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AUDIT SUMMARY

INTEGRITY ♦ RELIABILITY ♦ INDEPENDENCE ♦ ACCOUNTABILITY

NOVEMBER 2001

HISTORICAL PRESERVATION AND HERITAGE COMMISSION

PERFORMANCE AUDIT NOVEMBER 2001

We completed a performance audit of the Historical Preservation and Heritage Commission (Commission). The purpose of our audit was to determine if the Commission was operating efficiently and effectively and in compliance with applicable laws and regulations. The period covered by our audit was primarily the fiscal year ended June 30, 2001; where relevant, we extended our audit procedures to preceding fiscal years.

The Commission administers Rhode Island's only statewide historic preservation program which includes responsibility for performing the following functions:

- ❑ identifying and protecting historic buildings, districts, and archaeological sites;
- ❑ conducting statewide surveys of historic sites and buildings;
- ❑ obtaining historical preservation easements;
- ❑ accepting, researching, and processing nominations of significant properties to both the National Register of Historic Places and the State Register;
- ❑ operating several financial assistance programs, including grants, loans, and tax credits;
- ❑ reviewing federal, State, and local projects that affect historic properties;

- ❑ regulating archaeological sites located on State land and under State territorial waters;
- ❑ assisting local governments, preservation societies, and private property owners in their preservation efforts;
- ❑ providing professional advice to other State agencies about their historic buildings;
- ❑ coordinating and sponsoring programs that document, support, and celebrate Rhode Island's cultural heritage; and
- ❑ managing and collecting rental fees for the use of the Eisenhower House, a State-owned historic facility at Fort Adams in Newport that can be leased for private functions such as weddings and receptions.

The Commission receives federal funding from the Department of Interior's National Park Service. Expenditures from all sources were approximately \$1.7 million for the fiscal year ended June 30, 2001. The Commission has 17 full time employees and one part time employee.

One of the Commission's main responsibilities is the preservation of historic property. One tool that the Commission uses to preserve the integrity of *privately-owned* historic properties is the execution of historic preservation easements with property owners. Historic preservation easements restrict owners from demolishing historic property, and require the Commission's review and approval for any alterations. While easements can be effective in ensuring the preservation of historic properties, they possess inherent limitations. Term easements expire after a defined period with no mechanism for renewal. Perpetuity easements are lasting but difficult to acquire because of tax and estate planning considerations, and may require substantial cash payments by the owner. Consequently, the Commission needs to explore other innovative strategies to preserve privately-owned historic properties.

The Commission administers the *Historic Preservation Easement Fund*, which contains fees generated from donated easements. The Commission's informal policy

Audit Highlights

- The Commission needs to explore other innovative strategies to preserve privately-owned historic properties.
- The Commission should consider utilizing the services of a financial institution to underwrite loans and collect payments.

is to use interest income generated from the fund to defray staff operating costs related to administering the easement program. However, operating expenses charged to the fund have exceeded interest income by an average of \$41,834 over the past two fiscal years, which indicates the informal policy has not been followed recently. Continuation of this trend will result in depletion of the fund in approximately seven years.

The Commission also administers the *Historic Preservation Revolving Fund*, which makes loans to nonprofit organizations, individuals, and municipalities so that properties worthy of preservation can be acquired and restored. The Commission does not routinely conduct credit checks or verify financial information provided by borrowers because it lacks the resources to perform such activities. The Commission also waived the requirement for a title search on a \$15,000 loan because it believed its risk to be minimal. However, determining the creditworthiness of borrowers and conducting title searches protect the assets of the fund and should be accomplished. The Commission should consider utilizing the services of a financial institution to underwrite loans and collect payments.

During fiscal years 2000 and 2001, the Commission provided various legislative grants, survey and planning grants, and special appropriations to Heritage Harbor, Inc. The executive director of the Commission sits on the board of directors of Heritage Harbor, which gives rise to at least the appearance of a conflict of interest. This should be resolved through an advisory opinion from the Ethics Commission.

Other recommendations address such issues as grant administration, cataloging state-owned historic buildings and objects, storage of artifacts, and improving the information technology capabilities of the Commission.

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