



UCSB Audit and Advisory Services
Internal Audit Report

UC Fair Wage/Fair Work Review

July 20, 2018

Performed by:

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

Approved by:

Kimberly Ray, Interim Audit Director

Report No. 08-18-0015

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AUDIT AND ADVISORY SERVICES
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July 20, 2018

To: Jacob Godfrey, Chief Procurement Officer and Associate Director
Business and Financial Services

Distribution

Re: **UC Fair Wage/Fair Work Review**
Audit Report No. 08-18-0015

As part of the 2017-18 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 UCSB suppliers comply with UC Fair Wage/Fair Work Plan. 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 (Procurement Services) and were active from January 2017 to December 2017.

The result of our work found Procurement Services is adequately tracking contracts over \$100,000 with the UC Fair Wage/Fair Work provision. Our detailed review of a supplier's audit work papers validated that the rate of pay met or exceeded the minimum wage requirement. Our review of the certification process found that two suppliers did not fully comply with the annual audit standards and procedures.

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 black ink, appearing to read "Kimberly Ray".

Kimberly Ray
Interim Audit Director
Audit and Advisory Services

Enclosure

Jacob Godfrey, Associate Director and Material Manager
July 20, 2018
Page 2

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

Interim Vice Chancellor Administrative Services Joel Michaelsen

UCSB Audit Committee

Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

PURPOSE

The purpose of the audit was to assess whether University of California, Santa Barbara (UCSB) Procurement Services has implemented appropriate processes to ensure UCSB suppliers comply with University of California (UC) Fair Wage/Fair Work Plan. This audit is part of the University of California, Santa Barbara 2017-18 annual audit services plan.

SCOPE, OBJECTIVES AND METHODOLOGY

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 (Procurement Services) and were active from January 2017 to December 2017.

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 or an internal audit department reporting directly to an independent board.
- UC Fair Wage/Fair Work applicable contracts contained the 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 plan, including:
 - *Annual Supplier Audit Certification Process Fair Wage/Fair Work*, a UC guideline, published October 1, 2015.
 - *Contract Scenarios*, a UC guideline, published October 1, 2015.
 - *A Guide to Fair Wage/Fair Work by Commodity*, a UC guideline, published April 5, 2016.
 - *University of California Terms and Conditions of Purchase* (UC Terms and Conditions), a compendium of standard terms and conditions for purchase orders and contracts, revised November 29, 2017.
 - *Annual Audit Standards and Procedures for UC Fair Wage/Fair Work Plan* (Annual Audit Standards and Procedures), an outline of the Fair Wage/Fair Work Plan, annual audit procedure, revised December 11, 2017.
 - *Auditor Certification UC Fair Wage/Fair Contracts Effective Before and After July 11, 2016*, a UC form, revised December 11, 2017.
 - *Frequently Asked Questions UC Fair Wage/Fair Work Plan*, revised December 15, 2017.
 - *Procurement Services After-the-Fact Exceptions*, a UC guideline, revised December 11, 2017.
 - *Fair Wage/Fair Work, Refresher Training*, UC Presentation, published December 12, 2017.
 - *Frequently Asked Questions UC Fair Wage/Fair Work Plan*, revised April 25, 2018.

UCSB Audit and Advisory Services
UC Fair Wage/Fair Work

- 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*.

BACKGROUND¹

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 — would be raised to \$15 an hour over the next three years. In addition, she directed that all suppliers 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 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 is instituting 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 is expanding its monitoring and compliance efforts related to service suppliers’ wages and working conditions. This includes 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 suppliers 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 suppliers and implemented as new contracts are established and existing contracts come up for renewal. The University also plans to institute spot audits of its suppliers to ensure their compliance.

Under the plan, most services performed for the University at one or more UC Locations became subject to the UC Fair Wage/Fair Work Plan. However, the UC Fair Wage/Fair Work Plan does not apply if the agreement:

¹ University of California website.

UCSB Audit and Advisory Services
UC Fair Wage/Fair Work

- Is only for the furnishing of goods;
- Involves services not performed at one or more UC campuses, labs or medical centers;
- Involves services that are a Public Work with a wage determination at or above the UC Fair Wage; and
- Involves services funded by an extramural award containing sponsor-mandated terms and conditions (federal, state or private foundation, research grants).

Contracts subject to the UC Fair Wage/Fair Work Plan must contain a provision in the UC Terms and Conditions of Purchase that reference the UC Fair Wage/Fair Work article. Any exceptions to this policy must be approved as follows: by the Chief Procurement Officer for a non-UC Health systemwide or Office of the President contract; by the Associate Vice President, UC Health Procurement for a UC Health systemwide contract; and otherwise by the senior procurement officer of the relevant campus or medical center.

For services that exceed \$100,000 annually, suppliers are required to perform an annual independent audit and certification, at the supplier's expense. Suppliers must also ensure its auditor makes available to UC its UC Fair Wage/Fair Work Plan work papers.

Annual Audit Standards and Procedures

Suppliers have 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. The purpose is to certify that registered public accounting firms or supplier's internal audit departments that comply with the following requirements perform annual audits:

- The internal audit function has to report directly to an independent board.
- Registered public accounting firm does not have an affiliation with the supplier.

SUMMARY OPINION

The result of our work found Procurement Services is adequately tracking contracts over \$100,000 with the UC Fair Wage/Fair Work provision. Our detailed review of a supplier's payroll reports supported that the rate of pay met or exceeded the minimum wage requirement.

Our review of the certification process found that two suppliers did not fully comply with the annual audit procedures standards and procedures. Office of the General Counsel determined annual audit standards and procedures requirements are not enforceable for these contracts, because the UC Fair Wage/Fair Work Plan provision in the UC Terms and Conditions did not link to the Annual Audit Standard and Procedures.

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

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

The result of our review of applicable contracts to the UC Fair Wage/Fair Work Plan is 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	✓	Procurement Services uses a spreadsheet to track contracts that apply to the UC Fair Wage/Fair Work Plan.	
UC Terms and Conditions of Purchase	✓	Contract documentation linked to the most recent version of the UC Terms and Conditions and not to the applicable version when the contract was executed.	
Certification and Audit Procedures	Partial	<p>Independent auditors did not sign the two certifications reviewed in this audit. Work papers were limited to payroll reports.</p> <p>Office of the General Counsel determined annual certification audit requirement¹ could not be enforceable for these contracts, because the UC Terms and Conditions did not link to the annual audit standards and procedures in contracts executed prior to May 16, 2017.</p>	
Exceptions	✓	No exceptions reported.	

Source: Auditor analysis.

✓: Full compliance with UC Fair Wage/Fair Work Plan requirements.

Partial: Meets some compliance requirements or there are compensatory controls.

1: Certification signed by a registered public accounting firm or internal audit department.

Tracking & Completeness of UC Fair Wage/Fair Work Contracts

We determined that Procurement Services is adequately tracking contracts and purchase orders over \$100,000 with the UC Fair Wage/Fair Work provision on a Microsoft Excel spreadsheet. We reviewed a sample of five contracts not included on the spreadsheet and confirmed that the UC Fair Wage/Fair Work provision does not apply to any of them.

UC Terms and Conditions

We found the four contracts contained the required UC Fair Wage/Fair Work Plan provision. However, three linked to the most recent version of the UC Terms and Conditions and not to the applicable version when contracts were executed.

UC Procurement Services website updates the UC Terms and Conditions by reusing the same hyperlink. This practice makes it impractical to maintain version control of the UC Terms and Conditions. UCSB Procurement Services, following UC Procurement Services² guidance, includes active hyperlinks to the UC Terms and Conditions in contract documentation located on the UCSB e-procurement system (Gateway).

² UC Procurement Services collaborates with campus procurement teams to standardize agreements and procedures.

Certification & Audit Procedures

We found that two contracts met the Fair Wage/Fair Work certification criteria³. Both suppliers completed the requirement of providing the *UC Auditor Certification Fair Wage/Fair Work* to Procurement Services within the required 90 days. We performed a detailed review of one of the mentioned contracts for compliance with the Annual Audit Standards and Procedures. We found that the supplier provided payroll reports that supported the rate of pay met or exceeded the minimum wage of \$15.00 per hour and informed us that there were no employee complaints.

However, when reviewing the certification process we found two suppliers did not fulfill the requirement included in the Annual Audit Standards and Procedures, of using a registered public accounting firm nor an independent internal audit department that reports directly to an independent board to sign these certifications. Office of the General Counsel determined annual audit standards and procedures requirements are not enforceable for these contracts, because the UC Fair Wage/Fair Work Plan provision in the UC Terms and Conditions was linked to the wrong web page.

During our audit, we confirmed the current version of the UC Terms and Conditions is correctly hyperlinked to the Annual Audit Standards and Procedures. We determined that one of the two contracts has expired and the other contract will expire next year.

We recommend Procurement Services discuss with UC Procurement Services approaches to ensure all applicable documents related to the UC Fair Wage/Fair Work provision are included in the contract's support documentation.

Management Corrective Actions

Procurement Services will request that UC Procurement Services consider instituting change controls on the Fair Wage/Fair Work Uniform Resource Locator (URL) or changing contracting standards so that all Fair Wage/Fair Work UC Terms and Conditions are included in the Purchase Order.

Audit and Advisory Services will follow up on the status of these issues by October 1, 2018.

³ Contracts with the UC Fair Wage/Fair Work provision performing services for one full year from the contract's effective date.