

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



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Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

December 16, 2019

**CHIEF PROCUREMENT OFFICER COOPER
UC HEALTH CHIEF PROCUREMENT OFFICER MIURA**

RE: Final Report Project No. P19A002a: Systemwide Fair Wage/Fair Work

Attached is a copy of the final report for: Audit Services Project No. P19A002a Systemwide Fair Wage/Fair Work. 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).

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 Byington
Interim Executive Vice President Jenny
Chief Transformation Officer Graham
Director Sullivan
Director Wolkow
Systemwide Associate Audit Director Cataldo

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

SYSTEMWIDE FAIR WAGE/FAIR WORK
Project No. P19A002a
July 2019

Prepared by:
Systemwide Associate Audit Director Cataldo

Reviewed by:
Systemwide Deputy Audit Officer Hicks

Executive Summary

Introduction and Background

In accordance with the annual University of California (UC) audit plan, Internal Audit conducted a systemwide audit of the UC Fair Wage/Fair Work Plan. This audit was performed at all UC campuses using a standard systemwide audit program. Each location's internal audit department issued a report covering its local observations and associated planned management corrective actions. This summary report provides an overview of the systemwide findings and communicates any issues that should be addressed from a systemwide perspective.

The Fair Wage Fair Work (FW/FW) Plan 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 under this program are to be paid a minimum of \$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 any renewed or 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 references the UC 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 Associate Vice President, UC Health Procurement for a UC Health systemwide contract; and otherwise by the senior procurement officer of the relevant campus or medical center. These positions are collectively defined as the "Policy Exception Authority" in systemwide procurement policy (BFB-BUS-43 Purchases of Goods and Services; Supply Chain Management).

For services (other than exempted Professional Services) that exceed \$100,000 annually, suppliers are required to perform an annual independent verification, at the supplier's expense, concerning the supplier's compliance with the FW/FW provision. Suppliers must also ensure its auditor makes available to UC its FW/FW verification 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 to wages and working conditions, and annual verifications for contractors to ensure compliance with UC's minimum wage rules and expectations for working conditions.

Objectives and Scope

Campus internal auditors reviewed local FW/FW processes and documentation and interviewed key procurement personnel. The overall purpose of the audit was to assess compliance with the UC FW/FW Plan requirements for procurement contracts. The audit objectives were to:

- Review contracts executed in the last year to ensure that applicable contracts contain the required FW/FW provision
- Determine whether procurement is reviewing and monitoring contractor compliance with the annual verification requirements
- Determine if exceptions to the FW/FW program were properly approved
- Validate whether suppliers complied with the annual verification requirements

Audit procedures were conducted at all campus locations and medical centers and at the Office of the President. The procedures for the Office of the President included both local and systemwide agreements.

Overall Conclusion

In general, the campuses and medical centers have implemented processes to ensure the FW/FW provision is included in procurement contracts, FW/FW contracts are identified and tracked, and supplier annual verifications are monitored.

While the campuses and medical centers have made some progress since the prior year's FW/FW internal audit in implementing effective processes for monitoring supplier compliance with FW/FW requirements, additional improvement is required to improve supplier compliance rates. The overall annual verification compliance rate for both campuses and medical centers was 52% - up from 21% in the prior year.

We noted that suppliers are not always adhering to the annual verifications requirements as locations have identified instances in which the documentation submitted did not meet the verification standards. In these cases, the supplier may have submitted an audit report rather than the required verification form or personnel who did not meet the independence standard completed the verification. Additionally, suppliers were not always providing the required verification form in a timely manner.

A number of locations indicated that links in their local purchase orders referenced an Office of the President site where versions of the UC Terms and Conditions of Purchase were being updated. With each modification, the revised language no longer matched the original purchase order clause.

Management corrective actions have been developed at the local level to address deficiencies identified. This report provides a summary of the observations noted at the locations, as well as corrective actions identified at the systemwide level, which generally address increased training and guidance.

Opportunities for Improvement and Action Plans

1. Annual Supplier Verification Compliance Monitoring

For services that exceed \$100,000 annually, suppliers are required to perform an annual independent verification, at the supplier's expense, concerning the supplier's compliance with the FW/FW provision. The FW/FW verification standards published by UC require that the verification be performed by a registered accounting firm or the suppliers' internal audit department if it reports to an independent board. If the annual verifications are performed by a registered accounting firm, the firm must not have any affiliation with the supplier. Such suppliers must also provide a UC FW/FW verification form 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. Suppliers must also ensure their auditors make available the FW/FW work papers.

It is the responsibility of the procurement department at each UC location to follow up with the applicable vendors to ensure that they fully understand the verification requirements and solicit the required verification forms at each contract anniversary date. In an effort to facilitate FW/FW compliance, Systemwide Procurement developed and made available to all locations a standard follow up request letter template inform suppliers of their annual verification requirement.

Supplier compliance

We noted that while all the locations have a process in place to monitor the annual supplier verification requirement, improvement is needed to ensure that local procurement departments follow-up with suppliers when verification forms are past due. According to guidance provided to the campuses by Systemwide Procurement, if an annual verification form is not received timely, the campuses have the option to (1) discontinue the relationship with the supplier, (2) continue to pursue a verification and verification form, 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 time frame. In such cases the Policy Exception Authority must document such approval in writing. Low rates of compliance at some locations with established monitoring processes indicate that these locations are not taking appropriate and timely action with suppliers that are not complying with the annual verification requirement.

The overall annual verification compliance response rate for the current audit period was 52%, as compared to 21% in the prior year. Specifically, the annual verification rate for the campuses was 69% - up from 24% in the previous year, and the current annual verification rate for the medical centers was 32% as compared to 11% in the previous year. Refer to Appendix 1 for more detailed systemwide and campus FW/FW compliance statistics collected from the campus internal audit departments in their performance of this audit.

During the annual audit period, we noted that a total of 230 annual supplier verifications were completed out of the identified 439 contracts that were subject to the annual verification.

Specifically, the campuses received 168 supplier verification forms of the 243 (69%) that were due. The medical centers received 62 of the 196 (32%) required verification forms.

Verification Standards not always met

Eight locations identified instances in which the submitted verification forms did not meet the requirements set forth in the verification standards and procedures. Of the 230 verification forms that were received, 34 (15%) were not fully compliant with the requirements. In these cases, the locations identified instances in which the annual verification form was completed by the supplier's management personnel rather than an independent auditor, the verification form was submitted late, or the supplier submitted an audit report rather than completing the UC standard verification form.

Noted Violations of the FW/FW Provision

A review of the 230 annual verification forms received systemwide in 2018 identified 15 instances in which the supplier did not pay the F Wage to an employee or contractor. In these situations, the applicable supplier has either confirmed that retroactive payroll adjustments were made to the employee, or the campus was still in communication with the supplier to ensure that payroll adjustments occurred. In all cases, internal audit will follow up with procurement to ensure that the appropriate retroactive payroll adjustments were made.

Action Plan:

In an effort to increase the rate of supplier compliance with the annual verification requirement, Systemwide and UC Health Procurement will enhance training and guidance provided to all locations to address instances when the supplier does not comply with the annual verification requirements in a timely manner. This guidance will reinforce that procurement departments needs to take appropriate and timely action with suppliers that are not complying with all annual verification requirements. Appropriate action includes, but not limited to, timely follow-up with suppliers when a verification form is past due, follow-up when an audit report is submitted in lieu of a verification form or when the verification form is signed by personnel who did not meet the independence standard, and termination of the contract when warranted.

Target date: January 31, 2020

2. Outdated Hyperlink to Article 25

We noted that Fair Wage/Fair Work provision language in campus purchase orders was not always consistent with the language in the applicable version of the standard terms and conditions. This resulted from campuses embedding a uniform resource locator (URL) in purchase order clauses which linked to an Office of the President site where versions of the UC Terms and Conditions of Purchase were being updated. With each modification, the revised language no longer matched the original purchase order clause.

Action Plan:

The Office of the President will modified the URL so that it will not change and provide ready-access links to the archived terms and conditions.

Target date: Completed during the review. No further action required.

Appendix 1: Systemwide Fair Wage/Fair Work Statistics

Current Year and Prior Year Compliance Statistics

	Current Year	Prior Year
% Verification Forms Received		
Campuses	69%	24%
Medical Centers	32%	11%
Total	52%	21%
% Forms Received Not Meeting All Requirements		
Campuses	18%	31%
Medical Centers	8%	38%
Total	15%	31%
# Exemptions Granted		
Campuses	2	15
Medical Centers	1	1
Total	3	16
# Instances of Suppliers Identified Not Paying Fair Wage		
Campuses	13	4
Medical Centers	2	0
Total	15	4

Current Year Statistics by Location

Campuses

	Total	UCB	UCD	UCI	UCLA	UCM	UCR	UCSB	UCSC	UCSD	UCSF	UCOP	SW
# Contracts Subject to Verification Requirement	243	12	15	15	83	11	6	3	4	41	36	1	16
# Verification Forms Received	168	8	4	15	64	11	4	3	2	25	20	0	12
% Verification Forms Received	69%	67%	27%	100%	77%	100%	67%	100%	50%	61%	56%	0%	75%
# Not Meeting All Requirements	30	4	0	0	3	0	0	2	2	18	1	N/A	0
% Not Meeting All Requirements	18%	50%	0%	0%	5%	0%	0%	67%	100%	72%	5%	N/A	0%

Medical Centers

	Total		UCD	UCI	UCLA					UCSD	UCSF		SW
# Contracts Subject to Verification Requirement	196		102	2	32					36	23		1
# Verification Forms Received	62		13	2	1					31	15		0
% Verification Forms Received	32%		13%	100%	3%					86%	65%		0%
# Not Meeting All Requirements	4		0	2	0					2	0		N/A
% Not Meeting All Requirements	6%		0%	100%	0%					6%	0%		N/A