



**UNIVERSITY OF CALIFORNIA, MERCED  
AUDIT AND ADVISORY SERVICES**

June 29, 2021

To: Kurt Schnier – Interim Vice Chancellor, Chief Financial Officer  
Subject: UC FY21 Fair Wage/Fair Work Plan Audit  
Ref: Report No. M21A005

Internal Audit completed the audit of UC Merced's compliance with the UC Fair Wage/Fair Work (FWFW) Plan requirements as part of the fiscal year (FY) 2020 – 2021 Audit Plan. The systemwide FWFW Plan requires annual involvement by Internal Audit so this audit is completed at all UC campuses.

Attached is the subject report. We appreciate the help we received from Procurement and Real Estate Services during this review. If you have any questions, please feel free to contact me.

Respectfully reported,

Sheryl Ireland  
Internal Audit Director

cc Senior Vice President and Chief Audit and Compliance Officer Bustamante  
Chancellor Muñoz  
Associate Chancellor and Chief of Staff to the Chancellor Putney  
Chief Procurement Officer Dubroff  
Executive Director Space Strategies and Real Estate Saunders



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**UC Fair Wage/Fair Work Plan Audit  
Report No. M21A005**

June 29, 2021

Work completed by:  
Shelton Autry – Senior Internal Auditor  
Sheryl Ireland – Internal Audit Director

# UC Fair Wage Fair Work Plan Audit

## Report No. M21A005

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### I. MANAGEMENT SUMMARY

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Internal Audit completed an audit of UC Merced's compliance with the UC Fair Wage/Fair Work (FW/FW) Plan requirements. To help enforce compliance with the systemwide plan, Internal Audit departments at UC locations were tasked with reviewing their campus Procurement and Real Estate Services management for compliance with the UC FW/FW Plan requirements.

Based upon our review of procedures and testing, we concluded that procedures in both Real Estate and Procurement Services are adequate to ensure compliance with the UC FW/FW requirements.

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### II. BACKGROUND

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#### **Procurement Contracts:**

On July 22, 2015, University of California President Janet Napolitano announced a new minimum wage plan for University of California (UC) employees titled the "UC Fair Wage/Fair Work Plan." The Fair Wage/Fair Work Plan guaranteed that by October 2017 University of California employees hired to work at least 20 hours a week would be paid at least \$15 per hour.

Outside contractors providing services to the UC are required to pay workers a wage equal to at least the UC minimum wage, upon the renewal of their contract or establishment of a new contract after October 1, 2015. The minimum wage required by the plan is:

- At least \$13 per hour beginning October 1, 2015
- At least \$14 per hour beginning October 1, 2016
- At least \$15 per hour beginning October 1, 2017

The UC created the following mechanisms to ensure contractors comply with this plan:

- Worker hotline – A telephone hotline allows workers employed by UC contractors to report issues related to wages or working conditions.
- Online complaint registration system – An online mechanism for contract workers is available to register complaints directly with the UC.
- Annual and periodic verifications – All UC contractors are subject to an annual verification, paid for by the contractor, to ensure they and their subcontractors comply with the minimum wage plan, as well as all federal, state, and UC workplace laws and policies. UC contractors are also subject to periodic verifications to ensure compliance with the minimum wage rules and expectations for working conditions. The verification requirement must be implemented as existing contracts come up for renewal and as new contracts are established.

For suppliers whose services exceed \$100,000 annually, an annual independent verification must be completed at the supplier's expense. Verifications must be performed by an independent accountant

or the supplier's internal auditor (if the internal audit function reports directly to an independent board). The supplier will ensure that their independent accountant or internal auditor:

- Reviews payroll records to confirm Fair Wage/Fair Work compliance.
- Verifies that any complaints submitted by employees were appropriately resolved.
- Makes available Fair Wage/Fair Work verification work papers to UC internal audit upon request.
- Documents any exceptions and management corrective action in verification report.
- Documents verification results on UC Fair Wage/Fair Work verification form and sends to UC (Procurement Services) annually no later than 90 days after each 1-year anniversary of the agreement's effective date.

#### **Real Estate Contracts:**

FW/FW Plan requirements for leases and licenses were effective on May 1, 2016. Any lease, license or ground lease that meets the requirements of the plan for which UC had not yet executed a term sheet, memorandum of understanding or letter of intent, or received responses to an RFP was subject to the Plan as of this date. FW/FW Plan compliance requirements are required whether UC is landlord or licensor, or UC is tenant or licensee.

- Requirements: An explicit requirement that the other party (e.g. lessee, licensee, landlord) shall:
  - Comply with the Plan for all of their employees working more than 20 hours per week in premises covered by the applicable agreement,
  - Post a notice in the premises in all break rooms and other public notice areas which notice clearly references the Plan's applicability to the other party's employees, and
  - Provide a certification on an annual basis that they have complied with the Plan as set forth in the first two bullets
- Audit Rights: The applicable agreement shall further include provisions that:
  - Allow UC to audit the other party's compliance with the Plan, and
  - Provides sufficient access to their records for this purpose while providing for appropriate security for such records.

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### **III. PURPOSE, SCOPE AND OBJECTIVES**

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As part of the Fiscal Year 2020 – 2021 Audit Plan, Internal Audit completed an audit of the UC Fair Wage/Fair Work Plan (FW/FW Plan) at UC Merced. The overall purpose of the audit was to assess compliance with the plan requirements. The audit scope included review of processes, procedures and verification of performance of internal controls and compliance requirements for a sampling of contracts, leases and licenses in place during calendar year 2020.

Our objectives were to:

- Review formal written processes and assess for adequacy;
- Review UC Merced contracts, leases and licenses to ensure that applicable contracts contain the required UC FW/FW Plan provisions;
- Determine whether Procurement and Real Estate Services are reviewing and monitoring contractor compliance with the annual verification requirements where appropriate; and
- Determine if exceptions to the UC FW/FW Plan were properly approved.

To fulfill the objectives, we completed the following testing:

- Reviewed UC policy and other guidance from the UC Office of the President concerning the UC FW/FW Plan;
- Evaluated UC Merced’s processes and procedures to evaluate compliance with requirements;
- Evaluated a sample of applicable real estate leases and a sample of contracts for compliance with the UC FW/FW Plan; and
- Selected and evaluated one supplier that submitted an annual verification form to review and verify that procedures were properly followed.

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#### **IV. CONCLUSION**

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Based on our review of procedures and testing, we concluded that current processes established by UC Merced Procurement and Real Estate Services are adequate to ensure compliance with the UC Fair Wage/Fair Work Plan.