

University of California, Santa Barbara

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AUDIT AND ADVISORY SERVICES  
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July 11, 2019

To: Jim Corkill, Controller and Director  
Jacob Godfrey, Chief Procurement Officer and Associate Director  
Business and Financial Services

Re: **UC Fair Wage/Fair Work Review**  
**Audit Report No. 08-19-0010**

We have completed an audit of campus compliance with the University of California (UC) Fair Wage/Fair Work Plan as part of the 2018-19 annual audit services plan. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Procurement Services personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "AA", with a long, sweeping underline.

Ashley Andersen  
Director  
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang  
Assistant Chancellor for Finance and Resource Management Chuck Haines  
UCSB Audit Committee  
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

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UCSB Audit and Advisory Services

Internal Audit Report

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**UC Fair Wage/Fair Work Review**

July 11, 2019

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**Performed by:**

Antonio Mañas-Melendez, Associate Director

Irene Camargo, Senior Auditor

Karen Quintana, Staff Auditor

**Approved by:**

Ashley Andersen, Audit Director

Report No. 08-19-0010

## **EXECUTIVE SUMMARY**

### **OBJECTIVE**

The purpose of the audit was to assess whether University of California, Santa Barbara (UCSB) Procurement Services has implemented appropriate processes to ensure UCSB suppliers comply with UC Fair Wage/Fair Work Plan (FW/FW).

Our objectives were to ensure that:

- Applicable contracts for services over \$100,000 comply with selected UC Fair Wage/Fair Work Plan requirements, including: contract identification, certification process, and annual audits performed by an independent registered certified public accounting firm or an internal audit department reporting directly to an independent board.
- UC Fair Wage/Fair Work applicable contracts contained the applicable UC Terms and Conditions of Purchase.
- Exceptions were adequately managed and approved.

### **CONCLUSION**

The result of our work found Procurement Services is adequately tracking contracts over \$100,000 with the Fair Wage/Fair Work provision. Our detailed review of a supplier's work papers validated that the rate of pay met or exceeded the minimum requirement.

Our review of the certification process found that two reoccurring suppliers did not fully comply with the annual audit standards and procedures.

## **OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES**

### **1. TRACKING & COMPLETENESS OF UC FAIR WAGE/FAIR WORK CONTRACTS**

#### **OBSERVATION**

We determined that Procurement Services is adequately tracking contracts and purchase orders over \$100,000 with the UC Fair Wage/Fair Work (FW/FW) provision. We reviewed a sample of twelve contracts that were excluded from the certification process and confirmed that the UC Fair Wage/Fair Work certification process does not apply to any of them.

The Chief Procurement Officer informed us that there were no exceptions granted to the Fair Wage/Fair Work plan.

### **2. UC TERMS AND CONDITIONS**

#### **OBSERVATION**

We reviewed eight contracts and determined that all eight incorporated provision links to the UC Fair Work/Fair Wage Plan. However, five contracts did not link to the applicable version of the UC Terms and Conditions of Purchase (UC Terms and Conditions) when contracts were executed. We identified minor differences in the various versions of the UC Terms and Conditions applicable to Fair Wage/Fair Work. Significant changes of the UC Terms and Conditions applicable to Fair Wage/Fair Work could expose the University to contractual disputes.

As mentioned in the 2017-18 Fair Wage/Fair Work audit report, UC Procurement Service's website updates the UC Terms and Conditions by reusing the same hyperlink. This practice makes it impractical to maintain version control of the UC Terms and Conditions. UCSB Procurement Services, following UC Procurement Services guidance, includes active hyperlinks to the UC Terms and Conditions in contract documentation located in Gateway.

We were informed that UC Procurement Services would use a landing page (<https://www.ucop.edu/procurement-services/policies-forms/index.html>) as the URL in the purchase order. Earlier versions of the UC Terms and Conditions would be archived and would be available by request to either UCSB Procurement Services or UC Procurement Services.

### **3. CERTIFICATION PROCEDURE**

#### **OBSERVATION**

We found three contracts met the Fair Wage/Fair Work certification criteria<sup>1</sup>. All suppliers completed the requirement of providing the UC Auditor Certification Fair Wage/Fair Work to Procurement Services within the required 90 days. However, when reviewing the certification process we found two suppliers with a multi-year contract did not fulfill the requirement included in the Annual Verification Standards and Procedures, of using a registered public

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<sup>1</sup> Contracts with the UC Fair Wage/Fair Work provision performing services for one full year from the contract's effective date.

accounting firm nor an independent internal audit department that reports directly to an independent board to sign these certifications.

It was determined during the 2017-18 Fair Wage/Fair Work review that annual audit standards and procedures requirements were not enforceable for these two contracts, because the UC Fair Wage/Fair Work Plan provision in the UC Terms and Conditions was linked to the wrong web page. Both contracts expired this year. In case of contract renewals, Procurement Services should update the UC Terms and Conditions to ensure annual audit standards and procedures requirements can be enforced.

#### **4. ANNUAL AUDIT STANDARDS AND PROCEDURES**

##### **OBSERVATION**

Our review of one contract, that contained the required UC Fair Wage/Fair Work Plan provision, found that a licensed public accounting firm completed an agreed-upon procedure for compliance with *the Annual Verification Standards and Procedures for UC Fair Wage / Fair Work*. We validated that the required audit procedures were followed correctly and no exceptions were reported.

## GENERAL INFORMATION

### BACKGROUND<sup>2</sup>

On Wednesday, July 22, 2015, University of California President Janet Napolitano announced a new minimum wage plan for UC employees. Titled the “UC Fair Wage/Fair Work Plan”, the program guarantees that by October 2017 UC employees hired to work at least 20 hours a week be paid at least \$15 per hour.

The plan also requires that contractors doing business with UC guarantee a \$15 minimum hourly wage for their workers, ensuring that any workers being paid through a UC contract are paid fairly. The plan includes several measures to ensure contractors comply with the new minimum wage, as well as all federal, state, and UC workplace law and policies, including a telephone hotline for contract workers to report issues, and annual and periodic audits.

#### *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work*

Suppliers have to send the UC Auditor Certification Fair Wage/Fair Work form to UC Procurement annually, no later than 90 days after each one-year anniversary of the agreement’s effective date. The purpose is to certify that licensed public accounting firms or supplier’s internal audit departments comply with the *Annual Verification Standards and Procedures*.

### SCOPE

The limited scope of our work included an overview of the process and testing applicable contracts with the UC Fair Wage/Fair Work Plan identified by UCSB Procurement Services (Procurement Services) and were active from January 2018 to December 2018.

Specifically, we:

- Reviewed UC and UCSB policies, state and federal regulations, best practices, and other guidance concerning UC Fair Wage/ Fair Work plan, including:
  - *FY 2019 Interim Audit Procedures for Fair Wage/Fair Work Plan*, revised 4/11/2019.
  - *Independent Accountant/Internal Auditor Verification UC Fair Wage/Fair Work*, revised 1/15/2019.
  - *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work*, revised 1/15/2019.
  - *Annual Supplier Self-Certification Process – Fair Wage/Fair Work*, dated 4/11/2019.
  - *Fair Wage/Fair Work Auditor Contact List – Small & Diverse Forms*, provided 7/16/2019.
  - *Frequently Asked Questions UC Fair Wage/Fair Work Plan*, revised 2/5/2018.
  - *UC Terms and Conditions of Purchase* versions: 10/15/2015, 2/23/2016, 5/9/2016, 7/7/2016, 5/16/2017, 11/29/2017, 9/4/2018, and 2/6/2019.
- Conducted interviews with Procurement Services personnel to obtain a better understanding of the process and internal controls in place and to identify areas of

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<sup>2</sup> University of California website.

concern.

- Conducted detailed testing of a sample of applicable contracts for compliance with the UC Fair Wage/Fair Work Plan in the following areas:
  - Identification and adequate tracking of contracts
  - Certification process
  - Annual audit standard and procedures
  - Exceptions

## **CRITERIA**

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## **AUDIT TEAM**

Ashley Andersen, Audit Director  
Antonio Mañas-Melendez, Associate Director  
Irene Camargo, Senior Auditor  
Karen Quintana, Staff Auditor