**UC** **RIVERSIDE: AUDIT & ADVISORY SERVICES**

Date: July 21, 2017

To: Bobbi A McCracken, Associate Vice Chancellor

Business & Financial Services

Subject: Systemwide Audit of the Fair Wage/Fair Work Policy

Ref: R2017-12

We have completed our Systemwide audit of the Fair Wage/Fair Work Policy in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2017-12 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore

Director

xc: Audit Committee Members

Matthew Hicks, Systemwide Audit Director

Ellery Triche, Director of Procurement Services

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

INTERNAL AUDIT REPORT R2017-12

SYSTEMWIDE AUDIT OF THE FAIR WAGE/FAIR WORK POLICY

July 2017

Approved by:

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Niloufar Alian

Principal Auditor

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Rodolfo Jeturian

Assistant Director

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Director

**UC RIVERSIDE**

**FAIR WAGE/FAIR WORK POLICY**

**INTERNAL AUDIT REPORT R2017-12**

**JULY 2017**

1. **MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that there was no existing process to monitor UCR compliance with the Fair Wage/Fair Work Policy prior to our audit. The observations are summarized in section III of this report.

Accounting Services has recently hired a new Director of Procurement Services and Procurement Manager who are presently leading the development and implementation of such process to ensure that UCR is in compliance with the Fair Wage/Fair Work Policy.

1. **INTRODUCTION**
   1. **PURPOSE**

As directed by the University of California (UC) Systemwide Audit Director, Audit & Advisory Services (A&AS) reviewed the Procurement Services operation to determine if University of California, Riverside (UCR) maintains adequate and effective internal controls and is in compliance with the UC Systemwide Fair Wage/Fair Work policy.

* 1. **BACKGROUND**

According to the University of California Terms and Conditions of Purchase (Article 24/Prevailing Wages), “suppliers will be solely responsible for tracking and ensuring proper payment of prevailing wages regardless if services are partially or wholly subject to prevailing wage requirements. In every instance, suppliers will not pay less than the UC Fair Wage (defined as $13 per hour as of 10/1/2015, $14 per hour as of 10/1/2016, and $15 per hour as of 10/1/2017) for services performed at a UC location (defined as any location owned or leased by UC).”

In addition, according to the University of California Terms and Conditions of Purchase (Article 25 /Fair Wage/Fair Work), “for services that exceed $100,000 annually and are not subject to prevailing wage requirements, suppliers will a) at supplier’s expense, provide an annual independent audit standards and procedures concerning supplier’s compliance with this provision, and b) ensure that in the case of a UC interim audit, its auditor makes available to UC its UC Fair Wage/Fair Work work papers for the most recently audited time period. Supplier agrees to provide UC with a UC Fair Wage/Fair Work certification annually, in a form acceptable to UC, no later than ninety days after each one-year anniversary of the agreement’s effective date, for the twelve months immediately preceding the anniversary date.”

* 1. **SCOPE**

We reviewed and evaluated Procurement Services control environment, processes and procedures through interviews of appropriate personnel as well as our independent observations. Specifically, we performed the following:

* Requested from Procurement Services the current list of all contracts with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions that were granted.
* Inquired about the process by which Procurement Services ensures the completeness of the list of contracts with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions and identified any opportunities for improvement in this process.
* Obtained and reviewed all contracts with the Fair Wage/Fair Work provision executed from October 1, 2015 to December 31, 2016. We then selected a judgmental sample of five contracts to determine if the Fair Wage/Fair Work provision language is consistent with the language in the applicable version of the standard terms and conditions.
* Requested to review the certification forms for all contracts with services that exceed $100,000 within the last year, if any to determine if the supplier’s annual audit was conducted appropriately by an external audit firm.
* Requested to review the work papers and the audit report for the annual audit from one supplier in the selected sample to determine if the required audit procedures noted in the audit report were followed correctly.
* Requested to review the list of exceptions granted to the Fair Wage/Fair Work provision and validate that the documented approval from the senior procurement official at the location is on file.
  1. **INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

* Effectiveness and efficiency of operations
* Reliability of financial reporting
* Compliance with applicable laws and regulations

Substantive audit procedures were performed from April through June 2017. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

1. **OBSERVATIONS, COMMENTS, AND CORRECTIVE ACTION PLANS**

**Fair Wage/Fair Work Policy**

Procurement Services did not have adequate controls in place to monitor UCR compliance with the Fair Wage/Fair Work Policy prior to this audit. All Purchase Order (PO) agreements have the Fair Wage/Fair Work provision in them. The process to monitor compliance (and be able to generate a report) is for buyers to check a box in the eBuy system to confirm that the order was subject to Fair Wage/Fair Work. However, we observed that not everyone was consistently checking the box, and the eBuy system was deleting, or not recording it in order to generate an accurate report. Procurement Services had to manually audit a PO list to determine which POs were applicable. We have since confirmed that this eBuy system issue has been corrected.

We also interviewed various personnel to determine if periodic reviews of contracts for Fair Wage/Fair Work compliance (as a best practice) are performed by Procurement Services. Based on the results of our interviews, we determined that periodic reviews of all the contracts were not conducted timely.

Furthermore, we reviewed this list to identify the contracts exceeding $100,000 for the period October 1, 2015 to December 31, 2016. From the same list, we judgmentally selected a sample of five suppliers with the cost exceeding $100,000, performed the required procedures, and noted observations and opportunities for improvements as follows:

**Positive Observations**

* We obtained and reviewed the audit report for the one supplier who provided the annual certification to determine if the supplier was in compliance with the Fair Wage/Fair Work policy and it appears that the audit was done appropriately. Additionally, we contacted two suppliers in our selected sample to determine if these suppliers were aware and informed by UCR personnel regarding the provisions of the Fair Wage/Fair Work policy. We determined that Procurement Services communicated the provisions of the Fair Wage/Fair Work policy in a timely manner for suppliers that were required to comply with policy.
* We requested and obtained a list of all suppliers that were eligible for policy exceptions from Procurement Services. An approved exception document was provided by Procurement Services for one supplier. Based on our conversation with Procurement Services, this supplier was the only one that was eligible for an approved exception.

**Opportunities for Improvement**

* We reviewed all selected five sample agreements to determine if the Fair Wage/Fair Work provisions (Article 24 and Article 25) were included in each agreement in accordance with the Fair Wage/Fair work policy. We observed that the Fair Wage/Fair Work provision was not included in one supplier’s agreement and respective purchase order (PO).
* We requested to obtain copies of the respective certifications in order to determine if the suppliers were audited annually by an external audit firm in accordance with the policy, and notify UCR by submitting the corresponding certifications to the Procurement Services Office. We also contacted one supplier’s external audit firm to confirm and review the audit report and respective work papers in addition to reviewing the certification. We determined that that the supplier was audited by an external firm in accordance with Fair Wage/Fair Work policy, however, no certification was submitted to UCR Procurement Services prior to UCR’s audit.

**Corrective Action Plan**

Procurement Services initiated a review of all the contracts and provided A&AS with the results. In addition, the newly hired Procurement Services Director and Procurement Manager are implementing continuous monitoring over all the service contracts to enhance this process.

**Expected Implementation Date**

Implemented

**Corrective Action Plan**

Procurement Services started contacting all the suppliers with the cost exceeding $100,000 or more to request copies of the certifications. One supplier provided a copy of the certification after they received the letter from Procurement Services.

**Expected Implementation Date**

December 31, 2017