# RIVERSIDE: AUDIT & ADVISORY SERVICES

September 24, 2020

To: Bobbi McCracken, Associate Vice Chancellor

 Business & Financial Services

 Thomas Toepfer, Executive Director

 Real Estate Services

Subject: Internal Audit of the UC Fair Wage / Fair Work Plan Compliance

Ref: R2020-13

We have completed our campus audit of the UC Fair Wage/Fair Work Plan Compliance in accordance with the UCR 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 R2020-13 will remain open until we have evaluated the actions taken.

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

 Gregory Moore

 Director

cc: Ethics & Compliance Risk and Audit Controls Committee

 Systemwide Audit Director Hicks

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2020-13

UC FAIR WAGE / FAIR WORK PLAN COMPLIANCE

SEPTEMBER 2020

 Approved by:

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Principal Auditor Assistant Director

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 Gregory Moore

 Director

**UC RIVERSIDE**

**UC FAIR WAGE / FAIR WORK PLAN COMPLIANCE**

**INTERNAL AUDIT REPORT R2020-13**

**SEPTEMBER 2020**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that, overall, the system of internal controls over the UC Fair Wage / Fair Work Plan is operating satisfactorily and is generally in compliance with University policies and procedures.

Procurement Services has made significant progress implementing management practices and operating procedures to ensure compliance with UC Fair Wage / Fair Work Plan requirements. (Observation III.A.)

Real Estate Services has not required other parties (e.g., lessees, licensees, and landlords) to leases and licenses covered by the UC Fair Wage / Fair Work Plan to provide annual verification of their compliance. (Observation III.B.)

Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

**II. INTRODUCTION**

 **A. PURPOSE**

As directed by the UC Systemwide Audit Director, UCR Audit & Advisory Services (A&AS) reviewed Procurement Services and Real Estate Services operations to determine if the Campus maintains adequate and effective internal controls and complies with the UC Fair Wage / Fair Work Plan requirements.

 **B. BACKGROUND**

In July 2015, UC President Janet Napolitano announced a new minimum wage plan for UC employees entitled “UC Fair Wage / Fair Work Plan” (the Plan). Under the Plan, a wage schedule assures a minimum wage of $15 per hour by 2017. In Business and Finance Bulletin Number 43 (BUS-43), Materiel Management, the Plan requires that contractors doing business with UC guarantee hourly wages per a designated wage schedule. The Plan contains built-in exceptions and allows senior procurement officers and/or location decision makers to issue exceptions on a case-by-case basis.

***Procurement***

According to UC 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, “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 verification performed by an independent accountant or independent internal audit department in compliance with UC’s required verification standards and procedures, concerning supplier’s compliance with this provision, and (b) ensure that in the case of a UC interim audit, its independent accountant / independent internal auditor makes available to UC its UC Fair Wage / Fair Work workpapers for the most recent verification period. Supplier agrees to provide UC with a UC Fair Wage / Fair Work verification 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.”

***Real Estate***

The Plan applies to payment for work performed in UC locations, deemed to include leased and licensed space whether UC is the landlord/licensor or tenant/licensee of space, and land ground leased to or from UC, that fall within specific guidelines.

For any lease, license, or ground lease covered by the Plan, the applicable agreement shall include provisions that require the other party (e.g., lessee, licensee, landlord) to (1) comply with the Plan for all of their employees working more than 20 hours per week in premises covered by the applicable agreement, (2) post a notice in the premises in all break rooms and other public notice areas which notice clearly references the Plan's applicability to the other party's employees, and (3) provide a verification on an annual basis that they have complied with the Plan.

 **C. SCOPE**

***Procurement***

Reviewed and evaluated Procurement Services business processes and control activities to ensure compliance with the Plan. Deliberated department processes with the Procurement Analyst and performed independent tests and analyses of records and procedures, including but not limited to the following:

* Obtained the current list of all procurement contracts with the Fair Wage / Fair Work provision and all Fair Wage / Fair Work policy exceptions granted.
* Reviewed 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.
* Identified all contracts with the Fair Wage / Fair Work provision executed in 2019. Based on Procurement Services records, such contracts were associated with 492 unique vendors. Selected a judgmental sample of 25 vendors and reviewed related purchase orders to verify that the Fair Wage / Fair Work provision language is consistent with the language in the applicable version of the standard terms and conditions.
* Obtained and reviewed available annual verification forms for all contracts for services that exceeded $100,000 in 2019. Verified appropriateness of contracts pre-certified for professional services exemption. Evaluated the adequacy of Procurement Services’ process to monitor and follow-up annual verification forms with suppliers.
* Selected and reviewed one supplier annual verification form to validate that the independent accountant or internal auditor performed verification in compliance with UC verification standards and procedures.

***Real Estate***

Reviewed and evaluated Real Estate Services business processes and control activities to ensure compliance with the Plan. Discussed department processes with Real Estate Services personnel and performed independent tests and analyses of records and procedures, including but not limited to the following:

* Obtained the current list of all leases and licenses with the Fair Wage / Fair Work provision and all Fair Wage / Fair Work policy exceptions granted.
* Reviewed the process by which Real Estate Services ensures the completeness of the list of leases and licenses with the Fair Wage / Fair Work provision and all Fair Wage / Fair Work policy exceptions.
* Identified 15 leases and licenses executed in 2019, based on Real Estate Services records. Selected a judgmental sample of two leases and reviewed the underlying agreements to verify that the Fair Wage / Fair Work provision language is consistent with the Fair Wage/Fair Work section in the standard lease/license forms prescribed.
* Evaluated the adequacy of Real Estate Services’ process to monitor, follow-up, and obtain from lessees, licensees, and/or landlords their annual verifications of compliance with the Plan.

**D. 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 during May through July 2020. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS**

**A. *Procurement –* Services that Exceed $100,000 Annually**

Procurement Services has made significant progress implementing management practices and operating procedures to ensure that suppliers that provide services that exceed $100,000 per year comply with the UC Fair Wage / Fair Work Plan annual independent verification requirement.

COMMENTS

For services that exceed $100,000 annually and not subject to prevailing wage requirements, suppliers must provide, at the suppliers’ expense, annual independent verifications performed by licensed public accounting firms or the suppliers’ independent internal audit departments. The suppliers agree to provide UC with a UC Fair Wage / Fair Work verification annually, in a form acceptable to UC, no later than ninety (90) days after each one-year anniversary of the agreement’s effective date, for the twelve months immediately preceding the anniversary date. Prior to anniversary dates, Procurement Services should send a written notice to suppliers to remind them of the audit and verification requirements.

Based on our review of Procurement Services records and procedures to monitor vendors/contracts for services that exceed $100,000 in 2019, 16 vendors are required to provide annual verification of compliance with the Plan. Of the 16 annual verification forms required from vendors, as of June 30, 2020, nine forms have been received, five were not yet due, and two were past their due dates and have not yet been received. Procurement sends timely reminders to all suppliers about the annual verification requirement and expects to receive the overdue verification forms soon.

RECOMMENDATIONS

Procurement Services should continue to properly identify contracts subject to UC Fair Wage / Fair Work Plan requirements, monitor contracts for services exceeding $100,000 annually, and ascertain compliance with annual independent verification requirements by sending timely reminders to suppliers and applying appropriate follow up procedures.

MANAGEMENT RESPONSE

Concur. Procurement will continue our monitoring efforts and follow through with terminating agreements for non-compliance with reporting requirements as appropriate.

**B. *Real Estate –* Annual Verification Requirement**

Real Estate Services has not required other parties (e.g., lessees, licensees, and landlords) to leases and licenses covered by the Plan to provide annual verification of their compliance with the Plan.

COMMENTS

Based on the results of our efforts to obtain a current list of all leases, licenses, and ground leases and our evaluation of the manner in which Real Estate Services initially delivered, repeatedly revised, and eventually finalized the list, it appears that Real Estate Services does not have a demonstrable process for ensuring the completeness of its inventory of leases, licenses, and ground leases with the UC Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions.

In addition, Real Estate Services does not maintain an annual verification document or prescribe a form that other parties should use to certify compliance with the Plan. Consequently, Real Estate Services has not required other parties to leases and licenses covered by the Plan to provide annual verification of their compliance with the Plan.

RECOMMENDATIONS

Real Estate Services should develop and implement a process for maintaining a complete and accurate inventory of leases and licenses. Real Estate Services should identify every lease, license, or ground lease covered by the Plan and ensure that UC Fair Wage / Fair Work provision language is included in the agreements. Real Estate should require other parties to leases and licenses covered by the Plan to provide annual verification of their compliance with the Plan.

MANAGEMENT RESPONSE

Concur. Real Estate Services will develop and implement a system to identify every lease agreement covered by the UC Fair Wage / Fair Work Plan and track and obtain annual verification of compliance with the Plan.

Expected Implementation Date

Real Estate Services will implement the Management Corrective Action stated above and address all audit observations by July 1, 2021.