

UC MERCED AUDIT AND ADVISORY SERVICES

July 6, 2017

To: Veronica Mendez – Interim Vice Chancellor for Planning and Budget
Subject: UC Fair Wage / Fair Work Plan Audit
Ref: Audit Report No. M17A007

Internal Audit has completed an audit of UC Merced's compliance with the UC Fair Wage / Fair Work Plan, which was part of the 2016 – 2017 Audit Plan. This was the first systemwide audit of the UC Fair Wage / Fair Work Plan that will be completed annually at UC locations. We appreciate the help we received from Procurement staff during this audit.



Todd Kucker
Director of Internal Audit

Attachment

cc

Interim SVP Lohse
Chancellor Leland
Associate Chancellor Putney
Assistant Vice Chancellor and Controller Riley
Chief Procurement Officer Dubroff

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

UC Fair Wage / Fair Work Plan Audit
Report No. M17A007

July 6, 2017

Work completed by:
Todd Kucker – Internal Audit

Management Summary

Internal Audit has completed the first annual audit of UC Merced's compliance with the UC Fair Wage/Fair Work Plan requirements. To help enforce the plan requirements, Internal Audit departments at UC locations were tasked with periodically reviewing Procurement's management of the Fair Wage/Fair Work Plan requirements.

From our review of the processes established by UC Merced Procurement, we concluded that there is adequate compliance with the Fair Wage/Fair Work Plan requirements. During their planning for this audit and in providing the information necessary for the audit testing, Procurement established processes for identifying all vendors that are responsible for complying with the UC Fair Wage/Fair Work contractual provisions and for following up for the auditor certifications in a timely manner.

Objectives and Scope

Internal Audit has completed an audit of UC Merced's management of the Fair Wage/Fair Work Plan, which was part of the Fiscal Year 2016 – 2017 Audit Plan. This was the first year of what will be an annual systemwide audit to be completed at all UC campuses and medical centers.

The overall purpose of the audit was to review that Fair Wage/Fair Work Plan requirements are being complied with. The audit objectives were to:

- Review that Procurement correctly includes the Fair Wage/Fair Work provisions in all contracts that require the provisions; and,
- Determine whether Procurement is reviewing contractor compliance with certification requirements.

The audit scope included contracts in place during October 1, 2015 through December 31, 2016. To fulfill the objectives, we completed the following testing:

- We discussed Fair Wage/Fair Work requirements with Procurement Department staff to determine whether current procedures correctly identify all contracts which require the vendors to agree to the provisions.
- We reviewed a listing of contracts which fall under the Fair Wage/Fair Work provisions and verified that the requirements were included in the terms and conditions of the contracts.
- We determined which contracts included annual spending over \$100,000 and reviewed whether the vendors completed the required certifications.
- After determining which vendors should have provided certifications, we contacted a vendor, and the Certified Public Accountant who signed the auditor certification for the vendor, to review that the certification and related audit were properly completed.
- We reviewed current procedures related to granting exceptions to the Fair Wage/Fair Work provisions.

Background

On July 22, 2015, University of California (UC) President Janet Napolitano announced a new minimum wage plan for UC employees. Titled the “UC Fair Wage/Fair Work Plan”, the program guarantees that by October 2017 UC employees hired to work at least 20 hours a week be paid at least \$15 per hour.

Outside contractors providing services to the UC are required to pay workers providing services to UC a wage equal at least to the UC minimum wage, upon the renewal of their contract or establishment of a new contract after October 1, 2015. The UC minimum wage will equal:

- At least \$13/hour beginning October 1, 2015
- At least \$14/hour beginning October 1, 2016
- At least \$15/hour beginning October 1, 2017

UC has created the following mechanisms to ensure contractors comply with this plan:

- Worker hotline - A new telephone hotline allows workers employed by UC contractors to report issues related to wages or working conditions.
- Online complaint registration system - An online mechanism for contract workers to register complaints directly with UC.
- Annual and periodic audits - All UC contractors that provide more than \$100,000 of services are subject to an annual audit, paid for by the contractor, to ensure they and their subcontractors are complying with UC’s minimum wage plan, as well as all federal, state, and UC workplace laws and policies. UC contractors are also subject to periodic audits to ensure compliance with UC’s minimum wage rules and expectations for working conditions. The audits will be implemented as existing contracts come up for renewal and as new contracts are established.

For suppliers whose services exceed \$100,000 annually, an annual independent audit will be completed at the supplier’s expense. The supplier will ensure that their auditor:

- Reviews payroll records to confirm Fair Wage/Fair Work compliance
- Reviews workplace policies and procedures and identifies what processes/mechanisms exist to report complaints about workplace conditions or pay
- Verifies that any complaints submitted by employees were appropriately resolved
- Makes available Fair Wage/Fair Work audit work papers to UC internal audit upon request
- Documents any exceptions and management corrective action in audit report
- Documents audit results on UC Fair Wage/Fair Work certification form and sends to UC (Procurement) annually no later than 90 days after each 1-year anniversary of the agreement’s effective date

These audits must be performed by an independent auditor or the supplier’s internal audit department (if the internal audit function reports directly to an independent board).

Conclusion

From our audit testing, we concluded that there is adequate compliance with Fair Wage/Fair Work Plan requirements. During this first annual audit of the Fair Wage/Fair Work provisions, Procurement was in the midst of establishing procedures for identifying all contractors that fall under Fair Wage/Fair Work and for enforcing the certification requirements. While this first iteration ended up being a time-consuming process for Procurement, the department has now set up processes to identify and list all vendors responsible for the Fair Wage/Fair Work requirements and to follow up for audit certifications in a timely manner.