

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Fair Wage/Fair Work Plan
Project #18-046**

July 2018

University of California
San Francisco



Audit and Advisory Services

July 31, 2018

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SUBJECT: Fair Wage/Fair Work Plan, Project 18-046

At the request of the University of California Office of the President, UCSF Audit and Advisory Services (A&AS) completed a review of the processes and procedures in place at UCSF within Campus Supply Chain Management and UCSF Health Procurement Services to ensure compliance with the UC Fair Wage/Fair Work Plan.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the "IIA Standards").

Our review was completed and the preliminary draft report was provided to department management in June 2018. Management provided us with their final comments and responses to our observations in July 2018. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', is written over a light blue horizontal line.

Irene McGlynn
Director, UCSF Audit and Advisory Service

EXECUTIVE SUMMARY

I. BACKGROUND

At the request of the University of California Office of the President (UCOP), UCSF Audit and Advisory Services completed a review of the processes and procedures in place at UCSF within Campus Supply Chain Management and UCSF Health Procurement Services to ensure compliance with the UC Fair Wage/Fair Work Plan.

In July 2015, University of California President Janet Napolitano announced a new minimum wage plan for UC employees and contractors: UC Fair Wage/Fair Work Plan ("FW/FW Plan"). The FW/FW Plan guarantees that by October 2017 UC employees hired to work at least 20 hours a week will be paid at least \$15 per hour. The FW/FW Plan also requires that contractors doing business with UC to guarantee a \$15 minimum hourly wage for their workers, after an initial phase in period. This requirement was to be implemented as new contracts were established and existing contracts came up for renewal. Additionally, the FW/FW Plan requires contractors to implement several measures to help ensure compliance with the new minimum wage, as well as all federal, state, and UC workplace laws and policies. These measures include a telephone hotline for contract workers to report issues, and annual audits by certain vendors to certify their compliance with the FW/FW Plan requirements.

Per UCOP Policy (BFB-BUS 43 Materiel Management): The FW/FW Plan applies to all services to be performed for the University at one or more UC locations. FW/FW requirements do not apply to:

- Contracts funded by extramural awards containing sponsor-mandated terms and conditions, or
- 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 in furtherance of its mission.

For the period January 1, 2017 to December 31, 2017 there were 43 Campus contracts and 14 UCSF Health contracts that are subject to the FW/FW annual certification requirements.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of the processes and procedures in place within Campus Supply Chain Management and UCSF Health Procurement Services to ensure compliance with the UC FW/FW Plan, specifically those processes implemented to help ensure that outside contractors comply with the FW/FW Plan's requirements.

This project was conducted as part of a system-wide review on FW/FW. Each campus executed this project at the campus level and results will be reported and consolidated at the UC system-wide level. The audit scope, sample selection criteria and audit program were established by the Office of the President to be consistent at all locations.

Procedures performed as part of the review include: interview of department personnel and walkthrough of their processes to understand processes related to complying with the FW/FW Plan's provisions, review, on a sample basis, of contract FW/FW terms and

conditions, review of certification forms received from contractors, validation of one vendor's auditor certification against supporting documents and all audits with reported exceptions, to verify compliance with the Plan's provisions, and review of exceptions granted to the FW/FW provision.

To perform our review, we relied on the Campus Supply Chain Management and UCSF Health Procurement Services to provide listings of applicable contracts. However an evaluation of the methodology and processes for how the lists were compiled was performed. The scope of the review included all new and contract renewals subject to the FW/FW provisions executed between January 1, 2017 and December 31, 2017.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in June 2018.

III. SUMMARY

Campus and UCSF Health contracts have FW/FW provisions consistent with the applicable language in UC Terms and Conditions of Purchase. Additionally, both units have implemented processes to identify contracts subject to annual FW/FW certification. Campus Supply Chain Management has implemented processes to track the required annual certifications. Policy exceptions granted by Campus Supply Chain Management had documented approval by the senior procurement official¹.

While UCSF Health Procurement Services has made substantial progress in systems implementation to help identify contracts subject to FW/FW, opportunities for improvement exist in the areas of tracking and requesting annual certifications. Additionally, both Campus and UCSF Health procurement should implement process to ensure that the supplier's certification of compliance with FW/FW provisions are audited and certified by personnel with the required training and experience.

The specific observations from this review are listed below.

- UCSF Health has not fully implemented its processes for tracking annual certifications.
- Annual certifications were prepared by "Enrolled Agents," and not a registered public accountant as required by FW/FW Audit Standards.
- The required audit procedures by the supplier's auditor were not followed correctly for the annual certification.

Additionally, during the course of this review, a potential opportunity for improvement for enhanced control was noted in relation to a gap in the FW/FW guidance provided by UCOP. Currently, there is no guidance for procurement departments in instances where a certification with an exception is received. Further guidance from UCOP on this matter is pending.

¹ No policy exceptions have been granted by UCSF Health Procurement Services

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (“MCA”)

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>MCA</u>
1	<p><i>UCSF Health Procurement Services has not fully implemented its process for tracking annual audit certifications.</i></p> <p>Since the prior FY17 audit, UCSF Health Procurement Service has been working on developing several processes including a monthly process to identify FW/FW agreements with an annual-anniversary date that have exceeded \$100,000 in spending over the past 12 months, establishing a process for collection and storage of annual audit certifications and follow up on past due notices and escalation as necessary. However, they have not fully implemented these processes for tracking the receipt of annual certifications.</p>	<p>Without timely follow-up of vendor certifications, compliance with the FW/FW Plan requirements cannot be ensured.</p>	<p>UCSF Health Procurement Services has developed the necessary processes to follow-up outstanding certifications on an annual basis. They should implement a process to ensure that the required follow-up is performed monthly.</p>	<p>As of June 1, 2018, UCSF Health Procurement Services has sent out notices for certifications that fall within the anniversary date to their suppliers. The process established is that certification notices will be performed monthly.</p> <p>Audit & Advisory Services will follow-up in September 2018 to validate that this corrective action has been completed.</p> <p>Responsible Party: Director UCSF Health Procurement Services</p> <p>Target Date: September 30, 2018</p>
2	<p><i>The required review procedures were not followed by Campus suppliers when providing their annual certifications.</i></p> <p>In our review of the Auditor Certification forms and supporting documentation, we identified the following issues:</p> <p>a) Two of 20 Auditor Certification forms reviewed for Campus Supply Chain</p>	<p>Without personnel with the required training and experience preparing the annual certification form, the review procedures may not be appropriately completed and compliance with the</p>	<p>a) Completed Auditor Certification forms should be reviewed by Supply Chain Management to determine if they meet the requirements specified in the Annual Audit Standards for UC Fair Wage/Fair Work Plan, including, but not limited to the qualifications of the personnel performing the review.</p>	<p>a) Supply Chain Management will implement changes to their processes to review completed Certification forms returned by Suppliers’ auditors to determine that they meet the specified requirements.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>Management, were prepared by "Enrolled Agents"² and do not satisfy the UC FW/FW guidelines.</p> <p>Per the UC FW/FW Annual Audit Standards the certification form must be prepared by a registered public accounting firm or the supplier's independent internal audit department.</p> <p>b) Further we noted that the supplier's auditor (for one of the certifications noted above) had not performed all the required audit procedures. Specifically, they did not review whether policies and procedures to report complaints about workplace conditions existed nor did they review any complaints regarding workplace conditions or wages.</p>	<p>FW/FW Plan requirements cannot be ensured.</p>	<p>b) Supply Chain Management should contact the suppliers to remind them of the certification requirements of the FW/FW Plan.</p>	<p>Responsible Party: AVC Chief Procurement Officer (Campus)</p> <p>Target Date: September 30, 2018</p> <p>b) Audit and Advisory Services will provide Campus Supply Chain Management with a letter describing the observation, FW/FW Audit Requirements and recommended corrective action.</p> <p>Supply Chain Management will coordinate with the Supplier to rectify the noted deficiencies.</p> <p>Responsible Party: AVC Chief Procurement Officer (Campus)</p> <p>Target Date: November 30, 2018</p>

² An Enrolled Agent is a credential awarded by the IRS to individuals, so that they may offer tax preparation and planning services, and represent taxpayers before the IRS.

V. OPPORTUNITIES FOR IMPROVEMENTS

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>
1	<p>It was noted that there is a gap in the guidance provided by UCOP regarding what should be done in instances where a certification form is received with an exception noted.</p> <p>Review of certification forms identified ten exceptions (out of 113 employees) noted by one supplier of incidences where they had failed to pay their employees at the required FW/FW rate. While the supplier may indicate that remediation actions will be taken there is no requirement for them to submit evidence of the remediation or a follow-up by local Campus Procurement Office.</p>	<p>If appropriate follow-up of exceptions noted on the annual certification are not performed, then suppliers' employees may not receive the minimum UC FW/FW wage.</p>	<p>This deficiency in process was identified and reported to UC Procurement Services, who will be issuing further guidance regarding these instances.</p>