UCLA HEALTH – FAIR WAGE/FAIR WORK

AUDIT REPORT #18-601203

Audit & Advisory Services

October 2018

UCLA HEALTH – FAIR WAGE/FAIR WORK

AUDIT REPORT #18-601203

Background

As part of the University of California Office of the President (UCOP) initiative to implement the Fair Wage/Fair Work (FW/FW) plan, audits were performed systemwide to assess campus compliance with the requirements as they pertain to suppliers. UCLA Audit & Advisory Services (A&AS) has conducted such an audit of UCLA purchasing departments’ procedures. This is the second annual audit.

The initiative, announced in July 2015, established a University of California (UC) minimum level of pay for employees to ensure that all UC workers are provided a fair wage. The plan guaranteed that UC employees hired to work at least 20 hours a week would be paid at least $13 an hour by October 1, 2015, increasing to $15 an hour by October 1, 2017. The plan also requires certain suppliers to pay their employees the UC Fair Wage (defined as $15 per hour as of October 1, 2017). As part of the FW/FW plan, UC is to monitor wage and working conditions for suppliers’ employees.

For service agreements that exceed $100,000 annually, the supplier, at its own expense, must have an annual compensation audit. These audits are to be performed by the supplier’s independent auditor or independent internal audit department “in compliance with UC’s required audit standards and procedures” to assess the supplier’s compliance with the plan. Such suppliers must also provide a UC Fair Wage/Fair Work Auditor Certification annually, no later than 90 days after each one-year anniversary of an agreement’s effective date, for the twelve months immediately preceding the anniversary date. Additionally, in the event of a UC interim audit, the supplier must ensure that its auditors make available to UC their FW/FW work papers for the most recently audited time period.

To implement the plan, campus purchasing departments must identify and monitor all contracts subject to the FW/FW provisions, including those vendors with approved exemptions. Any supplier exempted from the FW/FW provisions must be approved by a campus senior procurement officer or by the systemwide Chief Procurement Officer. For service agreements that exceed $100,000 annually, the campus purchasing departments should remind the suppliers of the FW/FW audit requirements before the agreement’s anniversary date and request the annual FW/FW Auditor Certification.

Purpose and Scope

The purpose of the audit was to evaluate compliance with the FW/FW plan. The scope of the audit covered activities that UCLA Health Procurement and Strategic Sourcing performs in order to monitor and assure vendor compliance with the requirements specified by the plan.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included procedures considered necessary in achieving the purpose. Discussions were held with management, and a judgmental sample of contracts was reviewed*.*

Summary Opinion

The UCLA Health Procurement and Strategic Sourcing department has not implemented the oversight procedures required by the FW/FW plan. The audit revealed that procedures are not in place to:

* Identify and monitor all vendor contracts subject to the FW/FW provision
* Solicit the annual certification forms from vendors
* Assure vendor compliance with the annual FW/FW audit procedures
* Assure proper justification and approvals for any vendor exempted from the FW/FW provisions

The audit also revealed that, although the University of California Terms and Conditions of Purchase that delineates Article 25 - Fair Wage/Fair Work is referenced in standard purchase orders, the FW/FW provision was missing or was not sufficiently specified on the signed contract documents for some cases selected for examination.

Discussions with procurement management indicated that challenges have hindered their compliance monitoring efforts. While a new contracts management system was implemented in December 2017, it lacks functionality to capture or flag the diverse criteria needed to identify a discrete set of contracts subject to FW/FW provisions. Workload has also reportedly been higher than usual, challenging the existing staff resources.

Nonetheless, this plan is a high priority initiative of the University of California President, and attention must be given to its implementation.

The audit results and recommendations are detailed in the remainder of this audit report.

Audit Results and Recommendations

| **#** | **FINDING and CRITERIA** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| 1 | Contract Monitoring  The Procurement and Strategic Sourcing department has not implemented a tracking system to identify or monitor vendor contracts subject to the University’s FW/FW requirements.  Although a new contracts management system was implemented in December 2017, it does not have a feature to readily identify service contracts subject to the FW/FW plan and thus far has only been populated with newly negotiated contracts. | For purposes of this year’s audit, Procurement generated a report of expenditures by annual dollar expenditure amount. A manual review of such a list may be one means of identifying the contracts subject to FW/FW. Management indicated that such contracts, even if not newly negotiated, could then be added into the contracts management system.  Despite the challenges, management must implement some sort of tracking system to facilitate the ongoing identification of vendor service agreements that are subject to the University’s FW/FW requirements. | Management understands the importance and its responsibility to comply with the University’s FW/FW requirements. Therefore, it has obtained approval to hire an additional full-time employee equivalent (FTE) to manage and ensure compliance with the FW/FW requirements. Additionally, management engaged an independent contractor to assist in the implementation of all FW/FW requirements, integrate the requirements into the daily contracting workflow, and identify the required features to maintain FW/FW compliance using the department’s contract management system. It is anticipated that the contractor’s work will be completed by December 31, 2018. As appropriate, any newly identified processes will be immediately implemented to lessen the burden of full implementation by December 31, 2018. |
| 2 | FW/FW Contract Provisions  Although management indicated that the University’s standard Terms and Conditions of Purchase, which include the FW/FW provisions as Article 25, are incorporated in all purchase orders, the auditors’ review of certain service agreements revealed that the FW/FW provision was missing or was not sufficiently specified or referenced on some contracts judgmentally selected for audit testing.  Sampling was limited due to difficulties in obtaining requested documentation from the department. For the five contracts sampled, standard purchase orders were provided to the vendors, referencing the appropriate terms and conditions, including FW/FW provisions, but these documents were not acknowledged by the vendors; only the separate contracts had vendor signatures.  Further, some of the sampled contracts had language that would seemingly void the current University terms and conditions. Two sampled temporary staffing contracts contained a clause that the contract, which did not include FW/FW and certain other current provisions, represented the agreement in its entirety. One recent information technology contract inexplicably referenced and included the 1999 version of the University terms and conditions of purchase.  \_\_\_\_\_\_\_\_\_\_  Criteria:  UC Business and Finance Bulletin BUS-43, Purchases of Goods and Services; Supply Chain Management, III., Part 1, E.1.d.ii. [Fair Wage/Fair Work] Contracting Procedures: All contracts for UC Fair Wage/Fair Work Services must contain a provision substantially in the form of the UC Fair Wage/Fair Work Article [25] in the UC Terms and Conditions of Purchase. | Management should ensure that the FW/FW provisions are fully incorporated into all service contracts that are subject to the FW/FW plan. Signed acknowledgment of these terms should be obtained from the vendors. | Effective September 24, 2018, if the UC terms and conditions, including when appropriate, FW/FW language, are not incorporated in the agreement (document) executed between UCLA Health and the vendor, the UC terms and conditions must be acknowledged by the vendor. Evidence of the vendor’s acceptance shall be in the form of their signature on the UC terms and conditions (document), and the signed document will be made part of the agreement and purchase order. |
| 3 | Vendor FW/FW Audits  Procedures have not been implemented to assure vendor compliance with the UC audit requirements for service contracts exceeding $100,000 annually.  The FW/FW plan requires the supplier to arrange for the performance of annual independent audits and to provide to UC an Auditor Certification of the vendor’s compliance status.  The department has not solicited annual FW/FW Auditor Certification forms from vendors with whom contracted services exceed the $100,000 annually. | Management must develop and implement departmental processes to ensure that vendors contracted to provide more than $100,000 in services annually are knowledgeable of and completing the annual audit requirements.  Departmental processes should include:   * Informing vendors of the required auditor independence and audit procedures; vendors can be pointed to the UC guidance at <http://www.ucop.edu/procurement-services/_files/fw-fw-annual-audit-standards-procedures.pdf>. * Soliciting the required FW/FW Auditor Certifications from all vendors subject to this FW/FW provision at each contract anniversary date. * Assuring that corrective actions are taken toresolve any non-compliance exceptions reported on the Auditor Certification forms. | As part of the independent contractor’s engagement and the hiring of the additional FTE, departmental processes will be identified and implemented to ensure compliance with this requirement.  Efforts are underway to identify all service agreements that meet this criteria. Management and the contractor are discussing how to retroactively implement and comply with this requirement. It is anticipated that, no later than October 31, 2018, an action plan will be in place and work will have already begun to retroactively update existing agreements and to bring the vendors into compliance with this requirement.  As previously stated, it is anticipated that the contractor’s work will be completed by December 30, 2018, where it is anticipated that a complete process flow will be identified and implemented to ensure compliance. As appropriate, any newly identified processes will be immediately implemented to lessen the burden of full implementation by December 31, 2018. |
| 4 | FW/FW Exemptions    Management has not yet granted any formal exemptions to the FW/FW plan, but has indicated that they would use the standard template available at the UCOP Procurement Services website (<https://www.ucop.edu/procurement-services/_files/fwfw-exception-template.docx> ) to document such exemptions. | Procurement management should assure that proper documentation and approvals are completed for any vendor that is granted an exemption from the FW/FW requirements. | Management response to this recommendation is the same as noted in Item 3 of this report. |

180629-10

REP