

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Fair Wage/Fair Work
Procurement and Contracting Services
Audit & Management Advisory Services Project #18-09**

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Fair Wage/Fair Work**Audit and Management Advisory Services Project #18-09****MANAGEMENT SUMMARY****Background**

In July 2015, President Janet Napolitano announced a new minimum wage plan for UC employees entitled “UC Fair Wage/Fair Work Plan” (“the FW/FW Plan”, or “the Plan”). Under this directive, a wage schedule assures a minimum wage of \$15 per hour by 2017. The Plan requires that contractors doing business with UC guarantee hourly wages per a designated wage schedule. The Plan includes provisions to ensure compliance with its terms. In addition, for services exceeding \$100,000 and not subject to prevailing wage¹ requirements, suppliers must provide certification of an annual independent audit performed by an independent auditor or an independent internal audit department at the supplier’s expense.

Purpose and Scope

As part of the fiscal year 2017-2018 audit plan, Audit and Management Advisory Services (AMAS) conducted a review of Fair Wage/Fair Work. Each UC campus was asked to perform audit procedures at the direction of the Office of the President (UCOP). At UC Davis, specialized units provide processing services for contracts that are negotiated and entered into at the Campus and at UC Davis Health. This report addresses UC Davis Campus Procurement and Contracting Services (“Procurement”). We interviewed administrators, reviewed processes, examined lists of contracts, and conferred with audit colleagues from UCOP and other campuses.

Conclusion

We identified areas for improvement in how Procurement identifies, tracks, and reviews contracts that are subject to FW/FW. Procurement will have to implement separate solutions to address contracts executed before the date of this report, as well as taking appropriate measures for future contracts.

¹ The prevailing wage is a base compensation rate paid on public works projects that guarantees that certain classes of workers are paid fairly for the services performed.

Observations, Recommendations, and Management Corrective Actions**A. Procurement needs to improve its process for identifying contracts that are subject to FW/FW and develop and maintain a list of these contracts.**

Procurement's general process is to include the FW/FW provision in every contract. Currently, there is no way to flag or otherwise track contracts that are specifically subject to FW/FW. Procurement was able to pull a list of purchase agreements for our review, but the list was over inclusive, as Procurement has no means of filtering for agreements subject to FW/FW. This prevents the unit from effectively identifying contracts that are subject to FW/FW requirements such as an annual certification form.

Because the list was over inclusive and included thousands of contracts, we could not reasonably perform the 10% sample test required by the UCOP audit program; instead we judgmentally selected a sample of five contracts for review and confirmed that Procurement's general practice is to include the FW/FW provision in each contract.

Recommendation

Develop a process to identify contracts subject to FW/FW.

Management Corrective Actions

- 1) By March 15th, 2019, for active contracts executed between 10/1/2015 and 6/30/2018, Procurement will review its contracts and determine which contracts are subject to FW/FW.
- 2) By December 15th, 2018, for contracts executed subsequent to 7/1/2018, Procurement will develop a process to identify contracts subject to FW/FW.

B. Procurement's process for documenting and tracking contracts with services that exceed \$100k requires improvement. We were unable to determine whether there are any past-due certifications.

Procurement maintains a spreadsheet of all contracts subject to FW/FW with values exceeding \$100K. Buyers at Procurement are expected to record a contract in this spreadsheet if, at the time of finalizing the terms, the agreement is subject to FW/FW and the contract value exceeds \$100K. Procurement provided this spreadsheet to AMAS.

We reviewed the spreadsheet and determined that it included contracts that did not require certification, because the list is based on contract value rather than annual spend on the contract. Therefore, this list is also over inclusive. Procurement must document and track these contracts with greater accuracy to ensure that certifications are correctly identified, requested, and stored. To remedy this, Procurement will have to reconcile procurement data with the payables system to measure the actual spend on each contract.

Recommendation

Develop a process to identify contracts requiring certification for compliance with the provisions of FW/FW.

Management Corrective Action

- 1) By September 15th, 2018, Procurement will develop a process to identify which contracts require certification based on the requirements of the FW/FW provision. This will require reconciliation of purchasing data to payables data in order to identify contracts with annual spend greater than \$100,000, as the annual spend rather than the contract value determines if a certification is required.

C. Procurement needs to develop a process to address returned certifications with noted exceptions.

Procurement has not yet developed a comprehensive process to address certifications returned with exceptions. Any noted exceptions require procurement units to follow-up using a process defined by UCOP. This process was only recently enumerated in June 2018, and Procurement will have to review new guidance on the subject and adopt practices that meet UCOP's expectations. Also, UCOP has confirmed that an audit report is not a suitable replacement for a certification form. Procurement will need to address this with suppliers as necessary.

Recommendation

Develop a process to review certifications returned and take action as necessary based on the nature of the certification.

Management Corrective Actions

- 1) By March 15th, 2019, for active contracts executed between 10/1/2015 and 6/30/2018, Procurement will review all certifications from suppliers and take actions as deemed necessary based on the requirements of the FW/FW guidance.
- 2) By December 15th, 2018, Procurement will develop a process to identify, collect, and review certifications for all required contracts and take actions as considered necessary.

D. Remaining audit procedures were completed without exception.

We selected one Procurement contract over \$100k, obtained the work papers and certification, and were able to validate that wages were examined in accordance with the Annual Audit Standards and Procedures.

Procurement has a suitable process for recording exceptions. Procurement has granted two exceptions since the inception of the FW/FW program, and both exceptions were approved by the appropriate Policy Exception Authority, as identified in BFB-BUS-43.
