

**UNIVERSITY OF CALIFORNIA, DAVIS  
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Fair Wage/Fair Work  
UC Davis Health Purchasing  
Audit & Management Advisory Services Project #18-09**

**June 2018**

**Fieldwork Performed by:**

Gagan Kaur, Staff Auditor

**Reviewed by:**

Tony Firpo, Associate Director

**Approved by:**

Leslyn Kraus, Director

**Fair Wage/Fair Work****Audit and Management Advisory Services Project #18-09****MANAGEMENT SUMMARY****Background**

In July 2015, President Janet Napolitano announced a new minimum wage plan for UC employees entitled “UC Fair Wage/Fair Work Plan” (“the FW/FW Plan”, or “the Plan”). Under this directive, a wage schedule assures a minimum wage of \$15 per hour by 2017. The Plan requires that contractors doing business with UC guarantee hourly wages per a designated wage schedule. The Plan includes provisions to ensure compliance with its terms. In addition, for services exceeding \$100,000 and not subject to prevailing wage<sup>1</sup> requirements, suppliers must provide certification of an annual independent audit performed by an independent auditor or an independent internal audit department at the supplier’s expense.

At UC Davis, specialized units provide processing services for contracts that are negotiated and entered into at the Campus and at UC Davis Health (UCDH).

**Purpose and Scope**

As part of the fiscal year 2017-2018 audit plan, Audit and Management Advisory Services (AMAS) conducted a review of Fair Wage/Fair Work. Each UC campus was asked to perform audit procedures at the direction of the Office of the President (UCOP). At UC Davis, specialized units provide processing services for contracts that are negotiated and entered into at the Campus and at UC Davis Health. This report addresses UCDH Purchasing. We interviewed administrators, reviewed processes, examined lists of contracts, and conferred with audit colleagues from UCOP and other campuses.

**Conclusion**

We identified areas for improvement in how UCDH Purchasing identifies, tracks, and reviews contracts that are subject to FW/FW. UCDH Purchasing will have to implement separate solutions to address contracts executed before the date of this report, as well as taking appropriate measures for future contracts.

---

<sup>1</sup> The prevailing wage is a base compensation rate paid on public works projects that guarantees that certain classes of workers are paid fairly for the services performed.

**Observations, Recommendations, and Management Corrective Actions****A. UCDH Purchasing needs to improve its process for executing contracts with the FW/FW provision and developing and maintaining a list of these contracts.**

UCDH Purchasing's process is generally to include the FW/FW provision in every contract. Currently, there is no way to flag or otherwise track contracts that are specifically subject to FW/FW. Purchasing was able to pull a list of purchase agreements for our review, but the list was over inclusive, as Purchasing has no means of filtering for agreements subject to FW/FW. This prevents the unit from effectively identifying contracts that are subject to FW/FW requirements such as an annual certification form.

Management has reported that FW/FW contracts will be tracked more consistently and automatically with the implementation of Lawson in July 2018. Buyers will be able to flag contracts that meet the baseline requirements for FW/FW application. If implemented as expected, Lawson's functionality would remedy the issue presented here.

Because the list was over inclusive and included thousands of contracts, we could not reasonably perform the 10% sample test required by the UCOP audit program; instead we reviewed five contracts and determined that the FW/FW provision was included in each of them as necessary.

**Recommendation**

- 1) Develop a process to identify contracts subject to FW/FW.

**Management Corrective Actions**

- 1) By March 15<sup>th</sup>, 2019, for active contracts executed between 10/1/2015 and 6/30/2018, UCDH Purchasing will conduct a review of its contracts and determine which contracts are subject to FW/FW.
- 2) By December 15<sup>th</sup>, 2018, for contracts executed subsequent to 7/1/2018, UCDH Purchasing will use a data field in Lawson to flag all contracts subject to the provisions of FW/FW.

**B. UCDH Purchasing's process for documenting and tracking contracts with services that exceed \$100k requires improvement. We were unable to determine whether there are any past-due certifications.**

The FW/FW certification requirement is applicable for agreements with annual expenditures exceeding \$100K. UCDH Purchasing provided AMAS with a list of contracts with total values exceeding \$100K.

We reviewed the spreadsheet and determined that it included contracts that did not require certification, because the list is based on contract value rather than annual spend

on the contract. Therefore, this list is also over inclusive. Purchasing must document and track these contracts with greater accuracy to ensure that certifications are correctly identified, requested, and stored. To remedy this, Purchasing will have to reconcile procurement data with the payables data to measure the actual spend on each contract.

While Purchasing did provide us with two certifications, we believe it is likely that more certifications were due since 2015.

### **Recommendation**

Develop a process to identify contracts requiring certification for compliance with the provisions of FW/FW. Develop a process to collect and review certifications returned and take action as necessary.

### **Management Corrective Actions**

- 1) By March 15<sup>th</sup>, 2019, UCDH Purchasing will develop a process to identify which contracts require certification based on the requirements of the FW/FW provision. This will require reconciliation of purchasing data to payables data in order to identify contracts with annual spend greater than \$100,000, as the annual spend rather than the contract value determines if a certification is required.
- 2) By March 15<sup>th</sup>, 2019, UCDH Purchasing will:
  - a. For active contracts executed between 10/1/2015 and 6/30/2018, collect and review all certifications from suppliers and take actions as deemed necessary based on the FW/FW requirements and guidance.
  - b. For contracts executed subsequent to 7/1/2018, develop a process to review certifications for all required contracts on an on-going basis and take actions as considered necessary based on the requirements of the FW/FW guidance.

### **C. UCDH Purchasing has adopted a practice of requesting certifications during the renewal period for a contract, rather than the anniversary date of the agreement.**

UCDH Purchasing currently lacks the resources to review contracts with services that exceed \$100k annually. Instead, the unit reviews contracts during their renewal periods, and initiates requests for certifications at that point.

The FW/FW provision requires that suppliers provide UC with an FW/FW certification annually “no later than ninety days after each one anniversary of the agreement’s effective date.” UCDH Purchasing will have to alter its practice to request certifications more frequently than during the renewal period.

### **Recommendation**

Adjust practices to align with FW/FW requirements and guidance.

**Management Corrective Action**

By March 15<sup>th</sup>, 2019, UCDH Purchasing will incorporate into the certification process a means to identify contracts requiring certifications on the contract anniversary dates rather than contract renewal dates.

**D. Remaining audit procedures were completed without exception.**

We selected one University contract over \$100k, obtained the work papers and certification, and were able to validate that wages were examined in accordance with the Annual Audit Standards and Procedures.

UCDH Purchasing has a suitable process for recording exceptions. UCDH Purchasing has granted one exception since the inception of the FW/FW program, and it was approved by the appropriate Policy Exception Authority, as identified in BFB-BUS-43.

\*\*\*