

August 4, 2017

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**Subject:            *System Wide Review – Fair Wage / Fair Work  
Report 2017-11***

Audit & Management Advisory Services (AMAS) has completed a review of the University of California (UC) Fair Wage / Fair Work plan at UCSD as part of a systemwide review included on the approved audit plan for Fiscal Year 2016-17. This report summarizes the results of our review.

### **Background**

On July 22, 2015, the UC President announced the UC Fair Wage / Fair Work Plan (the plan), which required that all UC employees hired to work at least 20 hours a week, a minimum wage for its direct and service contracts above the State minimum wage. For covered services, the plan mandated a minimum wage of \$13 an hour beginning October 1, 2015, with planned increases to \$14 an hour on October 1, 2016, and to \$15 an hour on October 1, 2017. In addition to UC employees, the plan also covered anyone working for a third party who contracts with the University for services, including new contracts or contract renewals beginning October 1, 2015.

Under the plan, most services performed for the University at one or more UC Locations became subject to the new minimum wage. However, Fair Wage / Fair Work service requirements did not apply to: (i) contracts funded by extramural awards containing sponsor-mandated terms and conditions, or (ii) 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 to further its mission. In addition, the plan would not significantly affect the overwhelming majority of UC direct and service contract workers who were already earning in excess of the newly adopted UC minimum wage.

Contracts for the plan must contain a provision in the UC Terms and Conditions of Purchase that reference the UC Fair Wage / Fair Work 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.

The plan expanded UC's monitoring and compliance efforts related to service contractors' wages and working conditions. Several oversight measures to facilitate this plan were identified to include 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.

To assess the implementation of the plan, the UCOP Office of Ethics, Compliance and Audit Services (ECAS) began coordinating periodic systemwide internal audits. UCOP Audit Services provided the audit program and scope for each location to follow, and reporting will be based on the audit results of the various campuses.

### **Audit Objective, Scope and Procedures**

The objective of our review was to evaluate UCSD activities for implementing the UC Fair Wage / Fair Work Plan, using the UCOP provided audit program. **Attachment A** provides a summary of the procedures, scope, and comments supporting our conclusions.

### **Conclusion**

Based on our review procedures, we concluded that the current efforts by UCSD's Procurement & Contracts (Procurement) and UCSD Health Supply Chain Management (Supply Chain Management) were generally adequate to ensure compliance with the plan. The terms and conditions for the plan were incorporated into all outgoing purchase orders, the plan was publicized on procurement websites and publications, and educational efforts had been provided to both UCSD external suppliers and internally for UCSD buyers. The appropriate authority, per the plan requirements, approved exception requests submitted by relevant suppliers. However, we noted that most of the suppliers appeared to have been slow to adopt the provisions of the plan.

We noted areas for improvement with regard to educational activities on both a systemwide and local level, and timely follow up for vendor audit certifications. Suppliers with over \$100,000 in annual purchased services were not fully aware that they were required to obtain an independent annual audit of their plan compliance and to submit the results of the independent audits to UCSD.

In addition, UCSD should continue to support the ongoing systemwide effort to resolve some of the finer points related to how the policy should be operationalized in certain specific circumstances not directly discussed in the high-level policy.

### **Observations and Management Action Plans**

**During our review, we noted that procurement process could be improved to ensure that suppliers submit the required audit reports and/or exceptions in a complete and timely manner, as required by the plan. In addition, educational activities regarding the plan requirements should be enhanced to ensure compliance.**

As of the completion of our audit fieldwork on June 13, 2017, UCSD had received completed supplier audit reports from only three suppliers. There were 44 of 47 suppliers who either had not yet submitted the forms or who submitted forms not properly signed by an outside auditor. Of these, seven suppliers had submitted plan certification forms which were not signed by an independent auditor for the supplier, but by an executive such as the supplier company's President. The plan requirement is that the certification be performed by an independent auditor, and consequently the forms signed by supplier executives did not satisfy the requirements of the plan. These errors appeared to be the result from a misunderstanding of the audit requirement of the plan, indicating the need for additional supplier education. During our review, both Procurement and Supply Chain Management were actively working to collect from suppliers the audit reports that were due.

**Management Action Plans:**

Procurement and Supply Chain Management will:

- Continue efforts to obtain 100% compliance with the UC Fair Wage / Fair Work plan from the relevant suppliers. This will be done through additional educational and monitoring efforts. Additional monitoring will be given to those suppliers most likely to be employing low-wage workers.
- Continue to work closely with their colleagues across the UC system to clarify how the plan should be operationalized in any specific cases where some policy ambiguity may exist. Once these issues or “frequently asked questions” have been resolved, this will be incorporated into a written policy document approved by the appropriate management personnel.

Audit & Management Advisory Services appreciates the cooperation and assistance provided during the review. We will contact you at the appropriate time to evaluate the status of the management action plans indicated in the report.

UC policy requires that all draft audit reports be destroyed after the final report is issued.

If you have any questions regarding this report, please call me at 534-3617.

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Audit & Management Advisory Services

Attachment

cc:

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David Brenner  
Judy Bruner  
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John Lohse  
Patty Maysent  
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Step	Procedures per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion	Comments
1.	Obtain from Procurement the current list of all contracts with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions that were granted.	Obtained Procurement and Supply Chain Management their lists of contracts subject to the Plan and exceptions granted.	Satisfactory	We confirmed with Procurement and Supply Chain that all outgoing purchase orders currently incorporate the UC Fair Wage / Fair Work policy as Article 25 of our standard purchase order terms and conditions.
2.	Inquire about the process by which Procurement ensures the completeness of the list of contracts with the Fair Wage/Fair Work provision and all Fair Wage/Fair Work policy exceptions. Identify any opportunities for improvement in this process.	Interviewed responsible Procurement and Supply Chain Management, and examined supplier certifications obtained to date.	Improvement Needed	During our review, we noted that procurement process could be improved to ensure that suppliers submit the required audit reports and/or exceptions in a timely manner, as required by the plan. We also observed that confusion remains about how the plan should be applied in special circumstances, especially with regard to appropriate circumstances for waiving the annual independent supplier audit requirement.
3.	Obtain and review all contracts with the Fair Wage/Fair Work provision executed in the last year (10/1/2015-12/31/2016). For a judgmental sample comprising at least 10% of the population, verify that the Fair Wage/Fair Work provision language is consistent with the language in the applicable version of the standard terms and conditions.	Interviewed responsible Procurement and Supply Chain Management and requested the listing of all contracts relevant to the Plan. Reviewed the listing for completeness.	Satisfactory	Confirmed that all outgoing purchase orders include the UC Fair Wage / Fair Work policy as Article 25 of our standard purchase order terms and conditions.

Step	Procedures per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion	Comments
4.	Obtain and review the certification forms for all contracts with services that exceed \$100,000 in the last year.	Obtained and reviewed seven supplier certification forms received as of the date of our review; however only three of these certification forms had been reviewed by an independent auditor as required by the plan.	Improvement Needed	As of the completion of our audit fieldwork, UCSD had received completed supplier audit reports from only three suppliers. Forty four of 47 suppliers had either not yet submitted the forms or who submitted forms not properly signed by an outside auditor.
5.	At each campus, select one contract over \$100,000, as well as any contracts with reported exceptions from the annual audit, for review. Notify the supplier that you are performing interim audit procedures.	Selected one campus contract over \$100,000, as well as the sole UCSD Health contract with reported exceptions from the annual audit, for review. Notified the supplier's auditors the intent to perform interim audit procedures.	Satisfactory	The outside audit firms for both the selected campus supplier and the auditor for the UCSD Health contract with reported exceptions agreed to our request to review their supplier certification reviews.
6.	Obtain the workpapers and audit report for the annual audit.	AMAS obtained the independent supplier outside audit reports and workpapers for the two selected suppliers.	Satisfactory	Neither of these outside audit firms raised any objections to sharing their workpapers with us. They apparently understood that this was a plan requirement.

Step	Review Objective per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion	Comments
7.	Validate that the required audit procedures were followed correctly.	AMAS reviewed the independent supplier outside audit reports and workpapers for the two selected suppliers.	Satisfactory	In both cases, the independent outside auditors appeared to have understood and properly performed their requested certifications, in compliance with the plan.
8.	For any exceptions noted, verify that the supplier’s management corrective action plan has been implemented and appropriately addresses the risks associated with the exception, or that UC management has either cancelled the agreement or the location’s senior procurement officer has approved a policy exception allowing the agreement to continue.	<ol style="list-style-type: none"> <li>1. Reviewed all approved policy exceptions granted by Procurement and Supply Chain Management as of the date of conclusion of our fieldwork.</li> <li>2. Researched the status of an unapproved policy exception related to a Health System temporary services purchase order.</li> </ol>	Satisfactory to date, but additional work required.	<ol style="list-style-type: none"> <li>1. All approved policy exceptions appeared reasonable and approved per the plan.</li> <li>2. One supplier was provided outdated terms and conditions which did not include the UC Fair Wage / Fair Work plan requirements. Consequently, the requirement was not implemented. Supply Chain Management is working with the supplier on implementing a corrective action plan to address issues noted with regard to the plan compliance.</li> </ol>

Step	Review Objective per UCOP Audit Program	AMAS Audit Procedures	Audit Conclusion	Comments
9.	Review the list of exceptions granted to Fair Wage / Fair Work provision and validate that the documented approval form from the senior procurement official at the location is on file.	Reviewed all approved policy exceptions granted by Procurement and Supply Chain Management as of the date of conclusion of our fieldwork.	Satisfactory	Although a standard documented approval form was not used, both Procurement and Supply Chain Management provided the appropriate documentation of all approved exceptions by senior procurement officials.