

**UNIVERSITY OF CALIFORNIA, DAVIS  
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Fair Wage/Fair Work  
UC Davis Health  
Purchasing  
Audit & Management Advisory Services Project #19-07**

**June 2019**

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## Fair Wage/Fair Work

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#### **Background**

In July 2015, President Janet Napolitano announced a new minimum wage plan for UC employees entitled “UC Fair Wage/Fair Work Plan” (“the FW/FW Plan”, or “the Plan”). Under this directive, a wage schedule assured a minimum wage of \$15 per hour by 2017. The Plan requires that contractors doing business with UC on UC owned or leased property guarantee hourly wages per a designated wage schedule. The Plan includes provisions to ensure compliance with its terms. In addition, for services exceeding \$100,000 and not subject to prevailing wage<sup>1</sup> requirements, suppliers must provide certification of an annual independent audit performed by an independent auditor or an independent internal audit department, at the supplier’s expense.

#### **Purpose and Scope**

As part of the fiscal year 2018-2019 audit plan, Audit and Management Advisory Services (AMAS) conducted a review of Fair Wage/Fair Work. Each UC campus was asked to perform audit procedures at the direction of the Office of the President (UCOP). The purpose of this review was to determine compliance with the UC FW/FW Plan. At UC Davis, specialized units provide processing services for contracts that are negotiated and entered into at the Campus and at UC Davis Health. This report addresses UC Davis Health Purchasing (UCDH Purchasing). We interviewed administrators, reviewed processes, examined lists of contracts, and conferred with audit colleagues from UCOP and other campuses.

#### **Conclusion**

We have identified opportunities for improvement in how UCDH Purchasing identifies, tracks and reviews contracts that are subject to FW/FW. Change is needed in how UCDH Purchasing classifies contracts as being for either goods or for services, as well in determining when services are performed on or off-site. In addition, we identified areas for enhancement related to the verification period on the annual verification forms, as well as how forms which have been returned are reviewed for completeness, accuracy and proper signing authority. Our observations, recommendations and management corrective actions are detailed below.

### **OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**

#### **A. Misclassification of Contracts Subject to Fair Wage/Fair Work**

**There is an opportunity for UCDH Purchasing to modify their process to ensure that contracts are properly classified as either contracts for goods or contracts for services. Opportunity also exists to modify their process to ensure contracts are properly classified for services that are performed off-site, as the FW/FW Plan does not apply to these contracts.**

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<sup>1</sup> The prevailing wage is a base compensation rate paid on public works projects that guarantees that certain classes of workers are paid fairly for the services performed.

During our review, we determined that UCDH Purchasing's process to identify contracts that are subject to the FW/FW Plan needs improvement. UCDH Purchasing incorrectly determined that certain contracts were subject to the FW/FW Plan when they in fact were not. Specifically, we found that contracts that are for services that are performed remotely, as well as contracts that are for goods, are incorrectly being tracked for the FW/FW provision and annual certification process. In addition, we found that UCDH Purchasing's list of contracts that are subject to FW/FW and that exceeded \$100K does not match the list of contracts that is being tracked for the annual certification process. As a result, UCDH Purchasing is failing to obtain the required annual certification from some suppliers and is obtaining certifications from other suppliers when not required.

### **Recommendation**

UCDH Purchasing should develop a reference sheet to assist buyers in distinguishing contracts for goods from contracts for services, as well as in distinguishing contracts for off-site or remote services. UCDH Purchasing should also refine their process to better track those contracts which have met the \$100K annual spend threshold and are subject to the annual certification process.

### **Management Corrective Actions**

- 1.) By January 15, 2020, UCDH Purchasing will develop a reference sheet to assist buyers in distinguishing contracts for goods from contracts for services and identifying contracts for services performed off-site.
- 2.) By January 15, 2020, UCDH Purchasing will ensure that all FW/FW contracts which have met the \$100K threshold are being tracked for the annual certification process and that suppliers have received the annual certification reminder.

## **B. Verification Periods**

**UCDH Purchasing is not including the correct annual verification period on the annual verification forms that are sent to suppliers. This verification period must correspond with the correct contract year.**

Annual verification forms are being sent to suppliers with an incorrect verification period listed. When the correct full contract year is not included, the risk increases that the suppliers' CPA firms or independent audit departments will complete an annual audit process that covers an incorrect time period. Beginning in calendar year 2019, forms which are returned with an incorrect verification period will require follow-up with the supplier to obtain a corrected form.

### **Recommendation**

A process should be developed so that UCDH Purchasing includes the correct full contract year in the verification period field prior to submission to the supplier.

### **Management Corrective Action**

- 1.) By September 15, 2019, UCDH Purchasing will modify their process to include instructions for their Analyst to include the full contract year on the annual verification forms that are sent to suppliers.

### C. Annual Independent Verifications

**UCDH Purchasing should review all returned annual verification forms to ensure that the form has been completed and signed by a licensed public accountant or the supplier's independent internal audit department.**

Annual verification forms are being returned with signatures of company CEO's, Vice Presidents and Presidents. UC Terms and Conditions of Purchase, Article 25, states that "*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....*" When audits are conducted by parties that are not independent and forms are not appropriately signed, the risk increases that the supplier is not in compliance with the FW/FW Plan.

#### **Recommendation**

UCDH Purchasing should follow-up with any supplier who returned an annual verification form that was not signed by a licensed public accountant or the supplier's independent internal audit department to obtain a corrected form.

#### **Management Corrective Action**

- 1.) By January 15, 2020, UCDH Purchasing will follow-up and obtain a corrected verification form for any supplier whose form was signed by someone other than the supplier's licensed public accounting firm or independent internal audit department.