



AUDIT AND ADVISORY SERVICES  
Tel: (510) 642-8292

611 UNIVERSITY HALL #1170  
BERKELEY, CALIFORNIA 94720-1170

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John Lohse  
Interim Senior Vice President and Chief Compliance and Audit Officer  
Ethics, Compliance and Audit Services  
UC Office of the President

Interim Senior Vice President Lohse:

We have completed our campus audit of UC Fair Wage/Fair Work Plan compliance conducted systemwide as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter. Our overall observation is that suppliers and the campus are not yet compliant with the new requirements. However, as of the close of our audit testwork, Supply Chain Management has taken reasonable steps to promote compliance going forward. The UC Office of the President has requested that the internal audit function at each campus conduct another review of this area within the next twelve months, which we will complete in lieu of formal follow up of management action plans for this audit.

*Source, Purpose and Scope of the Audit*

The purpose of the systemwide audit was to determine whether adequate internal controls were in place and in effect to provide reasonable assurance that the campus is in compliance with the UC Fair Wage/Fair Work policy as defined in Business and Finance Bulletin BFB-BUS-43 Materiel Management and the UC Terms and Conditions for Purchase. Our scope included vendor contracts subject to the policy with over \$100,000 in activity for fiscal year 2016 and whose anniversary date was on or before February 2017. The one year anniversary date refers to the date one year after the agreements effective date.

*Background Information*

President Napolitano announced the systemwide Fair Wage/Fair Work requirement in July 2015 stating that the minimum wage for University workers, including workers of suppliers that perform services at a UC location, would be raised to a minimum of \$15 per hour by October 2017. This requirement does not apply to the provision of goods nor does it apply to services delivered as part of an extramural award containing sponsor-mandated terms and conditions. This requirement also complements, but does not supersede where applicable, State of California prevailing wage requirements for public works.

Suppliers who provide services that exceed \$100,000 annually and are not subject to prevailing wage requirements are required to conduct an annual independent audit, performed by an independent auditor or independent internal audit department in compliance with the University's required audit standards and procedures. To assess ongoing compliance, suppliers are subject to compliance audits by the University at its sole discretion. They are also required to provide the University with access to the audit work papers upon request. In addition, the supplier also agrees that it will provide a certification of compliance annually, no later than ninety days after each one-year anniversary of the agreement's effective date.

### *Summary Conclusion*

Suppliers and the campus are not yet compliant with new Fair Wage/Fair Work initiative requirements. The first-year of compliance ended in September 2016 and suppliers had up to ninety days to provide their auditor's certification. We selected a sample of five vendors out of thirty-three that are expected to certify compliance. We confirmed, without exception, that the most recent contracts for these vendors had the UC standard terms and conditions that included the Fair Wage/Fair Work provision. Vendors subject to annual compliance certification are identified and tracked manually by campus Supply Chain Management.

At the time of our initial testing, five vendors were expected to certify compliance in early spring 2017, but none had certified. We followed up with Supply Chain Management who in turn followed up with vendors for their certifications. We extended our test period to June 2017 to allow for additional vendor response, but only two vendors had submitted compliance certification forms by the close of our testwork. However, upon inspecting these forms, we noted that they appear to have been completed by the vendor's management rather than the external audit firm or internal audit function that was supposed to complete the independent audit. Supply Chain Management is following up with these vendors to determine whether an audit had in fact been completed and if an audit report was available for campus inspection. We note that other campuses have had similar problems confirming audit completion and obtaining independent audit reports from vendors for this first year of compliance.

At this point, Supply Chain Management has the option of (a) discontinuing the relationship with this supplier, (b) continuing to pursue an audit and auditor certification for this first year or (c) providing an exception for this requirement for this first year from the campus chief procurement officer.

Going forward, Supply Chain Management should develop processes and internal controls to ensure that supplier audits are completed and auditor certifications are obtained in a timely manner. If management chooses instead to provide exceptions to this requirement, such exceptions should be documented consistent with the requirements specified by the UC Office of the President

Please destroy all copies of draft reports and related documents. Thank you to the staff of Supply Chain Management for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley  
Chief Audit Executive

Jaime Jue  
Associate Director

Chad Edwards  
Auditor-in-Charge

cc: Interim Vice Chancellor Scott Bidy  
Vice Chancellor and Chief Financial Officer Rosemarie Rae  
Acting Chief Procurement Officer Stacey Templeman  
Associate Chancellor Khira Griscavage  
Assistant Vice Chancellor and Controller Delphine Regalia