Contracting Out Systemwide Audit

Internal Audit Report No. I2023-103
June 12, 2023

Prepared By
Darlene Nuñez, Senior Auditor

Reviewed By
Niran Joshi, Associate Director

Approved By
Mike Bathke, Director
June 12, 2023

LESLE KLEIMAN
SENIOR DIRECTOR, WORKFORCE RELATIONS
HUMAN RESOURCES

RE: Contracting Out Systemwide Audit
   Report No. I2023-103

Internal Audit Services has completed the systemwide Contracting Out audit and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,

[Signature]

Mike Bathke
Director

Attachment

C: Audit Committee
   Ramona Agrela, Chief Human Resource Officer/Vice Chancellor – Human Resources
   Snehal Bhatt, Chief Procurement Officer/Executive Director – Campus Procurement Services
   Susanna Rustad, Chief Procurement Officer/Executive Director – UCI Health Care at Home
I. BACKGROUND

Covered services is work customarily performed by bargaining unit employees at the University, whether in whole or in part, including but not limited to, the following services: cleaning, custodial, janitorial or housekeeping services; food services; laundry services; groundskeeping; building maintenance (excluding skilled crafts); transportation and parking services; security services; billing and coding services; sterile processing, hospital or nursing assistant services; and medical imaging or other medical technician services.

On November 14, 2019, the Regents approved Regents Policy 5402: Regents Policy Generally Prohibiting Contracting for Services (Regents Policy 5402). This policy prioritizes the use of University of California (UC) employees over contract workers to provide covered services whenever possible. Contracting for covered services should be used sparingly and treated as an option of last resort to address specified operational needs – not as a means to replace UC employees with lower-wage contract workers.

The American Federation of State, County, and Municipal Employees (AFSCME) is a labor union that represents two University bargaining units, the Service (SX) unit and the Patient Care Technical (EX) unit. AFSCME-represented employees perform a majority of the covered services. The Regents have made clear that Article 5 of the two collective bargaining agreements (CBAs) with AFSCME takes precedence over Regents Policy 5402.

Regents Policy 5402 and Article 5 apply to covered services performed at a UC location. However, neither the Regents Policy 5402 nor Article 5 applies to construction or work typically performed by members of a skilled crafts or trades bargaining unit such as a plumber, electrician, or facilities mechanic.

If UC determines that it needs to contract for covered services, then the suppliers providing such services must pay their employees at a rate equivalent to the total compensation received by bargaining unit employees performing the same work.

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2 University of California and The American Federation of State, County, and Municipal Employees. (2020). Contract Terms for the Patient Care Technical Unit (EX), effective February 7, 2020 to July 31, 2024, Article 5. www.ucnet.universityofcalifornia.edu/labor/bargaining-units/ex/docs/ex_05_contracting-out.pdf

Collectively, the requirements in Regents Policy 5402 and Article 5 include, but are not limited to:

- To the fullest extent possible, in-source covered service work. As part of insourcing, identify supplier employees who meet the criteria for becoming a Qualified Individual (QI). QIs are individuals who have provided covered services to the University for 1,000 hours in a rolling 12-month period or 35% (2,200 hours) in a rolling 36-month period. The University location must offer QIs career employment when in-sourcing covered service work.

- Contracting for covered services is permitted where contracting out is required by law, Federal requirement, contract or grant requirement, or court decisions or orders, or limited circumstances (carve outs) established in the policy.

- Contracts for covered services must include provisions requiring the contractor to provide its employees the equivalent of wages and benefits provided to University employees performing the same work. This requirement only applies to the contractor’s employees providing services to the University under the covered service contract.

- Contracts for covered services must not displace University employees.

- Individuals providing services to the University under a covered service contract may request career employment when they meet the QI criteria.

- University locations must provide advance notice to affected employee organizations prior to entering into, extending, or renewing a contract for covered services over $100,000. University locations must also notice affected employee organizations when issuing a Request for Proposal (RFP) with covered services estimated to be over $100,000.

- Provide an opportunity to those affected employee organizations, upon receiving the notice, to request review of a proposed contract for covered services to determine whether the contract complies with policy requirements.

- Produce an annual report of all contracts for covered services, regardless of amount or duration, and provide the report to affected employee organizations and the Regents.

On February 15, 2020, the UC Office of the Chief Procurement Officer issued Implementation Guidelines for Regents Policy Generally Prohibiting Contracting for Services (Implementation Guidelines), which provide guidance to UC personnel on implementing Regents Policy 5402 and Article 5. The Implementation Guidelines are currently under revision.

In accordance with the fiscal year (FY) 2022-23 Internal Audit Plan approved by the UC Board of Regents, the Office of Ethics, Compliance and Audit Services (ECAS) performed a systemwide audit of contracting out in coordination with campus internal audit departments.

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ECAS developed a summary report based on information gathered by each location’s internal audit department. It provides a consolidation of the systemwide findings and a set of corresponding recommendations to address these findings, located in Appendix A of this report. Each location’s internal audit department will issue a separate report presenting findings noted at that location, corresponding management action plans to address those findings, as well as management action plans to address each of the systemwide recommendations.

II. PURPOSE, SCOPE, AND OBJECTIVES

The objective of this assessment was to evaluate processes and controls in place to facilitate compliance with contracting out requirements.

The scope of this audit included a design and implementation evaluation of the processes and controls in place to facilitate compliance with contracting out requirements. The time period audited was January 1, 2021 to present. The areas of focus included, but was not limited to, the following:

- Adequacy and consistency of guidance, training and communication to ensure contracting out requirements are understood and implemented at all organizational levels.
- Processes and controls to comply with policy and contractual requirements, including:
  - Procedures to identify covered services and amend/terminate contract with covered services.
  - Processes to review and evaluate decisions to contract out to ensure the University is contracting for services only when permitted by policy and contractual requirements.
  - Processes to monitor suppliers’ compliance with wage and benefit parity requirements.
  - Procedures to track contractor hours and identify contract workers that meet the in-sourcing criteria.
  - Procedures to comply with employee displacement requirements.
  - Processes to in-source qualified contract workers.
  - Provision of notice for contracting decisions.
  - Tracking and reporting contract information to affected employee organizations and the Regents.
  - Mechanisms to facilitate reporting violations and responding to reported violations.
  - Processes for handling grievances.
- Scope did not include compliance with supplier audits and SB 820 requirements.

The audit work and approach included:
- Reviewing relevant documentation, including policies, procedures and guidelines.
- Performing interviews with key stakeholders to determine an understanding of processes, procedures and controls and supporting documentation related to the in-scope areas.
• Conducting internal control testing according to defined attributes and assessed associated design and implementation of in-scope internal controls and processes.
• Selecting a sample of service contracts to assess compliance with policy and contractual requirements.
• Reviewing annual reporting to affected employee organizations and to the Regents to assess accuracy and completeness.
• Identifying any areas requiring additional guidance and/or training.

Workforce Relations (WR) oversees compliance with Article 5 and Regents Policy 5402 for the UC Irvine Campus (Campus) and UCI Health. WR serves as a partner to management, staff and human resource professionals regarding questions, conflicts, and issues that arise in the workplace. Services include collective bargaining and contract administration, grievances and complaints, corrective action, investigations, and labor relations. The WR team is made up of seven full-time staff plus a Senior Director who reports to the Chief Human Resources Officer/Vice Chancellor.

III. CONCLUSION

While contracting out processes vary from campus to campus, UCI Internal Audit Services (IAS) observed that, in general, the Campus does have certain controls over contracting out and Article 5 processes to address compliance with policy. However, our audit identified opportunities to strengthen policies and procedures related to contracting out risks in the following areas:

• Covered Services Identification
• Monitoring Suppliers’ Compliance with Wage and Benefit Parity Requirements
• Identification of Qualified Individuals (QI)
• UC Career Employment Conversion
• Reported Violations
• Grievances

IAS is working with WR and local stakeholders to address appropriate management action plans (MAPs) and target dates for each observation. IAS will coordinate with ECAS to ensure the MAPs are appropriately addressed and resolved in a timely manner.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Covered Services Identification

Background
Discussions were held with WR and Campus and UCI Health Procurement to gain an understanding of the process to identify contracts that include covered services and ensure the completeness of that list. A sample of contracts were also
reviewed to verify that all sampled service contracts that include covered services were included in the list of covered services.

**Observation**
Review of sampled service contracts did not reveal any instances of unidentified covered services however, UCOP guidance should be improved on how to identify covered services and ensure that all procurement methods incorporate Regents Policy 5402/Article 5 Compliance. There is no process or mechanism to identify covered services purchased using PALCards, corporate cards, and reimbursements. As a result, all covered services may not be identified and properly reported.

**Management Action Plan:**
UCOP guidance is anticipated for July 31, 2023. Within six months after receiving the guidance, the WR team will implement and collaborate with Campus and UCI Health Procurement units to develop methodologies and processes for identifying covered services purchased through PALCards, corporate cards, and reimbursements. See Appendix A, 1.a.1.

**Due date:** January 29, 2024 or within six months after receiving the UCOP guidance.

To mitigate the reimbursement processing of non-approved covered services contracting, UCI’s Procurement and Travel Accounting teams currently flag submissions in their financial systems which fail to hold the appropriate carve-out and wage benefit parity attachments regardless of payment method (i.e. PALCards, corporate cards, and reimbursements). In the event of a departmental submission which lacks the appropriate documents, staff will reject the instance, and re-route it back for additional information or approval evidence.

**Completed:** Pending verification

2. **Monitoring Suppliers’ Compliance with Wage and Benefit Parity Requirements**

**Background**
Implementation Guidelines for Regents Policy 5402 states that contracts for covered services must contain the Covered Services article in the terms and conditions of any new or amended contracts. In addition, the supplier must agree to pay employees wage and benefit parity as established by UC systemwide Human Resources. IAS examined a sample of ten supplier contracts, five from Campus and five from UCI Health, to verify that the covered services provision language was consistent with the language in the applicable version of the standard terms and condition. Also, for multi-year contracts, IAS verified that the required annual amendment was signed to reflect the updates to wage and benefit parity.
a. **Provision Language**

**Observation**
One of the five health contracts reviewed did not include the covered services language in the applicable version of the standard terms and conditions as required by Regents Policy 5402. Services have been terminated with this supplier.

**Management Action Plan**
The WR team will collaborate with Campus and UCI Health Procurement units to confirm that all contracts for covered services include the appropriate covered services provision language and/or documentation. A review of the current contracts for covered services will be completed.

**Due date: September 1, 2023**

The following variables have been implemented to prohibit future errors:
- Enterprise-wide training on Article 5 and Regents Policy 5402 compliance via web-based module.
- Regularly scheduled zoom presentations of Article 5 and Regents Policy 5402 compliance and adherence.
- Quarterly meetings with WR, Procurement, and Finance staff on contract compliance statuses.
- Monthly data reviews of contract data by compliance data specialist.
- Development and dissemination of contracting out process flow, presentations, how-to guides and FAQs to faculty, staff and event-planning students.
- The termination of contracts and severing of vendor relationships which failed to comply with contracting-out protocols.

**Completed: Pending verification**

b. **Wage and Benefit Parity**

**Observation**
If an existing contract for covered services ends after January 31, 2021, then local procurement teams that amend the contracts were instructed to include an appendix that lists the parity rates for each title and location covered by the contract. Two of the five existing health contracts reviewed did not execute the wage and benefit parity appendix for 2021.

**Management Action Plan**
The WR team will collaborate with Campus and UCI Health Procurement units to confirm that all contracts for covered services include the appropriate wage and benefit parity language and/or documentation. A review of the current contracts for covered services will be completed.
Due date: September 1, 2023

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- Monthly data reviews of contract data by compliance data specialist.
- Development and dissemination of contracting out process flow, presentations, how-to guides and FAQs to faculty, staff and event-planning students.
- The termination of contracts and severing of vendor relationships which failed to comply with contracting-out protocols.

Completed: Pending verification

3. Identification of Qualified Individuals (QI)

Background
Article 5 states that workers who have worked for the contractor performing work at a University location for 1,000 hours over a rolling 12-month period or 35% time over a rolling 36-month period, shall be offered UC career employment at the same location or at a location within ten miles of the campus/medical center/lab where they performed the work under the contractor.

Observation
Employee hours for one supplier is not tracked to identify QI. WR has requested the information on two occasions but has not received the data. Without the supplier hours, those who meet the criteria may not be offered UC employment as required by Article 5/Regents Policy 5402.

Management Action Plan
In February 2023, the supplier provided UCI their contractor report with the assignment start/end dates, hours worked, and designated cost center for all contract staff. The WR team is currently analyzing the data to validate those contract workers who have reached QI status. Once statuses are confirmed, offers of UCI employment will be made to those individuals. Vendors contracts which fail to comply with Article 5 reporting requirements will be immediately terminated.

Due date: September 1, 2023
4. **UC Career Employment Conversion**

**Background**
According to the Implementation Guidelines, the University must exercise best efforts to identify supplier employees who are eligible for conversion to UC career employment. As part of this effort, departments contracting for covered services must post a notice to contract workers with the requirements for converting to a UC career employee, and the notice must be in a place where the contract workers are likely to see it.

The QI must submit a written request to the department specified in the UC location request form. UC must find a career position for the QI within 120 days of receiving the request form. The UC location will use the same streamlined hiring process for the QI as for in-sourcing contract workers. QIs hired under this policy will have a reduced probationary period of three months if they will perform the same duties as a UC career employee that they performed as a contract worker.

a. **Posters/Notices**

**Observation**
Discussion with WR found that they were not aware of the posters. UCOP has not provided clear guidance regarding the notices/posters for UC career conversion.

**Management Action Plan**
UCOP guidance is forthcoming. Within six months after receipt of the guidance, WR will implement and obtain the notices and post them in areas contract workers are likely to see them. See Appendix A, 1.b.2.

**Due date: November 13, 2023 or within six months after receiving UCOP guidance.**

In early May, posters were provided to WR, and all locations where contracting-out is taking place will have the poster for contractor viewing no later than June 1, 2023.

**Due Date: June 1, 2023**

b. **QI Notification**

**Observation**
All sampled QIs who met the criteria were properly notified for eligibility for UC employee conversion. However, no UCOP guidance has been provided on the timeframe on when QIs need to be notified of an option for employment, which could result in untimely notification. Additionally, there is no guidance regarding non-responsive QIs.
Management Action Plan
UCOP guidance is forthcoming. Within six months after receipt of the guidance, WR will review and implement. See Appendix A, 1.b.2.

Due date: November 13, 2023 or within six months after receiving UCOP guidance.

In the meantime, if a QI fails to respond to the employee conversion notice in the same month it was sent, WR will send a follow-up email requesting a decision/update once a month, for a period of three months. If the QI fails to respond after the fourth attempt, WR will cease their communication efforts.

Completed: Pending verification

c. Hiring and On-boarding

Observation
There is no designated person to track the progress of the hiring and on-boarding process once a QI has requested UC career employment conversion. Thus, ensuring QIs start employment with UC within the 120 days of the submitted written request in accordance with the Implementation Guidelines may not occur. IAS reviewed a sample of five QIs who converted to UC and one was not hired within 120 days but at 133 days. In addition, no one is monitoring the reduced probationary periods for hired QIs.

Management Action Plan
UCI’s WR unit will designate a specialist to revise the current tracking sheet to include monitoring the progress of converting QIs to UCI employees to ensure QIs are converted within the specified timeframe in accordance with Article 5. The tracking sheet will also include probationary periods.

Due date: September 1, 2023

5. Reported Violations

Background
UC provides mechanisms for Supplier Employees to report violations of Article 5/Regents Policy 5402 through a telephone hotline and an online complaint registration system, which are centrally received by UCOP. The complaints are then sent to the local campuses for investigation.

a. Notices

Observation
UCOP has not provided clear guidance on providing suppliers with posters notifying their employees how contracting out violations can be reported. As
a result, WR was not aware of these posters and has not provided this information to suppliers.

**Management Action Plan**
UCOP guidance is forthcoming. Within six months after receiving the guidance, WR will review and implement. See Appendix A, 1.f.1.

**Due date: November 13, 2023 or within six months after receiving UCOP guidance.**

By June 1, 2023, at the start of a new contracting-out projects, WR will send posters to suppliers, which will highlight the methods of reporting Article 5 / Regents Policy 5402 violations. These notices will then be disseminated to contracted staff by vendor leadership.

**Due date: June 1, 2023**

b. **Tracking System**

**Observation**
The WR office will directly receive contracting out related complaints by telephone. However, there is currently no established process in place to manage and track these reported violations. No dedicated system or log exists to collect reported violation information and to allow for proper follow-up and response. A process and tracking system should be developed to promote transparency, consistency, and timeliness.

**Management Action Plan**
UCI’s WR unit will develop a detailed process including a log of locally received reported violations and will assign a case number to adequately track and manage locally received reported violations. The log will be updated accordingly.

**Due date: September 1, 2023**

6. **Grievances**

**Background**
Discussions were held with WR staff in order to gain an understanding of the current process for handling grievances. A sample of seven grievance cases were reviewed to ensure timely responses, whether the grievance was properly addressed, and, if an appeal was received, verified that the arbitration process was conducted as required by the Implementation Guidelines.
a. **Documentation**

**Observation**
For one of the seven grievance cases reviewed, AFSCME and UCI WR mutually agreed to waive Step 1 and proceed to Step 2. This was discussed over the phone and was not documented. According to SX Article 10, Grievance Procedure K, each of the steps in the Grievance Procedure, as well as the time limits prescribed at each step of the Grievance Procedure, may be waived by mutual agreement of the parties. Such waivers must be in writing and must be signed by the representatives of the respective parties who are responsible for the Grievance Procedures step succeeding the step being waived.

**Management Action Plan**
UCI’s WR team will develop and implement a Step 1 waiver form by September 1, 2023, which will be signed by stake-holding parties in the event of a mutual agreement to waive Step 1 and proceed to Step 2. This document will be maintained in the WR form repository.

**Due date: September 1, 2023**

b. **Tracking System**

**Observation**
There is no log to effectively monitor and track Article 5 grievances to ensure timely response efforts. As a best practice, a log of all cases should be maintained noting time sensitive due dates and current status to ensure compliance with grievance procedures and allow for visibility of all cases.

Proper oversight and review not only ensure compliance with policy and procedures but promotes efficiency.

**Management Action Plan**
UCI’s WR unit will develop a comprehensive grievance log listing all cases, important dates, and current status. This log will be reviewed and updated regularly. Currently, grievance documentation is held in the unit’s shared drive repository, and grievances are managed by the WR consultants assigned to the area in which the grievance arose.

**Due date: September 1, 2023**

c. **Responses**

**Observation**
For the two Article 5.C. cases, UCOP Labor Relations (LR) did not provide a written response within ten calendar days of receiving the grievance as required by SX Article 5. These two cases were also appealed to arbitration and LR did not acknowledge receipt until one to four months from when the
appeal to arbitration was received. SX Article 5 also states that arbitration involving 5.C. grievances shall be conducted on an expedited basis. Two other cases related to Article 5 (A)(E)(F) were also appealed to arbitration and LR did not acknowledge receipt within 15 calendar days as required by Article 3, Arbitration Procedures.

**Management Action Plan**
This was addressed in the Systemwide Contracting Out Audit Report P23A002, Appendix A, 1.e.3.

**Due date:** Not applicable to local location
## Appendix A: Systemwide Recommendations and Management Corrective Actions

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<th>Recommendation to UCOP</th>
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<td><strong>Procurement and Contracting Processes</strong></td>
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| 1.a.1 Systemwide Procurement should issue guidance to provide clear direction to UC locations on the following contracting out compliance requirements related to procurement and contracting:  
  - Requirements for monitoring lower-value purchasing activity (such as purchase orders, automatic purchase orders, purchasing cards, and travel and entertainment reimbursements) to identify procurement of Covered Services  
  - Acceptable practices for documenting Covered Services-related terms and conditions in supplier contracts and purchase orders. | 1.a.2 Locations should implement the updated guidance provided by Systemwide Procurement on contracting out compliance requirements for procurement and contracting. | January 29, 2024 or within 6 months after receiving the guidance, the WR team in collaboration with Campus and UCI Health Procurement will implement the updated guidance provided by Systemwide Procurement on contracting out compliance requirements for procurement and contracting. |
| 1.b.1 Systemwide HR should complete the implementation of the systemwide QI tracking tool with the selected supplier identified in the RFP. | 1.b.3 Locations should implement the updated guidance provided by Systemwide HR on contracting out compliance requirements related to QIs and implement the QI tracking tool procured by UCOP. | November 13, 2023 or within 6 months after receiving the updated guidance provided by Systemwide HR, the WR team will review and implement contracting out compliance requirements related to QIs for Campus and UCI Health and will implement the tracking tool for Campus to meet the requirements. By June 30, 2024 UCI Health will implement the tracking tool or alternative to meet the requirements. |
| 1.b.2 Systemwide HR should issue guidance to provide clear direction to UC locations on the following compliance requirements for QIs:  
  - QI monitoring and identification, including appropriate protocols for instances in which a location determines that a supplier employee reached QI eligibility in the past but has since stopped providing services to the University for an extended period of time  
  - QI conversion to UC career employment, including the timeframe in which QIs must be notified of an option for employment and procedures for non-responsive QIs |                                                                                             |                                                                                                             |
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| • Any allowable exceptions to required timeframes for QI conversion, such as certain categories of employees that require additional background checks
• Posting notices to contract workers with the requirements for converting to a UC career employee, including the appropriate template(s) to be used |                                                                                           |                                                                                                              |

| Compliance with Employee Displacement Requirements                                      |                                                                                           |                                                                                                              |
| 1.c.1 Systemwide HR should issue guidance to provide clear direction to UC locations on required procedures to comply with employee displacement requirements when contracting out for covered services. | 1.c.2 Locations should implement the updated guidance provided by Systemwide HR on contracting out compliance requirements related to employee displacement. | December 30, 2024 or within 6 months after receiving the updated guidance provided by Systemwide HR, the WR team will review and implement contracting out compliance requirements related to employee displacement. |

| Article 5 Grievances                                                                 |                                                                                           |                                                                                                              |
| 1.e.1 Systemwide Labor Relations should issue guidance to provide clear direction to UC locations on the following compliance requirements related to administration of Article 5-related grievances: • Requirements for recordkeeping • Roles and responsibilities of the locations and Systemwide Labor Relations for grievance administration • Criteria for notifying Systemwide Labor Relations regarding locally filed grievances • Procedures and documentation requirements for instances in which AFSCME is non-responsive during the grievance or appeals process | 1.e.2 Locations should implement the updated guidance provided by Systemwide Labor Relations on contracting out requirements for Article 5-related grievances. | June 30, 2024 or within 6 months after receiving the updated guidance provided by Systemwide HR, the WR team will review and implement the contracting out requirements for Article 5-related grievances. |

<p>| Reporting Violations of Contracting Out Requirements                                 |                                                                                           |                                                                                                              |
| 1.f.1 Systemwide HR should issue guidance to provide clear direction to UC locations on requirements for provision of required employee | 1.f.2 Locations should implement the updated guidance provided by Systemwide HR on | November 13, 2023 or within 6 months after receiving the updated guidance provided by Systemwide HR, the WR team will review and implement the contracting |</p>
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