UCLA CAMPUS – FAIR WAGE/FAIR WORK

AUDIT REPORT #20-4004

Audit & Advisory Services

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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 land ground leased to or from UC, that fall within UCOP guidelines outlined effective 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. 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, 2019 to December 31, 2019, there were 76 supplier contracts and one real estate lease subject to the FW/FW annual verification requirement. During 2019, one supplier was 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 system-wide 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, 2019 through December 31, 2019) 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.
* 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. 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:

* Campus Purchasing should continue its efforts to follow up and work with suppliers to ensure that the meaning of an independent auditor is well understood and obtain confirmation, where necessary, to verify that the suppliers’ internal auditor is indeed independent.
* The standard exception template developed by UCOP should be used on a go-forward basis to document the Chief Procurement Officer’s approval of any FW/FW policy exception granted to suppliers.

UCLA Real Estate determined that there was only one lease subject to FW/FW during 2019 and the appropriate FW/FW language was incorporated into the lease amendment; however, an annual verification form was not solicited and obtained from the tenant to ensure compliance with FW/FW policy requirements. UCLA Real Estate should develop procedures to monitor the receipt of annual verification forms and perform follow-up as necessary to ensure that tenants/licensees comply with FW/FW requirements.

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. | Annual Supplier Verification Compliance Monitoring A&AS reviewed all 75 verification forms completed by suppliers to ensure that verification forms were properly completed and corrective actions were taken to address non-compliance exceptions reported by the independent accountant/internal auditor. Based on review of the 75 verification forms, the following was identified: * The majority of suppliers (70 of 75 or 93%) completed verification forms with no fair wage exceptions identified by the independent accountant/internal auditor.
* Five suppliers had fair wage exceptions identified by the independent accountant/internal auditor. For all five cases, Campus Purchasing followed up with the supplier to confirm that appropriate retroactive payroll adjustments were made.
* Four audit verification forms appear to have been signed by a member of the supplier’s management personnel and A&AS was unable to determine whether the verification was completed by an independent accountant/internal auditor. Campus Purchasing explained that additional follow up was not performed because the “Internal Auditor” box was checked on the verification form indicating that the individual reported directly to an independent board.
 | Campus Purchasing should continue its ongoing efforts to improve supplier compliance with FW/FW requirements, including following up with suppliers where necessary to ensure that the meaning of an independent auditor is well understood and confirmation is obtained to verify that the suppliers’ internal auditor is indeed independent.  | Campus Purchasing is conducting regular follow up with suppliers to ensure compliance with FW/FW requirements and is meeting with suppliers to ensure understanding of, and compliance with, utilizing an independent auditor. |
| 2 | FW/FW Exception Process For calendar year 2019, one supplier was granted an exception to the annual verification requirement. The exception was documented using an internal memo developed by UCLA Campus Purchasing and was approved by the Chief Procurement Officer. Going forward, Campus Purchasing should use the standard exception template developed by UCOP to document the approval of any FW/FW policy exception granted to suppliers. Exception documentation should be maintained for any exceptions to the annual verification requirement, including exceptions granted to suppliers where compensation is determined to apparently be above the Fair Wage rate (e.g. PwC, Huron Consulting, Total Recall Captioning) based on the 100K spend analysis performed by Campus Purchasing. The three types of exception/exemption forms include:* Professional Services Exemption (new form developed by UC Procurement in 2019) – to qualify for the exemption, supplier must pay employees rate not less than $15 per hour throughout the term of the agreement and must stipulate rates in the agreement. The form is signed by the supplier.
* Policy Exception Request (before a contract is signed) – includes explanation for what exceptions to policy are requested (e.g., annual verification hardship), reason that exception is requested, and approval/sign-off by the Chief Procurement Officer.
* After-the-Fact Policy Exception (after contract is signed) – includes explanation for what exceptions to policy are requested (e.g., annual verification hardship), reason that exception is requested, and approval/sign-off by the Chief Procurement Officer.
 | Campus Purchasing should use the standard exception template developed by UCOP on a go-forward basis to document the approval of any FW/FW policy exception granted to suppliers. | The UCOP exception template has been adopted and is being utilized to document FW/FW policy exception approvals.Campus Purchasing is including explanation for what exceptions to policy are requested (e.g., annual verification hardship), reason that exception is requested, and approval/sign-off by the Chief Procurement Officer for After-the-Fact Policy Exceptions. |
| 3 | Real Estate FW/FW Compliance Based on discussions with UCLA Real Estate, there was one lease executed in calendar year 2019 in which the FW/FW applied using the guidelines provided by Systemwide Real Estate Services and Strategies (RESS). The lease was related to a food court tenant administered by the Associated Students of UCLA and A&AS verified that the appropriate FW/FW language was incorporated into the lease amendment. UCLA Real Estate indicated that processes are currently not in place for soliciting annual verifications from tenants and monitoring compliance with FW/FW documentation requirements. Protocols/procedures will be developed on a go-forward basis to ensure that tenants complete an annual verification of compliance in accordance with FW/FW requirements.  | UCLA Real Estate should develop procedures to monitor the receipt of annual verification forms and perform follow-up as necessary to ensure that tenants and licensees comply with FW/FW requirements.  | Real Estate has already implemented a procedure to collect the verification of FWFW compliance forms annually. Note that it was not previously a requirement for the Real Estate Department to collect such verifications for leases where we are the landlord until early this year when RESS at OP issued new guidance. Prior to this it was up to the UCLA entity administering the lease.  |

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