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Examination of Cash and Securities

UNIVERSITY OF ARIZONA

as of March 31, 1958

Report No. 40

Office of the General Examiner
for the Board of Regents of
the University and State Colleges of Arizona

EXAMINATION OF CASH AND SECURITIES

AT THE UNIVERSITY OF ARIZONA

To the Board of Regents of the
University and State Colleges of Arizona

A report covering the examination of cash on hand and in banks, student loans receivable, and securities owned at the University of Arizona as of March 31, 1958 is submitted herewith.

The scope of this examination was similar to that of annual examinations of this area of the accounts made in preceding years.

A summary of recommendations is presented in the opening section of the report.

Respectfully submitted,

Alvred B. Nettleton
General Examiner

April 25, 1958

UNIVERSITY OF ARIZONA

EXAMINATION OF CASH AND SECURITIES

MARCH 31, 1958

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UNIVERSITY OF ARIZONA

EXAMINATION OF CASH AND SECURITIES

MARCH 31, 1958

Summary

An examination was conducted as of March 31, 1958 of cash in banks (exclusive of funds on deposit with the State Treasurer), cash on hand in various departments, student loans receivable, and securities held. The methods used to perform the examination were similar to those employed in preceding years. The scope of the examination did not include a review of the transactions giving rise to the collections and expenditures recorded in the cash and bank accounts, except for tests in limited areas such as income from securities.

Recommendations

The examination has led to several recommendations. These recommendations are summarized below. The basis for them will be found in pertinent sections of the report.

1. The trustees for the various bond reserve funds should be requested to inform the University currently of all transactions in such funds, so that the University's books will reflect current balances in those funds.

2. The University Business Office should cease the procedure, recently begun, of issuing payroll transfer checks in one month and recording them in the check register of the following month. This practice over-states bank balances. An alternative procedure which reflects a correct bank balance should be sought.

3. Balances on deposit with the Valley National Bank and the Bank of Douglas are now large enough to require the pledge of additional securities by those banks.

4. The pledge account maintained by the Bank of Douglas with the Banker's Trust Company, New York, combines in one account securities pledged to secure deposits of the University of Arizona and Arizona State College at Tempe. This results in confusion over how much is pledged to each institution. The Bank of Douglas should be asked to maintain separate pledge accounts for each institution.

5. Checks cashed by the Student Union Director's office for accommodation should be endorsed when cashed.

6. Use of a cash register (a used one would serve the purpose) in the Bureau of Mines would save time and afford a better control of cash received than present manual methods.

Cash in Banks

Deposit Balances

Total cash in banks as of March 31, 1958 per audit amounted to $1,700,234.04. Exhibits A and B show the individual University account balances comprising this total. A breakdown by banks may be of interest and is as follows:

Valley National Bank, University Office	$ 59,481.16	
Valley National Bank, Downtown Office (Bond Reserves)	25,267.12	
Valley National Bank, Phoenix, Trust Dept., (Bond Reserves)	53,523.63	
Valley National Bank, Globe (Field School)	922.48	$ 139,194.39
Bank of Douglas, Stone Ave. Office		990,841.88
Southern Arizona Bank and Trust Co.	$ 209,759.62	
Southern Arizona Bank and Trust Co., Trust Dept., (Construction and Bond Reserves)	348,720.41	558,480.03
First National Bank, Prescott (Bond Reserves)		9,272.74
Chase Manhattan Bank (Bond Coupon Acct.)		120.00
American National Bank and Trust Co., Chicago (Bond Coupon Acct.)		2,325.00
Total Cash in Banks		$ 1,700,234.04

Reconciliation of Balances per Banks with Balances per Books

In addition to the usual reconciliation adjustments between balances per bank and balances per books (deposits in transit, outstanding checks, etc.), it was necessary to reflect other adjustments in order to arrive at current balances for audit purposes. Mainly these other adjustments represent transactions made by the Trust Departments of the Valley National Bank and the Southern Arizona Bank and Trust Company in connection with the bond reserve accounts (sinking funds and coupon accounts) managed by them. It is the practice of these banks to issue statements for this type of account only once or twice a year, or upon special request. No other formal notification of transactions completed, such as investment of reserve funds, is furnished to the customer. Therefore, during the lengthy interval between receipt of statements from these Trust Departments, the University Business Office is unable to maintain a correct current balance of the various bond reserve accounts. It seems that it would not be asking too much of these two banks for them to send monthly statements of the accounts.

A second type of unusual adjustment necessary for this audit had to be made to show checks paid by banks but not yet entered on the University of Arizona check register. Adjustments of this type were necessary in the two Treasurer, Board of Regents accounts. The reason for the procedure, recently instituted, of issuing checks in one month and recording the issuance in the following month is a technical one related to transactions with the central payroll fund in Phoenix and not needful of detailed description here. The Examiner is definitely of the opinion that the practice should be discontinued. All checks issued should be entered in the appropriate check register immediately, so that bank balances will be stated correctly and the proper expenditure accounts charged in the month in which the expenditure actually occurs.

Securities Pledged by Depository Banks

Comparison of the University's balances on deposit in the various banks with the par value of securities pledged by the respective banks to guarantee the safety of those deposits shows that two depository banks should be required to deposit additional collateral securities. Illustration of the need for additional security follows:

On March 31, 1958 the Valley National Bank showed University deposits totaling $543,476.46 exclusive of trust funds, which are secured separately. Pledged securities amounted to $500,000 at par value (market value approximately the same as par). Shortly after April 1, 1958 the total balance was reduced substantially by transfer to accounts in other banks, but the balances in the Valley National Bank build up again each month prior to transfer, and we are concerned here with maximum balances and not with average balances.

On several dates during March 1958, and again in April 1958, the balances on deposit with the Bank of Douglas exceeded one million dollars, but the par value of securities pledged by that bank is only $950,000 (market value approximately the same).

Therefore, both the Valley National Bank and the Bank of Douglas should deposit at least an additional $100,000 each in securities to properly protect the University's deposit balances.

Also, it was found that the Banker's Trust Company, New York, custodian for most of the securities pledged by the Bank of Douglas, carries securities pledged by the Bank of Douglas to secure deposits of both the University of Arizona and Arizona State College at Tempe in the same safe-keeping account. This makes it difficult to determine how much is pledged for deposits of each institution and also results in notices of changes being sent to the wrong institution. The Bank of Douglas should be requested to create separate safe-keeping accounts with Banker's Trust Company for each institution.

Cash on Hand

The examination included the verification by physical count of cash on hand in the Business Office, Student Union, Bookstore, Museum Store, and Bureau of Mines.

Business Office Imprest Cash Fund

An analysis of the Imprest Cash Fund as of March 31, 1958 appears in Exhibit C.

The cash over and short record reflected a cumulative net shortage of $441.37 at the date of the count. This compares with a cumulative net shortage of $109.31 at February 28, 1957. This indicates a net shortage of $332.06 for the thirteen month period between audits, most of which has arisen during registration periods.

Student Union

Checks of relatively small amount are cashed for accommodation of students in the Director's office. It was observed during the count of funds that cashed checks, generally made out to "cash," are not endorsed until the deposit is prepared to go to the Business Office. As a protection against loss these checks should be stamped with the Student Union's endorsement stamp at the time they are cashed.

Bureau of Mines

The preceding report on verification of cash on hand, as of February 28, 1957, commented upon means for improving control and recording of collections made in the Bureau of Mines. The same situation exists in that department now. Therefore, reference is made to the comments in the preceding report without repeating them here. The employees handling the collections are maintaining hand-posted, detailed records whereas mechanically maintained records would save time and produce better controls.

Student Loan Fund

The composition of the student loan fund at March 31, 1958 consisted of:

Cash in Bank	$ 11,817.09
Cash in Custody of Dean of Men	200.00
Investments	1,095.75
Notes Receivable	26,707.50
Total - Fund Balance	$ 39,820.34

The total of notes receivable shown above includes loans totaling $6,285.60 classified as delinquent.

Securities Owned

The inventory of securities at March 31, 1958 included securities on hand in the Business Office, in the University's safe deposit box, and in custody of trustees for bond sinking funds. The securities in the Business Office and in the safe deposit box were physically inspected during the examination and investments in custody of trustees were verified by written confirmation.

Exhibit D presents a summary of securities held at March 31, 1958. The total book value of such securities at that date was $731,553.74.

Exhibit A

University of Arizona

Cash in Banks (Exclusive of State Treasurer Deposits)

March 31, 1958

	Balance per Bank	Add Deposits in Transit	Transfers in Process	Total	Deduct Outstanding Checks	Balance per Audit	Add Other Adjustments	Balance per Books
Comptroller's Account	$ 501,262.42	$ 26,287.09	$(476,261.06)	$ 51,288.45	$ 2,577.96	$ 48,710.49		$ 43,710.49
Treasurer, Board of Regents - Local Fund	679,171.36		462,331.24	1,141,502.60	185,660.72	955,841.88	$ 20,392.86 (a)	976,234.74
Associated Students - Time Deposit	35,000.00			35,000.00		35,000.00		35,000.00
Treasurer, Board of Regents - Federal Fund	208,083.12			208,083.12	10,140.59	197,942.53	18,226.43 (a)	216,168.96
Imprest Cash Account	16,024.44		7,152.48	23,176.92	12,406.25	10,770.67	13.00 (b)	10,783.67
Student Loan Fund	5,194.75		6,777.34	11,972.09	155.00	11,817.09	200.00 (c)	12,017.09
Dormitory Construction Accounts	288,677.04			288,677.04		288,677.04		288,677.04
Bond Reserve and Fiscal Agent Accounts (Exhibit B)	150,551.86			150,551.86		150,551.86	10,894.54 (d)	161,446.40
Archaeological Field School Account	922.48			922.48		922.48	(922.48) (e)	-o-
Total Cash in Banks	$ 1,884,887.47	$ 26,287.09	$ -o-	$ 1,911,174.56	$ 210,940.52	$ 1,700,234.04	$ 48,804.35	$ 1,749,038.39

(a) Checks issued by Univ. of Arizona, and paid in March 1958 by bank, but not recorded in Univ. of Arizona check register until April 1958 in accordance with a procedure for entering payroll cover checks when payrolls are received back from the Central Payroll Dept. in Phoenix rather than the date when checks are issued.
(b) Returned checks in transit from the bank at March 31, 1958.
(c) Dean of Men's emergency loan fund included in cash in bank by Univ. of Arizona.
(d) See Exhibit B for description of these adjustments.
(e) This bank account does not appear at all on the general ledger of the Univ. of Arizona.

Exhibit B

University of Arizona
Bond Reserve and Fiscal Agent Accounts
March 31, 1958

	Balance per Bank	Adjustments	Balance per Audit	Transactions Not Yet Recorded on Books	Balance per Books
Bond Principal and Interest Funds					
Series of 1934-1937 (General Const.)	$ 2,629.07		$ 2,629.07		$ 2,629.07
Series of 1937 (Gila, Yuma, Stad. Add.)	6,153.67		6,153.67		6,153.67
Series of 1940 (Pima Hall)	490.00		490.00		490.00
Series of 1941 (Yavapai Hall)	1,255.24		1,255.24		1,255.24
Series of 1946 (E. Stad., Hopi, Papago)	24,011.88		24,011.88		24,011.88
Series of 1950 (Student Union)	4,711.12		4,711.12	$(188.25)(b)	4,522.87
Series of 1953 (Coconino Hall)	456.26		456.26	6,627.19 (a)	7,083.45
Series of 1955 (Graham, Greenlee)	30,293.37		30,293.37	18.10 (a)	30,311.47
Series of 1956 (Apache, Santa Cruz, Mohave, Manzanita)	29,750.00		29,750.00	30,250.00 (a)	60,000.00
Total Principal and Interest Funds	$ 99,750.61	-o-	$ 99,750.61	$ 36,707.04	$ 136,457.65
Bond and Coupon Paying Accounts					
Valley National Bank	$ 48,356.25		$ 48,356.25	$(25,812.50)(b)	$ 22,543.75
Chase Manhattan Bank	120.00		120.00		120.00
American National Bank and Trust Company	2,325.00		2,325.00		2,325.00
Total Bond and Coupon Paying Accounts	$ 50,801.25		$ 50,801.25	$(25,812.50)	$ 24,988.75
Total Bond Reserve and Fiscal Agent Accounts	$ 150,551.86		$ 150,551.86	$ 10,894.54	$ 161,446.40

(a) Transactions not on books as of March 31, 1958 because necessary information not received from trustees until requested by auditor after that date.

(b) Data for entries was available prior to March 31, 1958, but entries had not been made at that date.

Exhibit C

University of Arizona

Imprest Cash Fund

March 31, 1958

Fund Provided by		
Advance from State Treasurer	$ 10,000.00	
Advance from Comptroller's Bank Account	30,000.00	
Total Fund		$ 40,000.00
Unclaimed Checks Written Off		565.71
Total to be Accounted for		$ 40,565.71
Accounted for by		
Cash in Bank (Exhibit A)	$ 10,770.67	
Returned Checks in Transit	13.00	
Cash and Equivalent on Hand	7,016.51	
Reimbursement due from:		
State Treasurer	7,856.70	
Treasurer, Board of Regents Accounts	3,619.69	
Advances (a)	10,847.77	
Total Accounted for		40,124.34
Fund Short (Net Cumulative Overs and Shorts)		$ 441.37

(a) Advances consist of:

Change and Working Funds:		
Student Union Building	$ 4,880.00	
Bookstore	1,000.00	
Experimental Farms	350.00	
Others	195.00	$ 6,425.00
Travel		4,422.77
Total Advances		$ 10,847.77

Exhibit D

University of Arizona

Summary of Securities Owned

March 31, 1958

		Book Value
Endowment and Gift Funds		
U. S. Government Bonds	$ 72,500.00	
Other Bonds	21,382.31	
Stocks	201,990.87	
Participation in Trust Fund	25,007.72	
Total Endowment and Gift Funds		$ 320,880.90
Student Loan Fund		
Stocks		1,095.75
Auxiliary Enterprises		
Associated Students:		
U. S. Government Bonds (Activities)	$ 15,500.00	
U. S. Government Bonds (Bookstore)	13,000.00	
Stocks (Activities)	46,923.69	
Total Associated Students	$ 75,423.69	
Student Union:		
U. S. Government Bonds	$ 19,243.75	
Stocks	40,055.26	
Total Student Union	$ 59,299.01	
Total Auxiliary Enterprises		134,722.70
Bond Reserve Funds		
U. S. Government Bonds	$ 257,854.39 (a)	
Other Bonds	17,000.00	
Total Bond Reserve Funds		274,854.39
Total Securities Owned		$ 731,553.74

(a) Includes U. S. Government Bonds at cost of $2,000.00 held by Valley National Bank, Trustee for Series of 1950 Bond Sinking Fund and $30,015.01 held by the same bank as Trustee for Series of 1953 Bond Sinking Fund.