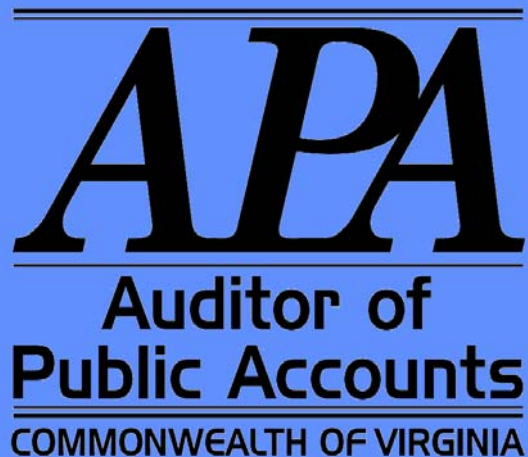


DEPARTMENT OF HISTORIC RESOURCES

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2006 AND JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Department of Historic Resources, for the fiscal years ended June 30, 2006 and 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- one matter involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

While Historic Resources maintains a certain level of security over information technology systems and data and has improved many aspects of their Information Technology Security Program that were cited as deficient in the Review of Information Security in the Commonwealth performed in the fall of 2006, Historic Resources has not developed or adopted all of the policies and procedures needed to complete their Information Technology Security Program. Some aspects of their program are the responsibility of the Virginia Information Technology Agency (VITA) and Northrop Grumman Infrastructure Partnership and Historic Resources will continue to need to work with VITA to ensure those areas are appropriately addressed. Considering the size and resources of the department, Historic Resources may want to work with the Department of Accounts' Accounting and Internal Control Compliance Oversight section to achieve an adequate information security program.

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FINDINGS AND RECOMMENDATIONS

Complete Information Security Program

The Department of Historic Resources (Historic Resources) does not have a complete Information Technology (IT) Security Program that meets the minimum requirements outlined in the Commonwealth's Information Technology Security Standard. While Historic Resources maintains a certain level of security over IT systems and data and has improved most aspects of their IT Security Program that were cited as deficient in the Review of Information Security in the Commonwealth performed in the fall of 2006, Historic Resources has not developed all of the policies and procedures needed to complete their IT Security Program.

Over the past four years, the Commonwealth has moved the information technology infrastructure supporting individual agency information technology systems and databases to the Virginia Information Technologies Agency (VITA), who has an Information Technology Partnership with Northrop Grumman to support the infrastructure. In this environment, VITA and Historic Resources share responsibility for the security of the department's information technology assets, systems, and information and must provide mutual assurance of this safeguarding. While VITA has provided Historic Resources with a letter of assurance that the infrastructure is properly secured, without a complete information security program, the assurance and services provided by VITA may not meet the actual needs of Historic Resources information technology systems and databases.

Management should complete their information technology security program by developing and adopting the remaining policies and procedures needed to meet all aspects of the Commonwealth's information technology security standards. Once developed, the expectations generated by the program regarding Historic Resources' information technology infrastructure should be communicated to VITA so they can execute them.

Considering the size and resources of the department, Historic Resources may want to work with the Department of Accounts (Accounts) to achieve an adequate information security program. The Governor's Executive Budget currently provides Accounts with two positions within its Accounting and Internal Control Compliance Oversight section to provide support and assistance to smaller agencies to help them comply with the Commonwealth's information technology security standards.

Improve Employment Eligibility Verification Process

Agency supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. The guidance requires the employee to complete, sign, and date the form on the first day of employment. In our sample of I-9 forms completed during fiscal years 2006 and 2007, we found one employee had left blank their beginning employment date, thus we could not determine whether the information was signed by the employee's first day of work.

The Human Resources Division should review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes it critical for the agency to have a good process in place to complete I-9 forms.

AGENCY HIGHLIGHTS

The Department of Historic Resources' mission is to foster, encourage, and support the stewardship of Virginia's significant historic, architectural, archaeological, and cultural resources. Historic Resources also establishes and maintains a permanent record of those resources and makes those records and artifacts accessible to support historic preservation and education. Finally, Historic Resources administers grants to local governments, museums, historic sites, and other non-state entities under the Financial Assistance for Cultural and Artistic Affairs and Financial Assistances for Historic Preservation, and Historic Resource Management Programs.

The Governor appoints the Historic Resources' director, who serves as the State Historic Preservation Officer for the purposes of carrying out the federal National Historic Preservation Act of 1966, as amended in 1980. The State Review Board and the Board of Historic Resources exist to advise the director in certain program areas. The Board of Historic Resources also designates state landmarks, approves historical markers, and accepts preservation easements on properties.

Financial Information

The Governor and the General Assembly award grants to support historic and non-historic activities operated by variety of organizations across the Commonwealth under the Financial Assistance for Cultural and Artistic Affairs program. Historic Resources administers centrally appropriated grants under the Financial Assistance for Cultural and Artistic Affairs and for Historic Preservation programs. Funding for these grants varies on the availability of discretionary funds in the Commonwealth's overall budget. Historic Resources anticipates the level of discretionary funds will decline in near future due to the down turn of the economy.

The following table highlights budgetary and actual expense activity for the Financial Assistance for Cultural and Artistic Affairs and Financial Assistance for Historic Preservation grant programs for the periods ending June 30, 2006 and 2007. The fiscal year 2007 final budget increased from the original budget, due to the carry forward of funds appropriated but not spent in fiscal year 2006. Actual expenses for the grant programs are consistently less than the final budget due to the nature of the grants administered through them. Historic Resources awards these grants to entities that must obtain matching funds, before receiving the State funding. These entities usually need the entire two-year period they have to collect their matching funds, causing actual expenses to be less than the final budget.

Analysis of Budget to Actual Expenses by Grant Program

Program (Program Number)	2006			2007		
	Original Budget	Final Budget	Actual Expenses	Original Budget	Final Budget	Actual Expenses
Financial Assistance for Cultural and Artistic Affairs (14300)	\$34,119,749	\$27,907,899	\$22,195,949	\$36,617,219	\$36,617,219	\$33,031,215
Financial Assistance for Historic Preservation (50204)	<u>64,140</u>	<u>6,289,623</u>	<u>4,008,788</u>	<u>73,800</u>	<u>8,164,134</u>	<u>6,469,396</u>
Total	<u>\$34,183,889</u>	<u>\$34,197,522</u>	<u>\$26,204,737</u>	<u>\$36,691,019</u>	<u>\$44,781,353</u>	<u>\$39,500,611</u>

Source: Commonwealth Accounting and Reporting System

The final table highlights budgetary and actual expense activity for Historic Resources' other operating activities, by program, for the periods ending June 30, 2006, and 2007. The table reflects an increase in budget and actual expenses between the two fiscal years for the Historic Resource Management program due to increased funding being provided for several grant programs. On the other hand, the budget and actual expenses for the Administrative Support Services program have remained relatively stable over the same period.

Analysis of Budget to Actual Expenses by Operating Program

Program (Program Number)	2006			2007		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Historic Resource Management (50205)	\$ 3,039,627	\$ 3,827,952	\$ 3,552,703	\$ 4,903,087	\$ 5,500,152	\$ 5,028,881
Administrative and Support Services (51900/59900)	<u>1,190,062</u>	<u>1,690,043</u>	<u>1,651,430</u>	<u>898,837</u>	<u>1,678,633</u>	<u>1,450,730</u>
	<u>\$ 4,229,689</u>	<u>\$ 5,517,995</u>	<u>\$ 5,204,133</u>	<u>\$ 5,801,924</u>	<u>\$ 7,178,785</u>	<u>\$ 6,479,611</u>

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

May 19, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the Department of Historic Resources for the years ended June 30, 2006, and 2007. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department of Historic Resources' internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Department of Historic Resources' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- I-9 compliance
- Information technology security
- Payroll expenses
- Transfer payments

Our audit did not include the management of agency owned vehicles or state travel charge cards, which we audited previously and reported out in the Statewide Review of Agency Owned Vehicles and State Travel Charge Card Program reports.

We performed audit tests to determine whether the Department of Historic Resources' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records and contracts, and observation of the Department of Historic Resources' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department of Historic Resources properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department of Historic Resources records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Findings and Recommendations."

Exit Conference And Report Distribution

We discussed this report with management on June 23, 2008. Management concurred with our findings and elected not to provide a written response to this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JBS/wdh

DEPARTMENT OF HISTORIC RESOURCES

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Director

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