

# Internal Control and Compliance Assessment

## Arkansas Legislative Audit

### Arkansas Building Authority

For the Fiscal Year Ended June 30, 2014



## INTRODUCTION

This report is issued to inform the Legislative Joint Auditing Committee of compliance with state fiscal laws and regulations as well as deficiencies in internal controls for the Arkansas Building Authority. Assessment procedures disclosed no reportable items of noncompliance.

## SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Arkansas Building Authority, a department of Arkansas state government, as of and for the year ended June 30, 2014, and have issued our report dated August 31, 2015. Management of the Agency is responsible for establishing and maintaining internal controls and complying with applicable laws and regulations.

The assessment included cash on deposit, cash receipts, accounts receivable, expenditures, liabilities, capital assets, and data entry to the Arkansas Administrative Statewide Information System (AASIS). The assessment consisted principally of inquiries, observations, analytical procedures, and selected tests of internal control policies and procedures, accounting records, and other relevant documents. We relied on financial data in AASIS recorded by the Agency and audit work conducted in the fiscal year 2014 State Comprehensive Annual Financial Report (CAFR) and Single Audit Report. The methodology used in conducting this assessment was developed uniquely for this engagement and, therefore, was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

## RESULTS OF ASSESSMENT

Assessment procedures did not disclose instances of noncompliance considered reportable.

## ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

Arkansas Building Authority (ABA), formerly named Arkansas State Building Services and the Arkansas Building Authority Council, was created in 1975. ABA is divided into four sections:

- **Design Review** promotes quality design standards in all areas of state capital improvement projects.
- **Construction** provides for the bidding, awarding, and approval of capital improvement contracts once the design phase has been approved by Design Review.

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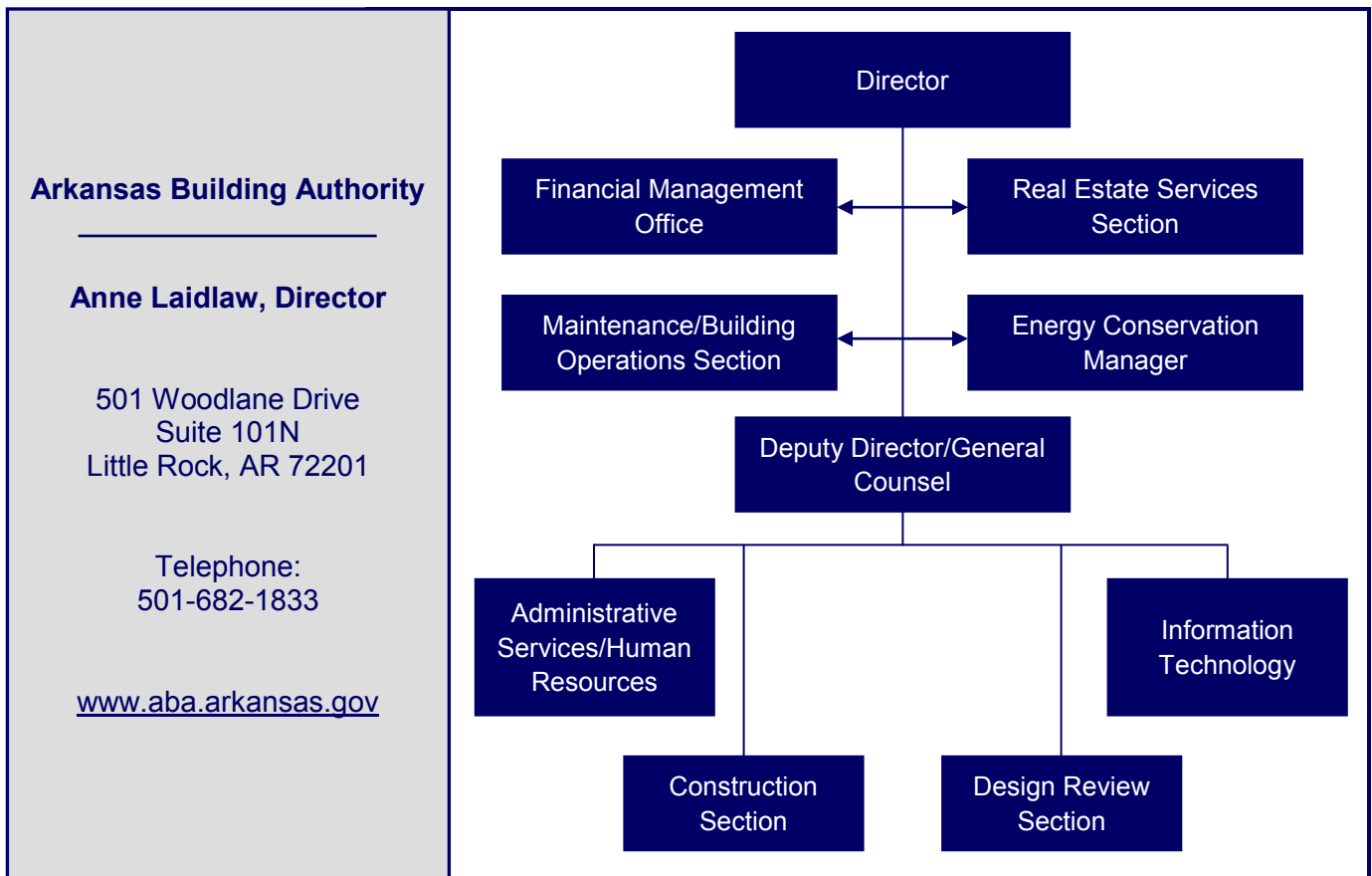
Report Date: August 31, 2015



- **Real Estate Services** acts as the “leasing agent” for state agencies for their leasing needs in public or private facilities.
- **Building Operations** provides for maintenance and operation of buildings, structures, and grounds that are owned, leased, or managed by ABA.

Exhibit I illustrates ABA’s organization structure.

Exhibit I  
Arkansas Building Authority  
Organizational Chart



Source: Arkansas Building Authority

## FISCAL ANALYSIS

### Revenues, Expenditures, and Transfers

Agency financial activity for the past five years is reflected in **Exhibit II on page 3**. The Agency’s primary source of revenues is rental income. Increases in rent revenue in 2014 include a full year of subleases of the 5 Main Building, leased from 5 Main, L.L.C. In 2013, the 5 Main property activity occurred only in the last quarter. Increases in other revenues include land sales to the Arkansas Highway and Transportation Department and increased reimbursable expenses from lessees.

Many of the expenditure categories have remained steady throughout the years, except for the amount spent for capital outlay in fiscal year 2010, when the Agency purchased the 900 West Capitol building for \$19.2 million. Increases in other expenditures in fiscal years subsequent to 2010 include additional debt service interest costs of approximately \$1.1 million annually as a result of this purchase. Increases in fiscal year 2014 other expenses include \$545,796 in utilities and rent attributable to a full year of activity at the 5 Main Building. Also included are increases of \$461,830 in repairing and servicing and \$128,857 in commodities, materials, and supplies related to significant repair and maintenance projects on several Agency properties and the demolition of the Arkansas Veterans Home.

**Exhibit II**  
**Arkansas Building Authority**  
**Revenues, Expenditures, and Transfers**  
**For the Years Ended June 30, 2010 through 2014**

	Fiscal Year				
	2014	2013	2012	2011	2010
<b>Revenues</b>					
Rental income	\$ 11,446,924	\$ 11,353,074	\$ 11,005,872	\$ 10,733,399	\$ 9,439,266
Other revenues	731,038	467,871	820,620	1,747,369	1,629,634
<b>Total Revenues</b>	<b>\$ 12,177,962</b>	<b>\$ 11,820,945</b>	<b>\$ 11,826,492</b>	<b>\$ 12,480,768</b>	<b>\$ 11,068,900</b>
<b>Expenditures</b>					
Salary expense	\$ 4,586,989	\$ 4,606,566	\$ 4,607,207	\$ 4,574,005	\$ 4,434,322
Utilities and rent	3,427,066	2,881,270	2,789,759	3,091,951	3,512,682
Capital outlay	446,773	276,022	2,046,733	2,878,004	26,682,899
Other	8,438,393	7,869,058	8,009,706	7,856,425	6,772,343
<b>Total Expenditures</b>	<b>\$ 16,899,221</b>	<b>\$ 15,632,916</b>	<b>\$ 17,453,405</b>	<b>\$ 18,400,385</b>	<b>\$ 41,402,246</b>
<b>Net Transfers (In) Out</b>	<b>\$ (3,493,794)</b>	<b>\$ (4,354,912)</b>	<b>\$ (8,074,747)</b>	<b>\$ (12,990,968)</b>	<b>\$ (32,326,852)</b>

Source: Arkansas Administrative Statewide Information System Trial Balance (unaudited by Arkansas Legislative Audit)

### **Assets and Liabilities**

Agency assets and liabilities totaled \$130.3 million and \$26.5 million, respectively, at June 30, 2014. Asset and liability balances at year-end for fiscal years 2010 through 2014 are presented in **Exhibit III on page 4**.

### **CAPITAL ASSETS**

Capital assets totaled \$104.6 million at June 30, 2014, as shown in **Exhibit IV on page 5**. Buildings, land, and land improvements comprised 97% of the Agency's capital assets at June 30, 2014.

**Exhibit III**  
**Arkansas Building Authority**  
**Assets and Liabilities**  
**For the Years Ended June 30, 2010 through 2014**

	Fiscal Year				
	2014	2013	2012	2011	2010
<b>Assets</b>					
Cash and cash equivalents	\$ 17,719,758	\$ 17,484,593	\$ 19,224,724	\$ 21,791,097	\$ 16,512,278
Prepaid bonds/loans	788,332	1,143,753	1,120,350	1,121,053	1,333,284
Capital assets	104,605,686	108,225,054	107,995,109	107,528,564	102,201,131
Other assets	7,175,732	8,051,677	6,045,049	910,392	991,620
<b>Total Assets</b>	<b>\$ 130,289,508</b>	<b>\$ 134,905,077</b>	<b>\$ 134,385,232</b>	<b>\$ 131,351,106</b>	<b>\$ 121,038,313</b>
<b>Liabilities</b>					
Capital leases payable	\$ 16,226,250	\$ 17,385,000	\$ 18,497,500	\$ 19,605,000	\$ 20,975,000
Bonds payable	8,850,000	9,380,000	9,885,000	10,370,000	10,845,000
Compensated absences payable	366,577	384,277	394,013	426,903	405,849
Other liabilities	1,086,622	471,187	682,431	519,588	1,675,217
<b>Total Liabilities</b>	<b>\$ 26,529,449</b>	<b>\$ 27,620,464</b>	<b>\$ 29,458,944</b>	<b>\$ 30,921,491</b>	<b>\$ 33,901,066</b>

*Source: Arkansas Administrative Statewide Information System Trial Balance (unaudited by Arkansas Legislative Audit)*

## TRANSFER OF ARKANSAS BUILDING AUTHORITY TO THE DEPARTMENT OF FINANCE AND ADMINISTRATION

Acts 7 and 8 of the First Extraordinary Session of 2015 transferred ABA to the Department of Finance and Administration (DFA) effective July 1, 2015, creating the Building Authority Division of DFA. These Acts direct the Arkansas Building Authority Council to provide advice to the Director of DFA to carry out the powers, purposes, and authority of the Building Authority Division of DFA.

**Exhibit IV**  
**Arkansas Building Authority**  
**Schedule of Capital Assets**  
**For the Year Ended June 30, 2014**

<b>Buildings</b>	<b>Fiscal Year 2014</b>
Multi-Agency Complex (MAC)	\$ 20,422,309
900 West Capitol	18,919,523
Justice Building West	8,208,483
#1 Natural Resources	8,120,426
Crime Lab	6,549,775
Aegon/Arkansas Building Authority Building	6,386,414
Main Street Building	5,427,921
Justice Building East	4,601,234
616 Garrison - Fort Smith	4,016,380
Department of Finance and Administration Building	3,417,823
Supreme Court Rotunda	2,611,808
1000 Center Building	2,507,710
1515 Building	1,448,733
Arkansas Building Authority Maintenance Building	100,747
410 Battery Building	87,500
<b>Total Buildings</b>	<b>92,826,786</b>
<b>Land</b>	
	<b>Fiscal Year 2014</b>
Capitol Grounds	\$ 1,805,066
Natural Resources Complex	875,000
Aegon Building	842,000
900 West Capitol	690,000
Department of Finance and Administration Building	525,000
1515 Building Parking	400,000
Lots 24 and 25 of south side of Garrison Avenue Addition - Fort Smith	300,062
Other	651,828
<b>Total Land</b>	<b>6,088,956</b>
<b>Land Improvements</b>	
	<b>Fiscal Year 2014</b>
Big MAC parking lot enhancements	\$ 744,440
Natural Resources Complex land improvements	686,064
Capitol grounds improvements	470,027
Land improvements, boulevard area (Capitol Mall)	224,611
Land improvements, bowl area (parking between Justice and Ledbetter Buildings)	198,651
Other	443,023
<b>Total Land Improvements</b>	<b>2,766,816</b>
<b>Total Equipment</b>	
	<b>2,521,958</b>
<b>Total Assets Under Construction, Infrastructure, and Intangible Assets</b>	
	<b>401,170</b>
<b>Total Capital Assets</b>	
	<b>\$ 104,605,686</b>

Source: Arkansas Administrative Statewide Information System Trial Balance (unaudited by Arkansas Legislative Audit)

