

UCLA TECHNOLOGY DEVELOPMENT GROUP INCENTIVE PLAN
FINAL AUDIT REPORT #26-4003

Audit & Advisory Services
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Background

As part of the campus audit plan for fiscal year 2025-26, UCLA Audit & Advisory Services (A&AS) conducted an audit of the UCLA Technology Development Group (TDG) Incentive Plan calculations for the plan's fiscal year 2024-25 incentive awards. TDG's mission is to help create economic and societal value from UCLA's intellectual property. Its responsibilities include evaluating the patentability and commercial value of new technologies, marketing the technologies, negotiating license and material transfer agreements, prosecuting patents, distributing royalties, and facilitating UCLA faculty, student, or staff startup companies. TDG operates under the UCLA Technology Development Corporation, a California non-profit technology company wholly-owned by UCLA. The corporation focuses on protecting and optimizing the discoveries and inventions developed through UCLA research. The TDG Associate Vice Chancellor serves as the Chief Executive Officer and President of the corporation.

TDG implemented its incentive plan in fiscal year 2019-20 to provide a risk-variable financial incentive to employees responsible for attaining key organizational objectives. The University of California Office of the President Administrative Oversight Committee (AOC) oversees the plan and reviews and approves it annually. For fiscal year 2024-25, the plan included (i) three organizational objectives and (ii) two objectives for each of the nine departments/management positions. Of the 18 departments/management position objectives, four overlapped with organizational objectives or with objectives from other departments. For each objective, TDG defined threshold, target, and maximum performance levels of achievement, and the levels achieved were quantified and documented.

To be eligible for an incentive award, participants must receive an annual performance review rating of “Meet Expectations” or higher. Awards are calculated as a percentage of the employee’s salary, contingent upon the employee’s position and objective achievement levels. For fiscal year 2024-25, 24 employees were eligible for incentive awards, including the TDG Chief Executive Officer/Associate Vice Chancellor, business development officers, industry-sponsored research and material transfer agreement officers, the Chief Financial & Operations Officer, and the Chief Intellectual Property Officer. Total incentive plan awards for fiscal year 2024-25 were \$801,251. Award calculation guidelines are outlined in the TDG 2024-25 incentive plan document.

Purpose and Scope

The purpose of the audit was to validate that:

- The TDG organizational and departmental objectives year-end results and associated achievement levels reported (threshold, target, or maximum) were adequately supported, and
- The incentive award amount for each eligible participant was accurately calculated by TDG.

The audit reviewed activities that occurred during the period July 1, 2024, to June 30, 2025. The audit was conducted in conformance with the *Institute of Internal Auditors’ 2024 International Professional Practices Framework’s (IPPF) Global Internal Audit Standards* and included interviews, review of documents, tests, and other procedures considered necessary in achieving the objective.

Summary Opinion

Based on results of the work performed, TDG reported levels of achievement were adequately supported with relevant documentation for all objectives. TDG also accurately calculated the fiscal year 2024-25 incentive plan awards for each participant based on the final achievement levels. A&AS identified observations to strengthen TDG's review of objective achievement level supporting documentation. The audit observations are summarized below:

1. *Inaccurate achievement level determination due to duplicate recording of new eligible license agreements.* Management should strengthen the cross-audit performed within the department to ensure items that meet the basis for results criteria are included in the assessment of an objectives' achievement level. Consider using Excel's conditional formatting function, or other tools, to identify duplicate agreement numbers. In addition, add clarifying language to the basis-for-results descriptions to eliminate ambiguity.
2. *Key agreement dates incorrectly recorded in data system.* Management should correct the key agreement dates identified as incorrectly recorded for the two executed agreements in Inteum.

The audit results and recommendations are detailed in the remainder of this audit report.

Audit Results and Recommendations

#	OBSERVATION and CRITERIA	RECOMMENDATION	MANAGEMENT’S RESPONSE
FISCAL YEAR 2024-25 AWARD CALCULATIONS AND INCENTIVE PLAN OBJECTIVES			
<p>Audit work included the following:</p> <ul style="list-style-type: none"> ▪ Evaluated whether the reported year-end results and levels achieved for the objectives were adequately supported. TDG reported 17 organizational/departmental objectives at or above the “threshold” level of achievement. Four of the 17 objectives overlapped with organizational or other departmental objectives. A&AS evaluated 13 unique objectives by performing the following procedures: <ul style="list-style-type: none"> ○ Reviewed documentation provided by TDG management to determine if the reported year-end results for the 13 objectives were supported. ○ Analyzed relevant data to confirm completeness and accuracy of the supporting documentation and identified anomalies, if any. ○ Performed sample testing to verify that activities met the basis for results criteria and were supported by adequate documentation. ○ Reviewed other relevant information, as needed, to confirm objective achievement level results. ▪ Verified whether each employee’s incentive amount was calculated accurately by performing the following procedures: <ul style="list-style-type: none"> ○ Confirmed the eligibility of each plan participant. ○ Calculated the incentive amount based on the incentive award opportunity levels defined in the AOC-approved Incentive Plan Document, total salary per Distribution of Payroll Expenses (DOPE) reports from the Campus Data Warehouse (CDW), and final achievement level for the respective objectives as validated by A&AS. ○ Compared the incentive amounts calculated by A&AS with those calculated by TDG management to identify any variances. ○ Reviewed the Full Accounting Unit (FAU) recorded for incentive awards disbursed for the fiscal year 2023-24 incentive plan to determine if the appropriate FAU was used for each payout. <p>The observations identified are detailed below.</p>			
1.	<p><u>Inaccurate achievement level determination due to duplicate recording of new eligible license agreements</u></p> <p><i>Patent Prosecution Group – Objective: Establish Direct Billing Agreements for new eligible license agreements</i></p> <p><i>Basis for Results: % of all new eligible license agreements executed in FY25 that included a Direct Billing Agreement</i></p> <p>The Patent Prosecution Group listed Agreement Number 2025-04-0373 twice on the spreadsheet provided to A&AS of exclusive license agreements executed in FY25. The Group stated that the agreement could be counted twice because two direct billing agreements were</p>	<p>Management should:</p> <p>1.1. Strengthen the cross-audit performed within the department to ensure items that meet the basis for results criteria are included in the assessment of an objectives’ achievement level. Consider using Excel’s conditional formatting function, or other tools, to identify duplicate agreement numbers. In addition, add clarifying language to the</p>	<p>1.1. Management corrective action: TDG management will strengthen the cross-audit performed within the department to ensure items that meet the basis for results criteria are included in the assessment of an objectives’ achievement level. The Q2 and Q4 cross-audits will be assigned</p>

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	<p>generated for this agreement. However, A&AS confirmed the agreement was listed only once for the reportable period within the Patent Tracking System; therefore, it should have been counted once.</p> <p>The Patent Prosecution Group initially reported an achieved level of 83% (15 exclusive license agreements with direct billing agreements / 18 eligible agreements) and subsequently revised it to 82% (14 / 17) in response to A&AS inquiry. Although this revision did not change the objective achievement level, it is considered an accuracy issue.</p>	<p>basis-for-results descriptions to eliminate ambiguity.</p>	<p>to different auditors, to ensure multiple internal reviews.</p> <p>TDG management will use Excel conditional formatting function to identify duplicate agreement numbers.</p> <p>The FY26 plan language has already been approved by the AOC, so adding clarifying language is not possible for FY26. Going forward (FY27 and beyond), clarifying language will be added to this metric.</p> <p><u>Observation owner:</u> Director of Human Resources</p> <p><u>Expected completion dates:</u> January 31, 2026 for Q2 audit; July 31, 2026 for Q4 audit</p>
2.	<p><u>Key agreement dates incorrectly recorded in data system</u></p> <p><i>Industry Sponsored Research & Material Transfer Group – Objective: Review, negotiate, and execute For-Profit Material Transfer Agreements</i></p> <p><i>Basis for Results: # of For-Profit MTA's processed in FY25</i></p> <p>For two material transfer agreements processed in FY25, some key agreement dates recorded in the Inteum system did not agree with the executed agreements due to unintentional mistakes. Key agreement dates include effective, execution, and end dates.</p> <ul style="list-style-type: none"> MTA2024-00001071: An "End Date" of January 14, 2029, was recorded in Inteum, although the executed agreement did not specify an end date. In such situation, the Execution Date would be recorded as the End Date (i.e., January 14, 2025, in this instance). 	<p>Management should:</p> <p>2.1. Correct the key agreement dates identified as incorrectly recorded for the two executed agreements in Inteum.</p>	<p>2.1. <u>Management corrective action:</u> TDG management will correct the key agreement dates in Inteum for the two identified agreements.</p> <p><u>Observation owner:</u> Senior Director of Research & Industry Alliances</p> <p><u>Expected completion date:</u> November 30, 2025</p>

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	<ul style="list-style-type: none"> ▪ MTA2025-00001421: The effective, end, and execution dates of March 26, 2025, recorded in Inteum did not match the executed agreement. The agreement was signed on March 4, 2025, which would be the official/legal Effective Date, Execution Date, and End Date. <p>Accurate recording of key material transfer agreement dates is important for managing renewals, extensions, or the return or destruction of materials, as well as for audit trails and reporting compliance.</p>	<p>2.2. Verify key agreement dates, in addition to the key contract data fields, are accurately and completely populated in Inteum in their Q2 and Q4 audit process that was established for the FY25 audit. Moreover, management should consider that the key fields in Inteum are reviewed against the agreement by an individual, other than the individual who entered the data at the completion of agreements.</p>	<p>2.2. <u>Management corrective action:</u> TDG management will verify that key agreement dates, in addition to the key contract data fields, are accurately and completely populated in Inteum in our Q2 and Q4 audit process.</p> <p>The key fields in Inteum will be reviewed against the agreement by an individual, other than the individual who entered the data at the completion of agreements.</p> <p><u>Observation owner:</u> Senior Director of Research & Industry Alliances</p> <p><u>Expected completion dates:</u> January 31, 2026 for Q2 audit; July 31, 2026 for Q4 audit</p>