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Alexander Bustamante
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October 17, 2017

**CHIEF PROCUREMENT OFFICER COOPER
INTERIM UC HEALTH CHIEF PROCUREMENT OFFICER WILLIARD**

RE: Final Report Project No. P17A003: Fair Wage/Fair Work – UCOP Campus

Attached is a copy of the final report for: Audit Services Project No. P17A003 Fair Wage/Fair Work – UCOP Campus. 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 Brostrom
Executive Vice President Stobo
Executive Director Kalmijn
Director Sullivan
Director Wolkow
Systemwide Audit Manager Cataldo
Manager Greene

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

FAIR WAGE FAIR WORK – UCOP Campus
Project No. P17A003
June 2017

Work Performed by:
Peter Cataldo, Systemwide Audit Manager

Reviewed by:
Matt Hicks, Systemwide Deputy Audit Officer

Executive Summary

Introduction and Background

As part of the annual fiscal year 2016-2017 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 under this program are to be 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 program 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 reference the UC FW/FW article. 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.

For services that exceed \$100,000 annually, suppliers are required to perform an annual independent audit and certification, at the supplier's expense. Suppliers must also ensure its auditor 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 to wages and working conditions, and annual and periodic audits for contractors to ensure compliance with UC's minimum wage rules and expectations for working conditions.

Objectives and Scope

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

- Review contracts executed in the last year (October 1, 2015 through December 31, 2016) to ensure that applicable contracts contain the required FW/FW provision

- Determine whether Procurement is reviewing and monitoring contractor compliance with the annual certification requirements
- Determine if exceptions to the FW/FW program were properly approved
- Validate whether suppliers complied with the annual certification audit requirements

We reviewed the FW/FW processes and interviewed key personnel in the following areas: UCOP Local Procurement, Systemwide Procurement, and Systemwide UC Health Procurement. For UCOP Local and Systemwide Procurement, we reviewed the contract listings of contracts executed in the last year. We also selected one supplier that submitted an annual certification form to Systemwide Procurement to review and evaluate that the annual audit certification procedures were properly followed.

Overall Conclusion

UCOP Local Procurement generated a list of contracts subject to the FW/FW provision and all contracts were less than \$100,000. Accordingly, they did not require annual supplier audit certifications. UCOP Procurement did not have any FW/FW exceptions. However, process improvements are needed to ensure that all required contracts contain the UC FW/FW provision.

Systemwide Procurement is generally in compliance with the FW/FW requirements as all contracts selected for review contained the required FW/FW provision. The one FW/FW supplier exception at the time of our review was appropriately approved. Systemwide Procurement has effective procedures in place to monitor supplier compliance with the FW/FW annual audit requirement. The supplier that we selected for review submitted an annual certification form timely and complied with the FW/FW audit standards.

UC Health Systemwide Procurement has updated their procurement contract template to contain the required FW/FW provision, but has not entered into any systemwide service contracts that would be subject to the UC FW/FW provision.

Opportunities for Improvement and Action Plans

1. Some UCOP contracts lack the FW/FW Provision

In accordance with Business and Finance Bulletin BUS-43 Materiel Management (BUS-43), all contracts for UC FW/FW Services must contain a provision substantially in the form of the UC FW/FW Article in the UC Terms and Conditions of Purchase.

Although UCOP Local Procurement identifies contracts to which the FW/FW provision applies, not all applicable contracts contained the required FW/FW provision. We reviewed eight UCOP procurement contracts and six of the eight did not contain the FW/FW provision as required. In some cases, the contract section indicating that FW/FW was not applicable was erroneously checked, and in one case, UCOP procurement used the supplier's terms and conditions which did not contain the FW/FW provision. UCOP Procurement indicated that they are in the process of implementing new practices to insert the FW/FW language when they use supplier contract documents.

Action Plan:

UCOP Local Procurement will develop a process going forward to ensure all required FW/FW contracts contain the FW/FW provision. UCOP Local Procurement will also review current FW/FW contracts and amend where applicable to add the FW/FW provision.

Target date: December 31, 2017

Additional Recommendation

Internal Audit recommends management consider the following additional improvement opportunity for UC Health Systemwide Procurement to better align with leading operational practices.

1. Identification of FW/FW Contracts

Both UCOP Local and Systemwide Procurement have a process to identify and monitor FW/FW contracts. Accordingly, UCOP and Systemwide Procurement each produced a listing of contracts issued between October 1, 2015 and December 31, 2016 for which FW/FW applied. Both units are monitoring to identify contracts in which the UC FW/FW provision applies as well as the status of required supplier annual audit certifications.

Although UC Health Systemwide Procurement (UCHSP) does not currently maintain a listing of FW/FW contracts, they do not have any systemwide service contracts at this time that are subject to the UC FW/FW provision. UCHSP indicated that they are aware of the FW/FW requirement and have taken several measures to address the UC FW/FW requirement, including the development of a procurement template that contains the FW/FW

provision, and an updated internal contract checklist to include FW/FW awareness. UCHSP is also in the process of creating a database to identify FW/FW contracts and monitor suppliers for compliance.

Recommendation

As UCHSP enters into new systemwide service contracts, we recommend that they proactively identify and monitor contracts subject to the FW/FW provision, follow-up with suppliers to ensure required annual audits are performed, and instruct supplier certifications be returned to UC Health Procurement.