

The California State Auditor released the following report today:

University of California, Davis

*It Has Not Identified Future Financing for the Strawberry Breeding Program
nor Collected All Available Revenues*

BACKGROUND

The University of California (university) has been breeding strawberries since 1952 through its Strawberry Breeding Program (strawberry program)—located at one of its campuses, UC Davis. The university holds U.S. patents on over 30 strawberry varieties, which it licenses the right to reproduce and sell worldwide and has historically generated millions of dollars in patent income for UC Davis. Several entities are involved in the strawberry program including several offices within the university and UC Davis, a strawberry advisory committee, and the California Strawberry Commission, which represents stakeholders within the strawberry industry—600 strawberry growers, shippers, and processors.

KEY FINDINGS

During our review of the strawberry program, we noted the following:

- Because the strawberry program lost over half of its funding in fiscal year 2013–14 and the university's existing funding mechanisms for the program did not adequately cover the loss, the viability of the strawberry program is in jeopardy.
 - ✓ Research agreements that ended during fiscal year 2012–13 resulted in an 18 percent decrease in its funds that year and significantly contributed to a 56 percent decrease in fiscal year 2013–14 funding.
 - ✓ UC Davis used almost 37 percent of its \$1.8 million in reserves in fiscal year 2013–14 to cover the funding shortage and pay for the cost of the strawberry program.
 - ✓ The strawberry program currently receives a very small portion of the patent income it generates—the strawberry program received roughly 8 percent of the \$7 million generated in fiscal year 2010–11; whereas, the University of Florida distributed 26 percent of strawberry patent income back to its strawberry breeding program, which was sufficient to cover its breeding operation expenses.
 - ✓ The royalty rates UC Davis charges to licensees for sales within the U.S. and Canada are lower than those charged by other universities—Oregon State University charges more than twice the amount UC Davis charges.
- UC Davis has not always developed or used a budget to monitor the strawberry program.
 - ✓ It prepared a budget for the period of October 2010 through January 2011 but did not prepare another budget for almost two years. Also, its current budget projects a potential funding deficit, but UC Davis has not addressed how it will fund the strawberry program in the future.
 - ✓ It does not compare actual expenses to budgeted expenses by category, which would help it to ensure the program is cost-efficient and adequately funded.
- UC Davis did not assess or collect late fees on royalty payments that were, in some cases, submitted months after they were contractually due and UC Davis' lax oversight of the licensees' sales reports provides little assurance that UC Davis collects all of the royalty revenues that it is owed. UC Davis could have collected approximately \$157,000 in interest charges for the late payments of four of nine licensees whose payments we reviewed over a three-year period.

KEY RECOMMENDATIONS

We made various recommendations to UC Davis including the following:

- Consider allocating more of the strawberry program's patent income back to the program itself and regularly reassess the royalty rates charged to licensees. It should adjust rates as needed to support the program.
- Prepare a balanced budget for each fiscal year and periodically monitor actual income and expenses to the budget to ensure the program operates cost-efficiently and is adequately funded.
- Collect all late fees that its licensees owe and begin auditing the sales records of selected licenses to ensure the university is paid all royalties that its licensees owe.