

The logo for UCIrvine, featuring the letters 'UCIRVINE' in a large, black, serif font. The letters are closely spaced, with 'UC' and 'IRVINE' being particularly prominent.The text 'INTERNAL AUDIT SERVICES' in a black, serif font, positioned to the right of a vertical line. The words are stacked vertically.

Fair Wage/Fair Work

Internal Audit Report No. I2019-110

August 5, 2019

Prepared By

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August 5, 2019

**SNEHAL BHATT
CHIEF PROCUREMENT OFFICER AND DIRECTOR
PROCUREMENT SERVICES**

**SUSANNA RUSTAD
DIRECTOR OF PROCUREMENT AND SUPPLY CHAIN
PROCUREMENT**

**RE: Fair Wage/Fair Work Audit
Report No. I2019-110**

Internal Audit Services has completed the Fair Wage/Fair Work review and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Peter Cataldo, Systemwide Associate Audit Director - UC Ethics, Compliance &
Audit Services

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2018-2019 audit plan, Internal Audit Services (IAS) conducted a review of the Fair Wage/Fair Work (FW/FW) program at the University of California, Irvine Medical Center and Campus. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures, and/or best business practices. Specifically, the following concerns were noted.

Management of FW/FW Contracts – Medical Center Procurement has developed a listing of suppliers where FW/FW applies; however, it should be reviewed and enhanced to include accurate agreement start dates and verification due dates to help manage FW/FW requirements. This is discussed in V.1.

Although Campus Procurement is able to generate a listing of suppliers where FW/FW provisions apply, the process is manual and maintaining a current running list of these suppliers is tedious and time consuming due to logistic/system limitations. This is discussed in V.1.

Annual Verification Audit – Medical Center Procurement improperly imposed the annual verification audit requirements. Two verifications had incorrect verification time periods. After-the-fact exceptions were approved for two suppliers but they were not needed since the suppliers fulfilled the contract prior to the anniversary date. This is discussed in Section V.2.

Campus Procurement was found to be in compliance with the annual verification audit requirements.

Terms and Conditions – Medical Center Procurement was using an outdated link to the UC Standard Terms and Conditions (T&Cs). Campus Procurement was also using an outdated link and some purchase orders (POs) did not contain any valid links to the T&Cs in the hardcopy versions of the POs provided to IAS. See Section V.3.

II. BACKGROUND

The University of California (UC) President announced at the July 22, 2015, Regents Meeting that a FW/FW program was to be adopted. This program was effective October 1, 2015, for all new agreements and for renewed and extended agreements. The new minimum wage plan for UC employees working at least 20 hours per week and employees of suppliers providing services to UC under this program were 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. FW/FW 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 T&Cs (federal, state or private foundation, research grants).

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 its FW/FW work papers available to UC.

Procurement offices will contribute information to the location's database regarding agreements handled by buyers that contain FW/FW provisions and for which an exception has been approved. For service agreements that exceed \$100,000 annually, the Procurement offices are to remind suppliers of the FW/FW audit requirements before the agreement's anniversary date. Buyers should receive certification forms from suppliers and forward a copy of certification to the internal auditor.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess whether the Medical Center and Campus Procurement Offices have implemented processes to ensure vendor compliance with the FW/FW work plan. The scope included a review of applicable contracts and selected transactions for review and testing from January 1, 2018, to December 31, 2018.

The audit included the following objectives:

1. Determine whether applicable contracts for services over \$100,000 comply with FW/FW requirements;
2. Determine if FW/FW contracts contain UC T&Cs of purchase; and
3. Determine if exceptions were adequately managed and approved.

IV. CONCLUSION

As the Medical Center and Campus Procurement Offices are transitioning into the FW/FW program, departmental controls and processes could be further enhanced in the areas of ensuring that the contracts listing is accurate and contains the information needed to manage FW/FW, staff are trained and understand the FW/FW requirements, and that the most current T&Cs are reflected in the POs.

Observation details and recommendations were discussed with management who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Management of FW/FW Contracts (Medical Center and Campus)

Background

IAS requested a listing of contracts with the FW/FW provision and all FW/FW policy exceptions that were executed between January 1, 2018, to December 31, 2018 from the Procurement Offices at the Medical Center and Campus in order to complete sample testing. IAS also inquired about the process to ensure completeness of the list.

Observation

Medical Center

A new procurement and contracting resource to manage and oversee FW/FW for the Medical Center was on-boarded and started in late April 2019. In the brief time between late April and June, when the compliance requirements

were collected, the new resource was able to produce and update a listing to maintain the identification of those contracts where FW/FW applies including any policy exceptions that have been approved to ensure approval documentation is maintained. However, the listing is still in stages of improvement as new processes and workflow efficiencies are being implemented within Procurement and Contracting to modernize current systems. Agreement start dates were not always reflected accurately on the listing. Such information will ensure the proper time period is captured in the annual verification. Furthermore, the listing could be enhanced to include verification due dates and follow-up details to ensure verifications and audit work papers are received timely. Verification reminders sent to the supplier should also be noted in this listing.

Campus

A listing is now maintained identifying those contracts where FW/FW applies. However, the listing needs improvement. Due to logistic/system limitations, Campus Procurement goes through an arduous manual process of making further edits/adjustments to the file before the report can be shared with the requestor. When IAS requested this file, there were delays in receiving the file due to issues with duplicate entries, missing data, and entry errors. IAS notes that one of 12 (eight percent) POs reviewed was erroneously flagged as a FW/FW. This was actually a PO for equipment rather than for services, which did not qualify it for FW/FW compliance.

The process of having to generate a list of suppliers where FW/FW provisions apply each time such a listing is requested or needed for monitoring purposes can lead to inefficiencies and be a labor intensive process for the Procurement staff.

Kuali Financial System (KFS) experts may be able to assist with such reporting capabilities with solutions for maintaining a current running list of suppliers without the need for Procurement to obtain the data manually each time. Additionally, having dedicated staff to monitor and update a running list as well as collecting supplier documentation may be helpful.

Management Action Plan

Medical Center

As of July 1, 2019, the dedicated procurement resource managing FW/FW has reviewed and revised the listing to ensure agreement start dates are accurate and that verification due dates and any follow-up details are included.

Campus

Historically, whenever Procurement wanted to update the FW/FW listing, the staff would run a report in KFS to extract the data and then scrub the data to analyze it manually. Multiple staff spend several manual hours every time. Procurement runs the report periodically to figure out how to best keep track of suppliers that they need verifications from and how to best extract the correct information from the system.

Procurement is currently working with the KFS team to determine how the system can assist with such reporting requirements and how to work with this functionality going forward. Procurement will also collaborate with IAS to determine data elements required for annual audits and reporting in order to improve the current FW/FW listing and facilitate ease of reporting.

Another issue regarding the data file of FW/FW POs is that the file was corrupted when trying to sort the data, so Procurement analysts had to retrieve an older version and go through the laborious process of fixing all the corrupted data.

Lastly, the PO for equipment should not have been on the FW/FW list. It appears that the supplier was added to the list when Procurement analysts were cleaning up the corrupted file (analysts spent time cleaning up the data trying to remove duplicates/mismatched data and pulling data from multiple sources), which should not have happened. Procurement has confirmed that the purchase from this supplier was for equipment and FW/FW does not apply to them.

Procurement staff will analyze the process to minimize the number of manual changes to the customized report and limit the number of staff managing the data in order to prevent human error. All management action plans should be implemented by September 30, 2019.

2. Annual Verification (Medical Center)

Background

For services that exceed \$100,000 annually, suppliers will provide an annual audit performed by an independent auditor or independent internal audit department, at the supplier's expense. Suppliers should ensure that their auditor reviews payroll records to confirm FW/FW compliance. FW/FW work papers should be made available to UC internal audit upon request. Any exceptions and management corrective action in audit reports should be documented. Suppliers should document audit results on a UC FW/FW verification form and send to UC (Procurement) annually no later than 90 days after each one-year anniversary of the agreement's effective date.

Observation

Due to continual updates from UC Office of the President (UCOP) to improve, standardize, and make the FW/FW Frequently Asked Questions (FAQ) more precise across UC Health Systems, UCI Health Procurement was unaware of the most current annual verification standards and procedures. The posted FAQ version was found to be different periodically, with the UCOP T&Cs web link that is included on Purchase Orders changing regularly as well. Testing found the following:

- Two verification forms were reviewed and both had incorrect verification time periods (seven and eight months) instead of 12 months. The annual verifications were requested from the supplier prematurely. Verification procedures require one full year from the contract's effective date or most recent verification end date.
- Two after-the-fact exceptions were approved to exclude suppliers from the annual verification audit; however, it appears that the approvals were not necessary since both suppliers had fulfilled their contracts prior to the anniversary date. The FW/FW FAQ states that the supplier does not need to provide an audit certification form as long as the contract has been fully performed before the annual anniversary date.

Management Action Plan

As of July 1, 2019, staff responsible for the management of FW/FW have reviewed the FW/FW annual verification requirements from the resources located on the UCOP Procurement Services website. Moving forward, verification time periods will be for a 12-month period preceding the anniversary date. Procurement will only utilize the after-the-fact exceptions approval form when appropriate.

3. Outdated UC T&Cs (Medical Center and Campus)

Background

POs contain links to the appropriate UC T&Cs. With each update to the T&Cs, POs containing direct links to the T&Cs point to versions that are no longer current and have been relocated to the archive section of the UCOP website. This creates broken links and confusion about which T&C version applies to the PO.

Observation

Medical Center

As stated previously, outdated links following T&Cs updates by UCOP coupled with confusion on which version was most current caused Procurement to use an outdated link to the T&Cs in the local POs. Thirteen POs were reviewed and all contained links to an older version of the T&Cs.

Campus

Procurement is using outdated links and/or missing links to the T&Cs in the POs. IAS reviewed twelve hardcopy versions of the POs: three contained the correct link, six contained links to an older version of the T&Cs, and three did not provide a link.

Management Action Plan

Medical Center

As of July 11, 2019, Procurement has replaced the current T&Cs link in the purchase order templates with a link to the landing page that UCOP has recently updated with an easy access link to the archived T&Cs.

Campus

All UC campuses recently discussed the issue of linking directly to the UC T&Cs link and advised campuses to include in their PO a link to the landing page that UCOP has recently updated. By August 31, 2019, Procurement will replace the current/missing T&Cs link in the purchase order templates with a link to the recently updated landing page.