

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

**Fair Wage/Fair Work Plan  
Project #20-039**

**July 2020**



University of California  
San Francisco

**Audit & Advisory Services**

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**SUBJECT: Fair Wage/Fair Work Plan, Project 20-039**

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, UCSF Health Procurement Services and UCSF Real Estate 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 2020. Management provided final comments and responses to our observations in July 2020. 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. 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,

Irene McGlynn  
Chief Audit Officer  
UCSF Audit and Advisory Services



## EXECUTIVE SUMMARY

### I. BACKGROUND

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

As part of FW/FW compliance, the provision language in contracts must be consistent with the UC terms and conditions of purchase. The standard term and conditions include the prevailing wage, and during the calendar year of 2019, FW/FW Plan requires that contractors doing business with UC to guarantee a \$15 minimum hourly wage for their workers. 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, 2019 to December 31, 2019 there were 43 Campus contracts, 20 UCSF Health contracts, and 4 UCSF Real Estate contracts subject to the FW/FW annual verification 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, UCSF Health Procurement Services, and UCSF Real Estate 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 verification forms received from contractors; validation of one vendor's auditor verification 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 Campus Supply Chain Management, UCSF Health Procurement Services, and UCSF Real Estate to provide listings of applicable contracts. We also completed an evaluation of the methodology and processes for how the lists were compiled. The scope of the review included all new and contract renewals subject to the FW/FW provisions executed between January 1, 2019 and December 31, 2019.

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 2020.

### III. **SUMMARY**

Campus Supply Chain Management 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 and track contracts subject to annual FW/FW verification and have made substantial progress in systems implementation to help identify contracts subject to FW/FW. During 2019, there was one policy exception granted by Campus Supply Chain Management and one policy exception granted by UCSF Health Procurement Services; both exceptions were appropriately documented and approved by senior procurement officials.

The FW/FW Plan applied to Real Estate effective May 1, 2016; however, 2019 was the first year that Real Estate was subject to an audit to ensure compliance with the established guidelines. UC's FW/FW Plan for real estate involves payment for work performed in a UC location. UC locations are deemed to include leased and licensed space whether UC is the Landlord/Licensor or Tenant/Licensee of space, and land ground leased to or from UC. The specific observations from this review are listed below.

1. The FW/FW requirement of tracking and identifying real estate contracts for the annual verification process was not followed until this review.
2. Not all leases that were executed in 2019 that require the FW/FW provision had the required language in the contracts.
3. One supplier verification for Campus Supply Chain Management was prepared by an "Enrolled Agent" and not registered public accountant as required by FW/FW Audit Standards.

**IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (“MCAs”)**

<b>No.</b>	<b>Observation</b>	<b>Risk/Effect</b>	<b>Recommendation</b>	<b>MCA</b>
1	<p><b><i>The FW/FW requirement of tracking and identifying real estate contracts for the annual verification process was not followed until this review.</i></b></p> <p>UCSF Real Estate had 4 contracts that were subject to annual FW/FW verification in 2019; it began the process of tracking contracts subject to annual FW/FW verification in May 2020.</p> <p>The annual FW/FW verification is for space leases, licenses, and ground leases. When UC is a landlord or licensor, FW/FW applies when the tenant or licensee is in a 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. When UC is a 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, FW/FW applies. When UC is a ground lessor, any building constructed on UC land pursuant to a ground lease or similar arrangement, i.e., Concession Agreement, where (1) UC leases back at least 50% of the space for the duration of the ground lease, or (2) the building is constructed for a use that supports UC’s mission and which could have been constructed and operated by UC, FW/FW would apply. When UC is a ground lessee, and any building or other facility constructed by UC or for UC’s use, FW/FW would apply. Based on these guidelines, verifications need to be sent out, tracked, and followed-up until they are received to ensure compliance with the established minimum wage of \$15 per hour for persons employed by or on behalf of UC. As of fieldwork, no verification had been received.</p>	<p>Without a process to track, monitor and follow-up with suppliers who are subject to annual FW/FW verifications, compliance with the FW/FW Plan requirements cannot be ensured.</p>	<p>UCSF Real Estate should track contracts subject to annual FW/FW verifications and send out the verifications timely. Additionally, UCSF Real Estate should monitor and follow-up with suppliers until the verification is received.</p>	<p><b>Action:</b> UCSF Real Estate Lease Administration will track non-retail agreements and annual verification forms through Archibus. UCSF Campus Life Services Retail will track retail agreements and annual verification forms through RealPage.</p> <p><b>Responsible Party:</b> Senior Associate Vice Chancellor UCSF Real Estate Vice President UCSF Health</p> <p><b>Target Date:</b> 8/31/2020</p>
2	<p><b><i>Not all executed leases that require the FW/FW provision had the required language in the contracts.</i></b></p> <p>UCSF Real Estate had 4 contracts that were executed in 2019 that require the FW/FW provision. Three out of the four contracts did not have the required FW/FW provision; this is due to UCSF Real Estate not consistently using the updated UCOP contract template.</p>	<p>Without the proper FW/FW provision in contracts, it would be difficult for UCSF to enforce FW/FW</p>	<p>UCSF Real Estate should educate its staff on FW/FW requirements and to use the updated UCOP contract template.</p>	<p><b>Action:</b> UCSF Real Estate will continue to use the updated UCOP contract template for agreements that require the</p>

No.	Observation	Risk/Effect	Recommendation	MCA
		<p>requirements on tenants, etc.</p>		<p>FW/FW provision. For the four agreements that did not have the required FW/FW provision, UCSF RE will inform the suppliers that the FW/FW policy is a UC wide requirement. The four agreements will need to be amended.</p> <p><b>Responsible Party:</b> Senior. Associate Vice Chancellor UCSF Real Estate Vice President UCSF Health</p> <p><b>Target Date:</b> 8/31/2020</p>

No.	Observation	Risk/Effect	Recommendation	MCA
3	<p><b>One supplier verification for Campus Supply Chain Management was prepared by an “Enrolled Agent”<sup>1</sup> and not a registered public accountant as required by FW/FW Audit Standards.</b></p> <p>One out of forty-three Auditor verifications forms reviewed for Campus Supply Chain Management was prepared by "Enrolled Agents" and did not satisfy the UC FW/FW guidelines. This is a recurring issue that was noted in the 2018 and 2019 audit report, but with a different supplier.</p> <p>Per the UC FW/FW Annual Audit Standards, the verification form must be prepared by a registered public accounting firm or the supplier’s independent internal audit department.</p>	<p>Without personnel with the required training and experience preparing the annual verification form, the review procedures may not be appropriately completed and compliance with the FW/FW Plan requirements cannot be ensured.</p>	<p>Completed Auditor Verification forms should be reviewed by Supply Chain Management to determine if qualifications of the personnel performing the review meets the FW/FW Plan requirements. Supply Chain Management should contact the suppliers to remind them of the Verification requirements of the FW/FW Plan.</p>	<p><b>Action:</b> Campus Supply Chain Management will obtain an exemption for this vendor.</p> <p><b>Responsible Party:</b> Associate Vice Chancellor, Supply Chain Management</p> <p><b>Target Date:</b> 8/14/2020</p>

**V. OPPORTUNITIES FOR IMPROVEMENTS**

No.	Observation	Risk/Effect	Recommendation
1	<p><b>Campus Supply Chain Management should begin seeking verifications based on anniversary date and not calendar year.</b></p>	<p>If Campus Supply Chain Management continues to use calendar year for verifications, it will be noncompliant</p>	<p>Campus Supply Chain Management should track its suppliers’ twelve</p>

<sup>1</sup> 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.

<b>No.</b>	<b>Observation</b>	<b>Risk/Effect</b>	<b>Recommendation</b>
	<p>During this review, it was noted that Campus Supply Chain Management used the calendar year to track the twelve month spend for suppliers and sought verifications based on the calendar year and not the anniversary date. This is the last year that UCOP will allow verifications based on calendar year.</p> <p>Per UCOP, the suppliers' spend should be calculated for the 12 month period starting on the master or purchasing agreement anniversary date. If a supplier is providing services for over \$100K, in a twelve-month period without an agreement, then the location needs to conduct a Request for Proposal and award a contract/master agreement. The date the agreement is executed is the anniversary date. Any other period, such as calendar or fiscal year, must be approved by the Policy Exception Authority as an exception.</p>	<p>with UCOP FW/FW Plan starting in 2020.</p>	<p>month spend based on the anniversary date.</p>