New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Community Affairs
New Jersey Historic Trust

July 1, 2005 to March 31, 2007

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Community Affairs, New Jersey Historic Trust for the period of July 1, 2005 to March 31, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
July 26, 2007
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Department of Community Affairs
New Jersey Historic Trust

Scope

We have completed an audit of the New Jersey Historic Trust for the period July 1, 2005 to March 31, 2007. The New Jersey Historic Trust (Trust) is in but not of the Department of Community Affairs (DCA). Our audit included operating expenditures and revenues directly related to Trust operations and accounted for in the state’s General Fund, Cultural Centers and Historic Preservation Fund, 1992 Historic Preservation Fund, 1995 Historic Preservation Fund, Garden State Historic Preservation Trust Fund, and Historic Preservation Revolving Loan Fund, as well as activity in off-line checking accounts which are administered directly by the Trust and not included in the state’s accounting records.

Expenditures for the audit period were $885,000 for administrative operations, $12 million for the various funds, and $103,000 for the off-line accounts. The primary responsibility of the Trust is to advance historic preservation in New Jersey for the benefit of future generations through education, stewardship, and financial investment programs. Revenue of the Trust is comprised of historic license plate fees, historic preservation revolving loan payments, application fees and interest. Revenues totaled $144,000 for the audit period.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the Trust, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report dated January 9, 1998.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.
Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Office of Management and Budget, and policies and bylaws of the Trust. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed Trust personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and performed tests on the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted the organizational structure of historical services in state government has created inefficiencies and the "in but not of" status of the Trust within the Department of Community Affairs has created an environment that has allowed limited oversight in certain areas and a poor system of internal controls which increases the risk of noncompliance with regulations and that errors and irregularities could occur and not be detected. During the course of our audit, when made aware of certain issues, the Commissioner has taken action to increase
The public would be served better with a “one-stop-shop” approach for historical services.

departmental oversight. We also noted that compliance with our prior report was not initiated until issues were brought to the Commissioner’s attention.

Organization of Historical Services

The New Jersey Historic Trust is one of many agencies, offices, and divisions of state government providing historical services. These entities are currently operating out of multiple departments within the executive branch of government, which prevents the efficient use of state resources. A task force report issued in 1997 recommended that government operations sharing a common focus should be brought together under a unified management with the aim to eliminate the present problems of advocacy, delivery of services, fragmentation, duplication, and funding. The report also mentioned that other states have already combined their historical agencies into a single entity successfully.

Along the same theme, Executive Order #9 issued by Governor Corzine created the New Jersey Commission on Government Efficiency and Reform to “advise the Governor on governmental restructuring, effectiveness, best practices, efficiencies, cost-saving measures, and how best to achieve economies of scale in the delivery of services and programs, at the lowest possible cost, consistent with mission and quality.”

The centralization of services through the consolidation of all government entities providing historical services will increase the efficiency of the state’s preservation efforts. This consolidation would create a “one-stop-shop” for all historic services currently available to the public from the state and would coordinate with other services provided by nonprofit agencies, and county and local governments. It would
provide cost savings through the elimination of unnecessary levels of management that currently exist due to the fragmentation of these services.

**Recommendation**

We recommend the New Jersey Historic Trust Board and staff work with the Governor, Legislature, and other state agencies to establish a central location for all aspects of historical services.

**Internal Controls**

Certain management, accounting, and regulatory controls need to be implemented, while others need to be monitored by management for effectiveness. Corrective action, based on our audit, has been initiated by the Commissioner for the off-line accounts in the areas of depositing receipts, reconciling account activity, and administering petty cash funds.

Other areas where control procedures need to be established are detailed below.

- Procedures to ensure compliance with executive orders dealing with an annual comprehensive report on Trust operations, and the creation of an audit committee to assist in the oversight of the Trust's financial reporting and audit processes.
- Procedures to ensure compliance with bond fund requirements that limit funding to a maximum of ten percent for county/municipality projects from the 1992 and 1995 historic preservation funds. Cumulative funding totals were calculated at 40 percent and 52 percent, respectively. The allocations for these programs ended in 2004.
- Procedures to reconcile receipts to bank
and state records to ensure all funds received have been deposited and recorded properly in the records. Our review noted that staff were unaware a $400 application check received in October 2006 was never deposited.

- The Trust was the beneficiary of a court settlement with regards to an easement violation. The settlement established a $60,000 receivable over a ten-year period that should be reimbursed to the Cultural Centers and Historic Preservation Fund. The first payment received by the Trust was credited to the wrong fund. Procedures need to be established to ensure reimbursements are credited to the proper fund. In addition, the Trust needs to establish procedures to notify the department’s fiscal office and the Department of the Treasury of the receivable to ensure it is properly accounted for on the state’s financial records.

In addition, our review noted the following instances where control procedures need to be monitored by management and corrective action taken to ensure their effectiveness.

- Noncompliance with bylaws regarding Board approval of the annual budget and a detailed written account to the Board of expenses incurred by the Executive Director.

- An annual inspection report was not performed for ten of twelve perpetual easement properties that should have been inspected within the last year. We also noted that no action was taken with regards to violations noted during current and prior inspections. In addition, required insurance documentation was not obtained by the Trust from property owners.
• Sixty of 109 (55%) term easements did not have annual reports submitted after the grant period as required by internal procedures.

**Recommendation**

Adequate controls should be established and monitored to ensure proper oversight and effectiveness of all accounting, management, and regulatory issues.
MEMORANDUM

DEPARTMENT OF COMMUNITY AFFAIRS

TO: Stephen M. Eells, Assistant State Auditor
    Office of the State Auditor

FROM: Charles A. Richman, Acting Commissioner

DATE: July 24, 2007

SUBJECT: Response to the New Jersey Historic Trust Draft Audit Report

Attached is the response that we would like you to include in the audit report of the Department of Community Affairs, New Jersey Historic Trust Audit.

If you have any questions or need additional information, please contact Anne Vidunas-Gladwell at 609-985-0625.

Thank you for the opportunity to provide a response for the audit report.

Attachment

Anne Vidunas-Gladwell
Organization of Historical Services

Recommendation
We recommend the New Jersey Historic Trust Board and staff work with the Governor, Legislature, and other state agencies to establish a central location for all aspects of historical services.

Response
No response

Internal Controls

Recommendation
Adequate controls should be established and monitored to ensure proper oversight and effectiveness of all accounting, management, and regulatory issues.

Response
The Chair of the Historic Trust has directed staff to review all applicable findings noted in this audit, Executive Orders and OMB Circular Letters. Internal policies and procedures will be revised or developed to ensure that adequate controls are established and monitored. The policies and procedures are expected to be updated by December 31, 2007.