

**DEPARTMENT OF HISTORIC RESOURCES**

**REPORT ON AUDIT  
FOR THE YEARS ENDED  
JUNE 30, 2008 AND JUNE 30, 2009**



## **AUDIT SUMMARY**

Our audit of the Department of Historic Resources, for the fiscal years ending June 30, 2008 and 2009, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Since our last audit, the Department of Historic Resources has made progress in addressing weaknesses in their IT Security Program. They are currently working with the Department of Accounts' General Accounting Division to help create a comprehensive IT Security Program. In addition, they are continuing to work with the Virginia Information Technology Agency to ensure compliance with the Commonwealth standards.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
STATUS OF PRIOR YEAR FINDING	1
AGENCY HIGHLIGHTS	2-3
AUDIT OBJECTIVES	4
AUDIT SCOPE AND METHODOLOGY	4-5
CONCLUSIONS	5
EXIT CONFERENCE AND REPORT DISTRIBUTION	5
AGENCY OFFICIALS	6

## STATUS OF PRIOR YEAR FINDING

The Department of Historic Resources (Historic Resources) received one prior recommendation that remains partially unresolved. The following information provides an update on the status of this recommendation.

### Complete Information Technology (IT) Security Program

Since our last audit, Historic Resources has made progress in addressing weaknesses in their IT Security Program. Historic Resources has implemented a security awareness training program, improved their firewall, and installed a virtual private network. They are also actively working with the Virginia Information Technologies Agency to implement a digital backup system, relocate their servers, and create a Disaster Recovery Plan.

In addition, Historic Resources is currently working with the Department of Accounts' General Accounting Division to help create a comprehensive IT Security Program. The General Accounting Division has staff to provide support and assistance to smaller agencies to help them comply with the Commonwealth's information technology security standards.

Although Historic Resources has made progress towards a complete IT Security Program, they still do not meet the minimum requirements outlined in the Commonwealth's Information Technology Security Standard. Historic Resources should continue to work with Virginia Information Technologies Agency/Northrop Grumman and the Department of Accounts to ensure compliance with Commonwealth standards.

## 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 establishes and maintains a permanent record of those resources and makes those records and artifacts accessible to support historic preservation and education. Historic Resources also administers grants to local governments, museums, historic sites, and other non-state entities under the Financial Assistance for Educational, Cultural, Community, and Artistic Affairs and the Financial Assistances for Historic Preservation programs. Finally, Historic Resources help educate, inform, and advise the public, community and economic leaders and the citizens about the public benefits of heritage stewardship through Historic Resource Management Programs.

The Governor appoints 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 museums and historic sites operated by a variety of organizations across the Commonwealth. Historic Resources administers the centrally appropriated grants under two programs.

- Financial Assistance for Educational, Cultural, Community, and Artistic Affairs
- Financial Assistance for Historic Preservation

Funding for these grants varies on the availability of discretionary funds in the Commonwealth's overall budget and recent economic conditions have resulted in a significant decline in these discretionary funds. The following table highlights budgetary and actual expense activity for the Financial Assistance for Educational, Cultural, Community, and Artistic Affairs and the Financial Assistance for Historic Preservation grant programs for the periods ending June 30, 2008 and 2009.

The increases in the final budgets for the Financial Assistance for Educational, Cultural, Community, and Artistic Affairs program are a result of a mandatory reappropriation of the remaining prior year non-state grant funds. The decrease in expenses between 2008 and 2009 reflect the lack of available funding.

The Financial Assistance for Historic Preservation budget increase between 2008 and 2009 is a result of a transfer of General funds for grants to non-state entities. The increase results from the mandatory reappropriation of the prior year's funds.

Analysis of Budget to Actual Expenses by Grant Program

Program (Program Number)	2008			2009		
	Original Budget	Final Budget	Actual Expenses	Original Budget	Final Budget	Actual Expenses
Financial Assistance for Educational, Cultural, Community, and Artistic Affairs (14300)	\$ -	\$24,655,925	\$21,873,333	\$ -	\$2,627,716	\$2,387,716
Financial Assistance for Historic Preservation (50204)	<u>188,318</u>	<u>6,488,126</u>	<u>5,661,040</u>	<u>5,839,894</u>	<u>6,571,865</u>	<u>3,323,911</u>
Total	<u>\$188,318</u>	<u>\$31,144,051</u>	<u>\$27,534,373</u>	<u>\$5,839,894</u>	<u>\$9,199,581</u>	<u>\$5,711,627</u>

The final table highlights budgetary and actual expense activity for Historic Resources' other operating activity, by program, for the periods ending June 30, 2008 and 2009. The budget and actual expenses for both programs remain relatively stable over the audited period.

Analysis of Budget to Actual Expenses by Operating Program

Program (Program Number)	2008			2009		
	Original Budget	Final Budget	Actual Expenses	Original Budget	Final Budget	Actual Expenses
Historic Resource Management (50205)	\$4,576,854	\$5,523,192	\$5,105,371	\$4,475,907	\$4,916,936	\$4,290,895
Administrative and Support Services (59900)	<u>899,079</u>	<u>799,140</u>	<u>683,226</u>	<u>952,744</u>	<u>797,691</u>	<u>628,687</u>
Total	<u>\$5,475,933</u>	<u>\$6,322,332</u>	<u>\$5,788,597</u>	<u>\$5,428,651</u>	<u>\$5,714,627</u>	<u>\$4,919,582</u>



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

March 8, 2009

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Department of Historic Resources** for the fiscal years ended June 30, 2008 and 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 in the Commonwealth Accounting and Reporting System, review the adequacy of Historic Resources' internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

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 significance and 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.

Transfer Payments  
I-9 Compliance  
Information Systems Security

Revenues and Expenses  
Appropriations

We performed audit tests to determine whether 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 and records, and observation of Historic Resources' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that Historic Resources properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. 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 no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Historic Resources has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter with one exception. This exception is described in the section entitled, "Status of Prior Year Finding".

### Exit Conference and Report Distribution

We discussed this report with management on March 18, 2010.

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

TAS/clj



DEPARTMENT OF HISTORIC RESOURCES  
As of June 30, 2009

Kathleen Kilpatrick, Director

Jamie Lewis, Director of Administration

State Review Board

Joseph D. Lahendro

Gabrielle Milan Lanier

Lauranett L. Lee

John D. Metz

Elizabeth A. Moore

James E. Wootton

Virginia Historic Resources Board Members

Brian C. Broadus

Patrick Butler

Jeanne S. Evans

Carter L. Hudgins

Ora S. McCoy

Helen T. Murphy

Addison B. Thompson