UCLA CAMPUS – FAIR WAGE/FAIR WORK

AUDIT REPORT #21-4008

Audit & Advisory Services

October 2021

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Background

As part of the University of California Office of the President (UCOP) initiative to implement the Fair Wage/Fair Work (FW/FW) plan, audits were performed systemwide to assess campus compliance with FW/FW requirements. UCLA Audit & Advisory Services (A&AS) has conducted an audit of UCLA Campus Purchasing, Health Sciences Purchasing, and Campus Real Estate departments’ procedures with regard to FW/FW. This report covers the review of the Campus Purchasing and Real Estate departments.

The initiative, announced in July 2015, established a University of California (UC) minimum level of pay for employees to ensure that all UC workers are provided a fair wage. The FW/FW plan requires that UC employees working at least 20 hours per week and employees of suppliers providing services to UC under this program are to be paid a minimum of $13 per hour effective October 1, 2015, $14 per hour effective October 1, 2016, and $15 per hour effective October 1, 2017. The FW/FW Plan applies to payment for work performed in a UC location. UC locations are deemed to include leased and licensed space whether the UC is the Landlord/Licensor or Tenant/Licensee of space, and ground leased to or from UC, that falls within UCOP guidelines that became effective on May 1, 2016, for real estate leases/licenses.

Contracts with service providers subject to the FW/FW plan must contain a provision in the UC Terms and Conditions of Purchase that outlines the FW/FW plan requirements. Any exceptions to the FW/FW policy must be properly documented and approved by the Chief Procurement Officer. For services that exceed $100,000 annually, suppliers are required to provide an annual independent verification at the supplier’s expense. Suppliers must also ensure the auditor performing the verification makes available to UC its FW/FW work papers, if requested. For any lease, license, or ground lease determined to be covered by the FW/FW plan, the applicable agreement should also include a requirement that the other party (e. g., tenant, licensee, landlord) comply with the FW/FW plan for all employees working 20 hours per week on premises covered by the agreement and provide an annual verification of compliance with FW/FW requirements.

For the period January 1, 2020, to December 31, 2020, there were 75 supplier contracts subject to the FW/FW annual verification requirement. During 2020, three suppliers were granted an exception to the annual verification by Campus Purchasing.

Purpose and Scope

The purpose of the audit was to evaluate the adequacy of processes and procedures in place within UCLA Campus Purchasing and Campus Real Estate departments to ensure compliance with FW/FW plan requirements. The audit was conducted as part of a systemwide review on FW/FW and the audit scope, sample selection criteria, and audit program were established by the Office of the President to be consistent among all UC campuses. The scope of the review focused on the following:

* Determine whether applicable contracts (purchase orders) and real estate leases/licenses executed in the last year (January 1, 2020 through December 31, 2020) contain the required FW/FW provision.
* Evaluate the effectiveness of monitoring procedures to ensure compliance with FW/FW annual verification requirements.
* Verify that FW/FW policy exceptions were properly documented and approved.
* Verify that exemptions granted for professional services contracts contained stipulated rates in the agreement that were above the $15 per hour minimum requirement.
* Validate whether suppliers and tenants complied with the annual verification requirements.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests of records, and other procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, UCLA Campus Purchasing has established adequate processes to identify and monitor contracts subject to FW/FW requirements. Campus Purchasing records indicated that FW/FW provisions were properly included in service agreements subject to the FW/FW plan. In June 2019, a new resource was hired within Campus Purchasing to oversee FW/FW compliance which contributed to significant improvement in supplier compliance rates for annual audit verifications. Campus Purchasing processes were enhanced to better educate suppliers on FW/FW requirements and increase follow-up for suppliers not in compliance with the annual verification requirement. Seventy-five contracts were subject to the FW/FW verification requirement in calendar year 2020. Of the 75 verification forms solicited by Campus Purchasing, 73 (97%) were completed and returned. Two verification forms were not received after follow-up communications. Thus, Campus Purchasing implemented measured action by the suspension or termination of the contracts to minimize the operational impact on the University. While the University has continued to make significant improvements, opportunities exist to further refine controls to strengthen compliance with FW/FW requirements by implementing the following:

* Management should investigate the feasibility of enhancing the functionality of the current legacy system (or implement a new system) to facilitate the ongoing identification of all vendor service agreements that are subject to FW/FW requirements. This will help ensure that the University meets UCOP’s mandate that all campuses maintain a list of contracts that are specifically subject to FW/FW requirements.
* Management should ensure the meaning of an independent accountant/internal auditor is well understood by suppliers and follow-up is conducted when verification procedures appear to be conducted by an inappropriate party. This in turn will help Campus Purchasing to better align with UC Annual Verification Standards and Procedures.
* Management should review verification forms to ensure independent accountants/internal auditors identify suppliers and independent contractors performing services under contracts with UC for one full year from the contract effective date or most recent verification period end date. This will ensure that all suppliers/independent contractors are verified for the required time frame and will better align with UC Annual Verification Standards and Procedures.

In consultation with UCLA Real Estate, it was determined that there were no leases subject to FW/FW during calendar year 2020. Due to the COVID-19 pandemic, there has been no new lease activity for calendar year 2020 as on-site operations were very limited during the period under review. UCLA Real Estate indicated that the only leases where FW/FW is applicable are campus food tenants, which have been closed due to COVID-19. As a result, there were no required actions from the tenants with FW/FW requirements in their leases. UCLA Real Estate also indicated that there are no new on-campus food tenant leases likely to be signed in the future due to insourcing requirements of the new union contract with the University. Once the campus is back in operation sometime in Fall 2021, the Real Estate department will ensure that FW/FW provision language is included in all required contracts and annual verifications are collected from tenants when required.

The audit results and corresponding recommendations are detailed in the following sections of the report.

Audit Results and Recommendations

| **#** | **FINDING and CRITERIA** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| 1. | FW/FW Contract Identification and Monitoring  Due to system limitations, the Campus Purchasing department has not implemented a tracking system to identify and monitor all contracts subject to FW/FW requirements. As a result, A&AS was unable to obtain a full population listing of all contracts with the FW/FW provision. This issue was also previously reported in our FY 2018-19 audit. At that time, management accepted the risk because of their system constraints.  As a manual workaround, Campus Purchasing provided A&AS a system-generated listing of all purchase orders (POs) for suppliers that provide services. However, the listing was over-inclusive as it included contracts/POs that were not subject to FW/FW. This required Campus Purchasing to manually review the contents of the POs to determine whether services were conducted on University premises and were subject to FW/FW requirements.  Campus Purchasing currently focuses its efforts on identifying and monitoring contracts that exceed $100,000 in annual spend and subject to the annual FW/FW verification requirement. | Management should investigate the feasibility of enhancing the functionality of the current legacy system (or implement a new system) to facilitate the ongoing identification of all vendor service agreements that are subject to FW/FW requirements. This will help ensure that the University meets UCOP’s expectation that all campuses maintain a list of contracts that are specifically subject to FW/FW requirements. | Management agrees with the recommendation and will investigate the feasibility of enhancing the functionality of the current legacy system or impliement a new system to facilitate the ongoing identification of all vendor service agreements that are subject to FW/FW requirements. |
| 2. | Annual Verification Standards  Three verification forms appear to have been executed by a tax preparer instead of a licensed public accounting firm or the supplier’s internal audit department. An internal audit department may be used if it reports to an independent board. A&AS supports Campus Purchasing efforts to notify and educate suppliers in the future to ensure verification procedures are conducted by an independent accountant/internal auditor.  Per UC Annual Verification Standards and Procedures, annual verification procedures must be performed by a licensed public accounting firm or the supplier's internal audit department. A licensed accounting firm is a public accounting firm licensed by the board of accountancy of the jurisdiction in which it practices. | Management should ensure the meaning of an independent accountant/internal auditor is well understood by suppliers and follow-up is conducted when verification procedures appear to be conducted by an inappropriate party. This in turn will help Campus Purchasing to better comply with UC Annual Verification Standards and Procedures. In addition, management should ensure that the three verification forms that were identified during the audit as being completed by parties not meeting the FW/FW requirement, to be prepared and resubmitted by either a licensed public accounting firm or the supplier’s internal audit department. | Management agrees and will ensure the meaning of an independent accountant/internal auditor is well understood by suppliers. |
| 3. | Annual Verification Period  One verification form contained a verification period shorter than the required annual verification period.  The verification period reported in the current year 2020 form stated October 1, 2017 through October 1, 2020, rather than the correct period of January 1 through December 31, 2020. The reported verification period excludes the final three months (October through December) of calendar year 2020 The prior year verification period was correctly reported by this same supplier as January 1 through December 31, 2019. As a result, the current reported verification period was only nine months instead of 12. Campus Purchasing explained that the reported verification period was an oversight and a 12-month verification period will be properly implemented in the future.  Per UC Annual Verification Standards and Procedures, independent accountants/internal auditors must identify suppliers and independent contractors performing services under contracts with UC for one full year from the contracts effective date or most recent verification period end date. | Management should review verification forms to ensure independent accountants/internal auditors identify suppliers and independent contractors performing services under contracts with UC for one full year from the contracts effective date or most recent verification period end date. This will ensure that all suppliers/independent contractors are verified for the required time frame and will better align with UC Annual Verification Standards and Procedures. | Management will review verification forms to ensure independent accountants/internal auditors identify suppliers and independent contractors performing services under contracts with UC for one full year from the contracts effective date or most recent verification period end date. |

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