



AUDIT AND ADVISORY SERVICES
SANTA BARBARA, CALIFORNIA 93106-5140
Tel: (805) 893-2829
Fax: (805) 893-5423

July 30, 2020

To: Distribution

Re: **UC Fair Wage/Fair Work Review
Audit Report No. 08-20-0013**

We have completed an audit of campus compliance with the University of California (UC) Fair Wage/Fair Work Plan as part of the 2019-20 annual audit services plan. This year the audit included Procurement Services and Real Estate Services. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Procurement Services and Real Estate Services personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Business and Financial Services

Jim Corkill, Associate Vice Chancellor and Controller
Jacob Godfrey, Chief Procurement Officer and Associate Director

Office of Budget and Planning

Daniel Sweeney, Director Real Estate Services

cc: Chancellor Henry Yang
Chuck Haines, Assistant Chancellor for Finance and Resource Management
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC SANTA BARBARA

UCSB Audit and Advisory Services

Internal Audit Report

UC Fair Wage/Fair Work Review

July 30, 2020

Performed by:

Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-20-0013

EXECUTIVE SUMMARY

OBJECTIVE

The purpose of the audit was to assess whether the University of California, Santa Barbara (UCSB) Procurement Services and Real Estate Services have implemented appropriate processes to ensure UCSB suppliers and applicable services performed at UCSB locations comply with University of California (UC) Fair Wage/Fair Work Plan (FW/FW) respectively.

Our objectives were to ensure that:

- Applicable procurement contracts for services over \$100,000 comply with selected UC FW/FW plan requirements, including contract identification, verification process, and annual audits performed by a licensed public accounting firm or an internal audit department reporting directly to an independent board.
- UC FW/FW applicable contracts contained the applicable UC Terms and Conditions.
- Applicable real estate agreements comply with UC FW/FW requirements, including lease/license identification and the verification process.
- FW/FW provision language in applicable real estate agreements is consistent with the FW/FW section in the standard lease/license forms.
- Exceptions were adequately managed and approved.

CONCLUSION

The result of our work found Procurement Services is adequately identifying procurement contracts over \$100,000 with the FW/FW provision. However, our detailed review of the verification process found:

- Two suppliers did not use a public accounting firm or an independent audit department that reports to an independent board.
- One supplier did not pay one employee the required rate of pay.

The result of our work found Real Estate Services is adequately identifying real estate agreements with the FW/FW provision. However, we identified opportunities to improve the support documentation to track real estate agreements subject to the FW/FW requirements.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. TRACKING & COMPLETENESS OF UC FAIR WAGE/FAIR WORK

OBSERVATION

Procurement

We determined that Procurement Services is adequately identifying contracts and purchase orders over \$100,000 with the UC FW/FW provision on a Microsoft Excel spreadsheet. No exceptions were granted or professional services were pre-certified as exempt during the audit period.

Real Estate

We determined that Real Estate Services is properly identifying all real estate leases and licenses (agreements) with the FW/FW provision in a spreadsheet and there are not FW/FW policy exceptions. However, we observed opportunities to improve the spreadsheet by clearly identifying agreements that are currently subject to FW/FW and agreements that will be subject to FW/FW requirements upon renewal.

We inquired about the process to ensure the completeness of the list of real estate agreements. We determined that Real Estate Services has identified all agreements in a UCSB property report spreadsheet. The majority are long term lease agreements. As the agreement term ends, an amendment is being executed to include the FW/FW provision. However, the spreadsheet does not clearly identify agreements that must comply with the FW/FW plan.

Tracking could be improved by revising the UCSB property report spreadsheet to clearly identify FW/FW real estate agreement terms, renewal dates, amendments, and verification notice dates. In addition, we found there is not a mechanism in place to ensure that verifications are sent annually in a timely manner.

RECOMMENDATION

We recommend Real Estate Services update the real estate spreadsheet to adequately track agreement terms, renewal dates, amendments, and verification notice dates.

MANAGEMENT RESPONSE

Real Estate Services will update the real estate spreadsheet to adequately track agreement terms, renewal dates, amendments, and verification notice dates.

Audit and Advisory Services will follow up on the status of this issue by October 31, 2020.

2. UC TERMS AND CONDITIONS

OBSERVATION

Procurement

We verified that the two procurement contracts with the FW/FW provision executed in 2019 had the applicable version of the UC Terms and Conditions of Purchase when contracts were executed.

Real Estate

We verified that the two real estate agreements with the FW/FW provision executed in 2019 are consistent with the FW/FW standard language.

3. VERIFICATION PROCEDURE

OBSERVATION

Procurement

We found five procurement contracts subject to FW/FW verification criteria¹. One verification form was not received and Procurement Services canceled the contract, and four verifications were received within the required 90 days. However, we found:

- One verification noted that one employee was paid under the \$15 minimum hourly wage during a training period and once completed was paid \$16/hr. This situation did not comply with FW/FW plan because suppliers cannot pay under the minimum hourly wage during training.
- Two verifications were not signed by a representative of a public accounting firm or by the supplier's independent audit department that reports to an independent board. In one case, the CEO signed the verification and a subcontractor, who provides human resource services for the supplier, signed the other verification.

Real Estate

There were only two real estate agreements that were renewed since the inception of FW/FW Plan on May 1, 2016. Both agreements were not in effect for a twelve-month period; therefore, verification forms were not required.

4. ANNUAL AUDIT STANDARDS AND PROCEDURES

OBSERVATION

Procurement

The public accounting firm work papers were not provided in order to validate whether the

¹ Contracts with the UC Fair Wage/Fair Work provision performing services for one full year from the contract's effective date.

accounting firm correctly followed the *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work*. Audit obtained the supplier's payroll journal reports and verified the employee worked full time, earning wages under \$15/hr. during a four-month training period and confirmed this employee is currently earning \$16/hr. Additionally, we obtained payroll journal reports for the rest of the supplier's employees working at UCSB and verified their hourly rate was equal to or above \$15/hr.

Real Estate

As mentioned in the prior section, the two renewed real estate agreements were not in effect for a twelve-month period.

RECOMMENDATION

We recommend Procurement Services follow-up with suppliers to ensure:

- A licensed public accounting firm or the supplier's independent audit department reporting to an independent board performs annual verification procedures.
- Suppliers remedy exceptions noted on verifications forms (e.g. proper wage not paid) and document follow-up actions. Remedy actions include:
 - Public accounting firm's work papers have to be available for future audit reviews.
 - Wage differences have to be addressed.

MANAGEMENT RESPONSE

Procurement Services will follow-up with suppliers to ensure:

- A licensed public accounting firm or the supplier's independent audit department reporting to an independent board performs annual verification procedures.
- Suppliers remedy exceptions noted on verifications forms (e.g. proper wage not paid) and document follow-up actions. Remedy actions include:
 - Public accounting firm's work papers have to be available for future audit reviews.
 - Wage differences have to be addressed.

Audit and Advisory Services will follow up on the status of this issue by November 30, 2020.

GENERAL INFORMATION

BACKGROUND²

On Wednesday, July 22, 2015, University of California 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.

² University of California website.

The plan requires that contractors doing business with UC guarantee a \$15 minimum hourly wage for their workers, ensuring that any workers being paid through a UC contract are paid fairly. The plan includes several measures to ensure contractors comply with the new minimum wage, as well as all federal, state, and UC workplace law and policies, including a telephone hotline for contract workers to report issues, and annual and periodic audits.

In addition, beginning May 1, 2016, the plan also applies to payment for work performed in a UC location. UC locations are deemed to include leased and licensed space whether UC is the Landlord/Licenser or Tenant/Licensee of space, and land ground leased to or from UC.

Annual Verification Standards and Procedures for UC Fair Wage/Fair Work

Suppliers have to send the UC Auditor Verification Fair Wage/Fair Work forms to UCSB Procurement Services annually, no later than 90 days after each one-year anniversary of the agreement's effective date. The purpose is to certify that licensed public accounting firms or supplier's internal audit departments comply with the *Annual Verification Standards and Procedures*.

Lessors/tenants have to send the UC Verification form to UCSB Real Estate Services annually to comply with the Fair Wage/Fair Work Plan requirements during the verification period.

SCOPE

The limited scope of our work included an overview of the process and testing applicable contracts with the UC Fair Wage/Fair Work Plan identified by UCSB Procurement Services and Real Estate lease/license agreements executed during January 2019 to December 2019.

Specifically, we:

- Reviewed UC and UCSB policies, state and federal regulations and other guidance concerning UC Fair Wage/ Fair Work plan, including:
 - *FY 2019 Interim Audit Procedures for Fair Wage/Fair Work Plan*, revised 4/6/20
 - *Fair Wage/Fair Work Plan Applicability to Real Property Lease or Licensed to or by The Regents of the University of California*
 - *Fair Wage/Fair Work Real Estate Verification* form
 - *Fair Wage/Fair Work Compliance Real Estate Leases and Licenses*, provided January, 2020
 - *Independent Accountant/Internal Auditor Verification UC Fair Wage/Fair Work*, revised 1/15/2019
 - *Annual Verification Standards and Procedures for UC Fair Wage/Fair Work*, revised 1/15/2019
 - *Frequently Asked Questions UC Fair Wage/Fair Work Plan*, revised 10/8/19
 - *UC Terms and Conditions of Purchase* versions: 2/6/2019 and 8/6/19
- Conducted interviews with Procurement Services and Real Estate Services personnel to obtain a better understanding of the process and internal controls in place and to identify areas of concern.

- Conducted detailed testing of a sample of applicable contracts for compliance with the UC FW/FW Plan in the following areas:
 - Identification and adequate tracking of contracts and real estate agreements
 - Verification process
 - Annual audit standard and procedures
 - Exceptions

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor