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August 7, 2017

Ms. Elaine M. Howle
California State Auditor
621 Capitol Mall, Suite 1200
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State Auditor Howle:

This letter is in response to your draft audit report on contracted employees and practices for the University of California Office of the President (UCOP). We welcome the constructive input, which aligns with the University's proactive efforts to continually improve and strengthen its policies and procedures. Our specific responses to individual recommendations are attached, and for context, I would like to take this opportunity to emphasize some important aspects of UC's operations and goals.

UC's Employee Population and Use of Service Contracts

The California State Auditor (CSA) report identifies both strengths and areas for improvement with respect to oversight of service contracts and guidelines on the displacement of current employees. I appreciate your acknowledgement of the areas in which UC and its campuses have complied with policies, and will focus on your recommendations as we work diligently to further shore up our procedures.

I believe it is important that the recommendations be framed within the context of the University of California, the state's third largest employer — behind federal and State governments — with some 190,000 employees at its 10 campuses, five medical centers, three affiliated national laboratories, the division of Agriculture and National Resources (ANR), and UCOP. The University is extremely proud of its staff, who play a critical and ongoing role in carrying out UC's education, research, and public service missions. One of the greatest challenges for UC, and for all higher education institutions, is striking an optimal balance of simultaneously reducing costs, increasing access, achieving higher levels of academic excellence, and investing in its large, diverse workforce.

Rather than ignore this challenge, the University has addressed it directly. In 2015, UC unveiled its Fair Wage/Fair Work plan, which mandated that all University employees who work at least 20 hours a week be paid at least \$15 an hour, to be implemented over the course of three years. The minimum increased to \$13 in October 2015 and \$14 in October 2016, and will increase to \$15 by October 2017. As I stated at the time, this forward-thinking program is the right thing to do for UC workers and families, for our mission and values, and for furthering UC's leadership role by becoming the first university in the United States to voluntarily establish a minimum wage program that would reach \$15 an hour. As an institution, we are deeply proud of this accomplishment, as it underscores a difficult balancing act for a steward of public dollars — reducing UC's operating costs while fairly compensating hardworking employees.

A similar challenge is effectively negotiating the composition of our employee population and supplementing their work with service contracts. Maintaining a balance of contract and campus-based services helps locations maximize efficiency within resource constraints, while allowing for new methods and best practices. UC and its individual locations contract out for services in cases where, among other reasons, there is a need for special expertise or experience, for short-term or temporary staffing needs, or for services and equipment not available or not regularly performed internally.

It is important to note that UC's Fair Wage/Fair Work policy also applies to employees of contractors providing services to UC. As part of the plan, the University instituted stronger oversight of its contracts and subcontracts, requiring that companies with which UC contracts pay a wage that meets or exceeds UC's new minimum wage. In addition, the University expanded its monitoring and compliance efforts related to service contractors' wages and working conditions. This includes a new phone hotline and a central online system for contract workers to report directly to the Office of the President any complaints and issues.

UC Procurement and Maximizing Benefits

Similar to the review of service contracts, I am grateful that your report identified strengths in our procurement policies and practices, as well as areas on which we will focus attention as we continue to progress and improve.

The University's department of Procurement Services has transformed the way we purchase goods and services to improve quality and service to our campuses and partners, while maximizing systemwide benefits such as cash savings, streamlined processes, and enhanced efficiencies. Launched in 2012 as part of the systemwide

State Auditor Howle
August 7, 2017
Page 3

Working Smarter Initiative, the P200 program leveraged the purchasing power of 10 campuses to more competitively bid for goods and services, automate business processes for increased efficiency, and enhance collaboration with vendors for better transactions. It has proven to be a tremendous success. The program is on track to exceed \$300 million in calculated annual benefits by the end of fiscal year 2016-17, funds that will now be available to support UC's teaching, research, and service missions.

UC's 10 campuses are collaborating to build an integrated, sustainable and systemwide procurement framework. By developing competitive contracts, innovative supply chain strategies and robust reporting and analytics, UC will capture yet more benefits that will further support our core missions.

In summary, I appreciate CSA's time and diligence in assessing UC's operations and identifying areas for further improvement. We take your recommendations seriously and believe they are constructive to our goals of continued improvement, progress, and success.

Yours very truly,

A handwritten signature in black ink that reads "Janet Napolitano". The signature is written in a cursive style with a large initial "J".

Janet Napolitano
President

Attachment:
Response - CSA Contracting Recommendations