chicago and Argonne Site Offices in Argonne, Illinois. In particular, the review examined the licensing competition held for PROTECT as well as the events leading up to the competition.

METHODOLOGY

While reviewing the complainant's allegations we:

- Reviewed Federal and Department of Energy (Department) rules and regulations related to licensing activities;
- Reviewed documents related to subcontracting relationships for PROTECT;
- Evaluated documents related to the licensing competition and the resulting license; and,
- Held discussions with Departmental and Laboratory officials.

In lieu of an exit conference, Department officials indicated that they would work to resolve comments that we considered to be non-responsive.

Related Audit Reports

- *Management of Patent and Licensing Activities at Department-Owned, Contractor-Operated Laboratories* (DOE/IG-0479, August 2000). While the Department of Energy (Department) controls were operating as intended, we noted that the number of complaints related to patents and licensing had increased in recent years. These complaints appeared to result, in part, from confusion and misunderstanding relating to patent infringement and competition with the private sector. The Department's Technology Transfer Working Group made a number of improvements, including two initiatives designed to assist the private sector when disputes related to the Department's technology transfer activities arise. First, each laboratory was to assign an ombudsman to serve as a focal point for industry and the public and to resolve complaints and disputes. Second, to facilitate resolution of complaints, the Working Group encouraged increased use of collaborative alternative dispute resolution techniques. Although these two initiatives are positive steps, we recommended that the Technology Transfer Working Group address these issues and propose administrative and/or legislative actions to clarify Government laboratories' role in interacting with the private sector.
- *Management Controls over Patent and Royalty Income at Ames Laboratory* (OAS-M-05-05, May 2005). The audit disclosed that Ames had not adequately controlled and accounted for patent and royalty revenues, nor expended such funds to further research, technology transfer, and education. These issues occurred because the Department had not provided guidance regarding the extent to which its laboratories were permitted to rely on third-party entities to assume fiduciary responsibility for patent and royalty revenues. Furthermore, the Ames Site Office did not provide adequate oversight to ensure that Ames established a plan for the use of patent revenues in a manner consistent with contract terms. As a result, approximately \$3.5 million generated by technology transfer is at greater risk of loss and of not being productively used.
- *Management Controls over the Technology Transfer and Commercialization Program at the Idaho National Laboratory* (OAS-M-05-07, June 2005). Certain financial management activities associated with the Idaho National Laboratory's technology transfer and commercialization program were not managed by Bechtel BWXT Idaho, LLC (Bechtel) consistent with its contract terms. Specifically, Bechtel did not properly recognize royalties due from licensing activities and did not monitor expenditures to ensure they were within established administrative limits. This occurred because Bechtel did not take action to correct previously reported weaknesses and the Idaho Operations Office did not provide adequate oversight to ensure contract provisions were complied with and reported weaknesses corrected. Without adequate controls in place, the Department cannot ensure that certain financial aspects of its technology transfer and commercialization program are adequately managed. The report made recommendations to the Manager of the Idaho Operations Office to improve oversight of Bechtel's financial controls over its technology transfer and commercialization program.



Department of Energy
Washington, DC 20585

June 25, 2009

MEMORANDUM FOR RICKEY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDIT SERVICES
OFFICE OF INSPECTOR GENERAL
FROM: *L. Devon Streett*
L. DEVON STREETT
ACTING TECHNOLOGY TRANSFER COORDINATOR

SUBJECT: Response to Inspector General's Draft Report, "Allegations of Conflict of Interest Regarding Licensing of PROTECT by Argonne National Laboratory"

Thank you for the opportunity to review and comment on the Report entitled "Allegations of Conflicts of Interest Regarding Licensing PROTECT by Argonne National Laboratory." The following is a consolidated response, which reflects the views of the Assistant General Counsel for Technology Transfer and Intellectual Property, the Acting Technology Transfer Coordinator, and the Office of Science.

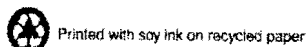
DOE shares the IG's concern for ensuring "fairness of opportunity" at all DOE laboratories. Technology transfer is an important mission of both DOE and our laboratories and DOE is committed to providing fair opportunities in conjunction with all of its technology transfer activities. DOE supports several of the Report's recommendations that will further strengthen the ability of our laboratories to provide widespread dissemination of technology transfer opportunities while limiting potential conflicts of interest. However, the Department respectfully disagrees with several of the Report's conclusions.

DOE disagrees with the Report's assertion that Argonne National Laboratory (ANL) did not satisfy Department objectives in providing "fairness of opportunity" during licensing of PROTECT. In fact, ANL took several steps to ensure fair dissemination of information related to PROTECT including posting information about technology transfer opportunities regarding the technology on its website, soliciting at least eight potential licensees, and conducting a detailed and objective evaluation of the multiple proposals received.¹

The Report suggests that ANL's approach to "fairness of opportunity" was not completely effective since ANL failed to identify the complainant's firm as a party that might have been interested in the exclusive license. However, the standard for fairness of opportunity is not that a laboratory identify every firm that may be interested but rather is based on a reasonableness standard. ANL's Prime Contract requires the laboratory to take "reasonable measures to ensure widespread notice of availability of technologies suited for transfer and opportunities for exclusive licensing . . ." ^{2,3} DOE asserts that ANL made such efforts in this case.

While DOE is committed to ensuring our laboratories provide "fairness of opportunity," such concerns must be considered in light of DOE's entire technology transfer policy which includes encouraging the deployment of DOE

¹ Although criticized in the Report ANL's practice of identifying potential licensees from information provided by inventors and tech transfer staff is a strategy utilized by many universities and federal labs. Menu of Best Practices in Technology Transfer (Part 2), Robert K. Carr, Tech Transfer, 1992.
² See, Technology Transfer Mission Clause L113 of the ANL Prime Contract, DOE Contract No. DE-ACO2-06CH11357, DEAR 970.5227-3
³ See also, Section 3133 of P.L. 101-189



Appendix 3 (Continued)

technologies as expeditiously as possible to enhance the Nation's energy security, scientific discovery, economic competitiveness, and quality of life through innovations in science and technology.⁴ DOE believes that the current reasonableness standard adequately addresses "fairness of opportunity" concerns while providing our laboratories some flexibility to ensure that technologies are deployed in the shortest time practicable.

It is important to note that when licensing inventions, government-owned, contractor-operated federal laboratories such as ANL are not subject to the strict licensing requirements codified at 35 U.S.C 209 which require extensive publishing of exclusive licensing opportunities. Freeing contractor-operated federal laboratories from licensing new inventions under a strict licensing regime was clearly the intent of Congress when it amended the Bayh-Dole Act, 35 U.S.C. 200 *et seq* in 1984 to provide the contractors operating federal laboratories the same administrative freedom to license as had already been provided to Universities, non-profits and small businesses. This allows laboratories to transfer inventions to industry through licensing arrangements that can be as efficient as that accomplished by their university counterparts. As measured by the number of licenses issued and royalty revenue received, the result has been overwhelmingly positive. The flexibility to enter into licensing arrangements without overly burdensome government oversight or cumbersome federal licensing requirements has and will continue to facilitate DOE laboratories' ability to transfer technology from our laboratories more efficiently, so that the technology can reach the marketplace for the betterment of both the taxpayer and the U.S. economy.

The Report repeatedly criticizes ANL for not developing a specific documented policy regarding how it provides "fairness of opportunity" in its licensing procedures. While ANL did not document its procedures, it is clear that ANL was cognizant of the "fairness of opportunity" standard and took actions to ensure compliance. In fact, the Report recognizes that ANL "appeared to generally follow procedures used by other Departmental Office of Science laboratories including providing notice of opportunities through website postings, various media sources, and contacts made at meetings."⁵ Nevertheless, DOE supports the recommendation that DOE laboratories develop more formalized "fairness of opportunity" procedures.

DOE respectfully disagrees with the conclusion that ANL's efforts to avoid or ameliorate conflicts of interests prior to awarding the PROTECT license were less than satisfactory. However, DOE concurs in principle with the concern about the inappropriate use of the term "business partner" by both ANL and the eventual licensee in describing their relationship during certain collaborations. While the Department does actively encourage its laboratories to develop technology partnering programs, DOE does not in any way condone the use of the term "business partner." The use of the term "business partner" is clearly erroneous and may have contributed to an appearance that the eventual PROTECT licensee had an advantage during the selection process. Despite the inappropriate use of the term "business partner" by both ANL and the eventual PROTECT licensee, the Report itself concludes that ANL was still able to perform an objective evaluation of the submitted proposals.⁶

DOE also agrees that more robust standards of conduct to guide employee actions when developing and promoting intellectual property will help prevent the appearance of conflicts of interest during commercialization of laboratory inventions.

The Report concludes that ANL permitted two transit agencies interested in installing PROTECT the option to award work directly to its subcontractor thereby depriving the taxpayer of the benefit of overhead dollars that would otherwise have been collected by ANL. This is misleading for two reasons. Most importantly, if certain work can be performed by the private sector, rather than by a federally-funded laboratory, it is appropriate and preferred to have the private sector perform the work. Additionally, transit agencies installing the PROTECT program were federally funded. Therefore, it is to the taxpayer's *advantage* to leverage the federal funds in this way to lower the cost to taxpayers.

⁴ See, Secretarial Policy Statement on Technology Transfer at Department of Energy Facilities, January 31, 2008.

⁵ See, 2nd and 4th paragraphs of page 1 of the Details of Finding Section of the Report.

⁶ See, 1st full paragraph of page 2 of Details of Finding of the Report.

Appendix 3 (Continued)

The language in the Report paragraph titled "Complaint Resolution" infers that the laboratory had a duty to use the services of the Technology Transfer Ombudsman. That is not the case. The decision to use the services of the Ombudsman is completely voluntary. Furthermore, the laboratory is not obligated to notify the Ombudsman of any complaint.

The Technology Transfer Commercialization Act of 2000 created the position of the Technology Transfer Partnership Ombudsman. Section 11 of the Act provides that the "Secretary of Energy shall direct the director of each national laboratory of the Department of Energy, and may direct the director of each facility under the jurisdiction of the Department of Energy, to appoint a technology partnership ombudsman *to hear and help resolve complaints from outside organizations* regarding the policies and actions of each such laboratory or facility with respect to technology partnership (including cooperative research and development agreements), patents, and technology licensing" (emphasis added). The Technology Transfer Ombudsman positions were designed to provide outside organizations a forum for complaint resolution. The laboratory could enlist the services of the Ombudsman but is under no obligation to do so.

Attached are DOE's responses to the facts presented, proposed recommendations, and estimated potential monetary impact.

Cc: Team Leader, Audit Liaison Group, CF-1.2
Manager, Argonne Site Office
Audit Liaison, Chicago Office

Appendix 3 (Continued)

Management Response to the Statement of Facts

DOE agrees in principle with the facts presented.

Management Response to Recommendations:

Recommendation that the Director of the Office of Science direct the Argonne Site Office Contracting Officer to make a determination as to whether ANL's actions relating to the PROTECT development and licensing were appropriate. If not, make performance fee and/or adjustments as appropriate.

Management Response: The above recommendation puts the Contracting Officer in the position of either disagreeing with at least some of the IG's conclusions or disagreeing with Management's position that ANL abided by its contract. The situation is further complicated by the Report's conclusion that ANL appeared generally to follow *procedures* used by other Departmental Office of Science laboratories.

Recommendations for the Technology Transfer Coordinator to take actions and develop policies, specifically to direct the laboratories to develop policies on how the labs intend to disseminate licensing opportunities to provide "fairness of opportunity" during competitions, especially as a part of the American Recovery and Reinvestment Act Process, to maintain records of the requests for individual inventions and the actions taken regarding collaborations/technology licensing, to develop standards of conduct to guide employee actions when developing and then promoting intellectual property, and to involve ombudsmen in complaint resolution activities where practical and possible.

Management Response: The Department asserts that the formal policy development and related procedural changes raised by the report and all its recommendations would be most appropriately considered and addressed by the new DOE Technology Transfer Coordinator expected to be identified by the Administration. Due to the change of Administration, a new Technology Transfer Coordinator is not yet in place.

Management Response to Reasonableness of the Estimated Potential Monetary Impact etc.

DOE agrees with the Report's conclusion that there was no quantifiable Potential Monetary Impact as a result of ANL's actions in licensing the PROTECT technology.

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