UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES

Fair Wage/Fair Work Plan
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SUBJECT: Fair Wage/Fair Work Plan

At the request of the University of California Office of the President (UCOP), UCSF Audit and Advisory Services (A&AS) completed a review of the processes and procedures in place at UCSF within Campus Supply Chain Management and UCSF Health Procurement Services to ensure compliance with the UC Fair Wage/Fair Work Plan.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the "IIA Standards").

The preliminary draft report was provided to department management in June 2017. Management provided us with their final comments and responses to our observations in July 2017. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Director, Audit and Advisory Services

EXECUTIVE SUMMARY

I.   BACKGROUND

At the request of the University of California Office of the President (UCOP), UCSF Audit and Advisory Services completed a review of the processes and procedures in place at UCSF within Campus Supply chain management and UCSF Health Procurement Services to ensure compliance with the UC Fair Wage/Fair Work Plan.

In July 2015, University of California President Janet Napolitano announced a new minimum wage plan for UC employees and contractors: UC Fair Wage/Fair Work Plan ("FW/FW Plan" or "the Plan"). The FW/FW Plan guarantees that by October 2017 UC employees hired to work at least 20 hours a week will be paid at least $15 per hour. The FW/FW Plan also requires that contractors doing business with UC guarantee a $15 minimum hourly wage for their workers. The FW/FW Plan sets the following schedule for minimum hourly wages: $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. This requirement was to be implemented as new contracts were established and existing contracts came up for renewal. Additionally, the FW/FW Plan requires contractors to implement several measures to help ensure compliance with the new minimum wage, as well as all federal, state, and UC workplace laws and policies. These measures include a telephone hotline for contract workers to report issues, and annual and periodic audits by vendors to certify their compliance with the FW/FW Plan requirements.

Per UCOP Policy (BFB-BUS 43 Materiel Management): The FW/FW Plan applies to all services to be performed for the University at one or more UC locations. FW/FW requirements do not apply to:
- Contracts funded by extramural awards containing sponsor-mandated terms and conditions, or
- 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.

All contracts for UC FW/FW Services must contain a provision equivalent to the UC FW/FW Articles in the UC Terms and Conditions of Purchase. Any exceptions to this Policy must be approved by the senior procurement officer of the campus or medical center.

Buyers are required to maintain a database of agreements handled by them that contain the FW/FW provision or for which an exception has been approved. For services agreements that exceed $100,000 annually, Buyers are to remind suppliers of the FW/FW audit requirement before the agreement's anniversary date and maintain a database of certification forms received from supplier. For the period October 1, 2015 to December 31, 2016 there were 114 Campus contracts and 180 UCSF Health contracts that are subject to the FW/FW requirements.

II.   <u>**AUDIT PURPOSE AND SCOPE**</u>

The purpose of this review was to assess the adequacy of the processes and procedures in place within Campus supply chain management and UCSF Health Procurement Services to ensure compliance with the UC FW/FW Plan, specifically those processes implemented to help ensure that outside contractors comply with the Plan's requirements.

This project was conducted as part of a system-wide review on FW/FW. Each campus executed this project at the campus level and results will be reported and consolidated at the UC system-wide level. The audit scope, sample selection criteria and audit program were established by the Office of the President to be consistent at all locations.

Procedures performed as part of the review include: interview of department personnel and walkthroughs to understand departmental processes related to complying with the FW/FW Plan's provisions, review, on a sample basis, of contract FW/FW terms and conditions, and validation of one vendor audit, to verify compliance with the Plan's provisions.

To perform our review, we relied on the Campus supply chain management and UCSF Health procurement services to provide listings of applicable contracts, but did however evaluate the methodology and processes for how the lists were compiled. The scope of the review included all new and contract renewals subject to the FW/FW provisions executed between October 1, 2015 and December 31, 2016. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in June 2017.

III.   <u>**SUMMARY**</u>

All Campus contracts have FW/FW provisions consistent with the applicable language in UC Terms and Conditions of Purchase. For the vendor certification audit selected for review, the required audit procedures were followed to support their certification. No policy exceptions have been granted either by the Campus supply chain management or UCSF Health Procurement Services.

While Campus supply chain management and UCSF Health Procurement Services have established procedures for implementing the requirements of the FW/FW Plan, there is opportunity for enhancement of controls and processes for identifying and tracking contracts subject to FW/FW, and obtaining vendor certifications. The specific observations are summarized below and discussed more thoroughly in the "Observations and Management Corrective Actions" section that follows.

- UCSF Health Procurement Services procedures for identifying contracts subject to the FW/FW Plan are not sufficient to ensure that all eligible contracts include the required FW/FW provisions.

- The procedures for tracking contracts subject to the FW/FW Plan in the Campus and UCSF Health are not effective to ensure that all contracts subject to certification are recorded and tracked.
- Campus supply chain management and UCSF Health Procurement Services do not have a process in place for obtaining the required certifications from vendors with $100,000 or more in services.

We also noted the following opportunities for improvement:

- Further education of the FW/FW Plan requirements could be provided and awareness of specific procurement department responsibilities could be clarified.
- The administrative burden of compliance with the FW/FW Plan could be eased if additional criteria for determining services subject to the audit requirements of the Plan were adopted.

IV.   OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS ("MCA")

No.	Observation	Risk/Effect	Recommendation	Management Action Plans
1	*UCSF Health Procurement Services procedures for identifying contracts subject to the Fair Wage/Fair Work Plan are not sufficient to ensure that all eligible contracts include the required FW/FW provisions.* From our review of UCSF Health contracts subject to the FW/FW Plan, we noted 9 of 20 (45%) contracts in the testing sample did not include the appropriate FW/FW provisions. The inconsistency in the inclusion of the FW/FW provisions was related to contracts that had change orders or were revised subsequent to the implementation of the FW/FW Plan.	Without appropriate procedures to ensure that all eligible contracts including amended and renewals incorporate the required FW/FW provisions as appropriate, then UCSF Health Procurement Services cannot effectively implement the FW/FW Plan.	a) For the identified contracts, UCSF Health Procurement Services should execute an addendum to include the required FW/FW provisions. b) UCSF Health Procurement Services management to develop procedures for determining if FW/FW is applicable and flagging eligible contracts in their contract database.	a) UCSF Health Procurement Services will work with vendors to add addendums to contracts without the appropriate FW/FW provisions. **Responsible Party:** VP UCSF Health Support Services & Supply Chain **Target Date:** December 29, 2017 b) UCSF Health Procurement Services revised their Buyer's checklist and their contract database to help ensure compliance with FW/FW. Buyers training on the new checklist and database changes was completed in July 2017. **Target Date:** Completed
2	*The process and procedures for identifying and tracking contracts subject to the Fair Wage/Fair Work Plan in the Campus supply chain management and UCSF Health Procurement Services*	Without aggregating contracts by vendor or efficiently identifying contracts with on-site services, then Campus supply chain management may be	a) Campus supply chain management should revise its processes and aggregate contracts by vendor to ensure they are tracking all contracts that need to provide certifications.	a) All POs that FW/FW applies will be identified and tracked in the Tracker. The Tracker has been developed and shared in UCSF Box for buyer to use.

No.	Observation	Risk/Effect	Recommendation	Management Action Plans
	are not effective to ensure that all contracts subject to certification are recorded and tracked. Our review of the procedures for identifying and tracking contracts and POs subject to FW/FW plan found that: 1. Campus supply chain management does not aggregate contracts less than $100,000 by vendor to determine if together they exceed $100,000 and thus require vendor certification of compliance with the Plan. (No such observation was made for UCSF Health Procurement Services.) 2. Additionally, Campus supply chain management acknowledged that they do not have an efficient process to identify the location of contracted services, as it is not always clear from the contract if these services will be provided on-site, off-site or a split between the two. (No such observation was made for UCSF Health Procurement Services.)	missing contracts that need to provide vendor certifications. Manual processes to track contracts are subject to more errors and omissions, resulting in non-compliance with the FW/FW Plan's provisions.	b) Campus supply chain management should consider revising their requisition to identify if services will be performed on-site or off-site. c) Campus supply chain management should review the feasibility of adding a checkbox to their e-procurement system (Bearbuy) that buyers can use to indicate when they identify a requisition as FW/FW related. This enables management to generate reports on relevant contracts and may assist in the aggregation of contracts for monitoring compliance with certification requirements. *(It is noted that low value requisitions under $5000 will not be captured under this process as they do not need to go through procurement)* d) UCSF Health Procurement Services should revise their process by adding a field to MediTract to more effectively track for FW/FW compliance.	POs will be manually aggregated in Excel and for suppliers that reach $100,000, suppliers will be contacted to provide certifications. **Responsible Party:** AVC/ Chief Procurement Officer (Campus) **Target Date:** August 1, 2017 b) Bearbuy system will be configured to include a checkbox to indicate FW/FW and onsite/offsite. The use of BearBuy checkbox will be communicated to all buyers. **Responsible Party:** AVC/ Chief Procurement Officer (Campus) **Target Date:** August, 31, 2017 c) UCSF Health Procurement Services has developed a checklist to help ensure compliance with relevant

No.	Observation	Risk/Effect	Recommendation	Management Action Plans
	3. Both Campus supply chain management and UCSF Health Procurement Services use manual processes to track FW/FW contracts. Generally, Buyers are responsible to input and update centrally maintained tracking spreadsheets.			policies (including FW/FW). Additionally, they have implemented changes to their contract database, MediTract by adding a field to track for FW/FW compliance. Buyers training on the new checklist and database changes has been completed in July 2017. **Target Date:** Completed
3	***Campus supply chain management and UCSF Health Procurement Services do not have a process in place for obtaining the required certifications from vendors with $100,000 or more in services.*** Campus supply chain management and UCSF Health Procurement Services did not follow-up with the vendors for their outstanding certification forms until after announcement of this audit. Certifications had only been received from two suppliers by Campus supply chain	Without timely follow-up of vendor certifications compliance with the FW/FW Plan requirements cannot be ensured.	Campus supply chain management and UCSF Health Procurement Services should develop a process to ensure that follow-up of outstanding certifications is performed timely.	a) Campus supply chain management updated Supply Chain Management Procurement Procedures FW/FW to describe follow-up within 30 days if a supplier does not respond or did not submit certification. Training to be conducted in July 2017 **Responsible Party:** AVC/ Chief Procurement Officer (Campus) **Target Date:** July 28, 2017

No.	Observation	Risk/Effect	Recommendation	Management Action Plans
	management. Campus should have received 15 vendor certifications. Per the FW/FW Plan guideline Buyers are expected to remind vendors of the FW/FW audit requirement before the agreement's anniversary date and to follow-up on non-responses.			b) UCSF Health Procurement Services to identify outstanding certifications and follow-up with the vendors. **Responsible Party:** VP UCSF Health Support Services & Supply Chain **Target Date:** August 31, 2017

V.   OPPORTUNITIES FOR IMPROVEMENT

No.	Observation	Risk/Effect	Recommendation
1	***Further education of the FW/FW Plan requirements and awareness of specific procurement department responsibilities could be clarified.*** During the course of our review, we noted that there was lack of clear understanding by supply chain management regarding interpretation of certain aspects of the FW/FW Plan requirements (e.g. should multiple POs with the same vendor be totaled for tracking purposes; is there a particular percentage level or number of hours that is used to qualify for inclusion for FW/FW?)	The FW/FW Plan may not be consistently implemented across the system if there is insufficient understanding of the Plan's compliance requirements and procurement's responsibilities.	a) Campus supply chain management and UCSF Health Procurement Services should ensure that refresher training is provided to local personnel in the face of staff turnover. Note: Campus Supply Chain Management provided training to buyers in May 2017. Refresher training to be conducted in July 2017. b) UCOP Procurement Services should consider providing a resource available to address questions and provide clarity to the local campuses. Additionally, a System-wide user group should be utilized to discuss questions, common problems, solutions and best practices to

No.	Observation	Risk/Effect	Recommendation
			help ensure consistent, system-wide compliance with the FW/FW Plan. c) As the means to employ and sustain long term solutions to FW/FW issues, Campus Supply Chain Management should continue to pursue implementation of the FICO risk management tool.
2	***The administrative burden of compliance with the FW/FW Plan could be eased*** If additional criteria for determining services subject to the audit requirements of the Plan were adopted, the administrative burden of compliance may be reduced. For example, technology services and professional consultants (versus blue collar laborers) are likely to be paid more than $15 per hour, these type of services could be considered for exclusion from the certification requirements of the FW/FW Plan. Additionally, for suppliers providing services to multiple UC campuses, duplicative work by local campuses could be avoided if FW/FW compliance could be managed at system-wide level.	University resources may be more efficiently employed if the requirements for audit certification were narrowed.	a) Campus supply chain management and UCSF Health Procurement Services should consider discussing with UCOP and other procurement offices the risk and benefits of applying additional criteria to service contracts for exclusion from the certification requirements of the FW/FW plan. b) To eliminate duplicate work from local campus staff and crossover vendors with multiple reporting of the FW/FW, UCOP should consider developing a mechanism to manage FW/FW at system-wide level for suppliers providing services to multiple campuses in a given calendar or fiscal year.

APPENDIX A

To conduct our review, the following procedures were performed for the areas in scope:

- Obtained a listing of all contracts with the Fair Wage/Fair Work provision.

- Obtained and reviewed the certification forms for all contracts with services that exceed $100,000 in the last year.

- Obtained the work papers and audit report for the certification of one contract over $100,000 selected for review.

- Validated that the required audit procedures were properly followed.

- Verified that the appropriate subject matter experts were involved in the audit procedures.