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Examination of the Accounting Records of  
THE PHYSICAL PLANT SERVICE DEPARTMENT OF  
THE UNIVERSITY OF ARIZONA

July 1, 1965 to June 30, 1966

Report No. 129

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EXAMINATION OF THE ACCOUNTING RECORDS OF  
THE PHYSICAL PLANT SERVICE DEPARTMENT OF  
THE UNIVERSITY OF ARIZONA

To the Arizona Board of Regents:

We present herewith the report relating to our examination of the accounting records of the Physical Plant Service Department of the University of Arizona for the fiscal year ended June 30, 1966.

Respectfully submitted,



Marvin Stein  
Supervising Examiner

C. R. Willison  
Examiner

April 24, 1967

PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1965 TO JUNE 30, 1966

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PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1965 TO JUNE 30, 1966

Financial Position at June 30, 1966 (Exhibit A)

As of June 30, 1966 the Service Department Fund had a cash overdraft of \$344,480 in its account with the University Business Office. As shown in Exhibit A, "Statement of Financial Position," the cash overdraft and payables for expenses were more than offset by accounts receivable and work in progress at June 30, 1966. A favorable fund balance of \$23,345 existed at that date on a modified accrual basis.

The fund balance of \$23,345 at June 30, 1966 was \$2,017 more than the fund balance computed for June 30, 1965. The increase in the fund balance is the excess shop order billings over the costs charged to the Service Department in 1965-66.

Operating Results for 1965-66 (Exhibit B)

The Service Department had net income of \$2,017 in 1965-66 compared with net income of \$6,205 in 1964-65. The factors accounting for the net income in 1965-66 and 1964-65 are summarized in the following table:

	<u>1965-66</u>	<u>1964-65</u>
<u>Excess (Deficiency) of Billings over Direct Costs:</u>		
Labor	\$ (1,479)	\$ 2,525
Payroll Taxes and Insurance	2,080	3,332
Materials	<u>(2,558)</u>	<u>(2,379)</u>
<u>Total Excess (Deficiency) in Billings</u>	(1,957)	3,478
Add: 2% Admin. and Clerical Charge	<u>8,877</u>	<u>6,761</u>
<u>Available for Indirect Expenses</u>	6,920	10,239
Deduct: Indirect Expenses	<u>4,903</u>	<u>4,034</u>
<u>Net Income (Loss)</u>	<u>\$ 2,017</u>	<u>\$ 6,205</u>

Comments on the major items accounting for the net income for 1965-66 shown above appear in the paragraphs which follow:

### Labor

The \$1,479 deficiency of labor billings under cost of labor is mainly due to distribution of wages paid on Cooler Service between the Service Department Fund and the "T" Order Fund.

### Payroll Taxes and Insurance

The reason for the excess of \$2,080 in billings for payroll taxes and insurance is that the Service Department invoices this cost element on each shop order at the maximum applicable rates in effect at the beginning of each fiscal year. Actually, effective rates for F.I.C.A. contributions and state retirement usually are less than the maximum rates over any given full fiscal year.

### Materials

A deficiency of \$2,558 occurred in the total amount invoiced for materials used on shop orders over the combined cost of materials purchased specifically for shop orders and the net cost of materials used from Physical Plant Department stocks for shop order work.

The main reason for the apparent deficiency in billings for materials is that the Service Department purchased materials to replenish Physical Plant Department stocks in 1965-66 costing \$2,703 more than total materials drawn from stock in 1965-66. This was to partially reimburse the accumulated replenishment balance owed to Physical Plant by the Service Department. Taking over-replenishment into account, \$144 more was billed for directly purchased materials than indicated cost. Cash discounts on purchases are a substantial factor in causing billings to exceed costs because billings for material represent gross material costs before deduction of cash discounts.

### Administrative and Clerical Charge

The Service Department charges 2% of direct labor and materials on its invoices for shop orders to cover the indirect expenses of administrative and clerical handling. In 1965-66 this charge produced revenue totaling \$8,877, against which the Department had actual indirect expenses of only \$4,903. Thus a gain of \$3,974 was recorded on administrative and clerical charges over total indirect expenses.

### Comments on Statement of Financial Position

#### Accounts Receivable

The accounts receivable outstanding at June 30, 1966 totaled \$368,361; however, only \$8,967 remained unpaid at the time of our examination. The items comprising the presently unpaid total of \$8,967 are listed below:

<u>Date</u>	<u>Order No.</u>	<u>Billed to</u>	<u>Amount</u>	
<u>1964-65 Project Orders</u>				
3/8/64	134	Alpha Omicron Pi	\$ 78.42	
2/5/65	152	Alpha Kappa Lambda	161.52	
1/16/65	166	Delta Chi	382.98	
4/3/65	167	Beta Theta Pi	139.01	
1/22/65	170	Tau Delta Phi	138.30	
1/21/65	171	Sigma Phi Epsilon	28.56	
3/8/65	187	Tau Delta Phi	136.03	
4/3/65	193	Delta Chi	64.95	
6/30/65	197	Tau Delta Phi	202.77	
6/6/65	199	Sigma Phi Epsilon	<u>154.58</u>	\$1,487.12
<u>1965-66 Project Orders</u>				
12/18/65	232	Alpha Tau Omega	493.34	
1/28/66	234	Delta Chi	3,204.24	
1/29/66	236	Sigma Phi Epsilon	1,002.01	
1/28/66	237	Acacia	52.86	
12/18/65	240	Alpha Tau Omega	1,231.24	
12/20/65	242	Beta Theta Pi	224.26	
8/13/65	248	Beta Theta Pi	.51	
8/13/65	249	Delta Chi	33.15	
8/13/65	253	Sigma Phi Epsilon	1.53	
4/30/66	256	Tau Delta Phi	384.16	
4/30/66	264	Sigma Phi Epsilon	191.62	
6/30/66	277	Tau Delta Phi	404.03	
6/20/66	278	Zeta Beta Tau	173.05	
5/31/66	285	Junior Classical League	.35	
6/30/66	291	Beta Theta	51.05	
6/30/66	298	Sigma Phi Epsilon	<u>32.55</u>	<u>7,479.95</u>
<u>Total Accounts Receivable at Jan. 31, 1967</u>				<u>\$8,967.07</u>

Cash Overdraft with Business Office

Since the Service Department is financed solely from its billings for work done for other departments and campus organizations, there is always an overdraft in its cash account representing uncollected costs at any date. At June 30, 1966 the overdraft amounted to \$344,480. At June 30, 1965 the overdraft was \$135,140.

Physical Plant Department "T" Orders

In connection with our examination of the accounts of the Service Department, we also reviewed the accounts related to Physical Plant "T" Orders. The "T" Orders cover work done for budgeted departments. Payments for this type of work are made by budgetary transfer of the estimated cost of the work at the time the performance of the work is authorized.

Exhibit C shows that the \$6,541 balance in the "T" Order Fund at June 30, 1966 was sufficient to cover the \$6,438 unexpended balance of job authorizations but not completed at June 30, 1966.

#### Recommendations

Based upon our examination of the accounts of the Physical Plant Service Department Fund and of the "T" Order Fund, we make the following suggestion:

1. We recommend that a continued follow-up be made on uncollected Project orders covering billings to Small Group Housing Tenants which comprise almost the entire list of unpaid accounts shown in this report.

UNIVERSITY OF ARIZONA  
PHYSICAL PLANT SERVICE DEPARTMENT  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 1966 AND 1965

	<u>June 30,</u> <u>1966</u>	<u>June 30,</u> <u>1965</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Assets</u>			
Accounts Receivable	\$ 367,603	\$ 157,765	\$ 209,838
Work in Progress	<u>1,230</u>	<u>1,208</u>	<u>22</u>
<u>Total Assets</u>	<u>368,833</u>	<u>158,973</u>	<u>209,860</u>
<u>Deduct: Liabilities</u>			
Cash Overdraft with Business Office	344,480	135,140	209,340
Accounts Payable	<u>1,008</u>	<u>2,505</u>	<u>( 1,497)</u>
<u>Total Liabilities</u>	<u>345,488</u>	<u>137,645</u>	<u>207,843</u>
<u>Fund Balance, End of Fiscal Year</u>	<u>\$ 23,345</u>	<u>\$ 21,328</u>	<u>\$ 2,017</u>

## UNIVERSITY OF ARIZONA

## PHYSICAL PLANT SERVICE DEPARTMENT

## STATEMENT OF INCOME, EXPENSES AND FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 1966 AND 1965

	Year <u>1965-66</u>	Year <u>1964-65</u>	Increase (Decrease)
<u>Sales Billed</u>	\$ <u>475,429</u>	\$ <u>366,622</u>	\$ <u>108,807</u>
<u>Cost of Sales</u>			
Labor	263,588	217,901	45,687
Payroll Taxes and Insurance	18,338	13,839	4,499
Materials	<u>187,341</u>	<u>124,643</u>	<u>62,698</u>
<u>Total Cost of Sales</u>	<u>469,267</u>	<u>356,383</u>	<u>112,884</u>
<u>Excess of Billings over Costs</u>	<u>6,162</u>	<u>10,239</u>	<u>( 4,077)</u>
<u>Operating Expenses</u>			
Office Payroll	3,850	3,650	200
Payroll Taxes on Office Payroll	286	260	26
Billing Allowances	<u>9</u>	<u>124</u>	<u>( 115)</u>
<u>Total Operating Expenses</u>	<u>4,145</u>	<u>4,034</u>	<u>111</u>
<u>Net Income</u>	2,017	6,205	( 4,188)
Fund Balance, Beginning of Year	<u>21,328</u>	<u>15,123</u>	<u>6,205</u>
<u>Fund Balance, End of Year</u>	<u>\$ 23,345</u>	<u>\$ 21,328</u>	<u>\$ 2,017</u>

UNIVERSITY OF ARIZONA

PHYSICAL PLANT DEPARTMENT "T" ORDER FUND

STATEMENT OF WORK AUTHORIZATION AND EXPENSE

JULY 1, 1965 TO JUNE 30, 1966

Balance Incomplete Jobs Carried Forward June 30, 1965		\$ 2,657
Authorized Transfers to "T" Order Fund 1965-66		59,677
Net Profit recorded to June 30, 1966		<u>3,554</u>
<u>Total Fund Available</u>		<u>64,888</u>
Balance Owed for Material used from Physical Plant Stock at June 30, 1965	\$ 709	
Less: Purchases to replenish material used from Physical Plant Stock 1965-66	<u>2,489</u>	
Credit Balance in Physical Plant Stock June 30, 1966		( 1,780)
Expenditures for "T" Order Jobs 1965-66		<u>56,567</u>
<u>Total Funds Available June 30, 1966</u>		<u>6,541</u>
Balance Incomplete Jobs at June 30, 1966		<u>6,439</u>
<u>Excess Funds at June 30, 1966</u>		<u>\$ 102</u>
Balance of "T" Order Funds Business Office	\$ 6,284	
Adjustments to be made in 1965-66	<u>257</u>	
	<u>\$ 6,541</u>	