UCLA CAMPUS – FAIR WAGE/FAIR WORK

AUDIT REPORT #19-4011

Audit & Advisory Services

October 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 an audit of UCLA Campus and Health Sciences purchasing departments’ procedures with regard to FW/FW. This report covers the review of the Campus Purchasing department.

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 wage and working conditions 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 Auditor Certification annually, no later than 90 days after each one-year anniversary of an agreement’s effective date, for the 12 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 work papers 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 Auditor Certification.

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 Campus Purchasing performs in order to monitor and assure vendor compliance with the requirements specified by the plan. The scope of the review focused on the following:

* Determine whether applicable contracts and/or purchase orders contain the required FW/FW provision.
* Evaluate the effectiveness of Campus Purchasing monitoring procedures to ensure compliance with FW/FW requirements.
* Verify that FW/FW provision exceptions were properly approved by the Chief Procurement Officer.
* Validate whether suppliers complied with the FW/FW annual certification audit requirements.

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

Summary Opinion

Based on the results of the work performed within the scope of the audit, UCLA Campus Purchasing has made significant progress in enhancing controls and procedures for monitoring supplier compliance with FW/FW requirements since the plan’s inception. Campus Purchasing records indicated that the FW/FW provisions, incorporated as Article 25 of the UC Terms and Conditions of Purchase, are properly included in service agreements subject to the FW/FW plan. Campus Purchasing has also implemented processes to identify and track suppliers with services that exceed $100,000 in total annual expenditures that are subject to the annual audit certification requirement. Enhanced monitoring procedures have contributed to a higher response rate than prior years for the receipt of annual audit certifications from suppliers.

For fiscal year 2017-18, Campus Purchasing received 64 audit certifications as compared to 10 certifications received for fiscal year 2016-17. In addition, a formal documentation process has been implemented to approve exemptions to FW/FW requirements. A&AS noted that policy exemptions granted by Campus Purchasing for 19 suppliers had documented approval by the Chief Procurement Officer. The majority of the exemptions were related to approval of time extension for the supplier to complete the annual audit certification.

While the UCLA Campus Purchasing department has continued to make improvements since the prior audit, opportunities exist to further strengthen controls to increase compliance with FW/FW requirements by implementing the following:

* Document departmental procedures to formally define the parameters and the process for identifying and monitoring vendors subject to the FW/FW provisions.
* Enhance review procedures to ensure that the certification/verification received from suppliers are completed and signed by an independent auditor, and appropriate corrective actions have been taken to resolve any noted exceptions related to FW/FW requirements.
* Consider enhancing the tracking spreadsheet to identify and flag returned certifications with exceptions noted by the auditor, as well as, document any necessary follow up actions taken to ensure the supplier fully complies with FW/FW standards.
* Continue to work with the applicable suppliers to address the findings identified by A&AS related to certifications not being signed by an independent auditor and outstanding corrective actions to resolve exceptions reported in the certification forms.

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. | Contract Monitoring  Although Campus Purchasing maintains a spreadsheet with suppliers of expenditures of $100,000 or more and notes which of these vendors are believed to be subject to FW/FW requirements, the process is not completely documented. Management indicated that they are continuing to develop written procedures, but this will not be completed until the end of June 2019. Without adequate written procedures in place for this process, institutional and organizational knowledge could be at risk of loss in the event of staff attrition and/or unexpected separation from the University. | Management should complete written departmental procedures to formally define the parameters and the process for identifying and monitoring vendors subject to the FW/FW provisions. Such procedures can be used to guide current and future Purchasing staff, and enable management and staff to carry out their responsibilities as efficiently and effectively as possible. | Management agrees with the recommendation and has completed written procedures as of June 2019 – or, if they aren’t completed – will complete written procedures by September 2019. |
| 2. | FW/W Annual Audit Certifications  The Campus Purchasing department maintains a spreadsheet that identifies and tracks all suppliers with services that exceed $100,000 in total annual expenditures that are subject to the annual audit certification requirement. For fiscal year 2017-18, the Campus Purchasing department received 64 audit certifications compared to 10 certifications for fiscal year 2016-17.  A&AS reviewed all 64 certifications to determine whether the certification form was properly completed in accordance with FW/FW standards, and to ensure that corrective actions were taken to resolve any non-compliance exceptions reported on the certification form. Based on our review, the following was identified:   * Three certifications appear to have been signed by the supplier’s President, Administrative Assistant, or Legal Counsel rather than a public accounting firm or the supplier’s internal audit department, as required by the FW/FW annual verification standards. * Eight audit certifications identified exceptions in which some employees were paid less than the required Fair Wage rate. In six of the eight cases, the applicable auditor indicated that corrective actions have been or are being taken to adjust employee wages to the UC Fair Wage rate. For the two outstanding cases, management is still in communication with the supplier to validate that payroll adjustments have occurred to comply with the UC Fair Wage rate.   A&AS also obtained work papers for one supplier and validated that wages were examined in accordance with the FW/FW Annual Audit Standards and Procedures. | Management should further enhance the review process over audit certifications/verifications to verify that they are completed by an independent auditor in accordance with FW/FW requirements, and to ensure that corrective actions are taken as necessary for any non-compliance exceptions reported on the audit certification forms.  Management should consider enhancing the tracking spreadsheet to identify and flag returned certifications with exceptions noted by the auditor, as well as document any necessary follow up actions taken to ensure the supplier fully complies with FW/FW standards.  Management should continue to work with the applicable suppliers to address the findings identified by A&AS related to certifications not being signed by an independent auditor and outstanding corrective actions to resolve exceptions reported in the certification forms. | Management agrees with the recommendation and will document a step in the process to verify that certifications/verifications are completed by an independent auditor in accordance with the requirements. In cases where this isn’t done, we will work with the vendor to obtain an appropriately signed certification.  Management will enhance the tracking spreadsheet to flag returned certifications with noted exceptions along with follow up plans to remedy the exception. All follow up actions will be documented.  Management will continue to work with the applicable suppliers to address any findings by A&AS and ensure corrective actions are taken. |

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