# RIVERSIDE: AUDIT & ADVISORY SERVICES

July 11, 2019

To: Bobbi McCracken, Associate Vice Chancellor

Business & Financial Services

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

Ref: R2019-11

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 R2019-11 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 R2019-11

UC FAIR WAGE / FAIR WORK PLAN COMPLIANCE

JULY 2019

Approved by:

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Gregory Moore

Director

**UC RIVERSIDE**

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

**INTERNAL AUDIT REPORT R2019-11**

**JULY 2019**

**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.

UCR has made significant progress implementing management practices and operating procedures to ensure compliance with UC Fair Wage / Fair Work Plan requirements. Observations are discussed in Section III.

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 operations to determine if the Campus maintains adequate and effective internal controls and is in compliance with the UC Fair Wage / Fair Work Plan requirements.

**B. BACKGROUND**

In July 2015, 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 also allows senior procurement officers to issue exceptions on a case-by-case basis.

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.”

**C. SCOPE**

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

* Obtained from Procurement Services the current list of all contracts with the Fair Wage / Fair Work provision and all Fair Wage / Fair Work policy exceptions 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.
* Identified all contracts with the Fair Wage / Fair Work provision executed during the last year (January 1 to December 31, 2018). Based on Procurement Services records, such contracts were associated with 415 unique vendors. We 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 certification/verification forms for all contracts with services that exceed $100,000 in the last year.
* 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.
* Reviewed the list of exceptions granted to the Fair Wage / Fair Work provision to verify that documented approval from the senior procurement official is on file.

**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 June, 2019. 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**

**Services that Exceed $100,000 Annually**

UCR 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 written notice to suppliers to remind them of the audit and certification requirements.

At the time of audit fieldwork, Procurement records show that six contracts for services that exceed $100,000 had anniversaries that were between July 1, 2018 and June 30, 2019. Of these six service contracts subject to the annual verification requirement, four verification forms have been received. The two verification forms that have not been received were both past the agreement anniversary dates but not by more than 90 days. Procurement sends timely reminders to all suppliers about the annual verification requirement and expects to receive the two pending verification forms before the deadlines.

RECOMMENDATIONS

Procurement Services should continue to properly identify and track contracts subject to UC Fair Wage / Fair Work Plan requirements, categorize and monitor service contracts 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

Procurement Services will continue to monitor these contracts to ensure compliance with the UC Fair Wage/Fair Work Plan as well as enhance our tracking procedures.