



AUDIT AND ADVISORY SERVICES
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June 22, 2021

To: Distribution

Re: **UC Fair Wage/Fair Work Review**
Audit Report No. 08-21-0013

We have completed an audit of campus compliance with the University of California (UC) Fair Wage/Fair Work Plan as part of the 2020-21 annual audit services plan. The audit included the review of the UC Fair Wage/Fair Work plan administered and monitored by Procurement Services and Real Estate Services. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Procurement Services and Real Estate Services personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Business and Financial Services

Jim Corkill, Associate Vice Chancellor and Controller
Jacob Godfrey, Chief Procurement Officer and Associate Director

Office of Budget and Planning

Daniel Sweeney, Director Real Estate Services

cc: Chancellor Henry Yang
Chuck Haines, Associate Chancellor for Finance and Resource Management
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC SANTA BARBARA

UCSB Audit and Advisory Services

Internal Audit Report

UC Fair Wage/Fair Work Review

June 22, 2021

Performed by:

Antonio Mañas-Melendez, Associate Director

Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-21-0013

EXECUTIVE SUMMARY

OBJECTIVE

The purpose of the audit was to assess whether the University of California, Santa Barbara (UCSB) Procurement Services and Real Estate Services have implemented appropriate processes to ensure UCSB suppliers and applicable services performed at UCSB locations comply with University of California (UC) Fair Wage/Fair Work Plan (FW/FW) respectively.

Our objectives were to ensure that:

- Applicable procurement contracts for services over \$100,000 comply with selected UC FW/FW plan requirements, including contract identification, verification and follow-up processes, and annual audits performed by a licensed public accounting firm or an internal audit department reporting directly to an independent board.
- UC FW/FW applicable contracts contained the applicable Fair Wage/Fair Work provision language.
- Applicable real estate agreements comply with UC FW/FW requirements, including lease/license identification and the verification and follow-up processes.
- FW/FW provision language in applicable real estate agreements is consistent with the FW/FW section in the standard lease/license forms.
- Exceptions were adequately managed and approved.

CONCLUSION

The result of our work found Procurement Services is adequately identifying procurement contracts over \$100,000 with the FW/FW provision. However, our detailed review found:

- One professional service agreement was renewed without updating the UC Terms and Conditions with the applicable version. This issue was mitigated after the supplier was granted an exemption¹ from Fair Wage Fair Work Independent Accountant/Internal Auditor Verification requirements before the first anniversary of the agreement renewal.
- One supplier returned the *Independent Accountant/Internal Auditor Verification* letter more than 90 days after the anniversary date of the contract, as required in the FW/FW provision. Procurement Services granted an extension and the supplier returned the verification letter prior to the expiration date of the extension.

The result of our work found Real Estate Services is adequately identifying and tracking real estate agreements with the FW/FW provision. Real Estate Services received the required annual verifications.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

¹ The UC Fair Wage/Fair Work Article provides an exemption from Fair Wage Fair Work Independent Accountant/Internal Auditor Verification requirements for professional services/consulting agreements with stipulated rates higher than \$15 per hour.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. TRACKING & COMPLETENESS OF UC FAIR WAGE/FAIR WORK

OBSERVATION

Procurement

We determined that Procurement Services is adequately identifying contracts and purchase orders over \$100,000 with the UC FW/FW provision. Procurement Services flagged six contracts subject to FW/FW in the campus e-procurement system (Gateway) during the audit period and tracked the agreements on a spreadsheet. Two exceptions² identified were adequately managed and approved and one professional services exemption was executed.

Real Estate

We determined that Real Estate Services has properly identified 2 applicable real estate leases and licenses (agreements) with the FW/FW provision. The majority of leases are long term agreements, minimizing the monitoring process. As the agreement term ends, Procurement Services updates the lease agreement to include the FW/FW provision³. No exceptions were granted.

2. UC TERMS AND CONDITIONS

OBSERVATION

Procurement

Two contracts were executed and one renewed during the audit period. We reviewed these contracts and found that the renewed contract did not include the applicable version of the UC Terms and Conditions. Amended or renewed contracts should be handled the same as new contracts and it must include the applicable FW/FW provision in the form of UC Terms and Conditions of Purchase. The contract was for professional services with rates stipulated in the agreement significantly higher than the FW/FW rates and has been handled as an exemption.

Real Estate

There were no real estate leases and licenses with the Fair Wage/Fair Work provision executed during the audit period.

² Supplier exception to policy must be reviewed and approved by the appropriate Policy Exception Authority.

³ Procurement Services is charged with executing and renewing real estate contracts and Real State is in charge of managing these contracts.

3. VERIFICATION PROCEDURE

OBSERVATION

Procurement

There were three contracts subject to the FW/FW verification criteria⁴ during the audit period. All three *Independent Accountant/Internal Auditor Verification* letters were signed by a representative of a public accounting firm or by the supplier's independent audit department that reports to an independent board. However, one *Independent Accountant/Internal Auditor Verification* letter was received 174 days⁵ after the one-year anniversary of the agreement's effective date.

Real Estate

We reviewed documented verification processes and determined that Real Estate Services has an adequate process to monitor and follow-up with suppliers, if necessary. Real Estate Services obtained two annual verifications and there were no instances identified in which the tenant/licensee did not pay the proper rate during the audit period.

4. ANNUAL AUDIT STANDARDS AND PROCEDURES

OBSERVATION

Procurement

We validated that for one contract the supplier followed the *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work* (UC Annual Audit Standards) and no exceptions were noted.

The public accounting firm work papers were provided in order to validate whether the accounting firm correctly followed the UC Annual Audit Standards. The audit firm provided an agreed-upon procedures report and a signed and dated checklist of each completed step as outlined in the UC Annual Audit Standards.

In addition, Audit & Advisory Services obtained follow-up documentation from the previous year's non-compliance exception. The supplier addressed the discrepancy and provided an adjusted payroll report of the employee's wages while working at UCSB.

GENERAL INFORMATION

BACKGROUND⁶

On Wednesday, July 22, 2015, University of California President Janet Napolitano announced a new minimum wage plan for UC employees. Titled the "UC Fair Wage/Fair Work Plan", the

⁴ Contracts with the UC Fair Wage/Fair Work provision performing services for one full year from the contract's effective date.

⁵ Verifications have to be received no later than 90 days after each one-year anniversary of the agreement's effective date.

⁶ University of California website.

program guarantees that by October 2017 UC employees hired to work at least 20 hours a week be paid at least \$15 per hour.

The plan requires that contractors doing business with UC guarantee a \$15 minimum hourly wage for their workers, ensuring that any workers being paid through a UC contract are paid fairly. The plan includes several measures to ensure contractors comply with the new minimum wage, as well as all federal, state, and UC workplace law and policies, including a telephone hotline for contract workers to report issues, and annual and periodic audits. In addition, beginning May 1, 2016, the plan also applies to payment for work performed in a UC location. UC locations are 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. *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work*

Suppliers have to send the UC Auditor Verification Fair Wage/Fair Work forms to UCSB Procurement Services annually, no later than 90 days after each one-year anniversary of the agreement's effective date. The purpose is to certify that licensed public accounting firms or supplier's internal audit departments comply with the *Annual Verification Standards and Procedures*.

Lessors/tenants have to send the UC Verification form to UCSB Real Estate Services annually to comply with the Fair Wage/Fair Work Plan requirements during the verification period.

SCOPE

The limited scope of our work included an overview of the process and testing applicable contracts with the UC Fair Wage/Fair Work Plan identified by UCSB Procurement Services and Real Estate lease/license agreements executed during January 2020 to December 2020.

Specifically, we:

- Reviewed UC and UCSB policies, state and federal regulations and other guidance concerning UC Fair Wage/ Fair Work plan, including:
 - *FY 2021 Interim Audit Procedures for Fair Wage/Fair Work Plan*, revised 4/6/20
 - *Fair Wage/Fair Work Plan Applicability to Real Property Lease or Licensed to or by The Regents of the University of California*
 - *Fair Wage/Fair Work Professional Services Exemption*
 - *Fair Wage/Fair Work Real Estate Verification form*
 - *Fair Wage/Fair Work Compliance Real Estate Leases and Licenses*, provided January, 2019
 - *Independent Accountant/Internal Auditor Verification UC Fair Wage/Fair Work*, revised 1/15/2019
 - *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work*, revised 1/15/2019
 - *Frequently Asked Questions UC Fair Wage/Fair Work Plan*, revised 8/5/20
 - *UC Terms and Conditions of Purchase* versions: 11/20/17 and 2/27/20
- Conducted interviews with Procurement Services and Real Estate Services personnel to obtain a better understanding of the process and internal controls in place and to identify areas of concern.

- Conducted detailed testing of a sample of applicable contracts for compliance with the UC FW/FW Plan in the following areas:
 - Identification and adequate tracking of contracts and real estate agreements
 - Verification and follow up processes
 - Annual audit standard and procedures
 - Exceptions

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor