



# AUDIT AND ADVISORY SERVICES

Fair Wage/Fair Work  
Audit  
Project No. 18-720  
July 27, 2018

Prepared by:

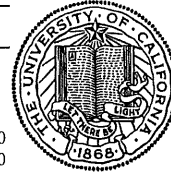
Reviewed and Approved by:

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Robert Asato  
Auditor-in-Charge

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Jaime Jue  
Interim Director



AUDIT AND ADVISORY SERVICES  
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BERKELEY, CALIFORNIA 94720-1170

July 27, 2018

Stacey Templeman  
Acting Chief Procurement Officer  
Supply Chain Management

Acting Chief Procurement Officer Templeman:

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 observation with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the 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,

Jaime Jue  
Interim Director

cc: Vice Chancellor Marc Fisher  
Assistant Vice Chancellor and Chief of Staff Ann Jeffrey  
Associate Chancellor Khira Griscavage  
Assistant Vice Chancellor and Controller Delphine Regalia  
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

**University of California, Berkeley  
Audit and Advisory Services  
Fair Wage/Fair Work**

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## OVERVIEW

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### Executive Summary

The purpose of this systemwide audit was to determine whether adequate controls were in place 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 of Purchase.

We observe that internal controls within Supply Chain Management to ensure the timely and complete receipt and inspection of auditor certifications from vendors subject to annual compliance certifications under the Fair Work/Fair Wage policy were not operating effectively as of the date of our test work in June 2018. We noted three instances where a completed certification form was completed by the vendor's chief financial officer, controller, or payroll manager rather than an external audit firm or independent internal audit function.

We also noted two instances where a certification form was not returned by the vendor. However, in both of those cases, the vendor did return an external audit or internal audit function report. We inspected these reports and certain supporting documentation and they appear consistent with the requirements established to independently evaluate overall compliance with the policy.

While we affirm the progress in receiving compliance audit certifications since last year's audit, we believe campus Supply Chain Management should further develop processes and internal controls to ensure the timely completion of supplier audits and auditor certifications.

### **Source and Purpose of the Audit**

The purpose of this systemwide audit was to determine whether adequate controls were in place 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 of Purchase.

### **Scope of the Audit**

Our scope included vendor contracts subject to the policy with over \$100,000 in activity for calendar year 2017. Management represented that no exceptions to the policy had been granted to a vendor for this period.

Our audit procedures followed the systemwide guidelines which included testing of the completeness of the contract population, verifying the inclusion of the provision language in contracting documents, inspection of audit certifications and reports, and review of supporting documentation for those reports.

Our fieldwork was conducted in May and June 2018.

### **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 beginning October 1, 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**

Our audit test work related to inclusion of the relevant policy requirements in contracting documents noted no reportable findings. In addition, management represented that no exceptions to the policy have been granted to a vendor.

We observe that internal controls within Supply Chain Management to ensure the timely and complete receipt and inspection of auditor certifications from vendors subject to annual

compliance certifications under the Fair Work/Fair Wage policy were not operating effectively as of the date of our test work in June 2018. We noted three instances where a completed certification form was completed by the vendor's chief financial officer, controller, or payroll manager rather than an external audit firm or independent internal audit function.

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# SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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## Receipt of Auditor Certifications

### Observation

We observe that internal controls within Supply Chain Management to ensure the timely and complete receipt and inspection of auditor certifications from vendors subject to annual compliance certifications under the Fair Work/Fair Wage policy were not operating effectively as of the date of our test work in June 2018. We noted three instances where a completed certification form was completed by the vendor's chief financial officer, controller, or payroll manager rather than an external audit firm or independent internal audit function.

We also noted two instances where a certification form was not returned by the vendor. However, in both of those cases, the vendor did return an external audit or internal audit function report. We inspected these reports and certain supporting documentation and they appear consistent with the requirements established to independently evaluate overall compliance with the policy.

### Management Response and Action Plan

Corrective Action notices will be sent to all suppliers with ongoing contracts where auditors identified certification forms which were incorrectly completed or signed by a Supplier's financial officers rather than an independent auditor by July 30, 2018. No further action will be taken with suppliers whose contracts have been terminated or have expired since the audit certification was submitted.

Berkeley's Supply Chain Management offices is updating the processes and internal controls for Fair Wage auditing. The 2016 UC Berkeley Audit Compliance Guide will be updated by September 30, 2018 to incorporate improved management controls of fair wage audits. As part of the compliance procedure improvements, Berkeley is fully implementing CalUSource for management of Fair Wage contracts to ensure automated audit notifications and improved reporting of Fair Wage contracts. In addition, Berkeley will be implementing scheduled interim fair wage reporting which will be documented in the revised UC Berkeley Audit Compliance Guide. Manual spreadsheets to track Fair Wage contract compliance will be phased out in 2018.