

**DEPARTMENT OF HISTORIC RESOURCES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 1998 THROUGH
DECEMBER 31, 2000**



AUDIT SUMMARY

Our audit of the Department of Historic Resources for the period July 1, 1998 through December 31, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in the internal control; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

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May 7, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit and
Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Historic Resources** for the period July 1, 1998 through December 31, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

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

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues
Expenditures
State Grants Management

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's 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.

The Department's 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.

Our audit was more limited than would be necessary to provide assurance on the internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

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

We noted no matters involving the internal control and its operation that we considered to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

EXIT CONFERENCE

We discussed this report with management representatives at an exit conference held on May 14, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Department of Historic Resources encourages and supports the identification, evaluation, protection, preservation, and rehabilitation of significant historic, architectural, archaeological, and cultural resources. The Department also establishes and maintains a permanent record of those resources. The Department determines the eligibility of sites for recognition in the Virginia Landmarks Register and for nomination to the National Register of Historic Places. The Department also administers historic preservation programs and serves as the State Historic Preservation Office. The Governor appoints Board of Historic Resources members and the Department's director.

Working with local governments, private preservation organizations, and individuals, the Department carries out a variety of programs that encourage the preservation of Virginia's historic resources. Preservation programs include the Cost Share Program, the Threatened Sites Program, and the Historical Highway Markers Program. The Department also administers grants to non-state entities under the Cultural and Artistic Affairs Financial Assistance Program.

Cost Share Program

The Cost Share Program produces a cultural resource database for use by local governments in their comprehensive plans and for nominating sites for the National Register. The Department incorporates this information into a statewide historic resource database. Annually, localities submit projects to the Department for consideration of participation in this program. Department staff conduct the surveys of approved projects in order to identify and document properties that are significant historical resources. In fiscal years 1999 and 2000, the Department spent \$300,019 and \$283,886 for the program.

Threatened Sites Program

The Threatened Sites Program provides funds for sites of statewide significance under threat of destruction with no other sources of funding available for their preservation. Working with the Threatened Sites Committee, which is comprised of members of the archaeological community, the Department evaluates potentially eligible sites and uses funds for assessment, excavation, laboratory processing and analysis, and reporting. Whenever possible, the Department makes an effort to preserve sites, and when this is not possible, focuses on gathering information about the sites before their loss. In fiscal years 1999 and 2000, the Department spent \$72,504 and \$72,499 on this program.

Historical Highway Markers Program

The Historical Highway Marker Program erects highway markers that carry approved historical inscriptions commemorating sites, individuals, buildings, or events of statewide or national interest. The Board of Historic Resources approves the inscriptions on the markers. Federal and local governments, private organizations, and individuals fund the cost of each marker. In fiscal years 1999 and 2000, the Department spent \$98,157 and \$49,600 for this program.

Grants to Non-State Entities

The Department administers grants to non-state entities in accordance with Sections 10.1-2211 and 10.1-2212, Code of Virginia. Non-state entities include specified historical societies, foundations, museums, and associations. Funding is transferred through the Department to recipients. In fiscal years 1999 and 2000, grants passing through the Department to non-state entities totaled more than \$5 million and \$7.8 million respectively.

In fiscal year 2001, the Department began administering the Cultural and Artistic Affairs Financial Assistance Program, which was established by Chapter 1073 of the Acts of Assembly. This program provides more than \$35.9 million to certain historically significant non-state entities over the 2001-2002 biennium. For the six months ended December 31, 2000, the Department transferred more than \$19.2 million under the program.

FINANCIAL HIGHLIGHTS

In fiscal years 1999 and 2000, the Department received funding totaling \$10,736,803 and \$16,171,097, respectively. The following table shows the breakdown of funding by source.

	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>
General fund appropriations	\$ 9,581,473	\$15,013,819
Federal grants	704,252	625,848
Private gifts, grants and donations	209,216	314,817
State tax act, archives research, and curatorial fees	72,980	96,979
Other	<u>168,882</u>	<u>119,634</u>
Total	<u>\$10,736,803</u>	<u>\$16,171,097</u>

Other sources include sales and royalties from publications, copy machine fees, interest, and federal grant cost recoveries.

In fiscal years 1999 and 2000, the Department spent \$8,388,909 and \$11,920,861, respectively. The following table breaks down expenses by category.

	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>
Personal services	\$ 2,233,571	\$ 2,434,277
Contracts	692,964	575,837
Supplies and equipment	78,776	78,301
Transfer payments	5,081,312	8,581,646
Continuous charges	<u>302,286</u>	<u>250,800</u>
Total	<u>\$ 8,388,909</u>	<u>\$11,920,861</u>

Transfer payments consist primarily of grants to intergovernmental and nongovernmental organizations. Continuous charges include office space, copier rental, and utilities.