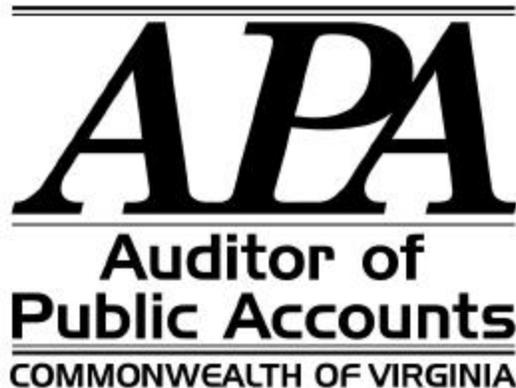


**DEPARTMENT OF HISTORIC RESOURCES  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE PERIOD  
JANUARY 1, 2001 THROUGH  
DECEMBER 31, 2002**



## **AUDIT SUMMARY**

Our audit of the Department of Historic Resources for the period January 1, 2001 through December 31, 2002, 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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## 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 as well as the Department's director and the confidential assistant.

Working with local governments, private preservation organizations, contractors 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. Finally, the Department administers grants to non-state entities under the Financial Assistance for Historic and Commemorative Attractions and the Financial Assistance for Cultural and Artistic Affairs programs. A brief description of each program follows.

### 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 potential participation in this program. Department staff and contractors conduct surveys of approved projects to identify and document properties that are significant historical resources. In fiscal years 2001 and 2002, the Department spent \$394,125 and \$223,854 for the program.

### Threatened Sites Program

The Threatened Sites Program provides funds for sites of statewide significance under threat of destruction that have 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 2001 and 2002, the Department spent \$77,987 and \$76,081 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 2001 and 2002, the Department spent \$66,887 and \$51,963 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. The Department transfers the funding to the recipients.

In fiscal year 2001, the Department began administering the Financial Assistance to Cultural and Artistic Affairs Program. This program provided more than \$35.9 million in the form of 237 individual grants to certain historically significant non-state entities over the 2001-2002 biennium. In fiscal years 2001 and 2002, grants passing through the Department to non-state entities totaled \$36.3 million and \$2.5 million respectively. The General Assembly funded the program for the 2003-2004 biennium, but at reduced levels of \$6,250,000 for 148 individual grants. For the six months ended December 31, 2002, the Department transferred \$2.1 million under the program.

Budget Reduction Effects

During the 2003 session, amendments to the state budget, if enacted, will reduce the Department’s general fund appropriations by \$395,515 in fiscal year 2003 and by \$461,611 in fiscal year 2004. Additionally, budget amendments call for a \$937,540 reduction in general fund appropriations in the Financial Assistance to Cultural and Artistic Affairs program in fiscal year 2003.

In anticipation of the budget reductions in fiscal years 2003 and 2004, the Department has proposed eliminating three positions (non-state grants manager, procurement officer, and chief deputy); eliminating clerical support in each regional office and the central office; and reducing discretionary program funding affecting the Cost Share and Threatened Sites programs. Additionally, the Department will place an increased financial burden on its non-general fund revenue to support program operations, and close the Capital Region Preservation Office in Petersburg.

To achieve the \$937,540 reduction in funding for the Financial Assistance to Cultural and Artistic Affairs program, the Department will make an across-the-board 15 percent reduction to each of the 148 individual grants.

FINANCIAL HIGHLIGHTS

In fiscal years 2001 and 2002, the Department received funding totaling \$44,472,683 and \$8,001,268, respectively. The following table shows the breakdown of funding by source.

	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
General fund appropriations	\$43,230,481	\$6,983,655
Federal grants	710,702	626,598
Private gifts, grants and donations	294,292	93,161
State Tax Act, archives research, and curatorial fees	175,544	234,498
Other	<u>61,664</u>	<u>63,356</u>
Total	<u>\$44,472,683</u>	<u>\$8,001,268</u>

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

The large decrease in appropriations between the two fiscal years reflects the budget reduction to the Financial Assistance to Cultural and Artistic Affairs Program. Funds appropriated for this program were front-loaded for award during the first year of the biennium with no additional appropriations for fiscal year 2002. This will also account for the large reduction in second year transfer payments shown in the next table.

In fiscal years 2001 and 2002, the Department spent \$40,351,173 and \$6,658,174, respectively. The following table breaks down expenses by category.

	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Personal services	\$ 2,589,756	\$ 2,322,997
Contracts	756,454	829,965
Supplies and equipment	62,490	412,401
Transfer payments	36,428,617	2,648,278
Continuous charges	513,856	428,218
Plant and improvements	<u>-</u>	<u>16,315</u>
Total	<u>\$ 40,351,173</u>	<u>\$ 6,658,174</u>

Transfer payments consist primarily of grants to intergovernmental and nongovernmental organizations for the various programs mentioned above. Continuous charges include office space, copier rental, and utilities.

February 24, 2003

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Kevin G. Miller  
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 January 1, 2001 through December 31, 2002. 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

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 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 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 and use 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 at an exit conference held on February 24, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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