

Examination of the Accounting Records of

THE PHYSICAL PLANT SERVICE DEPARTMENT OF

THE UNIVERSITY OF ARIZONA

July 1, 1962 to June 30, 1963

Report No. 96

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

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, 1963.

Respectfully submitted,


Alvred B. Nettleton
General Examiner


C. R. Willison
Examiner

January 25, 1964

PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1962 TO JUNE 30, 1963

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PHYSICAL PLANT SERVICE DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1962 TO JUNE 30, 1963

Financial Position at June 30, 1963 (Exhibit A)

As of June 30, 1963 the Service Department Fund had a cash overdraft of \$189,606 in its account with the University Business Office. As shown in Exhibit A, "Statement of Financial Position," the cash overdraft and accounts payable were offset by accounts receivable and work in progress at June 30, 1963, so that a small fund balance of \$205 existed at that date on an accrual basis.

The fund balance of \$205 at June 30, 1963 was \$1,559 less than the \$1,764 fund balance computed for June 30, 1962. The decrease resulted because the shop order billings for the fiscal year 1962-63 did not recover all the costs and expenses incurred by the Service Department.

Operating Results for 1962-63 (Exhibit B)

The Service Department Fund had a net loss of \$1,559 in 1962-63, a decrease of \$496 from the net loss of \$2,055 in 1961-62.

The factors accounting for the net loss in 1962-63 and 1961-62 are summarized in the following table:

	<u>1962-63</u>	<u>1961-62</u>
<u>Excess (Deficiency) of Billings over Direct Costs:</u>		
Labor	\$ 628	\$ 110
Payroll Taxes and Insurance	493	575
Purchased Materials	(521)	(141)
Materials from Stock	<u>(1,615)</u>	<u>(547)</u>
<u>Total Excess (Deficiency) in Billings:</u>	<u>(1,015)</u>	<u>(3)</u>
Add: 2% Admin. and Clerical Charge	<u>6,356</u>	<u>4,805</u>
<u>Available for Indirect Expenses</u>	<u>5,341</u>	<u>4,802</u>
Deduct: Indirect Expenses	<u>6,900</u>	<u>6,857</u>
<u>Net Income (Loss)</u>	<u>\$(1,559)</u>	<u>\$(2,055)</u>

Comments on the major items accounting for the net loss for 1962-63 shown above appear in the paragraphs which follow:

Payroll Taxes and Insurance

The reason for the excess of \$493 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 federal old age benefit (F.I.C.A.) contributions and state retirement usually are less than maximum rates over any given full fiscal year. After an employee's earnings reach \$4,800 in the calendar year, the F.I.C.A. contributions of the employer and employee, under present law, cease for that employee for that calendar year. Also, because of turnover in employees, some of the employees working for the Service Department during any pay period are likely not to be covered under state supplemental retirement, and no employer contribution is required for them.

Materials from Stock

A deficiency of \$1,615 occurred in the total amount invoiced for materials from stock on shop orders versus the total estimated cost of materials purchased to reimburse Physical Plant Department stocks in 1962-63. This means that the Service Department purchased materials for the Physical Plant Department costing \$1,615 more than the materials recorded as drawn from that department's inventories during the year for shop order use.

Administrative and Clerical Charge

The Service Department charges 2% of direct labor and materials in its invoices for each shop order to cover the indirect expenses of administrative and clerical handling. In 1962-63 this charge produced revenue totaling \$6,356.

Indirect Expense

The principal element of indirect expense connected with the operation of the Service Department is office payroll. In 1962-63 the Physical Plant Department allocated \$5,874 of office payroll to the Service Department. In addition, \$386 was spent for necessary blank forms used for payroll time records. This allocation of payroll and supply expense was equivalent to approximately 98.5% of the total amount of administration and clerical overhead included in Service Department billings. The overhead charge earned increased in 1962-63 because of the substantial billing increase in 1962-63 compared with 1961-62.

Comments on Balance Sheet Items

Accounts Receivable

The accounts receivable as of June 30, 1963 totaled \$192,978. However, as of the date of preparation of this report only the following items amounting to \$368 remain unpaid.

<u>Project & Shop Order No.</u>	<u>Billing Date</u>	<u>Charged To</u>	<u>Amount</u>
#15	1/13/62	Sigma Nu	\$ 2.62
22	3/31/62	Sigma Nu	5.25
28	5/3/63	Tau Delta Phi	34.76
39	6/19/63	Tau Delta Phi	90.05
44	6/20/63	Gamma Alpha Chi	45.10
46	6/30/63	Tau Delta Phi	59.91
56	5/28/63	Tau Delta Phi	60.69
1039	6/30/63	Agric. Chem. & Soil	18.87
1051	12/6/62	Summer Session	51.03

Work in Progress

A small job in progress and not billed at June 30, 1963, amounted to \$5.

Cash Overdraft with Business Office

At June 30, 1963 the cash overdraft had been reduced \$5,673 from June 30, 1962.

Accounts Payable

Vendors invoices amounting to \$2,982 were unpaid as of June 30, 1963 as they had been received too late by the Business Office for payment in the fiscal year ending June 30, 1963.

Accrued Payroll

Miscellaneous payroll of \$190, accrued for services rendered prior to June 30, 1963, was paid through the Imprest Cash account after the close of business for the fiscal year.

Physical Plant Department "T" Orders

During the fiscal year 1961-62 a change was made in the procedure for handling jobs for budgeted departments of the University. Under the new procedure, work done by the Physical Plant Department for budgeted departments is not considered a Service Department activity. The estimated cost of the work is transferred from the budget of the department requesting the work, after proper authorization, to a sub-account of the Physical Plant Department budget. The new procedure eliminates the necessity of issuing invoices to budgeted departments, because payment is made by budgetary transfer.

The volume of work handled through the new "T" order procedure is indicated by the totals of the budgetary transfers made to June 30, 1963:

Fiscal Year 1961-62	\$20,283
Fiscal Year 1962-63	<u>46,095</u>
<u>Total to June 30, 1963</u>	<u>\$66,378</u>

The following summary shows our computation of the amounts of the various elements which the Business Office "T" account ledger balance should contain as of June 30, 1963:

1. Material taken from stock in 1961-62	\$ 831.02
2. Material taken from stock in 1962-63	2,803.12
3. Profit on 1961-62 jobs completed in 1961-62	951.21
4. Profit on 1961-62 jobs completed in 1962-63	351.20
5. Carry forward of incomplete 1961-62 jobs at 6/30/63	856.67
6. Profit on 1962-63 jobs completed in 1962-63	238.10
7. Carry forward of incomplete 1962-63 jobs at 6/30/63	<u>9,795.61</u>
<u>Total Which Should be Available</u>	<u><u>\$15,826.93</u></u>

The Business Office ledger summarized shows the "T" account actual balance to consist of:

Balance forward July 1, 1962	\$ 7,060.51
1962-63 Audit Adjustments for 1961-62 transfers	35.00
1962-63 Transfers for 1961-62 "T" Orders	40.00
1962-63 Transfers for 1962-63 "T" Orders	<u>46,095.23</u>
<u>Total Available</u>	<u>53,230.74</u>
Deduct:	
1962-63 Expenditures for all "T" jobs	37,508.50
1962-63 Open Encumbrances	<u>2,551.22</u>
<u>Balance 6/30/63, per Ledger</u>	<u>13,171.02</u>
Add back Outstanding Encumbrances	<u>2,551.22</u>
<u>Balance Available including Encumbrances</u>	<u><u>\$15,722.24</u></u>
 <u>Difference</u>	 <u><u>\$ 104.69</u></u>

The analysis of the "T" order account as of June 30, 1963 shows sufficient funds to be available for payment of incompleted work. Furthermore, the amount of \$5,070, computed as follows, is available for use to purchase materials for replenishment of physical plant inventories and to maintain a contingency reserve within the "T" order fund:

Material taken from stock in 1961-62	\$ 831.02
Material taken from stock in 1962-63	2,803.12
Profit on 1961-62 jobs completed in 1961-62	951.21
Profit on 1961-62 jobs completed in 1962-63	351.20
Profit on 1962-63 jobs completed in 1962-63	<u>238.10</u>
<u>Sub-total</u>	<u>\$5,174.65</u>
Less: Difference in total which should be available and in total actually available	<u>104.69</u>
<u>Net Available</u>	<u><u>\$5,069.96</u></u>

Recommendations

In view of the very low fund balance (\$205) in the Service Department Fund as of June 30, 1963, we recommend that no materials be purchased from this fund to replenish Physical Plant Department inventories in the remaining months of the fiscal year 1963-64. Instead, such purchases should be made from "T" orders funds in an amount of approximately \$3,600, which is the approximate amount of material taken from Physical Plant Department stocks. This would leave a contingency reserve in the "T" account of approximately \$1,500.

Exhibit A

UNIVERSITY OF ARIZONA
PHYSICAL PLANT SERVICE DEPARTMENT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1963 AND 1962

	<u>June 30,</u> <u>1963</u>	<u>June 30,</u> <u>1962</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Assets</u>			
Accounts Receivable	\$ 192,978	\$ 194,897	\$(1,919)
Work in Progress	<u>5</u>	<u>3,037</u>	<u>(3,032)</u>
<u>Total Assets</u>	<u>192,983</u>	<u>197,934</u>	<u>(4,951)</u>
<u>Deduct: Liabilities</u>			
Cash Overdraft with Business Office	189,606	195,279	(5,673)
Accounts Payable	2,982	891	2,091
Accrued Payroll	<u>190</u>	<u>-0-</u>	<u>190</u>
<u>Total Liabilities</u>	<u>192,778</u>	<u>196,170</u>	<u>(3,392)</u>
<u>Fund Balance, End of Year</u>	<u>\$ 205</u>	<u>\$ 1,764</u>	<u>\$(1,559)</u>

UNIVERSITY OF ARIZONA
PHYSICAL PLANT SERVICE DEPARTMENT
STATEMENT OF INCOME, EXPENSES AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1963 AND 1962

	<u>Year</u> <u>1962-63</u>	<u>Year</u> <u>1961-62</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Sales Billed</u>	<u>\$ 342,609</u>	<u>\$ 260,383</u>	<u>\$ 82,226</u>
<u>Cost of Sales</u>			
Labor	221,174	166,213	54,961
Payroll Taxes and Insurance	15,675	11,551	4,124
Materials	<u>100,419</u>	<u>77,817</u>	<u>22,602</u>
<u>Total Cost of Sales</u>	<u>337,268</u>	<u>255,581</u>	<u>81,687</u>
<u>Excess of Billings over Costs</u>	<u>5,341</u>	<u>4,802</u>	<u>539</u>
<u>Operating Expenses</u>			
Office Payroll	5,874	6,395	(521)
Office Supplies	386	300	86
Billing Allowances	<u>640</u>	<u>162</u>	<u>478</u>
<u>Total Operating Expenses</u>	<u>6,900</u>	<u>6,857</u>	<u>43</u>
<u>Net Income (Loss)</u>	<u>(1,559)</u>	<u>(2,055)</u>	<u>496</u>
<u>Fund Balance, Beginning of Year</u>	<u>1,764</u>	<u>3,819</u>	<u>(2,055)</u>
<u>Fund Balance, End of Year</u>	<u>\$ 205</u>	<u>\$ 1,764</u>	<u>\$(1,559)</u>