

August 13, 2021

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**Subject:            System Wide Review – Fair Wage / Fair Work  
Report 2021-07**

Audit & Management Advisory Services (AMAS) has completed a review of the University of California (UC) Fair Wage / Fair Work Plan at University of California San Diego (UCSD) as part of a systemwide review included on the approved audit plan for Fiscal Year 2020-21. This report summarizes the results of our review.

### **Background**

On July 22, 2015, the UC President announced the UC Fair Wage / Fair Work Plan (the plan), which required that all UC employees hired to work at least 20 hours a week be paid a minimum wage for its direct and service contracts above the State minimum wage. For covered services, the plan mandated a minimum wage of:

- \$13 an hour beginning October 1, 2015,
- \$14 an hour on October 1, 2016, and
- \$15 an hour on October 1, 2017.

In addition to UC employees, the plan also covered anyone working for a third party who contracts with the University for services, including new contracts or contract renewals beginning October 1, 2015.

Under the plan, most services performed for the University at one or more UC Locations became subject to the new minimum wage. However, Fair Wage / Fair Work service requirements did not apply to: (i) contracts funded by extramural awards containing sponsor-mandated terms and conditions, or (ii) endowment or investment property where the purpose is to generate income from the general public, except to the extent such property is used by the University to further its mission. In addition, the plan would not significantly affect the overwhelming majority of UC direct and service contract workers who were already earning over the newly adopted UC minimum wage.

Contracts with service providers must contain a provision in the UC Terms and Conditions of Purchase that reference the UC Fair Wage / Fair Work Article. Per UC policy Business and Finance BUS-43, any exceptions to this Policy must be approved as follows: by the Chief Procurement Officer for a non-UC

Health Systemwide contract; by the Procurement/Supply Chain Director of the campus, medical center, or Laboratory.

The plan expanded UC's monitoring and compliance efforts related to service contractors' wages and working conditions. Several oversight measures to facilitate this plan were identified to include a telephone hotline and online complaint registration system for workers and contractors to report issues of wages and working conditions, and annual and periodic audits for contractors to ensure compliance with UC's minimum wage rules and expectations for working conditions.

In April 2016, UCOP released guidelines for real property leased or licensed to or by the Regents of UC clarifying that, in addition to the exceptions noted in the plan, the plan only applies to (1) (A) UC as Landlord or Licensor: where tenants or licensees, in UC-owned or controlled space, provides a service or conducts a business that UC otherwise would provide or conduct, and the agreement is for a term of more than one year; (1)(B) UC as Tenant or Licensee: where UC as tenant or licensee effectively exercises, or has the power to exercise, control over the operations of a building for a term of more than one year (i.e., not in multitenant buildings where the building owner provides services to tenants including but not limited to UC); (2) (A) UC as Ground Lessor: Any building constructed on UC land pursuant to a ground lease or similar arrangement (e.g., Concession Agreement), where (i) UC leases back at least 50% of the space for the duration of the ground lease (or similar arrangement), or (ii) the building is constructed for a use that supports UC's mission and which could have been constructed and operated by UC (e.g., recreational facilities, student or faculty rental housing, and parking facilities); and (2) (B) UC as Ground Lessee: Any building or other facility constructed by UC or for UC's use. These guidelines went into effect May 1, 2016. Real Estate guidelines allow for hardship-based exceptions, which may be granted by "the Vice Chancellor or Vice President responsible for activity in a UC location as decision maker." Certifications must be provided on an annual basis. However, they do not need to be provided by an independent auditor.

To assess the implementation of the plan, the UCOP Office of Ethics, Compliance and Audit Services (ECAS) began coordinating periodic systemwide internal audits beginning in fiscal year 2016-17. Each fiscal year UCOP Audit Services provided the audit program and scope for each location to follow, and reporting will be based on the audit results of the various campuses.

### **Audit Objective, Scope and Procedures**

The objective of our review was to evaluate UCSD activities for implementing the UC Fair Wage / Fair Work plan, using the UCOP-provided audit program. **Attachment A** provides a summary of the procedures, scope, and comments supporting our conclusions.

### **Conclusion**

Based on our review procedures, we concluded that processes were generally satisfactory with respect to most elements of the plan. However, full compliance with elements of the plan remained a challenge with respect to collecting the required verification forms timely.

UCSD's Health Supply Chain Management (Supply Chain Management) compliance and collection processes of the required verifications have improved over prior years. While Supply Chain Management collection rates have increased over prior years and exception rates have decreased, most verification submissions remained untimely. Procurement & Contracts (Procurement) collection rates have also increased, and they have recently implemented a process for contract termination for

suppliers who have failed to submit verifications. Efforts to collect verifications remain ongoing for Procurement, and follow up notices have been sent to suppliers periodically to remind suppliers to submit verifications timely. Most of the verifications submitted were untimely, and one verification reported an exception which required a pay adjustment.

For Procurement, the terms and conditions for the plan were incorporated into all outgoing purchase orders. For Supply Chain Management, buyers indicated if the request was subject to the plan on purchase orders. The appropriate authority, per the plan requirements, approved Procurement exception requests to use a calendar year for the verification period instead of the anniversary year per UCOP guidelines at the time of this review.

UCSD Real Estate continued to collect all the required certifications or verifications, and their processes were generally adequate to ensure timely compliance with the plan. For this year's review, Real Estate received 19 of 19 certification forms (i.e., all 17 from tenants and all two from the landlords). In addition, Real Estate received two of two required verification forms from service providers. Of the certification forms received, two landlords and one tenant certification were not received timely. Real Estate explained that while the tenant's lease commenced in 2018, they had not yet completed a full year of operations as they did not occupy the campus location until September 2020.

We noted some limited instances of non-compliance and opportunities for improvement for Procurement and Supply Chain Management in collecting verifications and receiving forms promptly.

### **Observations Requiring Management Action**

**During our review, we noted that procurement processes could be improved to ensure that suppliers and sub-suppliers submit the required verifications and tenants/landlords submit the required certifications promptly, as required by the plan.**

Suppliers with over \$100,000 in annual expenditures were required to obtain an independent annual audit of their plan compliance and to submit the results of the independent audits to UCSD via a verification form. Additionally, sub-suppliers were required to adhere to the plan. Sub-suppliers may provide written attestation if the value of the sub-supplier's services to UC through the supplier does not exceed \$100,000 or a verification if services exceed \$100,000.

Procurement sent reminder notices with deadline of January 31<sup>st</sup> for the calendar year ending December 31<sup>st</sup> of the prior year to all suppliers with a total spend greater than \$100,000 in calendar year 2020. A second notice was sent at the 30-day deadline for verifications that had not yet been received. Final notices were planned to be sent on July 2<sup>nd</sup>, 2021 indicating contract termination processes would be initiated and the supplier would be deactivated by July 12<sup>th</sup>, 2021.

Supply Chain Management sent reminders to all suppliers based on the contract anniversary date.

### **Procurement Results**

Procurement required 12 verification forms for 2020. As of the date of this report:

- Four had not submitted verifications.
- Eight verifications (67%) were received.
  - Seven verifications were not submitted timely.
  - One pay adjustment was necessary, and the supplier confirmed it had been made.

The collection rate for 2020 is an increase over the prior year rate of 56% (14 out of 25) verifications collected. Procurement continued to actively work to collect outstanding verifications that were due from suppliers for 2020 and implement a contract termination process for those who did not comply.

### **Supply Chain Management Results**

Supply Chain Management required 25 verification forms. As of the completion of our audit fieldwork:

- Twenty-five verifications (100%) were received:
  - Twenty-four were not submitted timely.
  - No pay adjustments were necessary.

We noted an increase in the overall number of Supply Chain Management verifications received in this year's review compared to last year's review when 10 out of 14 (71%) verifications were received from suppliers for 2020.

### **Real Estate Results**

Real Estate guidelines issued in 2016 required annual certifications for any lease, license, or ground lease covered by the plan. Additionally, Real Estate service providers were subject to the more extensive audit and verification as described above. For 2020, Real Estate<sup>1</sup> required 19 certification forms (i.e., 17 tenants and two landlords) and two verification forms from service providers. As of completion date of this report, 19 of 19 (100%) certifications were collected, three of which were not received timely (two landlord and one<sup>2</sup> tenant certifications). Also, two of two (100%) verifications were collected. All certifications noted employees were paid at the proper rate.

Two sub-supplier verifications for services providers indicated employees were not paid the proper rate. According to the supplier, the contract was terminated. According to the certified public accounting firm, the other sub-supplier had corrected the deficient pay rates.

One sub-supplier verification form was filled out incorrectly; however, the sub-supplier has indicated the firm that performed the audit was no longer in business. Also, this sub-supplier has failed to provide verification forms to the supplier in the past.

### **Management Corrective Actions:**

1. Procurement, Supply Chain Management, and Real Estate will continue efforts to obtain 100% compliance with the UC Fair Wage / Fair Work plan from the relevant suppliers or sub-suppliers by:

- Continuing to remind suppliers or tenants/landlords of the audit requirement and due date.
- Ensuring all suppliers or tenants/landlords subject to the verification or certification requirement submit a verification or certification timely.
- Notifying suppliers and sub-suppliers that contracts will be considered for termination if they fail to adhere to the requirements within 60 days.

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<sup>1</sup> While Real Estate was ultimately responsible for the compliance with the plan as the designated delegator of authority for real estate contracts, responsibility for contract management was delegated to additional units including University Centers, Real Estate – Real Property Leasing, and Real Estate – Asset Management.

<sup>2</sup> Real Estate explained that while the tenant's lease commenced in 2018, they had not yet completed a full year of operations as they did not occupy the campus location until September 2020.

- Evaluating what action should be taken against suppliers or sub-suppliers who are not compliant, including consideration of contract termination.

2. Procurement will continue to collect outstanding verifications or consider contracts for potential terminations.

3. Real Estate will work with the supplier to consider termination of contract for the sub-supplier who did not provide an accurate verification form.

Audit & Management Advisory Services appreciates the cooperation and assistance provided during the review.

UC policy requires that all draft audit reports be destroyed after the final report is issued.

If you have any questions regarding this report, please call me at 534-1191.

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Attachment

cc: Todd Adams  
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Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Procurement and Supply Chain Management	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
1.	Obtain from Procurement the current list of all contracts with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions that were granted.	We obtained lists of contracts subject to the UC Fair Wage / Fair Work Plan (the plan) and exceptions granted by Procurement and Supply Chain Management.	Satisfactory	<p>We confirmed with Procurement that all outgoing purchase orders (POs) incorporated the Fair Wage / Fair Work policy as Article 25 of our standard purchase order terms and conditions via a link. Procurement did not grant any exceptions for 2020.</p> <p>Supply Chain Management provided an update for 2020 to the prior year list of POs that contained the Fair Wage / Fair Work policy from 2017<sup>2</sup> forward. One exception was granted for use of fiscal year instead of calendar year.</p>
2.	Inquire about the process by which Procurement ensures the completeness of the list of contracts with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions. Identify any opportunities for improvement in this process.	<p>We reviewed Procurement and Supply Chain Management processes and examined supplier exceptions obtained to date.</p> <p>One Supply Chain Management exception was granted for use of fiscal year in lieu of calendar year.</p>	Satisfactory	<p>Procurement and Supply Chain Management maintained and reviewed lists of Fair Wage/Fair Work contracts. Lists were over-inclusive as Procurement includes the Fair Wage / Fair Work policy in all purchase orders, and some Supply Chain Management buyers may not know whether services are being provided off campus or not, so a purchase order may be marked as subject to the plan when it is not. For both Procurement and Supply Chain Management, the listings of contracts that exceeded \$100,000 per year were reviewed in greater detail to ensure the list was complete and accurate.</p> <p>Supply Chain Management buyers were responsible for identifying whether a purchase order (PO) was subject to the plan and assigning it a relevant expense code. A list was created using these codes along with active purchase orders. The list was then reviewed to assess each supplier’s scope of work to determine if the Fair Wage / Fair Work plan is applicable.</p>

<sup>1</sup> Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

<sup>2</sup> Supply Chain Management did not start tracking POs with the Fair Wage / Fair Work provision until 2017.

Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Procurement and Supply Chain Management	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
3.	Assess the risk of procurement contracts being executed without the Fair Wage/Fair Work provision language included when required. Consider internal controls in place (such as the use of a standard template that contains the provision) and past Fair Wage/Fair Work audit results in this area. Based on this risk assessment, consider performing a sample test as follows: Identify the contracts with the Fair Wage/Fair Work provision executed within the last year (1/1/2020-12/31/2020). For a judgmental sample (lesser of 10% of the population or 25 contracts), verify that the Fair Wage/Fair Work provision language is consistent with the language in the applicable version of the standard terms and conditions.	We assessed risk based on past Fair Wage / Fair work audit results in this area.	Satisfactory	We passed on audit procedures because we assessed risk to be low based on past Fair Wage / Fair work audit results in this area.
4.	Identify any contracts in the audit period that were pre-certified as exempt for professional services. For a judgmental sample (lesser of 10% of the population or 25 contracts), review the contracts to ensure that the wage rates were specified as required.	Procurement identified four contracts that were pre-certified as exempt.  Supply Chain Management identified two contracts that were pre-certified as exempt.  We selected one Supply Chain Management contract to review.	Satisfactory	For the Supply Chain Management contract we selected for additional review, we confirmed the wage rates were specified and were greater than \$15 per hour.

Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Procurement and Supply Chain Management	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
5.	Obtain and review the annual verification documentation that Procurement maintains for contracts with services that exceeded \$100,000 in the last year:	<p>We obtained and reviewed the following forms:</p> <p>Procurement: eight of 12 verifications.</p> <p>Supply Chain Management: 25 of 25 verifications.</p>	Improvement Needed	<p>Procurement had received eight of 12 required verifications. Seven of the eight verifications were not received timely.</p> <p>Supply Chain Management collected 25 of 25 required forms, 24 of which were not submitted timely.</p> <p>Additionally, one verification was not signed by the supplier’s public accounting firm. However, we reviewed the audit procedures at step 7. below to validate that the required procedures were followed correctly and reviewed any noted exceptions.</p> <p>We noted that processes should be improved to ensure that suppliers submit the verifications timely per the plan.</p>
a.	Identify any instances in which the supplier did not pay the proper rate and determine if Procurement has followed up with the applicable supplier to ensure pay adjustments were made.	We reviewed verification forms.	Satisfactory	One instance was identified of a supplier paying improper rates. Procurement has followed up with the supplier to confirm pay adjustments were made.
6.	Review and assess the verification process to ensure that Procurement has an adequate process in place to monitor and follow up with suppliers. As part of this assessment, determine if Procurement sends out progressive follow-up letters.	Reviewed and assessed verification processes.	Satisfactory	<p>Procurement and Supply Chain Management both had processes in place to monitor and follow-up with suppliers.</p> <p>Supply Chain Management tracks and stores all communication and progressive follow-up letters.</p>
7.	At each campus, select one procurement contract that incurred services over \$100,000 for review. Notify the supplier that you are performing interim audit procedures.	<p>We selected one Supply Chain Management supplier with over \$100,000 for review.</p> <p>The Supplier provided the public accounting firm’s agreed upon procedures and results.</p>	Satisfactory	<p>The Supplier’s public accountant did not sign the required verification form because University of California San Diego Health (UCSDH) would not sign the audit firm’s acknowledgment letter as the public accounting firm was a third party to the contract between the supplier and UCSDH.</p> <p>The Supplier provided the auditor’s procedures and a signed letter from the public accountant noting no exceptions were noted as a result of the procedures.</p>



Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Procurement and Supply Chain Management	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
a.	Obtain and review either the audit report (if the audit procedures are detailed in the report) or the audit program for the annual verification.	We reviewed the public accounting firm’s audit procedures and results.	Satisfactory	Reviewed documentation.
b.	Validate the required audit procedures were followed correctly.	We compared the audit procedures provided by the supplier to UCOP’s verification standards and procedures.	Satisfactory	The public accounting firm appeared to follow the required audit procedures correctly.
c.	For any exceptions noted, verify that the supplier’s management corrective action plan has been implemented and appropriately addresses the risks associated with the exception, UC management has canceled the agreement, or the location’s senior procurement officer has approved a policy exception allowing the agreement to continue.	No exceptions were noted on the verification.	Satisfactory	No exceptions were noted.
8.	Review the list of exceptions granted to the Fair Wage/Fair Work provision and validate that documented approval from the senior procurement official at the location is on file.	Procurement did not grant any policy exceptions.  Supply Chain Management granted one policy exception for the use of a calendar year verification period instead of anniversary date <sup>3</sup> .	Satisfactory	Supply Chain Management provided the appropriate documentation for the approved exception by the Chief Procurement Officer.

<sup>3</sup> During the prior year audit, UCOP provided guidance regarding how to calculate the 12-month period (anniversary date, start of calendar year, start of fiscal year). Locations may declare any of the three options, but the selection must be consistently applied for all service contracts in each area (such as Campus Procurement, Health Procurement)

Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Procurement and Supply Chain Management	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
9.	Identify the list of contracts subject to the Fair Wage/Fair Work annual verification that were found to be non-compliant with all requirements in the prior year audit. Request and review documentation to determine the action taken by management to address these deficiencies with the supplier (i.e., contract termination or verification completed).	AMAS managed non-compliant issues from the prior audit during the management corrective action process of the prior audit.	Satisfactory	Nothing further needed for this review.

Step	Review Objective per UCOP Audit Program for Real Estate	AMAS Audit Procedures	Audit Conclusion <sup>4</sup>	Comments
1.	Obtain from Real Estate the current list of all leases and licenses with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions that were granted.	Obtained lists of leases and licenses subject to the plan and exceptions granted.	Satisfactory	Real Estate provided a listing of all agreements subject to the UC Fair Wage / Fair Work policy.
2.	Inquire about the process by which Real Estate ensures the completeness of the list of leases and licenses with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions. Identify any opportunities for improvement in this process.	We reviewed Real Estate processes by which Real Estate ensures the completeness of the list of leases and licenses per the plan.	Satisfactory	Real Estate managed UCSD leases through Tririga (Real Estate) <sup>5</sup> . New leases/licenses included the provision for Fair Wage / Fair Work, and the provision was tracked and reviewed by a manager in the system so an annual report could be generated showing all leases that required Fair Wage / Fair Work.

<sup>4</sup> Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

<sup>5</sup> A Real Estate management database system that contains tenant information, lease agreements, notes, exceptions, and terms of the lease.

Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Real Estate	AMAS Audit Procedures	Audit Conclusion <sup>4</sup>	Comments
3.	Identify the leases and licenses with the Fair Wage/Fair Work provision executed within the last year (1/1/2020-12/31/2020). For a judgmental sample (lesser of 10% of the population or 25 leases/licenses), verify that the Fair Wage/Fair Work provision language is consistent with the Fair Wage/Fair Work section in the standard lease/license forms found here: <a href="https://www.ucop.edu/real-estate-services/forms/index.html">https://www.ucop.edu/real-estate-services/forms/index.html</a> (see table of contents).	We obtained and reviewed listings of all contracts relevant to the plan from Real Estate.  Eleven leases were executed in 2020.	Satisfactory	We reviewed one lease executed in 2020 and verified that it included the Fair Wage/Fair Work provision language.
4.	Obtain and review the annual verification documentation that Real Estate maintains for all leases and licenses subject to Fair Wage/Fair Work.	We obtained and reviewed 19 of the 19 certifications required (17 from tenants, two from the landlords). We also obtained two verification forms required from service providers.	Improvement Suggested	Real Estate had collected 21 of 21 required forms (17 from tenants, two from the landlords, and two from service provider). Three of the forms were not received timely (two landlords and one tenant certification). Real Estate explained that while the tenant’s lease commenced in 2018, they had not yet completed a full year of operations as they did not occupy the campus location until September 2020.  We noted that the process could be improved to ensure that all submissions were received promptly, as required by the plan.
5.	Review the verifications received and identify any instances in which the tenant/licensee did not pay the proper rate and determine if Real Estate has followed-up with the applicable tenant/licensee to ensure pay adjustments were made.	We reviewed 19 certification forms to identify any instances in which the tenant/ licensee did not pay the proper and any follow-up if applicable. We reviewed two verification forms from service providers as well as information regarding their sub-suppliers.	Improvement Suggested	One service provider indicated a sub-supplier had not paid the proper rate. The contract was subsequently terminated.  The other service provider had collected verifications from three of four of their sub-suppliers. The sub-supplier subsequently provided a verification to UCSD; however, the form was filled out incorrectly and the sub-supplier indicated the firm who performed the audit was no longer available to provide a corrected form. Also, this sub-supplier has failed to provide verification forms to the supplier in the past. One of the other verifications noted rate calculation exceptions that had been resolved.  Real Estate should work with the supplier to ensure sub-suppliers are submitting accurate verifications or consider contract termination.

Attachment A - Audit Results by Audit Step

Step	Review Objective per UCOP Audit Program for Real Estate	AMAS Audit Procedures	Audit Conclusion <sup>4</sup>	Comments
6.	Review and assess the verification process to ensure that Real Estate has an adequate process in place to monitor and follow-up with suppliers. As part of this assessment, determine if Real Estate sends out progressive follow-up letters, issues a notice of default, and if not received within three months, initiates remedies of the lease/license agreement for default.	We reviewed Real Estate process to monitor and follow-up with suppliers.	Satisfactory	<p>Real Estate monitored via the annual certification process and ensured vendors understand the Fair Wage / Fair Wage requirements upon renewal or lease execution.</p> <p>Real Estate began notifying tenants and landlords of the certification 60 days prior to the anniversary date via email. If a certification was not submitted by the due date, another email is sent followed by a phone call. If the certification was not received by 30 days, a letter was sent outlining the legal obligation to send the certificate or face possible lease termination.</p> <p>For service providers, reminders were sent in advance of the service agreement anniversary date.</p>
7.	Review the list of exceptions granted to Fair Wage/Fair Work provision and validate that the lease/license is subject to a citywide minimum wage ordinance that meets or exceeds the requirements of the Fair Wage/Fair Work Plan.	n/a – No exceptions were granted by Real Estate.	Satisfactory	No exceptions were granted by Real Estate.
8.	Identify the list of leases/licenses subject to the Fair Wage/Fair Work annual verification that were found to be non-compliant with all requirements in the prior year audit. Request and review documentation to determine the action taken by management to address these deficiencies with the tenant/licensee (i.e., contract termination or verification completed).	AMAS managed non-compliant issues from the prior audit during the management corrective action process of the prior audit.	Satisfactory	Nothing further needed for this review.