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Carson City, Nevada

We have completed an audit of the Office of Historic Preservation. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including the finding, conclusion, recommendation, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Office of Historic Preservation for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

April 26, 2005  
Carson City, Nevada

STATE OF NEVADA  
DEPARTMENT OF CULTURAL AFFAIRS  
OFFICE OF HISTORIC PRESERVATION

AUDIT REPORT

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# EXECUTIVE SUMMARY

## DEPARTMENT OF CULTURAL AFFAIRS OFFICE OF HISTORIC PRESERVATION

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### Background

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The Office of Historic Preservation was created in 1977 and is currently within the Department of Cultural Affairs. The mission of the Office is to encourage the preservation, documentation, and use of cultural resources through state and federal programs. Office programs include distributing and managing grants, reviewing projects for federal tax credits, monitoring federal projects within the state, and preparing a comprehensive statewide historic preservation plan. In addition, the Office manages the historic marker program. The Office also prepares and maintains the State Register of Historic Places and identifies and nominates eligible properties to the National Register of Historic Places.

The Office provides assistance to state agencies, local governments, private non-profit organizations, and private citizens for historic preservation projects. In fiscal year 2004, the Office disbursed about \$292,000 of National Park Service (NPS) funds to 14 grantees. The Office also administers grants awarded by Nevada's Commission for Cultural Affairs (CCA). In fiscal year 2004, the Office administered 37 CCA grants, disbursing nearly \$1.7 million in financial assistance.

In 1993, the Legislature placed the Comstock Historic District Commission within the Office. The District encompasses portions of Storey and Lyon Counties where historic properties relating to the Comstock Lode are or were located. The Commission has one office located in Virginia City with one full-time and one part-time employee. Fiscal year 2004 expenditures were approximately \$96,000.

The Office of Historic Preservation is located in Carson City. In fiscal year 2004, the Office had seven full-time employees and total revenues and expenditures of nearly \$3 million.

## EXECUTIVE SUMMARY

### DEPARTMENT OF CULTURAL AFFAIRS OFFICE OF HISTORIC PRESERVATION

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## Purpose

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The purpose of this audit was to evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. We also determined if controls over grants management ensured compliance with applicable state and federal requirements. This audit included a review of the Office's financial and administrative activities, including grants management, for the fiscal year ended June 30, 2004.

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## Results in Brief

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The Office of Historic Preservation generally complied with state laws, regulations, policies, and procedures significant to its financial and administrative activities. However, controls over grants management can be strengthened. Additional controls are needed to ensure grantees submit progress reports in compliance with their funding agreements. Timely progress reports were not submitted on over half of the grants we reviewed. These reports facilitate the Office's review and monitoring of grant activity. Accordingly, improved compliance with established reporting requirements will help ensure preservation projects are completed as intended.

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## Principal Finding

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- Funding agreements for NPS and CCA grants require the grantee to submit quarterly progress reports during the term of the project. A progress report must also accompany each of the grantee's requests for cost reimbursement. For 7 of the 10 grants we

## EXECUTIVE SUMMARY

### DEPARTMENT OF CULTURAL AFFAIRS OFFICE OF HISTORIC PRESERVATION

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reviewed, these reports were not submitted as required. (page 7)

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## Recommendation

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This audit report contains one recommendation to strengthen controls over grants management. Specifically, the Office should implement controls to ensure grantees submit progress reports as required. (page 14)

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## Agency Response

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The Office, in its response to our report, accepted the one recommendation. (page 12)

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# Introduction

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## Background

The Office of Historic Preservation was created in 1977 within the Department of Conservation and Natural Resources. During the 1993 Legislative Session, the Office was moved under the newly created Department of Museums, Library and Arts. The Comstock Historic District was also placed within the Office at that time. During the 2001 Legislative Session, the Department of Museums, Library and Arts was renamed the Department of Cultural Affairs.

The mission of the Office is to encourage the preservation, documentation, and use of cultural resources through state and federal programs. The Office also educates the public about the importance of our cultural heritage, so that Nevada's historic and archeological properties are preserved for future generations to appreciate. According to Office records, approximately 7,500 historical structures and over 68,000 archeological sites have been recorded throughout the state.

Office programs include distributing and managing grants, reviewing projects for federal tax credits, monitoring federal projects within the state, and preparing a comprehensive statewide historic preservation plan. In addition, the Office manages the historic marker program. This program's purpose is to install, maintain, and protect registered historic markers. Office records indicate Nevada has over 250 historic markers located throughout the state. The Office also prepares and maintains the State Register of Historic Places and identifies and nominates eligible properties to the National Register of Historic Places. As of November 2004, 128 properties were listed on the State Register, and 333 Nevada properties were listed on the National Register.

The Office provides assistance to state agencies, local governments, private non-profit organizations, and private citizens for historic preservation projects. In fiscal year 2004, the Office received nearly \$680,000 from the National Park Service, U.S. Department of the Interior. Of this amount, about \$292,000 was disbursed to 14 grantees. The remaining funds were used for administrative and other direct costs incurred in carrying out the program. The Office also administers grants awarded by

Nevada's Commission for Cultural Affairs (CCA). These grants were authorized by the 1993 Legislature to preserve and protect historical buildings. They are funded by state general obligation bonds and are limited to \$2 million per year. The Office is responsible for administering, paying, and monitoring these awards. In fiscal year 2004, the Office administered 37 CCA grants, disbursing nearly \$1.7 million in financial assistance.

Additionally, the Office provides administrative services to the Comstock Historic District Commission. The Commission promotes the study and preservation of the District's cultural resources and reviews applications to construct new buildings or to change the exteriors of existing buildings. The District encompasses portions of Storey and Lyon Counties where historic properties relating to the Comstock Lode are or were located. The Commission has one office located in Virginia City with one full-time and one part-time employee. Fiscal year 2004 expenditures were approximately \$96,000.

The Office of Historic Preservation is located in Carson City. In fiscal year 2004, the Office had seven full-time employees. Exhibit 1 shows the Office's revenues and expenditures for its four budget accounts during fiscal year 2004.

**Exhibit 1**

**Office of Historic Preservation  
Revenues and Expenditures  
Fiscal Year 2004**

	<u>Historic Preservation</u>		<u>Comstock Historic District</u>		<u>Totals</u>
	<u>Administrative Account</u>	<u>Cultural Resource Program</u>	<u>Administrative Account</u>	<u>District Gifts</u>	
<b><u>Revenues</u></b>					
General Fund Appropriation	\$ 314,942	\$ -	\$103,898	\$ -	\$ 418,840
Grants <sup>(1)</sup>	715,591	-	-	-	715,591
Bond Proceeds and Interest	-	2,046,045	-	-	2,046,045
Other	93,931	-	-	-	93,931
Balance Forwards and Reversions	(9,809)	(296,510)	(7,761)	-	(314,080)
<b>Total Revenues</b>	<b>\$1,114,655</b>	<b>\$1,749,535</b>	<b>\$ 96,137</b>	<b>\$ -</b>	<b>\$2,960,327</b>
<b><u>Expenditures</u></b>					
Operating	\$ 736,747	\$ 56,931	\$ 96,137	\$ -	\$ 889,815
Grant Awards	\$ 377,908	1,692,604	-	-	2,070,512
<b>Total Expenditures</b>	<b>\$1,114,655</b>	<b>\$1,749,535</b>	<b>\$ 96,137</b>	<b>-</b>	<b>\$2,960,327</b>

Source: State Accounting System

(1) Includes grant revenue received from the National Park Service and other miscellaneous sources.

## **Scope and Objectives**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Office of Historic Preservation's financial and administrative activities, including grants management, for the fiscal year ended June 30, 2004. The objectives of the audit were to:

- Evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.
- Determine if controls over grants management ensured compliance with applicable state and federal requirements.



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## **Finding and Recommendation**

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### **Controls Over Grants Management Can Be Strengthened**

The Office of Historic Preservation generally complied with state laws, regulations, policies, and procedures significant to its financial and administrative activities. However, controls over grants management can be strengthened. Additional controls are needed to ensure grantees submit progress reports in compliance with their funding agreements. Timely progress reports were not submitted on over half of the grants we reviewed. These reports facilitate the Office's review and monitoring of grant activity. Accordingly, improved compliance with established reporting requirements will help ensure preservation projects are completed as intended.

Funding agreements for National Park Service and Commission for Cultural Affairs grants require the grantee to submit quarterly progress reports during the term of the project. A progress report must also accompany each of the grantee's requests for cost reimbursement. For 7 of the 10 grants we reviewed, these reports were not submitted as required. This problem related primarily to the quarterly reports. In most cases, we found that progress reports were submitted with the reimbursement requests. However, we noted that many of the grantees submitted reimbursement requests sporadically. As a result, significant time could elapse before the Office received a progress report.

One of the sample items we tested related to a National Park Service grant awarded to Storey County in September 2002. The grant for \$123,000 was to assist in multiple rehabilitation projects within the county. File documentation indicates progress reports were not submitted during the first year of this project. In October 2003, Office staff noted the problem and requested the missing reports, which were never received. Through subsequent conversations with the grantee, the Office found that the project was running behind schedule due to construction problems. As a result, the project was not completed on time. Had progress reports been properly submitted, these problems

might have been addressed earlier. Further, because the grant term is limited, project delays can also jeopardize the receipt of federal funding.

Progress reports provide the Office of Historic Preservation with the information necessary to monitor project implementation. Among other things, these reports identify program accomplishments, existing problems, and the overall status of a project. Because of their importance to the monitoring process, a good control system is needed to ensure they are submitted timely. By improving the enforcement of its existing reporting requirements, the Office will have better knowledge of the status of preservation projects. This will help ensure projects are completed properly and improve the overall management of the grants program.

### **Recommendation**

1. Implement controls to ensure grantees submit progress reports as required.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Office of Historic Preservation, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Office's operations. We also reviewed financial information, prior audit reports, budgets, legislative and commission minutes, and other information describing the activities of the Office. Furthermore, we documented and evaluated internal controls over revenues, expenditures, and grants management.

To determine if the Office's financial and administrative activities were carried out in accordance with applicable state laws, regulations, policies, and procedures, we selected three pay periods and verified the payroll transactions were processed correctly. We also verified that work performance standards were established, and that employees received performance evaluations. Next, we randomly selected 40 non-grant related expenditures and tested each transaction for proper recording, approval, and compliance with laws, regulations, policies, and procedures. This sample included travel and contract related expenditures, which were also tested for compliance requirements specific to those transactions. In addition, we determined if the Office had taken an annual fixed asset inventory during fiscal year 2004. We then tested the accuracy of the inventory list. Furthermore, we judgmentally selected 12 transactions from fiscal years 2003 and 2004 to verify they were recorded in the proper fiscal year. We also reviewed six journal vouchers for propriety and examined credit entries made to the expenditure accounts.

To determine if the Office's controls over grants management ensured compliance with applicable state and federal requirements, we judgmentally selected two National Park Service and two Commission for Cultural Affairs grants with activity in fiscal year 2004. We then conducted tests to determine if the activity for these four grants was properly documented, approved, recorded, and monitored. Because our initial review of the grant monitoring process indicated a high error rate, we tested six

additional transactions to confirm those results. We also reviewed National Park Service grants to ensure the required amount of awards were made to certified local governments in fiscal year 2004.

Our audit work was conducted from November 2004 to February 2005, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Interim Director of the Department of Cultural Affairs and the Administrator of the Office of Historic Preservation. On April 18, 2005, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix C, which begins on page 12.

Contributors to this report include:

Tammy A. Goetze, CPA  
Deputy Legislative Auditor

George R. Allbritten, CPA  
Audit Supervisor

Stephen M. Wood, CPA  
Chief Deputy Legislative Auditor

## **Appendix B**

### **Prior Audit Recommendations**

Our 1996 audit of the Office of Historic Preservation contained no recommendations.

## Appendix C

### Office of Historic Preservation's Response



KENNY C. GUINN  
*Governor*

SCOTT K. SISCO  
*Interim Director*

STATE OF NEVADA  
DEPARTMENT OF CULTURAL AFFAIRS

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RONALD M. JAMES  
*State Historic Preservation Officer*

April 25, 2005

Paul V. Townsend, CPA  
Legislative Auditor  
Legislative Counsel Bureau  
Carson City, NV 89701

Dear Mr. Townsend:

Thank you for your letter of April 12, 2005, regarding the 2005 audit of the State Historic Preservation Office (SHPO) and the Comstock Historic District Commission. Your audit has one recommendation regarding monitoring of grants. While I accept your recommendation without reservation, I feel it is worth noting a few mitigating factors.

The period of the audit was during a time of transition between grants managers. Our long-term grants manager was in the process of retiring after 32 years of state service, and the transition compromised our ability to address grants management to a degree that we would have preferred. The SHPO is a small agency and a single employee can be responsible for a wide variety of tasks. When an employee leaves the agency for any reason, it is easy for our system to be compromised. Short of adding staff to address this, the system will continue to be vulnerable in this regard.

In addition, while formal reports were lacking in some files your agency reviewed, there was ample evidence in the form of e-mails and memos to the file that staff was aware of problems and attempting to work on solutions. These do not take the place of required progress reports, but I wish to note this fact in the interest of defending SHPO's grants management practices at that time. In the same way, it is worthwhile to point out that ultimately all funds were expended appropriately.

Finally, with the June 14, 2003, hiring of Kelly Osborne, our new grants manager, Ms. Osborne conducted her own review of the agency's approach to grants management. She identified that there was a contradiction in instructions presented in the grant application packet and the funding agreement with regard to progress reports. This contradiction contributed to the problem identified by your audit. Recognizing this problem, Ms. Osborne created a new grants manual that eliminated the contradiction. Ms. Osborne also implemented a new program of grants monitoring that we believe goes even further to address the problem identified by your audit. All of this was implemented by March 2004, before your audit began.

Paul V. Townsend  
April 15, 2005  
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All of this having been said, your recommendation clearly zeroed in on a previous weakness in our program. It is a valid criticism, and I am pleased to report that we have implemented the solution. We are committed to the highest level of grants management as we discharge our responsibilities. Nothing we do is more important than making certain that taxpayers' funds are appropriately spent, and so we welcomed your review, accept your finding, and look forward to making our system work even better in the future.

Sincerely,



Ronald M. James  
State Historic Preservation Officer  
775-684-3440

Cc: Scott Sisco, Interim Director, DCA

**Office of Historic Preservation's Response  
to Audit Recommendation**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Implement controls to ensure grantees submit progress reports as required .....	<u>1</u>	<u>          </u>
	TOTALS	<u><u>1</u></u>	<u><u>0</u></u>