# RIVERSIDE: AUDIT & ADVISORY SERVICES

August 22, 2018

To: Bobbi McCracken, Associate Vice Chancellor

 Business & Financial Services

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

Ref: R2018-12

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 R2018-12 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

 Procurement Director Triche

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2018-12

UC FAIR WAGE / FAIR WORK PLAN COMPLIANCE

AUGUST 2018

 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 R2018-12**

**AUGUST 2018**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that, overall, UCR and suppliers that provide services that exceed $100,000 annually are not compliant with UC Fair Wage / Fair Work Plan requirements. Observations are discussed in Section III.

**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 audit performed by supplier’s independent auditor or independent internal audit department in compliance with UC’s required 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 workpapers 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.”

 **C. SCOPE**

We reviewed and evaluated Procurement Services control environment, processes, and procedures through interviews of Procurement Analyst as well as our independent tests and 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.
* Identified all contracts with the Fair Wage / Fair Work provision executed during the last calendar year (January 1 to December 31, 2017). Based on Procurement Services records, such contracts were associated with 229 unique vendors. We then selected a judgmental sample of 23 (10%) vendors and reviewed related purchase orders 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, 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.

**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 April through June, 2018. 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 and suppliers that provide services that exceed $100,000 annually are not compliant with UC Fair Wage / Fair Work Plan requirements.

COMMENTS

For services that exceed $100,000 annually and not subject to prevailing wage requirements, suppliers must provide, at the supplier’s expense, certification of an annual independent audit performed by an independent auditor or an independent internal audit department. Audit results should be documented on a specified UC Fair Wage / Fair Work certification form and sent to UCR Procurement Services annually no later than 90 days after each 1-year anniversary of the agreement’s effective 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 18 contracts for services that exceed $100,000 had anniversaries that were between January 1, 2017 and June 30, 2018. Of the 18 service contracts subject to the annual audit and certification requirement, 2 were granted appropriate exception by Procurement management and only 4 certificates have been received. All 12 certificates that have not been received were more than 90 days past the agreement anniversary dates. Procurement did not send timely reminders to suppliers for 7 service contracts.

RECOMMENDATIONS

Procurement Services should adjust existing processes as necessary 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 audit and certification requirements by sending timely reminders to suppliers and applying appropriate follow up procedures.

MANAGEMENT RESPONSE

The following corrective actions will be implemented by August 31, 2018:

* Compile a new FW/FW supplier report that includes (1) incomplete certifications (work not completed); and (2) new suppliers requiring audit certifications at least 90 days from the date of the report (e.g., suppliers with anniversaries in August, September and October 2018).
* Buyers will send reminder letters to new suppliers on the list as soon as possible (within approximately 5 days of published reporting).
* Update the Procurement Services department standard operating procedure to require reminder letters to be released 90+ days before the anniversary date, versus on or after the anniversary date.
* Improve information/instructions in the supplier reminder letter to include: Supplier acknowledgement of letter receipt, with a required date to return the acknowledgement and to include the supplier’s commitment date to submit required certification to UCR.
* Improve buyer follow-up processes and procedures by adding:
	+ An additional reminder notation(s) on the FW/FW Tracking Worksheet and to the team’s shared MS Outlook calendar through flagging correspondences to generate auto email reminders for follow-up on both supplier acknowledgements of receipt and certification submittal due dates.
	+ FW/FW status update section will be added to the Buyer bi-weekly sourcing project activity reporting.
	+ Procurement Manager and buyers will include FW/FW in weekly update reporting. FW/FW follow-ups will remain an agenda item during regularly scheduled 1-on-1 and staff meetings with buyers.
* Update the current FW/FW standard operating procedure to include more effective procedures to review Campus POs/Agreements and DAPOs for FW/FW compliance
* Begin discussions with Information Technology Solutions (ITS) to evaluate automation of FW/FW data extraction on DAPOs.