UCLA HEALTH – FAIR WAGE/FAIR WORK

AUDIT REPORT #19-601201

Audit & Advisory Services

August 2019

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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 the requirements as they pertain to suppliers. UCLA Audit & Advisory Services (A&AS) has conducted such an audit of UCLA purchasing departments’ procedures. This is the third annual audit.

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 plan guaranteed that UC employees hired to work at least 20 hours a week would be paid at least $13 an hour by October 1, 2015, increasing to $15 an hour by October 1, 2017. The plan also requires certain suppliers to pay their employees the UC Fair Wage (defined as $15 per hour as of October 1, 2017). As part of the FW/FW plan, UC is to monitor wages for suppliers’ employees.

For service agreements that exceed $100,000 annually, the supplier, at its own expense, must have an annual compensation audit. These audits are to be performed by the supplier’s independent auditor or independent internal audit department “in compliance with UC’s required audit standards and procedures” to assess the supplier’s compliance with the plan. Such suppliers must also provide a UC Fair Wage/Fair Work Independent Accountant/Internal Auditor Verification annually, no later than 90 days after each one-year anniversary of an agreement’s effective date, for the twelve months immediately preceding the anniversary date. Additionally, in the event of a UC interim audit, the supplier must ensure that its auditors make available to UC their FW/FW workpapers for the most recently audited time period.

To implement the plan, campus purchasing departments must identify and monitor all contracts subject to the FW/FW provisions, including those vendors with approved exemptions. Any supplier exempted from the FW/FW provisions must be approved by a campus senior procurement officer or by the systemwide Chief Procurement Officer. For service agreements that exceed $100,000 annually, the campus purchasing departments should remind the suppliers of the FW/FW audit requirements before the agreement’s anniversary date and request the annual FW/FW Independent Accountant/Internal Auditor Verification.

Purpose and Scope

The purpose of the audit was to evaluate compliance with the FW/FW plan. The scope of the audit covered activities that UCLA Health Procurement & Strategic Sourcing (Procurement) performs in order to monitor and assure vendor compliance with the requirements specified by the plan.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included procedures considered necessary in achieving the purpose. Discussions were held with management, and a limited number of contracts was reviewed*.*

Summary Opinion

The Senior Director is cognizant that the FW/FW plan continues to be a high priority initiative of the University of California President and, therefore, requested funds from senior management for an individual to work on the FW/FW project. A consultant was hired in September 2018 but was later dismissed in December 2018, as it was deemed that a full-time equivalent was better suited to the purposes and goals for the FW/FW project. A Contracts Administrator was hired in May 2019. In addition, the responsibilities of the Service Buyer were changed to include and to focus on the FW/FW project.

Procurement implemented a process to identify and to monitor vendor contracts subject to the University's FW/FW requirements. Their efforts are ongoing to:

* Identify and monitor all contracts subject to the FW/FW provision
* Solicit all covered vendors to execute the FW/FW Amendment to Agreement
* Solicit the annual verification forms from vendors for which procured services exceed $100,000, attesting to their compliance with the annual FW/FW audit procedures
* Assure proper justification and approvals for any vendor exempted from the FW/FW provisions

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

Audit Results and Recommendations

| **#** | **FINDING and CRITERIA** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| 1 | Contract Population for Monitoring  Procurement implemented a process this year to identify and to monitor contracts subject to the University's FW/FW requirements. The process identified most, but not all, of the contracts that would be subject to the University's FW/FW requirements. Seven natural class codes were used to identify the contracts from the raw data extracted from Infor Lawson, UCLA Health’s procurement system. The auditor’s review of the raw data showed that other natural class codes were also used for service contracts.  As of June 26, 2019, Procurement has identified 201 contracts that are subject to the University's FW/FW requirements.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UC Business and Finance Bulletin BUS-43, Purchases of Goods and Services; Supply Chain Management (BUS-43), III, Part 1, E.1.d.i. [Fair Wage/Fair Work] General Requirements: University of California requires that Suppliers of Fair Wage/Fair Work Services, including Suppliers of Public Works, pay their employees performing the Services no less than the UC Fair Wage. | A&AS informed the Director of this concern during the audit. Steps were taken to review the raw data again for any contracts that were initially missed. A&AS supports Procurement’s efforts to ensure that all contracts subject to the University’s FW/FW are identified and included for monitoring. | Procurement continues its efforts to retroactively ensure that all appropriate existing agreements are amended with the FW/FW requirements.  The procedure for reviewing and executing new agreements includes a three-step process to ensure compliance with the FW/FW requirements. When submitting a service agreement for review, departments are required to respond to a question about work being performed on a UCLA site. Additionally, at the point of assignment, the FW/FW buyer reviews the agreement to validate the department’s response and, as appropriate, will update the contract assignment form to include the FW/FW requirement. Finally, it is the responsibility of the contracts analyst to ensure, when appropriate, that the applicable FW/FW requirement is made part of the agreement. |
| 2 | FW/FW Provision Language in Contracts  Procurement reviewed all 201 contracts identified in Item #1 above for the presence of FW/FW provision language. They identified 83 contracts lacking the language. As of June 26, 2019, the FW/FW Amendment to Agreement form has been sent to vendors for 44 of the 83 contracts. Thus far, Procurement has received 11 executed FW/FW Amendment to Agreement forms.  The auditor’s limited review of a sample of contracts executed in calendar year 2018 showed that the FW/FW provision language in them is consistent between the contract and the applicable version of the standard terms and conditions.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS-43, III, Part 1, E.1.d.ii. [Fair Wage/Fair Work] Contracting Procedures: All contracts for UC Fair Wage/Fair Work Services must contain a provision substantially in the form of the UC Fair Wage/Fair Work Article [25] in the UC Terms and Conditions of Purchase. | A&AS supports the continued efforts of Procurement to ensure that the FW/FW Amendment to Agreement form is provided and executed for all contracts that lack the FW/FW provision language.  If a vendor is unresponsive, management should determine whether the contract should be cancelled with the vendor or whether the vendor should be granted an exemption from the FW/FW requirements to allow the contract to continue. If the latter, management should assure that proper documentation and approvals are completed. | At the time of the audit, 201 contracts were identified as part of Item #1, above. With additional review and scrutiny of existing agreements, an additional 39 agreements were identified as possible candidates for the FW/FW requirements, thus adjusting the total to 240 agreements.  Though at the time of the audit, Procurement indicated that FW/FW may apply to 83 of the 201 agreements and, even after the addition of 39 agreements, it was finally determined that only 59 agreements required FW/FW amendments. Possible reasons for the reduction in numbers were expired agreements, FW/FW not applicable, and another agreement replaced an existing agreement.  As of this response date, the FW/FW Amendment to Agreement form has been sent to all vendors (59), and 25 have been accepted and returned. Follow-up contact has been made for all outstanding amendments. Procurement has determined that it will send out two reminders, and a third reminder will put the vendor on notice of cancellation for failure to respond. |
| 3 | Vendor FW/FW Audits  Procurement reviewed all 201 contracts identified in Item #1 above to identify contracts with an annual service spend exceeding $100,000 for calendar year 2018. Thirty-two (32) contracts met the criterion.  As of June 26, 2019, the Annual Verification Standards and Procedures for UC Fair Wage/Fair Work and UC Fair Wage/Fair Work Independent Accountant/Internal Auditor Verification forms have been sent to vendors for 27 of the 32 contracts. To-date, Procurement has received one completed auditor verification form. The audit was performed by an independent licensed public accountant with no affiliation with the supplier. The accountant noted no exceptions.  For purposes of this fiscal year’s audit, the review of a contract with an annual service spend exceeding $100,000 for calendar year 2018 was performed on a UCLA campus contract. Please refer to Audit #19-4011, Fair Wage/Fair Work – Campus for details. | A&AS supports the continued efforts of Procurement to ensure that the UC Fair Wage/Fair Work Independent Accountant/Internal Auditor Verification form is sent to the remaining vendors with contracts with an annual service spend exceeding $100,000 and that completed forms are received from all the relevant vendors.  If a vendor is unresponsive, management should determine whether the contract should be cancelled with the vendor or whether the vendor should be granted an exemption from the FW/FW requirements to allow the contract to continue. If the latter, management should assure that proper documentation and approvals are completed. | As stated above in Item #2, the total number of potential FW/FW agreements increased to 240. The new total did not change the number of required FW/FW audits (32).  As of this response date, only one audit has been returned.  Follow-up contact has been made for all outstanding audits. Procurement has determined that it will send out two reminders, and a third reminder will put the vendor on notice of cancellation for failure to respond. |
| 4 | FW/FW Exemptions  Management has not yet granted any formal exemptions to the FW/FW plan but has indicated that they would use the standard templates available at the UCOP Procurement Services website (https://ucop.edu/procurement-services/policies-forms/fw-fw-ppaca-resources/fwfw-exception-template.docx; https://ucop.edu/procurement-services/policies-forms/fw-fw-ppaca-resources/fwfw-after-the-fact-exception-template.docx) to document such exemptions.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS-43, III, Part 1, E.1.d.iii. [Fair Wage/Fair Work] Exceptions: Any exceptions to this Policy must be approved by the Policy Exception Authority. The Fair Wage/Fair Work provision does not allow any exceptions after a contract has been signed with the sole case of when UC determines there is no other alternative provider within the required time frame. In such cases the Policy Exception Authority must document such approval in writing. | Management should assure that proper documentation and approvals are completed for any vendor that is granted an exemption from the FW/FW requirements. | Agree. As of this response date, no FW/FW exemptions have been approved. |

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REP