
Audit Report

Fair Wage/Fair Work (systemwide)

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Approved
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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed an audit to evaluate the controls in place to ensure supplier compliance with the UC Fair Wage/Fair Work Plan. This audit was included in the FY 2019 internal audit plan.

UCSC Procurement and Supply Chain Services (Procurement Services) controls are adequate to track and ensure the most updated Fair Wage/Fair Work provision is included in all appropriate contracts.

However, none of the suppliers providing services of at least \$100,000 for calendar year 2018 has provided appropriate certification forms to verify compliance with the FW/FW provision. We also found that follow-ups with these suppliers were not performed consistently or documented. Furthermore, while two of these suppliers continue to be contracted since our last audit and have not provided appropriate certification forms, Procurement Services has not granted any exceptions.

The following observations requiring management corrective actions were identified:

A. Annual Supplier Audit Certifications

UCSC continues to contract with suppliers subject to an annual audit certification that have not provided appropriate certification forms and have not been granted an exception.

B. Notifications to Suppliers

Current procedures to notify suppliers subject to an annual audit certification could be improved to ensure more consistent notification or reminders.

Management agreed to all corrective actions recommended to address risks identified in these areas. Observations and related management corrective actions are described in greater detail in section III of this report.

II. INTRODUCTION

Purpose

The purpose of this audit was to evaluate the controls in place to ensure vendor compliance with the UC Fair Wage/Fair Work Plan. This audit was included in the FY 2019 internal audit plan.

Background

On July 22, 2015, University of California President Janet Napolitano announced a new minimum wage plan for University of California (UC) employees. With this plan, UC is the first public university in the United States to voluntarily establish a \$15/hour minimum wage. Titled the “UC Fair Wage/Fair Work Plan”, the program guarantees that UC employees hired to work at least 20 hours a week are paid at least \$15 per hour. This was made effective on October 1, 2015, starting at \$13/hr.; then on October 1, 2016, at \$14/hr.; and finally on October 1, 2017, at \$15/hr. This plan not only applies to UC employees; it also applies to all service providers who perform services for the University at one or more UC locations.

The Fair Wage/Fair Work (FW/FW) Plan is included in UC Policy BFB-BUS-43 Purchases of Goods and Services; Supply Chain Management as follows:

Section II. Definitions

Fair Wage/Fair Work Services: Fair Wage/Fair Work Services include all services to be performed for the University at one or more UC Locations. Fair Wage/Fair Work services requirements do not apply to: (i) contracts funded by extramural awards containing sponsor-mandated terms and conditions, or (ii) 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.

UC Fair Wage: The UC Fair Wage shall equal \$13 per hour as of 10/1/15, \$14 per hour as of 10/1/16, and \$15 per hour as of 10/1/17.

Section III, Part 1: E.1.d. Fair Wage/Fair Work:

i. General Requirements: University of California requires that Suppliers of Fair Wage/Fair Work Services, including Suppliers of Public Works, pay their employees performing the Services no less than the UC Fair Wage.

ii. Contracting Procedures: All contracts for UC Fair Wage/Fair Work Services must contain a provision substantially in the form of the UC Fair Wage/Fair Work Article in the UC Terms and Conditions of Purchase.

iii. Exceptions: Any exceptions to this Policy must be approved by the Policy Exception Authority. The Fair Wage/Fair Work provision does not allow any exceptions after a contract has been signed with the sole case of when UC determines there is no other alternative provider within the required time frame. In such cases the Policy Exception Authority must document such approval in writing.

The UC Terms and Conditions of Purchase, Article 25 – Fair Wage/Fair Work states:

If the Agreement is for Services that will be performed at one or more UC Locations, does not solely involve furnishing Goods, and are not subject to extramural awards containing sponsor-mandated terms and conditions, Supplier warrants that it is in compliance with applicable federal, state and local working conditions requirements, including but not limited to those set forth in Articles 11, 12 and 14 herein, and that Supplier pays its employees performing the Services no less than the UC Fair Wage. Supplier agrees UC may conduct such UC Fair Wage/Fair Work interim compliance audits as UC reasonably requests, as determined in UC's sole discretion. Supplier agrees to post UC Fair Wage/Fair Work notices, in the form supplied by UC, in public areas (such as break rooms and lunch rooms) frequented by Supplier employees who perform Services.

For Services that exceed \$100,000 annually and are not subject to prevailing wage requirements, Supplier will, a) at Supplier's expense, provide an annual independent verification performed by a licensed public accounting firm (independent accountant) or the Supplier's independent internal audit department (<http://na.theiia.org/standards-guidance/topics/Pages/Independence-and-Objectivity.aspx>) in compliance with UC's required verification standards and procedures (http://www.ucop.edu/procurement-services/_files/fw-fw-annual-verification-standards-procedures.pdf), concerning Supplier's compliance with this provision, and b) ensure that in the case of a UC interim audit, its independent accountant/independent internal auditor makes available to UC its UC Fair Wage/Fair Work work papers for the most recent verification period. Supplier agrees to provide UC with a UC Fair Wage/Fair Work verification annually, in a form acceptable to UC, no later than ninety days after each one year anniversary of the agreement's effective date, for the twelve months immediately preceding the anniversary date.

Scope

We conducted this audit by means of the following:

- Interviewed Procurement Services.
- Reviewed UC policy and guidance concerning the UC FW/FW Plan, including:
 - UC Policy BFB-BUS-43 Purchases of Goods and Services; Supply Chain Management
 - UC Terms and Conditions
 - UC FW/FW resources
- Requested from Procurement Services the current list of all contracts with the FW/FW provision for calendar year 2018.
- From the provided list, reviewed a judgmental sample to verify that Article 25 was applicable.
- Requested from Procurement Services the audit certification forms obtained from relevant service suppliers.
- Contacted a supplier and discussed annual audit requirements.
- Participated in systemwide conference calls.

III. OBSERVATION REQUIRING MANAGEMENT CORRECTIVE ACTION

A. Annual Supplier Audit Certifications		
UCSC continues to contract with suppliers subject to an annual audit certification that have not provided appropriate certification forms and have not received an exception.		
Risk Statement/Effect		
There is a risk that suppliers with contracts for services that exceed \$100,000 do not comply with the Fair Wage/Fair Work plan. There may also be a greater negative impact from potential noncompliance if the campus continues to contract with suppliers for several years without receiving appropriate certification forms.		
Agreement		
A.1	Procurement and Supply Chain Services will evaluate improving the current procedure for handling suppliers that have not provided appropriate certifications for an extended period. This could include providing the supplier with a written exception, obtaining a policy waiver, or terminating the contract within a specified timeframe.	Implementation Date
		September 30, 2019
		Responsible Manager
		Director, Procurement and Supply Chain Services

A. Annual Supplier Audit Certifications – Detailed Discussion

Procurement Services informed us that suppliers with contracts for services at least \$100,000 annually have not provided appropriate certification forms. This noncompliance applies to the four contracts we identified, two of which were from suppliers that have not provided an appropriate certification form since our prior 2018 FW/FW systemwide audit.

Since completing our prior audit, the University of California, Office of the President (UCOP) has provided an Annual Verification Audit Firm List¹, which consists of small and diverse auditors/firms that can provide the Fair Wage/Fair Work Annual Audit per the requirements and procedures outlined by the University of California. Smaller UC suppliers are able to refer to this list to identify and obtain an appropriate auditor resource at a more reasonable cost.

However, campus suppliers continue to struggle with fulfilling the annual audit certification requirement. For example, Procurement Services informed us one supplier provided reports that did not meet audit requirements and in another case, a temporary staffing supplier provided Procurement Services with its labor rates. However, these measures did not fulfill compliance with the annual audit certification requirement.

¹ <https://www.ucop.edu/procurement-services/for-suppliers/fwfw-resources-suppliers.html>

Although suppliers are attempting to fulfill the annual audit certification requirement, there may be a greater negative impact from potential noncompliance if the campus continues to contract with suppliers for several years without receiving appropriate certification forms.

B. Notifications to Suppliers		
Current procedures to notify suppliers subject to an annual audit certification could be improved to ensure more consistent notification or reminders.		
Risk Statement/Effect		
There is a risk that suppliers subject to the annual audit certification requirement may not be notified timely upon reaching their contract anniversary date. Documenting communication with suppliers may also help reduce potential supplier claims of never being notified.		
Agreement		
B.1	Procurement and Supply Chain Services will evaluate improving the current procedure for the notification and reminder to suppliers subject to the annual audit certification. This could include retaining reminders, letters, or other formal documentation sent to suppliers.	Implementation Date
		September 30, 2019
		Responsible Manager
		Director, Procurement and Supply Chain Services

B. Notifications to Suppliers – Detailed Discussion

Although Procurement Services has indicated they have sent notification letters and reminders to suppliers subject to the annual audit certification, supporting documentation was not provided for our audit period.

Additionally, one supplier subject to the annual audit certification requirement stated AMAS was the first communication received this year regarding the FW/FW Plan. The supplier anticipates performing the audit procedures and providing the certification form by the following month. This does not comply with Article 25, which requires this to be provided within 90 days:

“Supplier agrees to provide UC with a UC Fair Wage/Fair Work verification annually...no later than ninety days after each one year anniversary of the agreement’s effective date, for the twelve months immediately preceding the anniversary date.”

Current Procurement Services procedures to notify suppliers are in accordance with the systemwide Annual Supplier Self Certification Process for Fair Wage/ Fair Work. However, there could be value in documenting the notification process to better ensure consistency and timeliness. Additionally, as stated above, establishing a formal process for documenting communication with suppliers may also help reduce potential supplier claims of never being notified, which could be used as a means to further delay providing the audit certification.

APPENDIX A. SUMMARY OF WORK PERFORMED AND RESULTS

Preliminary Survey	
Work Performed	Results
<ul style="list-style-type: none"> Identified relevant UC policies and UC Terms & Conditions that include the FW/FW provision. Obtained FW/FW resources from UC Procurement Services at UCOP. Reviewed relevant audit or advisory reports conducted at UC campuses. 	<p>FW/FW provision is included in UC Policy BFB-BUS-43 Purchases of Goods and Services; Supply Chain Management and UC Terms & Conditions Article 25, which are stated in the background section of the Introduction.</p> <p>The most relevant UC resources include, but are not limited to:</p> <ul style="list-style-type: none"> Annual Supplier Self Certification Process - Fair Wage/Fair Work Annual Verification Standards and Procedures for Fair Wage/Fair Work A Guide to Fair Wage/Fair Work by Commodity Fair Wage/Fair Work Auditor Contact List Fair Wage/Fair Work Decision Tree Fair Wage/Fair Work Frequently Asked Questions Supplier Annual Verification Form Supplier Reminder Template for FW/FW verification UCOP Procurement FW/FW Contract Scenarios

Verifying Fair Wage/Fair Work Provision	
Work Performed	Results
<ul style="list-style-type: none"> Obtained from Procurement Services the list of all contracts with the Fair Wage/Fair Work provision and all FW/FW policy exceptions that were granted in calendar year 2018. Inquired about the process by which Procurement Services ensures the completeness of the list of contracts with the FW/FW provision and all FW/FW policy exceptions. Reviewed a judgmental sample to verify that the FW/FW provision language was consistent with the language in the applicable version of the UC Terms & Conditions. 	<ul style="list-style-type: none"> We received a report listing all FW/FW contracts during CY 2018, which was comprised of 759 unique vendors and 2084 purchase requisitions. Procurement Services ensures the completeness of the list of contracts with the FW/FW provision through the inclusion of a check box for all orders in CruzBuy, the campus e-procurement system, to identify whether the purchase is subject to the FW/FW provision. Reports can be generated through this system. Furthermore, a database has been established to track contract anniversary dates for services that exceeded \$100,000 annually. Procurement Services also confirmed that no FW/FW exceptions had been granted for services executed during CY 2018. We judgmentally selected 27 contracts for review: 23 contracts with amounts under

	<p>\$100,000 and four contracts with an amount of \$100,000 or greater. For all samples, we found the FW/FW provision language was consistent with the language in the most recent version of the UC Terms & Conditions. This was accomplished by including a hyperlink to a campus-hosted webpage that is regularly updated with the most recent UC Terms & Conditions. Within the UC Terms & Conditions, the FW/FW provision is included as Article 25.</p>
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Verifying Annual Audit Certifications	
Work Performed	Results
<ul style="list-style-type: none"> Requested certification forms for all FW/FW contracts that satisfied the annual audit criteria. Reviewed reports provided by Procurement Services to identify suppliers who satisfied the criteria for an annual audit certification. Contacted one of the identified suppliers and requested their certification workpapers and audit report. 	<ul style="list-style-type: none"> Suppliers subject to the annual audit criteria still have not provided an appropriate annual audit certification. We identified four contracts satisfied the criteria for annual audit certification. The contacted supplier had not performed the annual audit certification for CY 2018 and stated they did not receive notifications or reminders. After reaching out, the supplier anticipates to perform the audit procedures and provide the certification form by the following month.

Exceptions to Fair Wage/Fair Work	
Work Performed	Results
<ul style="list-style-type: none"> We requested a list of exceptions granted to the FW/FW provision during the year. 	<ul style="list-style-type: none"> Procurement Services informed us there were no exceptions granted for calendar year 2018.