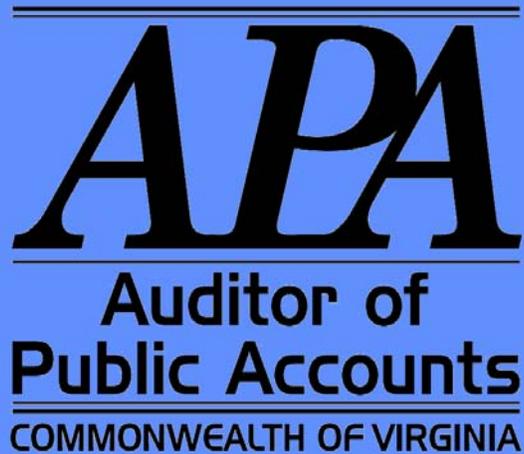


DEPARTMENT OF HISTORIC RESOURCES

**REPORT ON AUDIT
FOR THE PERIOD**

JULY 1, 2009 THROUGH JUNE 30, 2012



AUDIT SUMMARY

Our audit of the Department of Historic Resources, 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.

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AGENCY HIGHLIGHTS

The Department of Historic Resources supports the stewardship of Virginia's significant historic, architectural, archaeological, and cultural resources and establishes and maintains a permanent record of those resources, which are accessible to support historic preservation and education. Historic Resources also administers grants to local governments, museums, historic sites, and other non-state entities and helps educate the citizens about the public benefits of heritage stewardship.

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

Historic Resources administers a variety of programs that encourage the preservation of Virginia's historic resources. The majority of their expenses are pass-through grants relating to the operating or capital outlay support of entities declared as historic. Historic Resources awards these grants either by application or by specific appropriation by the General Assembly. Historic Resources also administers the state historic rehabilitation tax credit program.

Prior to 2010 Historic Resources was one of the Commonwealth's agencies that oversaw the payments of grants and other funding to Non-State Entities to operate various historic organizations. Due to the economic downturn and budget reductions the Commonwealth is no longer funding these organizations.

The Department of Historic Resources receives a majority of its funding from general fund appropriations and federal grants. The table below shows funding sources for fiscal year 2010 through 2012.

Actual Expenses by Funding Source

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General	\$4,515,304	\$3,655,446	\$6,654,351
Special Revenue	470,100	635,252	570,703
Dedicated Special Revenue	7,168	4,841	4,856
Commonwealth Transportation	100,000	100,000	100,000
Federal	<u>1,571,830</u>	<u>1,347,994</u>	<u>1,661,278</u>
Total	<u>\$6,666,414</u>	<u>\$5,745,544</u>	<u>\$8,993,198</u>

The Department of Historic Resources has seen an overall decrease in the amount of the Commonwealth's funds available for grants and has received a reduction in its administrative budget as well during the audit period. Increases in final budget and expenditure amounts result from the re-appropriation of the fiscal year 2009 balance in the Civil War Historic Site Preservation fund in fiscal year 2010, as well as an additional \$1 million appropriation from the General Fund for this purpose in fiscal year 2012. During fiscal year 2011 Historic Resources received additional federal funds for grants to "Save America's Treasures" and the "American Battlefield."

The following table highlights budgetary and actual expense activity for the Financial Assistance for Historic and Commemorative Attraction Management grant program and Historic Resources' Administrative Services for the periods ending June 30, 2010, 2011, and 2012.

Budget to Actual Expenses

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Historic and Commemorative Attraction Management			
Original Budget	\$4,512,178	\$4,655,433	\$5,507,397
Final Budget	6,636,851	7,113,866	8,949,716
Expenditures	6,054,285	5,133,757	8,414,406
 Administrative and Support Services			
Original Budget	722,082	722,082	895,544
Final Budget	739,311	666,229	657,562
Expenditures	610,117	609,775	576,782



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 7, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Historic Resources** for the years ended June 30, 2010, 2011, and 2012. 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 the Department 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

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 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.

- Revenues and Expenses (including Federal Grants)
- Contractual services expenses
- Payroll expenses
- Small purchase charge card
- Appropriations
- Information System Security

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, records, and observation 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 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.

The Department of Historic Resources has taken adequate corrective action with respect to audit findings reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management on November 26, 2012.

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

AVG:alh

DEPARTMENT OF HISTORIC RESOURCES
As of June 30, 2012

Kathleen Kilpatrick, Director

Jennifer Mayton, 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

Jeanne S. Evans

William E. Garner

Robert M. Johnson

Ora S. McCoy

Helen T. Murphy

James E. Rich

Lacy B. Ward, Jr.