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.