

The logo for UCIrvine, featuring the letters 'UCIRVINE' in a large, black, serif font. The 'U' and 'C' are significantly larger than the other letters, and the 'I' is a thin vertical line. The letters are set against a light yellow background that is part of a horizontal bar.

UCIRVINE

The text 'INTERNAL AUDIT SERVICES' in a black, serif font, positioned to the right of a vertical line. This text is also on the light yellow background bar.

INTERNAL
AUDIT SERVICES

Fair Wage / Fair Work

Internal Audit Report No. I2018-603

August 9, 2018

Prepared By

Darlene Nunez, Senior Auditor
Larry Wasan, Senior Auditor

Reviewed By

Niran Joshi, Associate Director

Approved By

Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

August 9, 2018

**SNEHAL BHATT
CHIEF PROCUREMENT OFFICER AND DIRECTOR OF RISK SERVICES
PROCUREMENT SERVICES**

**SUSANNA RUSTAD
DIRECTOR OF PROCUREMENT AND SUPPLY CHAIN
PROCUREMENT SERVICES**

**RE: Fair Wage/Fair Work Audit
Report No. I2018-603**

Internal Audit Services has completed the Fair Wage/Fair Work review and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) conducted a review of the Fair Wage/Fair Work (FW/FW) program at the University of California, Irvine Medical Center and Campus. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures and/or best business practices. Specifically, the following concerns were noted.

Management of FW/FW Contracts – The Medical Center Procurement Office does not have an established process to ensure suppliers comply with FW/FW requirements. No list or database is maintained of contracts where FW/FW applies and there is no list of FW/FW policy exceptions. This is a recurring issue from prior year. These observations are discussed in V.1.

Certification/Annual Audit – As noted during the prior year audit, the Medical Center Procurement Office does not have a method of identifying FW/FW contracts in excess of \$100,000 to proactively follow-up on certifications/annual audits.

On the UCI Campus Procurement side, one of the five suppliers with contracts in excess of \$100,000 did not provide certification and was paying some of their employees less than \$15 per hour. Additionally, the company chosen for review of their FW/FW compliance audit procedures did not perform an independent audit as required by the FW/FW provision and as documented on the signed certification form. These observations are discussed in Section V.2.

II. BACKGROUND

University of California (UC) President announced at the July 22, 2015 Regents Meeting that a FW/FW program is to be adopted. This program is effective October 1, 2015 for all new agreements and renewed and extended agreements. New minimum wage plan for 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. FW/FW does not apply if the agreement:

- Is only for the furnishing of goods;

- Involves services not performed at one or more UC campuses, labs or medical centers;
- Involves services that are a Public Work with a wage determination *at or above* the UC Fair Wage; and
- Involves services funded by an extramural award containing sponsor-mandated terms and conditions (federal, state or private foundation, research grants)

For services that exceed \$100,000 annually, suppliers are required to perform an annual independent audit and certification, at the supplier's expense. Suppliers must also ensure its auditor makes available to UC its FW/FW work papers.

Procurement offices will contribute information to the location's database regarding agreements handled by buyers that contain FW/FW provision and for which an exception has been approved. For service agreements that exceed \$100,000 annually, remind suppliers of FW/FW audit requirement before the agreement's anniversary date. Buyers should receive certification forms from suppliers and forward a copy of certification to the internal auditor.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess whether the Medical Center and Campus Procurement Offices have implemented processes to ensure vendor compliance with the FW/FW work plan. The scope included a review of applicable contracts and selected transactions for review and testing from January 1, 2017 to December 31, 2017.

The audit included the following objectives:

1. Determine whether applicable contracts for services over \$100,000 comply with FW/FW requirements;
2. Determine if FW/FW contracts contain UC Terms of Conditions of Purchase;
3. Determine if exceptions were adequately managed and approved.

IV. CONCLUSION

As the Medical Center and Campus Procurement Offices are transitioning into the newly implemented FW/FW program, departmental controls and processes could be further enhanced in the areas of ensuring that all new agreements and renewed and extended agreements contain a FW/FW provision, maintenance of a contracts listing with the FW/FW provision and exceptions that have been granted, and proactively reaching out to suppliers to ensure audits are completed and certifications are sent.

Observation details and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Management of FW/FW Contracts (Medical Center)

Background

IAS requested a listing of contracts executed between January 1, 2017 to December 31, 2017 from the Procurement Offices at the Medical Center and Campus in order to complete sample testing. IAS also inquired about the process to ensure completeness of the list.

Observation

Due to limited resources, the Medical Center Procurement Office does not have an established process to ensure suppliers comply with FW/FW requirements. No listing or database is maintained identifying those contracts where FW/FW applies. Additionally, there is no listing of FW/FW policy exceptions that have been approved to ensure approval documentation is maintained.

Management Action Plan

The Medical Center Procurement Office recently hired a Procurement Contracts Manager. This person is charged with ensuring the requirements of FW/FW are adhered to, as resources permit. Starting September 4, 2018, a spreadsheet will be utilized to track all service based contracts and agreements for total yearly spend, as well as, receipt of the relevant vendor payroll/accounting requirements for service contracts exceeding \$100,000, annually, including all exceptions to FW/FW granted by

the proper authority. Additionally, the Contracts Manager will classify all FW/FW agreements in the new ERP system, Premier, to timely coordinate all accounting requests and contract/agreement renewals. It should be noted that the FW/FW requirements are contractual terms and apply to each vendor supplying relevant services. Some vendors may have multiple service based contracts written and leveraged off of UCOP or UC Health master contracts or agreements. In such cases, all Medical Center reporting requirements are contractually based off the master agreement in place, and not off the multiple individual contracts/agreements that leverage the master agreement on behalf of the Medical Center.

2. Certifications/Annual Audit

Background

For services that exceed \$100,000 annually, suppliers will provide an annual audit performed by an independent auditor or independent internal audit department, at the supplier's expense. Suppliers should ensure that their auditor reviews payroll records to confirm FW/FW compliance. FW/FW work papers should be made available to UC internal audit upon request. Any exceptions and management corrective action in audit reports should be documented. Suppliers should document audit results on a UC FW/FW certification form and send to UC (Procurement) annually no later than 90 days after each 1-year anniversary of the agreement's effective date.

Observation

Medical Center

The Medical Center Procurement Office does not have effective processes to ensure that certifications/annual audits have been performed. Discussion found that no certifications have been received from suppliers. Without an established process, procurement cannot proactively remind suppliers of FW/FW audit requirements before agreements anniversary date, follow-up on certification forms, and ensure a copy of the certification form is sent to IAS.

Campus

Out of five UCI Campus suppliers that have exceeded \$100,000 in services in 2017, one supplier, Staff Pro, did not provide certification. According to Campus Procurement management, they discovered that Staff Pro was not paying some of

their employees \$15 per hour, and Staff Pro stated that they were not aware of the FW/FW provision.

Sterilizer Technical Specialists (STS) provided services exceeding \$100,000 and was one of the suppliers chosen by Internal Audit Services for FW/FW audit certification compliance. Internal Audit Services found that their audit was not performed by an independent auditor as required by the FW/FW provision. According to STS management, since they only had a few people (four staff members) working on campus, the Controller simply reviewed payroll information for those individuals to verify that they were all being paid at least \$15 per hour. However, their signed FW/FW compliance audit certification stated that an audit was performed by their Internal Audit Department that reports directly to an independent board.

Management Action Plan

Medical Center

The Procurement Contracts Manger will ensure compliance with this (certifications and annual audit) aspect of FW/FW by a monthly review of the spreadsheet described, supra, and a monthly review of the relevant contracts coming up for renewal within the following 90 days. Buyers responsible for their contract or purchase will work with and coordinate through the Contracting Manager to ensure proper vendor notification is accomplished. Moreover, any vendor who willfully or negligently fails to comply with the audit requirement, will be contacted directly and advised of all potential penalties, up to and including, termination of the contractual relationship between the parties. Issues will escalate, as appropriate.

Campus

Staff Pro has agreed to retroactively pay their employees a minimum of \$15 per hour from Feb 1, 2018, which is when Campus Procurement first asked them for certification. Staff Pro claims that they did not know about this requirement because they had not received the purchase order that was faxed to them with the FW/FW clause in the terms and conditions. Staff Pro stated that they will comply with our requirements going forward, and Procurement will obtain certification of an independent audit performed to verify Staff Pro's compliance with the FW/FW provision by September 30, 2018.

Campus Procurement has reached out to STS management and informed them of the importance of complying with the FW/FW provision. We have also notified them

that they must perform a formal independent audit for the current period 2017/2018. Since they have provided evidence that their employees are being paid far above the FW/FW minimum, we are planning to continue using this supplier based on their compliance commitment.