UCLA CAMPUS – FAIR WAGE/FAIR WORK

AUDIT REPORT #18-4001

Audit & Advisory Services

August 2018

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Background

As part of the University of California Office of the President (UCOP) initiative to implement the Fair Wage/Fair Work (FW/FW) plan, audits were performed systemwide to assess campus compliance with the requirements as they pertain to suppliers. UCLA Audit & Advisory Services (A&AS) has conducted an audit of UCLA Campus and Health Sciences purchasing departments’ procedures with regard to FW/FW. This report covers the review of the Campus Purchasing department.

The initiative, announced in July 2015, established a University of California (UC) minimum level of pay for employees to ensure that all UC workers are provided a fair wage. The plan guaranteed that UC employees hired to work at least 20 hours a week would be paid at least $13 an hour by October 1, 2015, increasing to $15 an hour by October 1, 2017. The plan also requires certain suppliers to pay their employees the UC Fair Wage (defined as $15 per hour, as of October 1, 2017). As part of the FW/FW plan, UC is to monitor wage and working conditions for suppliers’ employees.

For service agreements that exceed $100,000 annually, the supplier, at its own expense, must have an annual compensation audit. These audits are to be performed by the supplier’s independent auditor or independent internal audit department “in compliance with UC’s required audit standards and procedures” to assess the supplier’s compliance with the plan. Such suppliers must also provide a UC Fair Wage/Fair Work Auditor Certification annually, no later than 90 days after each one-year anniversary of an agreement’s effective date, for the 12 months immediately preceding the anniversary date. Additionally, in the event of a UC interim audit, the supplier must ensure that its auditors make available to UC their FW/FW work papers for the most recently audited time period.

To implement the plan, campus purchasing departments must identify and monitor all contracts subject to the FW/FW provisions, including those vendors with approved exemptions. Any supplier exempted from the FW/FW provisions must be approved by a campus senior procurement officer or by the systemwide Chief Procurement Officer. For service agreements that exceed $100,000 annually, the campus purchasing departments should remind the suppliers of the FW/FW audit requirements before the agreement’s anniversary date and request the annual FW/FW Auditor Certification.

Purpose and Scope

The purpose of the audit was to evaluate compliance with the FW/FW plan. The scope of the audit covered activities that UCLA Campus Purchasing performs in order to monitor and assure vendor compliance with the requirements specified by the plan.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary in achieving the purpose.

Summary Opinion

While the UCLA Campus Purchasing department has begun to implement the oversight procedures required by the FW/FW plan, the audit disclosed areas that warrant improvement. More specifically, to fully comply with FW/FW requirements, Campus Purchasing must be able to effectively perform the following key tasks, as summarized below.

* Identify and monitor all vendor contracts subject to FW/FW provisions.
* Identify and track individual purchase agreement anniversary dates for those vendors subject to the FW/FW audit provision.
* Develop a formal documentation process to approve exemptions to FW/FW provisions.
* Follow-up and resolve any exceptions identified through the annual vendor audits.

Discussions with Campus Purchasing management indicated that challenges have hindered their compliance monitoring efforts. Managing multiple campus and department priorities have also stretched existing staff resources. In response to a 2017 California State Audit, Campus Purchasing identified those purchasing agreements and contracts that are subject to the FW/FW audit provision (i.e., those contracts exceeding $100,000) and are required to submit an annual auditor certification to the University. Processes have recently been established to better educate vendors on FW/FW requirements and strengthen follow-up procedures by instituting several trigger dates in which Campus Purchasing staff will perform a variety of actions designed to increase vendor compliance.

In addition, Campus Purchasing indicated that a new position within the department has been funded for fiscal year 2018-19 that will address compliance and analytical requirements related to the FW/FW program. Since some lead time will be necessary to fill a new position, Campus Purchasing plans to bring in a temporary resource in the interim to address program needs, beginning in July 2018.

The audit results and corresponding recommendations are detailed in the following sections of this report.

Audit Results and Recommendations

| ***#*** | ***FINDING and CRITERIA*** | ***RECOMMENDATION*** | ***MANAGEMENT’S RESPONSE*** |
| --- | --- | --- | --- |
| 1. | Contract Monitoring  The Campus Purchasing department has not implemented a tracking system to identify and monitor all vendor contracts subject to the University’s FW/FW requirements.  Campus Purchasing created a worksheet in response to a 2017 California State Audit related to competitive bidding. The worksheet identifies those vendors with annual expenditures of $100,000 or more and notes which of these vendors are believed to be subject to FW/FW requirements. However, a similar tracking worksheet that lists all vendors, regardless of expenditure levels, and are subject to FW/FW is not available. | Management should implement a tracking system to facilitate the ongoing identification of all vendor service agreements that are subject to the University’s FW/FW requirements and monitor the contract anniversary dates.  In addition, department procedures should be documented to formally define the parameters and the process for identifying and monitoring vendors subject to the FW/FW provisions. Such procedures can be used to guide current and future Purchasing staff. | Management agrees with the recommendation. We have created a tracking sheet for all vendors with spend in excess of $100K who are subject to the University’s FW/FW requirements. We will expand this tracking sheet to include suppliers subject to FW/FW down to $50K in annual spend, and communicate the requirements to those suppliers. Given the number of suppliers, and the number of suppliers with multiple orders and therefore multiple anniversary dates, UCLA has chosen to monitor these contracts on a quarterly basis based on 12-month spend analysis, rather than over the course of the entire year based on anniversary dates.  Detailed department procedures are being documented and communicated to our staff. |
| 2. | Vendor Fair Wage/Fair Work Audits  Procedures have not been implemented to identify and track individual purchase agreement anniversary dates for those vendors subject to FW/FW, and to assure vendor compliance with UC audit requirements for service contracts exceeding $100,000 annually.  The FW/FW plan requires the supplier to arrange for the performance of annual independent audits and to provide to UC an Auditor Certification of the vendor’s compliance status. Such suppliers must provide the Auditor Certification annually, no later than 90 days after each one-year anniversary of an agreement’s effective date, for the 12 months immediately preceding the anniversary date.  As of the date of this audit, Campus Purchasing had received 10 Auditor Certifications for fiscal year 2016-17. Of these, six appear to have been completed by personnel who do not meet the UC auditor independence standard specified in the FW/FW guidance.  Campus Purchasing sent out solicitations to 95 vendors for Auditor Certifications on June 28-29, 2018, for the fiscal year 2017-18 period. Documentation of these solicitations was provided to A&AS for review. | Management should develop and implement departmental processes to ensure that vendors contracted to provide more than $100,000 in services annually are aware of completing the annual audit requirements. In addition, suppliers must be monitored to ensure that they submit Auditor Certifications timely.  Departmental processes should include:   * Informing vendors of the required auditor independence and audit procedures; vendors can be directed to the UC guidance at <http://www.ucop.edu/procurement-services/_files/fw-fw-annual-audit-standards-procedures.pdf>. * Soliciting the required FW/FW Auditor Certifications from all vendors subject to this FW/FW provision at each contract anniversary date. * Assuring that Auditor Certifications are received from and properly completed by all vendors subject to this FW/FW provision. * Assuring that corrective actions are taken toresolve any non-compliance exceptions reported on the Auditor Certification forms. | Suppliers subject to Fair Wage with annual spend in excess of $100K were reminded in July 2018 that they are subject to the audit requirements and were provided the link to the UCOP website for additional information on Fair Wage and audit standards. If we were unable to find evidence that their agreements called out the audit requirements, they have been given a 1-year exception to the requirement which has been noted in our Exception log.  The Auditor Certifications from eligible suppliers will be solicited quarterly based on 12-month spend analysis, reviewed timely for completeness and compliance and signed off by Purchasing staff or analyzed for exception consideration.  Corrective action for non-compliant suppliers will be taken timely. |
| 3. | Vendor Exemptions    Management has granted three individual exemptions and one general exemption (related to performing arts) to the FW/FW plan, as of June 6, 2018. Although Campus Purchasing provided documentation of approvals for each of the exemptions, a formal documentation process to approve the exemptions had not been implemented at the time of the audit. | Management should implement processes to assure that proper approvals and justifications are documented for any vendor that is granted an exemption, as required by UC Business and Finance Bulletin BUS-43, “Materiel Management,” (Section III, Part 1, E.d). | Buyer training on Fair Wage will emphasize Fair Wage requirements, and that only the Chief Procurement Officer (CPO) can grant an exception to the requirements. All exceptions will have a brief summary documenting the reason for the exception, with the CPO’s signature evidencing acceptance. |
| 4. | Terms and Conditions  Management indicated that the University’s standard *Terms and Conditions of Purchase*, which include the FW/FW provisions as Article 25, are incorporated into all purchase orders. However, because reliable documentation could not be obtained for the population of all vendors subject to FW/FW, A&AS was unable to perform audit testing to verify the extent to which terms and conditions were included on purchase agreements. | Management should ensure that the FW/FW provisions are fully incorporated into all service contracts that are subject to the FW/FW plan. Signed acknowledgment of these terms should be obtained from all relevant vendors. | Management will ensure that FW/FW provisions are incorporated into all service contracts subject to the requirements. Signed acknowledgment of these terms will be obtained from all relevant vendors. |

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