

REG 2.3:U 54 P49 /1965

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

July 1, 1964 to June 30, 1965

Report No. 118

Office of the General Examiner
for the Board of Regents of
the Universities and State College of Arizona

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

To the Board of Regents of the
Universities and State College of Arizona:

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, 1965.

Respectfully submitted,



A. B. Nettleton
General Examiner



C. R. Willison
Examiner

March 1, 1966

PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1964 TO JUNE 30, 1965

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PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1964 TO JUNE 30, 1965

Financial Position at June 30, 1965 (Exhibit A)

As of June 30, 1965 the Service Department Fund had a cash overdraft of \$135,140 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, 1965. A favorable fund balance of \$21,328 existed at that date on a modified accrual basis.

The fund balance of \$21,328 at June 30, 1965 was \$6,205 more than the fund balance computed for June 30, 1964. The increase in the fund balance is the excess shop order billings over the costs charged to the Service Department in 1964-65.

Operating Results for 1964-65 (Exhibit B)

The Service Department had net income of \$6,205 in 1964-65 compared with net income of \$14,918 in 1963-64. The factors accounting for the net income in 1964-65 and 1963-64 are summarized in the following table:

	<u>1964-65</u>	<u>1963-64</u>
<u>Excess (Deficiency) of Billings over Direct Costs:</u>		
Labor	\$ 2,525	\$ 6,296
Payroll Taxes and Insurance	3,332	2,875
Materials	<u>(2,379)</u>	<u>1,695</u>
<u>Total Excess (Deficiency) in Billings</u>	3,478	10,866
Add: 2% Admin. and Clerical Charge	<u>6,761</u>	<u>7,794</u>
<u>Available for Indirect Expenses</u>	10,239	18,660
Deduct: Indirect Expenses	<u>4,034</u>	<u>3,742</u>
<u>Net Income (Loss)</u>	<u>\$ 6,205</u>	<u>\$ 14,918</u>

Comments on the major items accounting for the net income for 1964-65 shown above appear in the paragraphs which follow.

Labor

The \$2,525 excess of labor billings over cost of labor apparently is largely offset by a deficiency of labor billings in the "T" Order fund for cooler labor. (See report section on "T" Order fund.)

Payroll Taxes and Insurance

The reason for the excess of \$3,332 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. In 1964-65 the Service Department billed payroll taxes and insurance at 7.79% of direct labor, whereas the effective rate paid for the full fiscal year 1964-65 was 6.35%. The pickup of 1.44% accounts for the total excess in billings over cost for payroll taxes and insurance.

Materials

A deficiency of \$2,379 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 1964-65 costing \$3,691 more than total materials drawn from stock in 1964-65. This was to partially reimburse the replenishment balance owed to Physical Plant accumulated in prior years. Taking over-replenishment into account, \$1,312 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 in its invoices for shop orders to cover the indirect expenses of administrative and clerical handling. In 1964-65 this charge produced revenue totaling \$6,761, against which the Department had actual indirect expenses of only \$4,034. Thus a gain of \$2,727 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, 1965 totaled \$157,765; however, only \$4,816 still remained unpaid at the time of our examination. The items comprising the presently unpaid total of \$4,816 are listed below:

<u>Date</u>	<u>Order No.</u>	<u>Billed to</u>	<u>Amount</u>	
<u>1963-64 Project Orders</u>				
10/23/63	79	Sigma Nu	\$ 37.94	
2/26/64	92	Sigma Nu	<u>4.39</u>	\$ 42.33
<u>1964-65 Project Orders</u>				
3/9/65	134	Alpha Omicron Pi	78.42	
2/5/65	152	Alpha Kappa Lambda	161.52	
7/24/64	161	Dean of Men (Damage)	7.00	
1/16/65	165	Zeta Beta Tau (Balance)	1,646.23	
1/16/65	166	Delta Chi	382.98	
4/3/65	167	Beta Theta Pi	239.01	
3/8/65	168	Alpha Tau Omega	200.27	
1/22/65	170	Tau Delta Phi	138.30	
1/21/65	171	Sigma Phi Epsilon	108.56	
1/21/65	173	Sigma Nu	32.92	
1/21/65	185	KOOL - T.V.	121.43	
3/8/65	187	Tau Delta Phi	136.03	
1/21/65	188	Alpha Tau Omega	19.21	
3/8/65	190	Alpha Omicron Pi	66.05	
4/3/65	193	Delta Chi	88.84	
3/8/65	194	Alpha Kappa Lambda	11.86	
5/14/65	195	A.F.R.O.T.C.	5.49	
6/30/65	197	Tau Delta Phi	202.77	
6/6/65	199	Sigma Phi Epsilon	154.58	
6/6/65	215	Delta Tau Delta	30.19	
6/6/65	217	Delta Chi	76.11	
6/6/65	221	Alpha Tau Omega	76.37	
6/15/65	230	Flash Dist. Inc. (Shindig)	<u>745.83</u>	4,729.97
<u>1964-65 Shop Orders</u>				
2/24/65	S-2327	Business Office (In dispute)		<u>43.72</u>
<u>Total Accounts Receivable at Jan. 31, 1966</u>				<u>\$ 4,816.02</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, 1965 the overdraft amounted to \$135,140. At June 30, 1964 the overdraft was \$178,579.

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. Payment for this type of work is 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 \$6,920 balance in the "T" Order Fund at June 30, 1965 was ample to cover the \$2,657 unexpended balance of job authorizations not completed at June 30, 1965 and to replenish Physical Plant Department material stocks for the balance of \$709 owed for such material at June 30, 1965. However, the actual fund balance was \$2,783 less at June 30, 1965 than it should have been in order to include the full indicated net profit on all jobs completed to June 30, 1965. This \$2,783 deficiency was caused by expenditures, primarily for labor, charged to the "T" Order Fund in excess of the costs recorded on the job cost sheets in 1963-64 and 1964-65. We believe that the unfavorable labor variance in the "T" Order Fund is related to and offset by the favorable labor variance in the Service Department Fund. This could easily have been caused by incorrect distribution of cooler labor costs between the two funds.

Exhibit D shows the amount of "T" Order authorizations in 1964-65, the costs expended, the unexpended balance of authorizations at June 30, 1965, and the net gain on authorizations completed in 1964-65.

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 suggestions:

1. The Service Department Fund has a balance of \$21,328 at June 30, 1965. It appears that up to \$15,000 of this could conservatively be used to purchase materials for Physical Plant Department stocks in 1965-66.
2. The "T" Order Fund has a balance of \$6,920 at June 30, 1965, which is \$4,263 more than the amount unexpended on work authorizations not completed at that date. Up to \$1,500 could be used conservatively from this fund to replenish Physical Plant Department material stocks in 1965-66.
3. We recommend that more prompt follow-up should be made to collect for work done for tenants of the Small Group Housing Project. Unpaid bills against the tenants of the Project comprise almost the entire list of unpaid accounts receivable shown in this report.

University of Arizona
PHYSICAL PLANT SERVICE DEPARTMENT
Statement of Financial Position
June 30, 1965 and 1964

	<u>June 30,</u> <u>1965</u>	<u>June 30,</u> <u>1964</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Assets</u>			
Accounts Receivable	\$ 157,765	\$ 194,022	\$(36,257)
Work in Progress	<u>1,208</u>	<u>82</u>	<u>1,126</u>
<u>Total Assets</u>	<u>158,973</u>	<u>194,104</u>	<u>(35,131)</u>
<u>Deduct: Liabilities</u>			
Cash Overdraft with Business Office	135,140	178,579	(43,439)
Accounts Payable	2,505	394	2,111
Accrued Wages	<u>-0-</u>	<u>8</u>	<u>(8)</u>
<u>Total Liabilities</u>	<u>137,645</u>	<u>178,981</u>	<u>(41,336)</u>
<u>Fund Balance, End of Year</u>	<u>\$ 21,328</u>	<u>\$ 15,123</u>	<u>\$ 6,205</u>

University of Arizona
PHYSICAL PLANT SERVICE DEPARTMENT
Statement of Income, Expenses, and Fund Balance
For the Years Ended June 30, 1965 and 1964

	<u>Year</u> <u>1964-65</u>	<u>Year</u> <u>1963-64</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Sales Billed</u>	\$ 366,622	\$ 420,224	\$(53,602)
<u>Cost of Sales</u>			
Labor	217,901	246,691	(28,790)
Payroll Taxes and Insurance	13,839	16,796	(2,957)
Materials	<u>124,643</u>	<u>138,077</u>	<u>(13,434)</u>
<u>Total Cost of Sales</u>	<u>356,383</u>	<u>401,564</u>	<u>(45,181)</u>
<u>Excess of Billings Over Costs</u>	<u>10,239</u>	<u>18,660</u>	<u>(8,421)</u>
<u>Operating Expenses</u>			
Office Payroll	3,650	3,400	250
Payroll Taxes on Office Payroll	260	242	18
Billing Allowances	<u>124</u>	<u>100</u>	<u>24</u>
<u>Total Operating Expenses</u>	<u>4,034</u>	<u>3,742</u>	<u>292</u>
<u>Net Income</u>	6,205	14,918	<u>\$(8,713)</u>
Fund Balance, Beginning of Year	<u>15,123</u>	<u>205</u>	
<u>Fund Balance, End of Year</u>	<u>\$ 21,328</u>	<u>\$ 15,123</u>	

University of Arizona
PHYSICAL PLANT DEPARTMENT "T" ORDER FUND
Statement of Indicated and Actual Fund Balances
June 30, 1965

Indicated Fund Balance Consists of:

Balance Owed for Materials Used from Physical Plant Stocks to June 30, 1964		\$ 2,539
Less: Net Replenished in 1964-65		<u>1,830</u>
<u>Balance Owed for Stock Material, June 30, 1965</u>		<u>709</u>
Net Gain on Authorizations Completed to June 30, 1964	\$ 5,114	
Net Gain on Authorizations Completed in 1964-65	<u>1,223</u>	
<u>Total Net Gain on Completions to June 30, 1965</u>		6,337
Unexpended Balances on Authorizations not Completed at June 30, 1965		<u>2,657</u>
<u>Total Indicated Fund Balance, June 30, 1965</u>		9,703
Actual Fund Balance per Books, June 30, 1965		<u>6,920</u>
<u>Actual Fund Balance Less Than Indicated Balance</u>		<u>\$ 2,783</u>

Analysis of Variance Between Indicated and
Actual Fund Balances

Variance at June 30, 1964 (Ledger Charges in Excess of Recorded Costs)		\$ 982
Variations in 1964-65:		
Labor (Mostly Cooler Labor) Charged to Fund in Excess of Recorded Job Costs	\$ 1,849	
Materials	<u>(48)</u>	<u>1,801</u>
<u>Total Cumulative Variances at June 30, 1965</u>		<u>\$ 2,783</u>

University of Arizona

PHYSICAL PLANT DEPARTMENT "T" ORDER FUND

Statement of Work Authorizations and Costs

July 1, 1964 to June 30, 1965

Unexpended Balances of Authorizations		
Carried Forward, July 1, 1964		\$ 5,569
Authorizations Received in 1964-65		<u>52,923</u>
<u>Total Authorizations</u>		58,492
Recorded Costs on Authorizations Completed		
in 1964-65	\$ 54,612	
Unexpended Balances of Authorizations		
Carried Forward, June 30, 1965	<u>2,657</u>	<u>57,269</u>
<u>Net Gain on Authorizations Completed in 1964-65</u>		<u>\$ 1,223</u>