

UNIVERSITY OF CALIFORNIA

Office of Ethics, Compliance and Audit Services

Information Sheet – Systemwide Royalty Audit Program

August 2016

Royalty Audits:

To address the concern that earned royalties from the licensing of university intellectual property are underreported by licensees, and to recover potentially underpaid royalty income due The Regents, ECAS has been conducting and funding systemwide royalty audits using an outside consultant since July 2009. Highlights of this activity include:

- FY10 – Initially delivered 500 royalty questionnaires to all licensees with active license agreements across the UC system to gather information related to calculations of earned royalties; completed 10 formal earned royalty audits, with audit selection based on information received from the questionnaires and from campus Technology Transfer Offices. These are the campuses that participated in this fiscal year royalty audits: UCB (1), UCLA (4), UCR (1), UCSB (1), UCSD (2) and UCSF (1).
- FY11 – Conducted and completed three (UCI, UCSD & UCSF) royalty audits, and developed a ‘First Sale Reporting’ tool for campuses to use as a means of monitoring compliance with the financial terms and conditions of the license agreement at the time they are initially selling the licensed products and services covered by UC’s patent rights as this was identified as an area of improvement in the audits of 2010 and 2011.
- FY12 – Conducted and completed 3 (UCSB [2] & UCSD [1]) royalty audits, and delivered 105 royalty questionnaires to licensees with new active license agreements across the UC system.
- FY13 – Conducted and completed 2 (UCSF) royalty audits.
- FY14 – Conducted 3 (UCI, UCSB and UCSD) royalty audits. UCI and UCSB audit were completed. UCSD are still in negotiation with its licensee regarding the audit findings.
- FY15 – Conducted and completed 3 (UCLA, LBL, UCB) royalty audits.
- FY16 - Conducted 3 (UCB, UCLA, UCSF) royalty audits. UCB and UCLA royalty audits were completed and UCSF is in progress. Currently, royalty audit candidates are being identified by campuses’ Technology Transfer Offices as needed, with ECAS and Dan Burns & Associates reviewing candidates and selecting those to be included in the program based on risk.

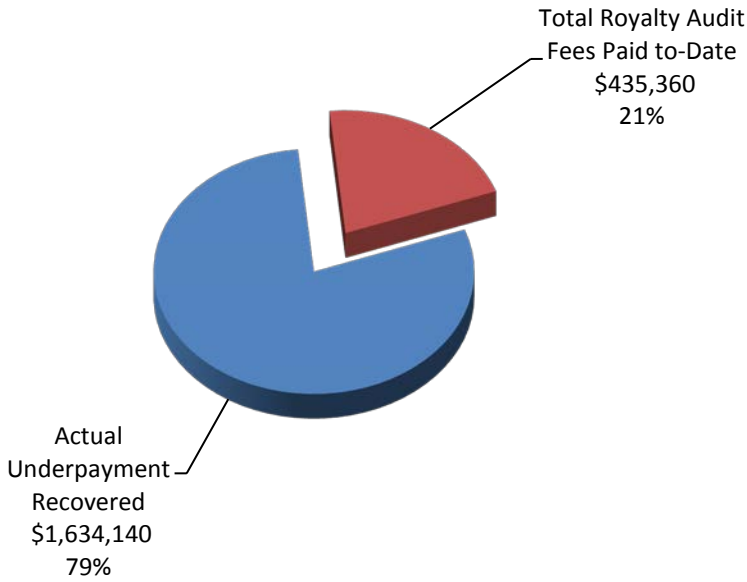
Audit Results:

The Royalty Audit Program has identified more than \$3 million in underreported royalties since the inception of the program. Out of the 27 completed audits between FY10 and FY16, underreported royalties were identified in 16 (59%) of the audits. UC has recovered a total of \$1,634,140 in underreported royalties identified in 13 audits (includes repayment collected in response to the royalty questionnaire). The total professional fees incurred for the FY10-FY16 royalty audit program were \$655,910 of which \$220,550 was recovered from the licensees. These recovered fees reduced the total audit costs for the program to \$435,360, for a **return on investment (ROI) of 275%** to date (actual recoveries/total audit fees). **Additionally, two campuses received settlement from two licensees for a total of \$16,101,508.**

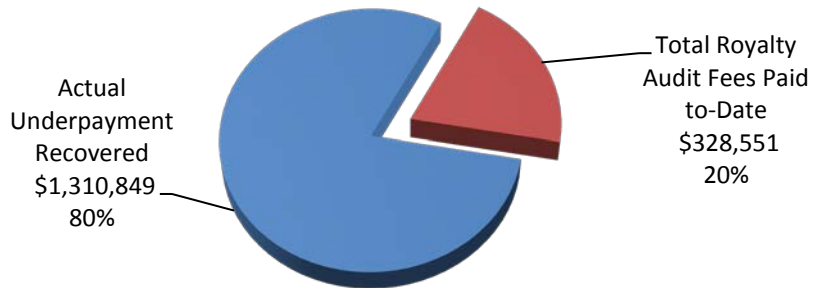
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**Royalty Audit Program Report
FY 2010 through FY 2016**



**Royalty Audit Program Report
FY 2010 through FY 2014**



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