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Examination of the Accounting Records of

THE PHYSICAL PLANT SERVICE DEPARTMENT OF

THE UNIVERSITY OF ARIZONA

July 1, 1966 to June 30, 1967

Report No. 137

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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, 1967.


Marvin Stein
Supervising Examiner

Respectfully submitted,

C. R. Willison
Examiner

February 9, 1968

PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1966 TO JUNE 30, 1967

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PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1966 TO JUNE 30, 1967

Financial Position at June 30, 1967 (Exhibit A)

As of June 30, 1967 the Service Department had a cash overdraft of \$309,090 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, 1967. A favorable fund balance of \$23,479 existed at that date on a modified accrual basis.

The fund balance of \$23,479 at June 30, 1967 was \$134 more than the fund balance computed for June 30, 1966. The increase in the fund balance is the excess of shop order billings over the costs charged to the Service Department in 1966-67.

Operating Results for 1966-67 (Exhibit B)

The Service Department had net income of \$134 in 1966-67 compared with net income of \$2,017 in 1965-66. The factors accounting for the net income in 1966-67 and 1965-66 are summarized in the following table:

	<u>1966-67</u>	<u>1965-66</u>
<u>Excess (Deficiency) of Billings Over Direct Costs:</u>		
Labor	\$ (4,152)	\$ (1,479)
Payroll Taxes and Insurance	2,015	2,080
Materials	<u>(3,643)</u>	<u>(2,558)</u>
<u>Total Excess (Deficiency) in Billings</u>	<u>(5,780)</u>	<u>(1,957)</u>
Add: 2% Administration and Clerical Charge	<u>10,662</u>	<u>8,877</u>
<u>Available for Indirect Expenses</u>	<u>4,882</u>	<u>6,920</u>
Deduct: Indirect Expenses	<u>4,748</u>	<u>4,903</u>
<u>Net Income (Loss)</u>	<u>\$ 134</u>	<u>\$ 2,017</u>

Comments on the major items accounting for the net income for 1966-67 shown above appear in the following paragraphs:

Labor

The \$4,152 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 "T" Order Fund.

Payroll Taxes and Insurance

The excess of \$2,015 in billings for payroll taxes and insurance is due to the Service Department billing 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 \$3,643 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 1966-67 costing \$2,461 more than total materials drawn from stock in 1966-67. This was to partially reimburse the accumulated replenishment balance owed to Physical Plant by the Service Department.

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 1966-67 this charge produced revenue totaling \$10,662, against which the department had actual indirect expenses of only \$4,748. Thus a gain of \$5,914 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, 1967 totaled \$324,964; however only \$18,592, including \$3,258 for insurance claims, remained unpaid at the time of our examination.

Cash Overdraft with Business Office

Since the Service Department is financed solely from its billings for work performed for other departments and campus organizations, there is always an overdraft in its cash account representing uncollected costs at any date. At June 30, 1967 the overdraft amounted to \$309,090. At June 30, 1966 the overdraft amounted to \$344,480.

Physical Plant Department "T" Orders (Exhibit C & D)

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

Exhibit D shows that the balance of \$7,657 in the "T" Order Fund at June 30, 1967 was not sufficient to cover the \$12,841 unexpended balance of projects authorized but not completed at June 30, 1967. The fund deficiency was caused by excess purchases made for the replenishment of Physical Plant stock in 1965-66 and 1966-67. The stock deficit will be recovered in 1967-68 by using materials as needed from Physical Plant stock until the existing credit balance of \$5,334 in the stock account has been used.

Exhibit A

UNIVERSITY OF ARIZONA
PHYSICAL PLANT SERVICE DEPARTMENT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1967 AND 1966

	<u>June 30,</u> <u>1967</u>	<u>June 30,</u> <u>1966</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Assets</u>			
Accounts Receivable	\$ 324,964	\$ 367,603	\$(42,639)
Work in Progress	<u>8,622</u>	<u>1,230</u>	<u>7,392</u>
<u>Total Assets</u>	<u>333,586</u>	<u>368,833</u>	<u>(35,247)</u>
<u>Deduct: Liabilities</u>			
Cash Overdraft with Business Office	309,090	344,480	(35,390)
Accounts Payable	<u>1,017</u>	<u>1,008</u>	<u>9</u>
<u>Total Liabilities</u>	<u>310,107</u>	<u>345,488</u>	<u>(35,381)</u>
<u>Fund Balance, End of Fiscal Year</u>	<u>\$ 23,479</u>	<u>\$ 23,345</u>	<u>\$ 134</u>

Exhibit B

UNIVERSITY OF ARIZONA
PHYSICAL PLANT SERVICE DEPARTMENT
STATEMENT OF INCOME, EXPENSES AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1967 AND 1966

	<u>Year</u> <u>1966-67</u>	<u>Year</u> <u>1965-66</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Sales Billed</u>	\$ 580,199	\$ 476,187	\$ 104,012
<u>Cost of Sales</u>			
Labor	363,219	263,588	99,631
Payroll Taxes and Insurance	27,712	18,338	9,374
Materials	<u>184,386</u>	<u>187,341</u>	<u>(2,955)</u>
<u>Total Cost of Sales</u>	<u>575,317</u>	<u>469,267</u>	<u>106,050</u>
<u>Excess of Billings Over Costs</u>	<u>4,882</u>	<u>6,920</u>	<u>(2,038)</u>
<u>Operating Expenses</u>			
Office Payroll	4,325	3,850	475
Payroll Taxes on Office Payroll	370	286	84
Billing Allowances	<u>53</u>	<u>767</u>	<u>(714)</u>
<u>Total Operating Expenses</u>	<u>4,748</u>	<u>4,903</u>	<u>(155)</u>
<u>Net Income</u>	134	2,017	(1,883)
Fund Balance, Beginning of Year	<u>23,345</u>	<u>21,328</u>	<u>2,017</u>
<u>Fund Balance, End of Year</u>	<u>\$ 23,479</u>	<u>\$ 23,345</u>	<u>\$ 134</u>

Exhibit C

UNIVERSITY OF ARIZONA
PHYSICAL PLANT "T" ORDER FUND
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1967 AND 1966

	<u>June 30,</u> <u>1967</u>	<u>June 30,</u> <u>1966</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Assets</u>			
Cash Balance - Business Office	\$ 7,657	\$ 6,541	\$ 1,116
Due from Physical Plant Stock	<u>5,334</u>	<u>1,779</u>	<u>3,555</u>
<u>Total Assets</u>	<u>12,991</u>	<u>8,320</u>	<u>4,671</u>
<u>Liabilities</u>			
Incomplete Projects	<u>12,841</u>	<u>6,438</u>	<u>6,403</u>
<u>Fund Balance, End of Fiscal Year</u>	<u>\$ 150</u>	<u>\$ 1,882</u>	<u>\$(1,732)</u>

Exhibit D

UNIVERSITY OF ARIZONA
PHYSICAL PLANT DEPARTMENT "T" ORDER FUND
STATEMENT OF WORK AUTHORIZATION AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 1967 AND 1966

	Year <u>1966-67</u>	Year <u>1965-66</u>	Increase <u>(Decrease)</u>
Balance of Authorized Projects Carried Forward, Beginning of Fiscal Year	\$ 6,438	\$ 2,657	\$ 3,781
Authorized Funds Transferred for New Projects	<u>90,035</u>	<u>58,677</u>	<u>31,358</u>
<u>Total Authorized Projects</u>	96,473	61,334	35,139
Less: Balance of Authorized Projects Incomplete at End of Fiscal Year	<u>12,841</u>	<u>6,438</u>	<u>6,403</u>
<u>Total Authorized Projects Completed</u>	<u>83,632</u>	<u>54,896</u>	<u>28,736</u>
Labor	54,729	40,633	14,096
Materials Purchased	<u>34,190</u>	<u>18,373</u>	<u>15,817</u>
<u>Total Expenses</u>	<u>88,919</u>	<u>59,006</u>	<u>29,913</u>
Deficit on Completed Projects	(5,287)	(4,110)	(1,177)
Less: Due from Physical Plant for Stock Purchased in Excess of Stock Used	<u>3,555</u>	<u>2,488</u>	<u>1,067</u>
<u>Excess Cost Over Estimate on Completed Projects</u>	<u>\$(1,732)</u>	<u>\$(1,622)</u>	<u>\$(110)</u>