

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA  
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Alexander Bustamante  
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August 28, 2020

**CHIEF PROCUREMENT OFFICER COOPER  
UC HEALTH CHIEF PROCUREMENT OFFICER MIURA  
ASSOCIATE DIRECTOR LAVIN**

**RE: Final Report Project No. P20A002: Fair Wage Fair Work - UCOP**

Attached is a copy of the final report for: Audit Services Project No. P20A002 Fair Wage Fair Work - UCOP. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: [matthew.hicks@ucop.edu](mailto:matthew.hicks@ucop.edu)).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks  
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante  
Executive Vice President Nava  
Executive Vice President Brostrom  
Chief Transformation Officer Graham  
Executive Director Kalmijn  
Director Sullivan  
Director Wolkow  
Systemwide Associate Audit Director Cataldo  
Local Procurement Manager Greene

UNIVERSITY OF CALIFORNIA  
ETHICS, COMPLIANCE AND AUDIT SERVICES  
OFFICE OF THE PRESIDENT  
INTERNAL AUDIT SERVICES

FAIR WAGE FAIR WORK – UCOP  
Project No. P20A002  
June 2020

Work Performed by:  
Peter Cataldo, Systemwide Associate Audit Director

Reviewed by:  
Matt Hicks, Systemwide Deputy Audit Officer

# Executive Summary

## Introduction and Background

As part of the annual fiscal year 2019-2020 audit plan, Internal Audit completed a review of the Fair Wage/Fair Work (FW/FW) Plan that was announced by President Napolitano on July 22, 2015. The FW/FW Plan requires that UC employees working at least 20 hours per week and employees of suppliers providing services to UC are paid a minimum of \$13 per hour effective October 1, 2015, \$14 per hour effective October 1, 2016, and \$15 per hour effective October 1, 2017.

The UC FW/FW Plan was effective as of October 1, 2015 for all new agreements, and renewed and extended agreements. Under the Plan, most services performed for the University at one or more UC locations became subject to the FW/FW Plan. However, the FW/FW Plan does **not apply** if the agreement:

- Is only for the furnishing of goods;
- Involves services not performed at one or more UC campuses, labs or medical centers;
- Involves services that are a public work with a wage determination *at or above* the UC Fair Wage; and
- Involves services funded by an extramural award containing sponsor-mandated terms and conditions (federal, state, or private foundation research grants).

Contracts subject to the FW/FW Plan must contain a provision in the UC Terms and Conditions of Purchase that outlines the FW/FW Plan requirements. 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 Chief Procurement Officer, UC Health Procurement for a UC Health systemwide contract; or otherwise by the senior procurement officer of the relevant campus or medical center.

For services that exceed \$100,000 annually, suppliers are required to provide an annual independent verification at the supplier's expense. Suppliers must also ensure that the auditor performing the verification makes available to UC its FW/FW work papers.

Several oversight measures were implemented to facilitate compliance with this plan, including a telephone hotline and online complaint registration system for workers and contractors to report issues pertaining to wages and working conditions, and annual verifications and periodic audits to ensure compliance with UC's minimum wage rules and expectations for working conditions.

The FW/FW Plan also applies to leased and licensed space whether UC is the landlord/licensor or tenant/licensee of space, and land ground leases to or from UC Real Estate Services and Strategies (RESS). The RESS supports campus and medical center leasing, licensing, and other real estate activities and provides assistance on strategic planning, business case analysis, due diligence, and market, valuation, and financial feasibility analysis for real estate matters. Responsibility for case management, including monitoring of FW/FW compliance, rests with the campus real estate

departments. At UCOP, two departments, the Building and Administrative Service Center (BASC) and Agriculture and Natural Resources (ANR), have been delegated authority to enter into leases.

## **Objectives and Scope**

The overall purpose of the audit was to assess compliance with the UC Fair Wage/Fair Plan requirements. The audit objectives were to:

- Review contracts and real estate leases executed in the last year (January 1, 2019 through December 31, 2019) to ensure that applicable contracts and leases contain the required FW/FW provision
- Determine whether Procurement and RESS are reviewing and monitoring contractor compliance with the annual verification requirements
- Determine if exceptions to the FW/FW program were properly approved
- Validate whether suppliers and lease tenants/landlords complied with the annual verification requirements

We reviewed FW/FW processes and interviewed key personnel in the following areas: UCOP Local Procurement, Systemwide Procurement, Systemwide UC Health Procurement, and Real Estate Services and Strategies (RESS). For UCOP Local Procurement, Systemwide Procurement, and UC Health Procurement, we reviewed the contract listings of contracts executed in the last year and corresponding annual spending in an effort to validate if the annual verification procedures were properly followed. For real estate leases, we interviewed key personnel within the BASC and ANR and reviewed the lease records to determine if they were subject to the FW/FW provision and if so, followed annual verification procedures.

## **Overall Conclusion**

UCOP Local Procurement, Systemwide Procurement, and UC Health have monitored FW/FW contracts, generated a list of contracts subject to the FW/FW provision, and generally performed outreach with suppliers when necessary to remind them of the FW/FW provision. Our review of a sample of contracts confirmed that they contained the appropriate FW/FW provision and no FW/FW exceptions were granted. We further noted that the real estate leases managed at UCOP within the BASC and ANR have been adequately reviewed for FW/FW applicability and these leases were not subject to the FW/FW provision.

Although Systemwide Procurement has a monitoring process in place to track supplier compliance with the FW/FW annual verification requirement, follow-up efforts have not always been timely and sufficient to ensure supplier compliance with the annual verification requirement.

## Opportunities for Improvement and Action Plans

### 1. Improvements are needed in the Systemwide Procurement follow-up process

#### *A. Insufficient Follow-up with suppliers*

It is the responsibility of the procurement team at each UC location to follow up with applicable vendors to ensure that they fully understand the verification requirement and solicit the required verification forms annually. Although Systemwide Procurement had established a process to send out periodic letters to suppliers to remind them of the verification requirement, records show that follow-up efforts were not sufficient to ensure supplier compliance. As a result, compliance with the supplier annual verification requirement was low. We noted that for 26 annual verifications required during 2019, only 15 were received.

For the 11 contracts for which annual verifications were not received, records show that there was insufficient follow-up with the supplier. The tracking spreadsheet used by Systemwide Procurement includes fields to capture the dates when letters are sent to the supplier about their annual verification requirement. These fields include dates for the initial supplier letter, and follow-up at 45 days and 90 days. For the majority of these contracts, there was no indication that follow-up letters were sent to the suppliers. We further noted that in several instances, records indicate that the initial letter to the supplier reminding them of their verification requirement was not sent or was not sent timely (sent weeks after the anniversary date).

The 11 past-due verifications were overdue 90 days or more. According to the UC FW/FW Plan, if an annual verification form is not received timely, locations should take one of the following actions: (1) discontinue the relationship with the supplier, (2) continue to pursue completion of the verification requirement, or (3) seek an after-the-fact exception for this requirement. Exceptions after a contract has been signed are not allowed unless UC determines that there is no alternative provider within the required timeframe. In such cases, the Policy Exception Authority must document such approval in writing. However, there was no indication of resolution for these past due verifications.

The tracking spreadsheet used by Systemwide Procurement also includes a field to track the date that the respective commodity managers within the procurement department are notified that an initial supplier notification letter should be sent. We noted that the commodity managers are not always notified timely of the contract anniversary date, which would delay the initial notification to the supplier of the verification due date. Systemwide Procurement should enhance their follow-up process to ensure that commodity managers are notified timely of the upcoming anniversary dates of their supplier contracts to ensure that the initial verification reminder is sent out timely.

**Action Plan:**

*A1. In an effort to ensure that follow-up efforts are occurring timely and in accordance with its follow-up process, Systemwide Procurement will initiate regular status updates of FW/FW supplier annual verification efforts with the commodity managers to ensure that tracker data is complete and current and follow-up letters are sent timely.*

**Target Date:** *October 31, 2020*

*A2. Systemwide Procurement will initiate resolution efforts for all past-due supplier annual verifications.*

**Target Date:** *October 31, 2020*

**B. Enhancements to the FW/FW tracker**

Although Systemwide Procurement has established a tracking process for FW/FW contracts and utilizes a tracking spreadsheet, enhancements to this tool would help Systemwide Procurement better manage annual supplier verifications. We noted that many contracts span several years and it was not always clear which contract year was being tracked. Identifying the contract year within the spreadsheet, as well as adding fields for the anniversary date and due date for the verification form, would help to identify and monitor compliance with the annual supplier verification.

**Action Plan:**

*B1. Systemwide Procurement will enhance its tracker spreadsheet by adding additional fields to help monitor the annual supplier verification process. These additional fields could include contract year, anniversary date, verification due date, and final resolution disposition for past due verifications.*

**Target Date:** *December 30, 2020*