

STATE OF CONNECTICUT

**AUDITORS' REPORT
CONNECTICUT HISTORICAL COMMISSION
FOR THE FISCAL YEARS ENDED
June 30, 2001 and 2002**

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September 10, 2003

**AUDITORS' REPORT
CONNECTICUT HISTORICAL COMMISSION
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 and 2002**

We have examined the financial records of the Connecticut Historical Commission for the fiscal years ended June 30, 2001 and 2002. This report on that examination consists of the following Comments, Recommendations and Certification. Financial statement presentation and auditing are being done on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Commission's compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating the Commission's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Connecticut Historical Commission operates under the provisions of Title 10, Chapter 177, Sections 10-320b through 10-320j of the General Statutes. The primary responsibility of the Commission is to protect Connecticut's cultural resources (historic, architectural and archaeological properties), including six agency-administered historic sites open to the public: Old New-Gate Prison and Copper Mine, East Granby; Henry Whitfield Museum, Guilford; Sloane-Stanley Museum, Kent; Prudence Crandall Museum, Canterbury; Viets Tavern, East Granby; and Amos Bull House, Hartford.

The principal programs, activities and responsibilities of the Commission include:

- 1) Statewide historic preservation planning;
- 2) National and State Registers of Historic Places;
- 3) State and Federal preservation grants-in aid;
- 4) State and Federal environmental review;
- 5) Certified Local Government Program;
- 6) Local historic district/property designations;
- 7) Identification, evaluation and protection of the State's archaeological heritage and State Archaeological Preserves;
- 8) Cultural resource surveys and advisory assistance;
- 9) State and Federal tax credits for historic rehabilitations;
- 10) Historic structure special considerations in State Building Code and Americans with Disabilities Act;
- 11) Lead paint abatement for historic structures;
- 12) Study of minority and women's history; and
- 13) As the State Historic Preservation Officer, the Commission's director is Connecticut's preservation liaison with the Federal government.

John W. Shannahan served as Director of the Commission during the audited period.

Membership of the Commission:

As stated in Section 10-320b of the General Statutes, the Commission shall consist of 12 members appointed by the Governor. As of June 30, 2002, there were two vacancies on the Commission and the following were members:

Timothy R. Beeble
Richard Buel, Ph.D.
Christopher Collier, Ph.D.
Katherine W. Green
Barbara A. Hudson
Richard L. Hughes III
Jean R. Kelley
C. William Kraus
Edwin R. Ledogar
Marsha Lotstein

In addition to the above members, the following persons also served on the Commission during the audited period:

Kevin G. Ferrigno
Harold D. Juli, Ph.D.
Catherine Szency

RÉSUMÉ OF OPERATIONS:

General Fund

General Fund receipts totaled \$1,070,008 and \$1,124,167 for the fiscal years ended June 30, 2001 and 2002, respectively. A comparison of receipts during the audited period and the fiscal year ended June 30, 2000, follows:

	Fiscal Year Ended June 30,		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenue and Other Receipts:			
Rent on cottages or residences	\$ 3,724	\$3,586	\$ 3,586
Sales	2,789	6,174	4,315
Other	<u>506</u>	<u>3,840</u>	<u>516</u>
Total Revenue and Other Receipts	<u>7,019</u>	<u>13,600</u>	<u>8,417</u>
Restricted Contributions:			
Federal	335,399	922,991	908,519
Other than Federal	<u>71,969</u>	<u>133,417</u>	<u>207,231</u>
Total Restricted Contributions	<u>407,368</u>	<u>1,056,408</u>	<u>1,115,750</u>
Total General Fund Receipts	<u>\$414,387</u>	<u>\$1,070,008</u>	<u>\$1,124,167</u>

During the 2000-2001 and 2001-2002 fiscal years, “Restricted contributions – Federal” fincreased significantly primarily because drawdowns were being done in a timely manner and receipts attributed to expenditures of the prior period were drawn down in the current audit period along with the receipts attributed to expenditures made in the current period. “Restricted Contributions - Other than Federal” increased during the fiscal years ended June 30, 2001 and 2002, mainly because of funding for the Rochambeau Trail and the Quinebaug-Shetucket Survey.

A comparison of General Fund expenditures for the audited period and the fiscal year ended June 30, 2000, is presented below:

	Fiscal Year Ended June 30,		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Budgeted Accounts:			
Personal services	\$ 947,252	\$ 940,795	\$ 991,830
Contractual services	182,507	166,750	89,611
Commodities	17,403	17,720	17,902
Sundry Charges	517	382	1,367
Equipment	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Total Budgeted Accounts	<u>1,148,679</u>	<u>1,126,647</u>	<u>1,101,710</u>
Restricted Accounts:			
Federal		669,709	686,135
610,844			
Other than Federal	<u>74,841</u>	<u>72,302</u>	<u>164,021</u>
Total Restricted Accounts	<u>744,550</u>	<u>758,437</u>	<u>774,865</u>

Total General Fund Expenditures \$1,893,229 \$1,885,084 \$1,876,575

Special Revenue Funds

Expenditures from special revenue funds totaled \$149,210 and \$222,655 during the fiscal years ended June 30, 2001 and 2002, respectively. These expenditures were primarily for State restoration fund grants to non-profit organizations and for the purchase of equipment.

Capital Project Funds

Expenditures from capital project funds totaled \$2,239 and \$7,781 during the fiscal years ended June 30, 2001 and 2002, respectively. These expenditures were for repairs to the Kent Iron Furnace at the Sloane-Stanley Museum.

CONDITION OF RECORDS

We found the following area in need of attention and corrective actions.

Improvement of Property Inventory:

Criteria: Section 4-36 of the Connecticut General Statutes requires agencies to maintain inventory accounts prescribed by the Comptroller and report annually to the Comptroller the agency's inventory balance.

The State of Connecticut's Property Control Manual requires agencies to maintain supporting subsidiary equipment records and periodically documenting physical inventories of equipment.

Condition: Our review of Fixed Assets/Property Inventory Reports submitted for the fiscal years ended June 30, 2001 and June 30, 2002, revealed that balances reported to the Comptroller were not adequately supported by documentation on hand. For example, the Commission reported a June 30, 2002, combined total balance of real and personal property of \$4,147,845, of which approximately two-thirds (66 percent) was found to consist of inadequately supported balances, as follows:

Works of Art and Historical Treasures	\$1,206,558
Site Improvements	725,362
Merchandise for Sale	498,813
Capital Equipment	221,008
Books	<u>100,987</u>
Total	<u>\$2,752,728</u>

Physical inventories were not sufficiently conducted during the audited period. During our review of the inventory records for some of the museums we were unable to determine whether listings provided were from actual physical inventories completed at year end or just a printed list from the Commission's inventory system. In other instances although it appears that a physical inventory had been completed during the audited period, we noted that the inventory sheet had not been signed or dated by the individual performing the inventory.

The Commission has no reliable basis with which to value and report upon many of its various works of art and historical treasures. Although new art works and historical treasures were being donated with appraised values, the appraisals for pieces that have been in the collection for many years were often outdated. It was also noted that

at times there were no appraised values for pieces listed in the Commission's inventory records.

Effect: The Commission's report of inventory to the Comptroller was substantially non-verifiable due to the lack of adequate supporting documentation.

The Commission's assurance that its available inventory records were accurate and complete has been lessened, as physical inventories had not been sufficiently conducted and current appraisals of artworks and historical treasures had not been fully conducted.

Cause: There was approximately a one-year vacancy in the Museum Director position, which oversees all of the museums maintained by the Commission and is held responsible for both maintaining control over and reporting upon the Commission's inventory of property. With respect to certain categories of reported property, it appears that supporting documentation was either partially or entirely misplaced during the referenced transition between Museum Directors.

Due to a backlog of competing priorities, the Commission did not consider the taking of complete physical inventory counts and inspections to be of the utmost importance.

We were informed that adequate funding for the expected costs of obtaining certified appraisals was not considered to have been available within the Commission's budgeted resources during the audited period.

Recommendation: The Commission should comply with Section 4-36 of the Connecticut General Statutes by maintaining its inventory accounts as prescribed by the Comptroller. It should also institute procedures to ensure that the inventory balances reported to the Comptroller are both accurate and adequately supported. (See Recommendation 1.)

Agency Response: "The Commission acknowledges the validity of the auditor's findings. During the time period under review, the Museum Director, who had responsibility for agency property control, retired and his job duties were assigned to other staff members who already carried heavy work loads and had limited skill in property management. When the new Museum Director assumed the position, there was a year's backlog of accumulated tasks. Although appropriate inventories were completed by staff, the work sheets were not signed and dated providing proof to auditors of their validity. The Museum Director, after two years on the job, has established accurate inventory lists and implemented improved inventory procedures and

controls.

It must be noted that the scope of an agency-wide inventory is quite varied and extensive. In addition to equipment and large museum collections, the agency's four museum sites operate gift shops with on-site back-up inventory; books and prints for resale are stored in a separate building. The Museum Director dedicated extensive time to organizing and physically counting the merchandise in this facility.

Of continued concern is the lack of a current, reliable basis to report the value of the museum collections. To update the present lists requires the services of a licensed appraiser, trained to determine the worth of antiques and fine arts. Requests for additional agency funding to hire the needed experts have not been successful. The Museum Director initiated efforts, demonstrated to the auditors, to obtain donated professional services with no luck. The agency will continue to pursue this matter.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- The Commission should institute procedures to ensure that GAAP forms are prepared in accordance with instructions. This recommendation was implemented.
- The Commission should institute procedures to ensure that Federal drawdowns are requested in a timely manner. This recommendation was implemented.

Current Audit Recommendation:

- 1. The Commission should comply with Section 4-36 of the Connecticut General Statutes by maintaining its inventory accounts as prescribed by the Comptroller. It should also institute procedures to ensure that the inventory balances reported to the Comptroller are both accurate and adequately supported.**

Comment:

Supporting documentation was not available for balances reported to the Comptroller. Complete physical inventory counts and inspections were not taken on an annual basis. Current appraisals of collections of artwork and historical treasures were not performed.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Connecticut Historical Commission for the fiscal years ended June 30, 2001 and 2002. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Connecticut Historical Commission for the fiscal years ended June 30, 2001 and 2002, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Connecticut Historical Commission complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Connecticut Historical Commission is the responsibility of the Connecticut Historical Commission's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed a certain instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying "Condition of Records" and "Recommendations" sections of this report. That finding deals with the inadequacy of inventory procedures and recordkeeping.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Connecticut Historical Commission is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Connecticut Historical Commission's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the finding on inventory represents a reportable condition.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable condition described above is a material or significant weakness.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the officials and personnel of the Connecticut Historical Commission during the course of our examination.

Patricia A. Wilson
Principal Auditor

Approved:

Robert G. Jaekle
Auditor of Public Accounts

Kevin P. Johnston
Auditor of Public Accounts