



UCSB Audit and Advisory Services  
Internal Audit Report

**UC Fair Wage/Fair Work Review**

June 26, 2017

**Performed by:**

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**Approved by:**

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Report No. 08-17-0016

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AUDIT AND ADVISORY SERVICES  
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June 26, 2017

To: Jacob Godfrey, Associate Director and Material Manager  
Business and Financial Services

Distribution

Re: **UC Fair Wage/Fair Work Review**  
**Audit Report No. 08-17-0016**

As part of the 2016-17 annual audit services plan, Audit and Advisory Services has completed an audit of campus compliance with the University of California (UC) Fair Wage/ Fair Work Plan.

The purpose of the audit was to assess whether University of California, Santa Barbara (UCSB) Procurement Services has implemented appropriate processes to ensure vendor compliance with UC Fair Wage/Fair Work Plan. The limited scope of our work included an overview of the process and testing of a sample of vendor contracts in place from October 2015 to December 2016.

The audit identified opportunities to implement and improve practices and controls in areas such as identifying applicable contracts to the UC Fair Wage/Fair Work Plan, ensuring vendor compliance with Annual Audit Standards and Procedures for UC Fair Wage/Fair Work, and implementing an exception approval process.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Masek".

Jessie Masek  
Acting Director  
Audit and Advisory Services

Jacob Godfrey, Associate Director and Material Manager  
June 26, 2017  
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Enclosure

Distribution:

Finance & Resource Management

Acting Assistant Chancellor Chuck Haines

Jim Corkill, Controller and Director, Business and Financial Services

cc: Chancellor Henry Yang

Executive Vice Chancellor David Marshall

Vice Chancellor Administrative Services Marc Fisher

UCSB Audit Committee

Interim Senior Vice President and Chief Compliance and Audit Officer John Lohse

## PURPOSE

The purpose of the audit was to assess whether University of California, Santa Barbara (UCSB) Procurement Services has implemented appropriate processes to ensure vendor compliance with University of California (UC) Fair Wage/Fair Work Plan. This audit is part of the University of California, Santa Barbara 2016-17 annual audit services plan.

## SCOPE, OBJECTIVES AND METHODOLOGY

The scope of our work included a review of applicable contracts identified by UCSB Procurement Services (Procurement Services) that complies with the UC Fair Wage/Fair Work Plan. We selected samples of transactions for detailed review and testing from October 2015 to December 2016.

Our objectives were to ensure that:

- Applicable contracts for services over \$100,000 comply with selected UC Fair Wage/Fair Work Plan requirements, including: contract identification, certification process, and annual audits performed by an independent registered certified public accounting firm.
- UC Fair Wage/Fair Work applicable contracts contained UC Terms and Conditions of Purchase.
- Exceptions were adequately managed and approved.

To accomplish our objectives, we:

- Reviewed UC and UCSB policies, state and federal regulations, best practices, and other guidance concerning UC Fair Wage/ Fair Work, including:
  - *UC Fair Wage/Fair Work Plan*, a UC guideline, published September 24, 2015.
  - *A Guide to Fair Wage/Fair Work by Commodity*, a UC guideline, published April 5, 2016.
  - *Annual Supplier Audit Certification Process Fair Wage/Fair Work*, a UC guideline, published October 1, 2015.
  - *Annual Audit Standards and Procedures for UC Fair Wage/Fair Work Plan*, an outline of the Fair Wage/Fair Work Plan, annual audit procedure, published October 15, 2015.
  - *Contract Scenarios*, a UC guideline, published October 1, 2015.
  - *Frequently Asked Questions UC Fair Wage/Fair Work Plan*.
  - *University of California Terms and Conditions of Purchase*, a compendium of standard terms and conditions for purchase orders and contracts.
  - California Labor Code, Division 2, Part 4, Chapter 1. *Wages, Hours, and Working Conditions*.
  - California Labor Code, Division 2, Part 1, Chapter 1. *Payment of Wages*.
- Conducted interviews with Procurement 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 Fair Wage/Fair Work Plan in the following areas:
  - Identification of contracts
  - Certification process
  - Annual audit standard and procedures
  - Exceptions

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## **BACKGROUND<sup>1</sup>**

On Wednesday, July 22, 2015, University of California President Janet Napolitano announced that the minimum wage for its workers — both direct and service contract employees — will be raised to \$15 an hour over the next three years. In addition, she directed that all contractors doing business with UC comply with government and university workplace laws and policies.

Titled “UC Fair Wage/Fair Work Plan”, this program requires that all University of California employees hired to work at least 20 hours a week be paid at least \$15 per hour over the course of three years. The mandated minimum was planned to increase in phases as follows: \$13 an hour beginning October 1, 2015, \$14 an hour beginning October 1, 2016, and \$15 an hour beginning October 1, 2017.

The University of California is one of the state’s largest employer with some 195,000 employees at its 10 campuses, five medical centers, three national labs, the Office of the President, the Division of Agriculture and Natural Resources, and other locations.

As part of the plan, the University also will institute stronger oversight of its contracts and sub-contracts, requiring that companies that provide services for UC pay their employees a wage that meets or exceeds UC’s new minimum wage. This requirement would be implemented as new service contracts are established and existing contracts come up for renewal.

In addition, UC will expand its monitoring and compliance efforts related to service contractors’ wages and working conditions. This will include a new phone hotline and central online system for contract workers to report complaints and issues directly to the Office of the President.

The University requires that all UC contractors undergo an annual compensation audit to ensure they are paying their employees at a level at or above UC’s minimum wage and complying with all local, state, federal, and UC workplace laws and policies. These audits would be funded by the contractors and implemented as new contracts are established and existing contracts come up for renewal. The University also plans to institute spot audits of its contractors to ensure their compliance.

Most of the cost associated with the wage increases will be covered by non-core funds such as those from self-supporting auxiliary services. These revenues are separate from the tuition and fees, state resources, and other core funds that support UC’s core instructional programs.

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<sup>1</sup> University of California website.

**SUMMARY OPINION**

Our testing of applicable contracts to the UC Fair Wage/Fair Work Plan found opportunities to implement and improve practices and controls in areas such as identifying applicable contracts to the UC Fair Wage/Fair Work Plan, ensuring vendor compliance with Annual Audit Standards and Procedures for UC Fair Wage/Fair Work, and implementing an exception approval process.

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

**DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**

Our review of applicable contracts to the UC Fair Wage/Fair Work Plan found opportunities to improve guidance, procedures, and controls to identify and track applicable vendors and to ensure vendors have a clear understanding of the certification and audit process requirements of the UC Fair Wage/Fair Work Plan. Additionally, there is a need for establishing detailed controls for evaluating and approving exceptions. Our results are summarized in Table 1.

Table 1		Compliance with the UC Fair Wage/Fair Work Plan
Category	Rating	Comments
Tracking & Completeness of UC FW/FW Contracts List	Partial	Procurement Services uses the UCSB Procurement Gateway to track contracts that apply to the UC Fair Wage/Fair Work Plan. However: <ul style="list-style-type: none"> <li>Contracts were selected based on individual vendor contracts exceeding \$100,000, not based on cumulative annual spend per vendor.</li> <li>Two contracts were incorrectly classified as UC Fair Work/Fair Wage applicable<sup>1</sup>.</li> </ul>
Terms and Conditions	✓	<ul style="list-style-type: none"> <li><i>UC Terms and Conditions of Purchase</i> included in contracts.</li> </ul>
Certification & Audit Procedure	✗	<ul style="list-style-type: none"> <li>Certification signed by a vendor employee.</li> <li>Incorrect certification form.</li> <li>No certification requested before March 2017.</li> <li>No audit report or work papers.</li> </ul>
Exceptions	✗	<ul style="list-style-type: none"> <li>Exception process not implemented.</li> <li>Limited guidance to manage exceptions.</li> </ul>

Source: Auditor analysis.  
 ✓: Full compliance with UC Fair Wage/Fair Work Plan requirements.  
 Partial: Meets some compliance requirements or there are compensatory controls.  
 ✗: No compliance or very limited compliance with UC Fair Wage/Fair Work Plan requirements.  
 1: Based on the UC guideline *the University of California Guide to FW/FW by Commodity*.

*Tracking & Completeness of UC Fair Wage/Fair Work Contracts*

Procurement Services tracks contracts in the e-procurement system, UCSB Procurement Gateway by selecting a field. However, we found the criteria for selecting applicable vendors needs further clarification. For example:

- Procurement Services selected contracts based on individual vendor contracts exceeding \$100,000, not based on cumulative annual spend per vendor. We found only three of the seven contracts on the provided list had services rendered over \$100,000 at the time of our review.
- Two contracts, included on the list of applicable contracts provided by Procurement Services, did not comply with the UC Fair Wage/Fair Work Plan.<sup>2</sup>

<sup>2</sup> Based on A Guide to Fair Wage/Fair Work by Commodity.  
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We found that all selected contracts in our sample included the applicable version of the standard *UC Terms and Conditions of Purchase*.

#### *Certification and Audit Procedures*

The certification process requires vendors to send the *UC Auditor Certification Fair Wage/Fair Work* form to UC Procurement, annually no later than 90 days after each one-year anniversary of the agreement's effective date. We found that the annual audit and certification process for applicable contracts did not comply with the annual audit standards and procedures for UC Fair Wage/Fair Work Plan:

- One vendor did not use an independent registered public accounting firm and signed the *UC Auditor Certification Fair Wage/Fair Work* form.
- Another vendor did not sign the *UC Auditor Certification Fair Wage/Fair Work* form. Instead, the vendor provided a letter from an accounting firm. In addition, the independent accounting firm incorrectly believed that the vendor did not need to perform an audit because the vendor hired a consultant as an independent contractor, and therefore was not an employee to the vendor.

The certification process during the last year did not have clear guidance of whom has the responsibility to request these certifications. For this reason, Procurement Services did not request the certifications prior to March 2017<sup>3</sup>. Procurement Services is currently performing a quarterly review of applicable vendors.

#### *Exceptions Noted*

We found limited guidance from UC Procurement Services regarding managing exceptions to the UC Fair Wage/Fair Work Plan. This restricted the campus' ability to establish and implement adequate processes to document and approve exceptions to the plan. Therefore, no exceptions were noted in either of the certifications that were provided to Procurement Services. However, we identified exceptions in two applicable contracts. In the first case, a small company, while not contracting auditing services from a registered independent public accounting firm, provided adequate documentation validating wages that exceeded the UC Fair Wage/Fair Work minimum requirement. In the second case, an approved exception could be noted based on services rendered by a professional independent contractor. Procurement Services informed us that they would like more guidance to manage exceptions.

We recommend that Procurement Services:

- Evaluate the process of identifying UC Fair Wage/Fair Work contracts and perform a quarterly review of vendors.
- Ensure vendors comply with the Annual Audit Standards and Procedures for UC Fair Wage/Fair Work requirements and certification process.
- Seek guidance for contract exceptions and put in place an approval process.

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<sup>3</sup> The period evaluated in this review is the first year UC Fair Wage/Fair Work plan went to effect.

**Management Corrective Actions**

Procurement Services will:

- Evaluate the process of identifying UC Fair Wage/Fair Work contracts and perform a quarterly review of vendors.
- Ensure vendors comply with the Annual Audit Standards and Procedures for UC Fair Wage/Fair Work requirements and certification process.
- Seek guidance for contract exceptions and put in place an approval process.

*Audit and Advisory Services will follow up on the status of these issues by September 15, 2017.*