

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Fair Wage/Fair Work Plan
Project #19-047**

July 2019

EXECUTIVE SUMMARY

I. BACKGROUND

At the request of the University of California Office of the President (UCOP), UCSF Audit & Advisory Services (A&AS) completed a review of the processes and procedures in place at UCSF within Campus Supply Chain Management and UCSF Health Procurement Services to ensure compliance with the UC Fair Wage/Fair Work Plan.

As part of FW/FW compliance, the provision language in contracts must be consistent with the UC terms and conditions of purchase. The standard term and conditions include the prevailing wage, and during the calendar year of 2018, FW/FW Plan requires that contractors doing business with UC to guarantee a \$15 minimum hourly wage for their workers. Additionally, the FW/FW Plan requires contractors to implement several measures to help ensure compliance with the new minimum wage, as well as all federal, state, and UC workplace laws and policies. These measures include a telephone hotline for contract workers to report issues and annual audits by certain vendors to certify their compliance with the FW/FW Plan requirements.

Per UCOP Policy (BFB-BUS 43 Materiel Management), the FW/FW Plan applies to all services to be performed for the University at one or more UC locations. FW/FW requirements do not apply to:

- Contracts funded by extramural awards containing sponsor-mandated terms and conditions, or
- Endowment or investment property where the purpose is to generate income from the general public, except to the extent such property is used by the University in furtherance of its mission.

For the period January 1, 2018 to December 31, 2018 there were 36 Campus contracts and 23 UCSF Health contracts subject to the FW/FW annual verification requirements.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of the processes and procedures in place within Campus Supply Chain Management and UCSF Health Procurement Services to ensure compliance with the UC FW/FW Plan, specifically those processes implemented to help ensure that outside contractors comply with the FW/FW Plan's requirements.

This project was conducted as part of a system-wide review on FW/FW. Each campus executed this project at the campus level and results will be reported and consolidated at the UC system-wide level. The audit scope, sample selection criteria, and audit program were established by the Office of the President to be consistent at all locations.

Procedures performed as part of the review include: interview of department personnel and walkthrough of their processes to understand processes related to complying with the FW/FW Plan's provisions; review, on a sample basis, of contract FW/FW terms and conditions; review of verification forms received from contractors; validation of one vendor's auditor verification against supporting documents and all audits with reported exceptions to verify compliance with the Plan's provisions; and review of exceptions granted to the FW/FW provision.

To perform our review, we relied on the Campus Supply Chain Management and UCSF Health Procurement Services to provide listings of applicable contracts. We also completed an evaluation of the methodology and processes for how the lists were compiled. The scope of the review included all new and contract renewals subject to the FW/FW provisions executed between January 1, 2018 and December 31, 2018.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in June 2019.

III. **SUMMARY**

Campus and UCSF Health contracts have FW/FW provisions consistent with the applicable language in UC Terms and Conditions of Purchase. Additionally, both units have implemented processes to identify and track contracts subject to annual FW/FW verification. During 2018, there was one policy exception granted by Campus Supply Chain Management, and there is a documented approval by senior procurement official.¹

Campus and UCSF Health procurement have made substantial progress in systems implementation to help identify contracts subject to FW/FW. The specific observations from this review are listed below.

1. UCSF Health Procurement did not follow up timely with eight suppliers who had not submitted their annual verification.
2. One Campus Supply Chain Management annual verification was prepared by an "Enrolled Agent" and not a registered public accountant as required by FW/FW Audit Standards.
3. Campus Supply Chain Management was unaware that FW/FW applies when total spend with a supplier is over \$100k, but each of the subsuppliers under that contract have less than \$100k in expenditures.

Additionally, an opportunity for improvement was identified for UCOP to consistently use the same link when updating terms and conditions.

¹ No policy exceptions have been granted by UCSF Health Procurement Services.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (“MCAs”)

No.	Observation	Risk/Effect	Recommendation	MCA
1	<p><i>UCSF Health Procurement did not follow up timely with eight suppliers who had not submitted their annual verification.</i></p> <p>At 90 days from the verification due date, there is an escalation process to get the verification from the supplier that involves engaging UCSF Health Procurement management and/or the supplier’s department. Currently, it is a manual process to keep track of the outstanding verifications.</p> <p>UCSF Health Procurement will get a new contract management system, Procurement CRM, in FY 19/20. The new contract system will help keep track of verification due dates.</p>	<p>Without timely follow-up of vendor verifications, compliance with the FW/FW Plan requirements cannot be ensured.</p>	<p>UCSF Health Procurement should fully utilize the Procurement CRM once it is up and running to follow-up on outstanding verifications.</p>	<p>UCSF Health Procurement will work with the supplier’s department to get the remaining eight verifications and identify opportunities to leverage the new Procurement CRM to improve the verification follow-up process.</p> <p>Responsible Party: VP Supply Chain/Support Services</p> <p>Target Date: September 30, 2019</p>
2	<p><i>One supplier verification for Campus Supply Chain Management was prepared by an “Enrolled Agent”² and not a registered public accountant as required by FW/FW Audit Standards.</i></p> <p>One out of 14 Auditor verification forms reviewed for Campus Supply Chain Management was prepared by “Enrolled Agents” and did not satisfy the UC FW/FW guidelines. This is a recurring issue that was noted for this supplier in the FY18 internal audit report.</p> <p>Per the UC FW/FW Annual Audit Standards, the verification form must be prepared by a registered public accounting firm or the supplier’s independent internal audit department.</p>	<p>Without personnel with the required training and experience preparing the annual verification form, the review procedures may not be appropriately completed and compliance with the FW/FW Plan requirements cannot be ensured.</p>	<p>Completed Auditor Verification forms should be reviewed by Supply Chain Management to determine if qualifications of the personnel performing the review meets the FW/FW Plan requirements.</p> <p>Supply Chain Management should contact the suppliers to remind them of the Verification requirements of the FW/FW Plan.</p>	<p>Campus Supply Chain will reach out to the supplier to get a new certification.</p> <p>Responsible Party: Associate Vice Chancellor Chief Procurement Officer (Campus)</p> <p>Target Date: December 31, 2019</p>

² An Enrolled Agent is a credential awarded by the IRS to individuals, so that they may offer tax preparation and planning services, and represent taxpayers before the IRS.

No.	Observation	Risk/Effect	Recommendation	MCA
3	<p><i>Campus Supply Chain Management was unaware that FW/FW standard applies when total spend with a supplier is over \$100k, while each of the subsuppliers under that contract have less than \$100k in expenditures.</i></p> <p>During testing, we noted one supplier had 30 sub-suppliers with a cumulative total of \$518k in expenditure. Each sub-supplier's individual spend was under \$100k. Campus Supply Chain Management incorrectly took the position that FW/FW does not apply because each sub-supplier's spend was under \$100k.</p>	<p>By not considering the cumulative total of subsuppliers' spend, Campus Supply Chain Management may incorrectly disregard FW/FW requirements.</p>	<p>Campus Supply Chain Management should include the cumulative total of all of its subsuppliers' spend in determining whether FW/FW applies.</p>	<p>Campus Supply Chain Management has taken the position that it would grant a policy exception to this supplier; this has been documented and approved by the senior procurement official during this review.</p>

V. OPPORTUNITIES FOR IMPROVEMENTS

No.	Observation	Risk/Effect	Recommendation
1	<p><i>UCOP should consistently upload the current terms and conditions to the website referencing FW/FW standards.</i></p> <p>During testing, it was noted that purchase orders from Campus Supply Chain Management reference a link to a UCOP website that has an outdated FW/FW terms and conditions.</p>	<p>Without access to the most updated FW/FW terms and conditions, suppliers may not be aware of changes and thus comply with the latest FW/FW requirements.</p>	<p>UCOP should create one website where the latest terms and conditions is updated and posted.</p>