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**Subject:            *System Wide Review – Fair Wage / Fair Work  
Report 2018-11***

Audit & Management Advisory Services (AMAS) has completed a review of the University of California (UC) Fair Wage / Fair Work plan at UCSD as part of a systemwide review included on the approved audit plan for Fiscal Year 2017-18. 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, with planned increases to \$14 an hour on October 1, 2016, and to \$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 in excess of 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. Any exceptions to this Policy must be approved as follows: by the Chief Procurement Officer for a non-UC Health systemwide or Office of the President contract; by the Associate Vice President, UC Health Procurement for a UC Health systemwide contract; and otherwise by the senior procurement officer of the relevant campus or 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 to 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.

To assess the implementation of the plan, the UCOP Office of Ethics, Compliance and Audit Services (ECAS) began coordinating periodic systemwide internal audits. 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.

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.

### **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 the current efforts by UCSD's Procurement & Contracts (Procurement), UCSD Health Supply Chain Management (Supply Chain Management), and UCSD Real Estate were not consistently adequate to ensure compliance with the plan. For Procurement and Supply Chain Management, the terms and conditions for the plan were incorporated into all outgoing purchase orders, the plan was publicized on procurement websites and publications, and educational efforts had been provided to both UCSD external suppliers and internally for UCSD buyers. The appropriate authority, per the plan requirements, approved exception requests submitted by relevant suppliers. We noted that most of the certifications due for 2017 have not yet been provided for both Procurement and Supply Chain Management.

UCSD Real Estate (Real Estate) has incorporated the language into agreements in accordance with applicable date guidelines, and the UC Fair Wage / Fair Work provisions were consistent with guidelines. Two certifications were due for the 2017 time period: one vendor submitted their certification in a timely manner, and one provider was untimely.

We noted areas for improvement with regard to educational opportunities for suppliers on a local level, and timely follow up for vendor audit certifications. 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. However, we noted the majority of suppliers

subject to this requirement had not submitted their certification. Of the three certifications for calendar year 2017 received by Procurement, we noted two instances in which the supplier did not indicate how the auditor met the UC Annual Audit Standards. Detailed testing on one of the certifications disclosed the annual audit and certification did not meet audit standards; the supplier's management completed the audit rather than their internal audit department or a third party. Additionally, the supplier did not complete all of the required audit procedures.

### **Observations and Management Action Plans**

**During our review, we noted that the procurement process could be improved to ensure that suppliers submit the required audit reports in a complete and timely manner, as required by the plan. In addition, educational activities regarding the plan requirements should be enhanced to ensure compliance.**

As of the completion of our audit fieldwork on June 16, 2018, UCSD had received completed supplier audit reports from only eight suppliers. There were 109 of 117 suppliers<sup>1</sup> who either had not yet submitted the forms or who submitted forms not properly signed by an outside auditor. Of these, one Procurement supplier had submitted the plan certification form which was not signed by an independent auditor for the supplier, but by their Director of Contract Compliance, who confirmed that the audit was performed by their compliance department and not internal audit. The plan requirement is that the certification be performed by an independent auditor, and consequently audits performed and signed by compliance management did not satisfy the requirements of the plan. This error appeared to result from a misunderstanding of the audit requirement of the plan, indicating the need for additional supplier education. Further, a review of the supplier's audit methodology revealed that they did not complete required audit steps. We noted one instance in which a Procurement supplier did not submit the certification in a timely manner. None of the certifications received by Supply Chain Management were received timely. During our review, both Procurement and Supply Chain Management were actively working to collect from suppliers the outstanding audit reports that were due from suppliers.

Real Estate collected the two certifications required from their suppliers; however, certifications for one supplier were not received timely. Certifications for service agreements for this supplier were due October 1, 2017 for the agreement anniversary date of July 1, 2017. However, the certifications were not provided until June 12, 2018.

### **Management Action Plans:**

Procurement and Supply Chain Management will:

- Continue efforts to obtain 100% compliance with the UC Fair Wage / Fair Work plan from the relevant suppliers. This will be done through additional educational and monitoring efforts, including ensuring annual audits are conducted independently. Additional monitoring will be given to those suppliers with a documented history of non-compliance.

Procurement, Supply Chain Management, and Real Estate will:

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<sup>1</sup> 46 of 49 Procurement suppliers, 63 of 66 Supply Chain Management suppliers, and zero of two Real Estate suppliers.

- Remind suppliers of the audit requirement before the agreement’s anniversary date.
- Notify suppliers that contacts will be terminated if they fail to adhere to the requirements within 60 days.

Audit & Management Advisory Services appreciates the cooperation and assistance provided during the review. We will contact you at the appropriate time to evaluate the status of the management action plans indicated in the report.

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 534-3617.

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Attachment

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Step	Review Objective per UCOP Audit Program	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.	Obtained Procurement, Supply Chain Management, and Real Estate lists of contracts subject to the Plan and exceptions granted.	Satisfactory	<p>We confirmed with Procurement and Supply Chain Management that all outgoing purchase orders currently incorporate the UC Fair Wage / Fair Work policy as Article 25 of our standard purchase order terms and conditions.</p> <p>We confirmed with Real Estate that all agreements subject to the UC Fair Wage / Fair Work policy include the applicable supplier and/or vendor or real property provisions.</p>
2.	<p>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.</p> <p>Identify any opportunities for improvement in this process.</p>	<p>Interviewed responsible Procurement and Supply Chain Management, and examined supplier exceptions obtained to date.</p> <p>Discussed processes with responsible Real Estate personnel.</p>	Satisfactory	<p>Procurement and Supply Chain Management maintain and review lists of Fair Wage/Fair Work contracts. Lists are over-inclusive as some buyers may not know whether services are being provided off campus or not. The listings of contracts that exceed \$100,000 per year is reviewed in greater detail to ensure the list is complete and accurate.</p> <p>Real Estate reviews the listing of agreements signed by the Executive Director that include the Fair Wage/Fair Work provision.</p>

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

Step	Review Objective per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
3.	<p>Obtain and review a listing of all contracts with the Fair Wage/Fair Work provision executed in calendar year 2017 (1/1/2017-12/31/2017).</p> <p>For a judgmental sample comprising at least 10% of the population, verify that the Fair Wage/Fair Work provision language is consistent with the language in the applicable version of the standard terms and conditions.</p>	<p>Obtained and reviewed listings of all contracts relevant to the plan from Procurement, Supply Chain Management, and Real Estate.</p> <p>For Procurement and Supply Chain Management, confirmed that all outgoing purchase orders include a reference to the UC Fair Wage / Fair Work policy via Article 25 of our standard purchase order terms and conditions and that they had not been modified.</p> <p>Reviewed two Real Estate contracts. Confirmed that Fair Wage/Fair Work provision language in Real Estate agreements is consistent with the language in the applicable version of the standard terms and conditions.</p>	Satisfactory	<p>Procurement and Supply Chain Management purchase orders are in compliance with the Fair Wage/Fair Work provisions.</p> <p>Real Estate agreements contained the applicable Fair Wage/Fair Work provision language.</p>

Step	Review Objective per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
4.	Obtain and review the certification forms for all contracts with services that exceed \$100,000 in the last year.	Obtained and reviewed supplier certification forms from eight suppliers and vendors received as of the date of our review; however, one of the Procurement certification forms had not been reviewed by an independent auditor as required by the plan.	Improvement Needed	<p>As of the completion of our audit fieldwork, UCSD Procurement and Supply Chain Management had received completed supplier audit reports from six suppliers. 109 suppliers had either not yet submitted the forms or submitted forms not properly signed by an outside auditor. Two Procurement suppliers did not indicate that the UC Annual Audit Standards were met by either a registered public accounting firm without an affiliation with the supplier or the supplier’s internal audit department that reports directly to an independent board.</p> <p>Real Estate had received two of two certification forms due for 2017.</p> <p>We noted that the processes should be improved to ensure that suppliers submit the required audit reports and certifications in a timely manner, as required by the plan.</p>
5.	At each campus, select one contract over \$100,000, as well as any contracts with reported exceptions from the annual audit, for review. Notify the supplier that you are performing interim audit procedures.	Selected one campus contract over \$100,000 for review. Notified the supplier of the intent to perform interim audit procedures.	Satisfactory	The supplier agreed to our request to review their certification review.

Step	Review Objective per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
6.	Obtain the workpapers and audit report for the annual audit.	The supplier provided a description of their audit methodology and a copy of their workpapers.	Unsatisfactory	The supplier did not complete an audit report and only provided work papers for one audit step.
7.	Validate that the required audit procedures were followed correctly.	AMAS reviewed supplier’s workpapers and methodology.	Unsatisfactory	The supplier confirmed that the audit procedures were not performed by their internal audit department. The supplier’s compliance department completed the audit. Additionally, the audit did not include completion of all audit steps, including obtaining and reviewing workplace policies and procedures to identify processes and mechanisms that exist to report complaints about workplace conditions and obtaining copies of complaints for review and verification that they were appropriately investigated and resolved, if applicable.

Step	Review Objective per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion <sup>1</sup>	Comments
8.	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, or that UC management has either cancelled the agreement or the location’s senior procurement officer has approved a policy exception allowing the agreement to continue.	Reviewed all certification forms for exceptions noted.	Satisfactory	There were no exceptions noted on any certification forms.
9.	Review the list of exceptions granted to Fair Wage /Fair Work provision and validate that the documented approval form from the senior procurement official at the location is on file.	Reviewed all approved policy exceptions granted.	Satisfactory	Although a standard documented approval form was not always used, Procurement provided the appropriate documentation of all approved exceptions by senior procurement officials.