

The logo for UCI Irvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'IRVINE' in a smaller, all-caps, serif font. A vertical line separates the two parts of the name.

UCI IRVINE

The text 'INTERNAL AUDIT SERVICES' in an all-caps, serif font, positioned to the right of the UCI Irvine logo.

INTERNAL  
AUDIT SERVICES

## Middle Earth Housing

*Internal Audit Report No. I2022-513*

March 13, 2023

***Prepared By***

Bhavna Nakum, Senior Auditor

***Reviewed By***

Loran Lerma, Principal Auditor

***Approved By***

Mike Bathke, Director

March 13, 2023

**LOUIS GILL  
SENIOR DIRECTOR, UNDERGRADUATE HOUSING  
HOUSING**

**RE: Middle Earth Housing Audit  
Report No. I2022-513**

Internal Audit Services has completed the limited financial review of Middle Earth Housing finance and business operations and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,



Mike Bathke  
Director

Attachment

C: Audit Committee  
Lisa Anderson, Senior Director of Finance and Business Operations - Housing  
Tim Trevan, Assistant Vice Chancellor for Student Housing - Housing

---

## I. BACKGROUND

---

University of California, Irvine (UCI) Internal Audit Services (IAS) conducted a limited financial review of Middle Earth Housing finance and business operations at the request of UCI Student Housing Administrative Services management.

UCI Student Housing includes six UCI-managed, graduate and undergraduate student communities. Middle Earth is housing for first-year undergraduate students.

---

## II. PURPOSE, SCOPE, AND OBJECTIVES

---

The purpose of this audit was to perform a limited review of financial activity and business operations and processes, to verify that adequate internal controls are in place over key financial and business operations and processes, and that these processes are in accordance with University policies and procedures. The scope included a limited review and sample testing of data from approximately January 2020 through August 2022.

IAS performed the following procedures:

1. Evaluated the adequacy and efficiency of internal controls with regard to timekeeping and remote work agreements;
2. Determined and verified that timekeeping procedures are in compliance with University policies and procedures;
3. Identified control gaps and other aspects of the timekeeping and timesheet submission and approval processes that can be exploited to misrepresent hours worked; and
4. Identified a system of controls and process improvements that would address these vulnerabilities.

---

## III. OPPORTUNITIES FOR IMPROVEMENT

---

Based on the limited review performed, some internal controls need improvement and should be strengthened to minimize risks and ensure accordance with best business practices.

### 1. Remote Work Agreements

In IAS's discussions with management, employees working a hybrid work schedule are required to sign a remote work agreement in order to work remotely, which may include locations outside the state of California.

IAS noted that one employee moved out of state and did not notify their supervisor. In October 2021, when Housing Human Resources (Housing HR) ran a routine report containing employees' contact information, Housing HR discovered that this employee had moved out of state.

In addition, as part of other audit procedures performed, IAS reviewed the purchasing transactions incurred in July 2020. This out-of-state employee had purchasing responsibilities and IAS noted that items were being shipped to the out-of-state home address. Furthermore, IAS discovered that this employee purchased their out-of-state home in December 2019 and was subsequently on leave from January 2020 through June 2020.

Through detailed review of UCI's procurement card (PALCard) supporting documentation, the supervisor should have noticed that the shipping address was out-of-state and therefore likely would have disapproved purchases being shipped to this address and could have informed Housing HR of this discovery much earlier. For further details, see Section III.3.

There were repeated, but unsuccessful, efforts in 2020, 2021, and 2022, not only to compel this employee to sign and submit the required remote work agreement, but also to have them pick up a work laptop so they would not have to use their personal laptop. A UCI-supplied laptop contains cybersecurity measures to protect UCI information. The alternative to this requirement was to have this employee come to work onsite daily. Ultimately, this employee was terminated for attendance and performance issues.

IAS recommends that supervisors review existing remote work agreements and follow up with their direct reports to confirm information is current and accurate and to ensure that employees are able to perform their duties in accordance with their job description and management's expectations.

## **2. Timekeeping Responsibilities**

Using data analytics, IAS selected a judgmental sample of Middle Earth Housing employees and reviewed the Time Reporting System (TRS) timesheets from November 2019 to August 2022 to determine and verify that timekeeping procedures are in compliance with University policies and procedures.

### **a. Overtime Request and Approval Procedures**

IAS reviewed TRS timesheets where overtime was recorded and noted instances where these timesheets were approved by supervisors but had little to no explanation for the extra hours worked.

Management noted that supervisors are inconsistent in their requirement for documented requests and pre-approval of overtime. Supervisors appear to

give implicit approval of overtime already entered on the TRS timesheets at time of review.

IAS was not able to verify documentation for 12 of the 19 instances (63%) of overtime as being properly requested and approved ahead of the overtime occurrence.

Per University of California – Policy PPSM-30<sup>1</sup>, compensation, overtime and over-schedule will be assigned by the department head to meet essential operating needs. Overtime and over-schedule must be approved in advance, but if overtime or over-schedule is worked, it must be compensated whether approved or not. An employee is expected to seek advance approval for overtime and over-schedule work. Additionally, per PPSM-30, Section D. Overtime and Over-Schedule (*Non-Exempt Employees Only*), overtime hours (more than eight hours a day, 40 hours per week, 80 hours per biweekly pay period) should be requested and approved by the appropriate supervisor in advance of extra time worked.

As a good business practice and to the extent feasible, those tasked with supervising duties should be aware of their staffs' schedules. Any changes made to an employee's schedule should be documented. Employees should document their explanation in the TRS timesheet comment box for any non-standard work hours (i.e., overtime requested and approved, unusual hours [weekend, after normal operating hours], set-up/clean-up hours, shift switches, etc.). Supervisors reviewing timesheets should verify whether overtime hours worked has been pre-approved.

#### **b. Timesheet Reviews and Approvals**

In IAS's discussion with management and the backup approver for TRS timesheets, an employee was identified who incurred more overtime than what was considered typical for someone in their position.

In the usual supervisor's absence, the backup approver noted several times that the employee's reported overtime was in direct contradiction to what the backup approver observed and experienced and therefore, they felt uncomfortable approving the timesheets. Furthermore, the backup approver claimed that the employee often did not adhere to agreed-upon work hours and was often absent for long periods of time. The absences then created workflow issues due to missed meetings and bottlenecks in work processes because there were delays in approving and reconciling transactions. Moreover, extra work and overtime were being submitted by other staff due

---

<sup>1</sup> "University of California Policy PPSM-30 PPSM-30: Compensation." *Presidential Policies, Personnel Policies for Staff Members, University of California*, 1 Jan. 2023, [www.policy.ucop.edu/doc/4010400/PPSM-30](http://www.policy.ucop.edu/doc/4010400/PPSM-30).

to this employee taking supervisor-approved time off during busy work periods, such as fiscal close.

In IAS's discussion with the supervisor of the employee and review of disciplinary memos provided, IAS noted that there were persistent concerns regarding the employee's performance effect on the department and incurrence of overtime, which led to regular meetings to discuss resolution of these issues. In further discussions with this supervisor, they stated the employee would incur overtime, but would submit their timesheets late, which led to little time left for edits by the supervisor prior to the timesheet submission deadline and pay dates. This led to the supervisor's implicit approval of overtime in instances when proper procedures to request overtime were not followed. Additionally, comments justifying overtime were not left consistently in TRS.

However, when IAS performed a closer evaluation of the timesheets in pay periods containing overtime entries, IAS noted that these timesheets were submitted in a timely manner by the employee with adequate time provided for the supervisor to follow up on any questions regarding timesheet entries, which did not appear to have occurred.

With the reorganization of Housing's Finance & Business Operations in February 2022, the business administration of the six residential communities became more centralized with similar functions being grouped together. This reorganization resulted in the shifting of supervisors among the residential communities and consequently, a change in reporting for many individuals, including the problematic employee. However, even after the reorganization, the former supervisor of this individual continues to serve as a supervisor and also serves as a backup approver for TRS timesheets of hourly staff members.

According to the TRS Supervisor Handbook<sup>2</sup>, supervisors are to approve the submitted timesheet if all hours (work and leave) reported by the employee are complete and accurate. Therefore, in order to ensure the accuracy and reliability of payroll, supervisors should be monitoring the hours their staff have worked, reviewing timesheets, and communicating with their employee in case of any discrepancies. If for some reason the supervisor cannot officially sign off approval on the timesheet, they should be verifying the accuracy of the hours worked and reported in TRS by their supervised employee to the appropriate person.

In order to ensure proper payroll reporting and reduce the risk of errors and potential fraud, employees tasked with supervising staff, and/or timekeepers,

---

<sup>2</sup> "UCPath TRS Supervisor Handbook." *Supervisor Resources, University of California, Irvine Accounting & Fiscal Services*, Jan 2023, [www.accounting.uci.edu/payroll/trs/docs/TRS%20UCPath%20Supervisor%20Handbook.docx](http://www.accounting.uci.edu/payroll/trs/docs/TRS%20UCPath%20Supervisor%20Handbook.docx).

should be given periodic refreshers on how to submit, review, and approve time in TRS, including any policies and procedures updates.

Employees should also be reminded of the affirmation statement for each TRS timesheet submitted for supervisor approval: "I understand any misstatement of falsification of hours on this time sheet may be cause for disciplinary action up to and including termination."

### **3. PALCard Processes**

PALCard is UCI's procurement card program designed to help departments and schools manage low value purchases. PALCard is a privilege granted to departmental staff and faculty with purchasing duties and must be used in a responsible and appropriate manner.

PALCard documents must be reviewed and approved by the PALCard reconciler within 15 calendar days of the created date on the PALCard reconciliation document (PCDO) after which time the document will automatically post to the general ledger. Transactions that show "super-user" approval are transactions that are auto-sent to the general ledger without a reconciler's review.

Using data analytics, IAS selected a judgmental sample of PALCard transactions to determine and verify that PALCard purchases were properly requested, received, complied with University policy, and were appropriately managed at the department level.

IAS identified seven purchasing transactions, all relating to a single purpose, that had been charged to one employee's PALCard. IAS reviewed the provided supporting documentation and noted that in July 2020 and August 2021, a total of nearly \$2,000 worth of textbooks was purchased and shipped to the cardholder's personal, out-of-state address. Purportedly, these purchases were for the employee's professional development which the supervisor had approved.

From the supporting documentation uploaded into the Kualu Financial System (KFS), IAS could not locate the department's professional development request form nor any documentation regarding the courses being taken, where they were being offered, how they were relevant for the job, whether time would be given during work hours towards the course, or any other detail that would suggest the cost was for business purpose and use.

In IAS's discussion with the supervisor, the supervisor admitted they did not provide adequate oversight and did not perform a detailed review when they were provided the supporting documentation for the purchases, especially missing the out-of-state home address to which items were shipped. Had a thorough review been performed, the supervisor may have noticed much earlier that this employee had moved outside of California and likely would have

disapproved the purchases to a shipping address that had not been approved as a remote work address at the time of the purchases.

*Per Regents Policy 1111: Policy on Statement of Ethical Values and Standards of Ethical Conduct Section 2. Individual Responsibility and Accountability, "members of the University community are expected to exercise responsibility appropriate to their position and delegated authorities. They are responsible to each other, the University, and the University's stakeholders both for their actions and their decisions not to act. Each individual is expected to conduct the business of the University in accordance with the Core Values and the Standards of Ethical Conduct, exercising sound judgment and serving the best interests of the institution and the community."*<sup>3</sup>

To prevent unauthorized and potentially fraudulent transactions, management should establish well documented pre-approval review procedures in order to ensure proper expenditure of University funds.

---

#### **IV. CONCLUSION**

---

Based on our limited financial review of Middle Earth Housing finance and business operations, the former supervisor for Middle Earth could have maintained better controls regarding work performance, overtime justifications, and PALCard purchasing reviews.

This problematic employee for whom shipments were made to Florida is the same employee with disciplinary issues, including the unsuccessful efforts in 2020, 2021, and 2022, to not only compel this employee to sign and submit the required remote work agreement, but to also pick up a work assigned laptop for business use instead of having them use their personal, potentially unprotected, laptop.

Regarding overtime, IAS reviewed 19 occurrences but did not receive request and approval documentation from the supervisor for 12 of the 19 (63%) instances. Additionally, this employee was frequently absent, so they not only generated overtime, but also increased the workload for the rest of the unit.

The supervisor admitted that they failed to properly review nearly \$2,000 worth of textbooks that were purchased and shipped to the PALCard holder's personal address that was out-of-state. Had a thorough review been performed, the supervisor may have noticed much earlier that this employee had moved outside of California and likely would have disapproved the purchases to a shipping address that had not been approved as a remote work address at the time.

---

<sup>3</sup> "Regents Policy 1111: Policy on Statement of Ethical Values and Standards of Ethical Conduct."  
*University of California Board of Regents/Regents Policies*, University of California, March 16, 2017, [www.regents.universityofcalifornia.edu/governance/policies/1111.html](http://www.regents.universityofcalifornia.edu/governance/policies/1111.html).