



# INTERNAL AUDIT REPORT

Raleigh Historic Development Commission

February 2012

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## **Introduction**

The Internal Audit Office has completed a review of the Raleigh Historic Development Commission (RHDC). In June 2010, City Council eliminated the requirement for an annual financial audit of RHDC by an external auditor. This internal review was initiated as supplemental audit coverage in place of the financial audit.

## **Overview**

City Council established the first historic preservation committee in 1961 with the creation of the Raleigh Historic District Commission. This organization was renamed the Raleigh Historic Development Commission on December 21, 2011. The mission of RHDC is to identify, preserve, protect, and promote Raleigh's historic resources.

RHDC was formed as an educational non-profit organization under IRS regulation 501(c)(3). The governing board is comprised of twelve citizens who serve two year terms. Board members are appointed by the City Council.

RHDC achieves its mission by operating as an advisory board for City Council on decisions affecting any property or area that contain significant elements of the City's culture or history. In its advisory role, RHDC can recommend the creation or expansion of historical districts that add additional regulations to existing zoning requirements. There are currently five historical districts: Blount Street, Boylan Heights, Capitol Square, Moore Square, and Oakwood districts.

Within the districts, RHDC provides an approval process for proposed changes to historic properties and landmarks. When applications are successful, RHDC issues Certificates of Appropriateness to property owners that give them permission to proceed with the changes.

In addition, a loan program is available to residents for the rehabilitation and renovation of historic property. A loan is awarded based on the financial need of the resident and the importance of the historic property. Loans are recommended by RHDC to City Council, funded by the City, and serviced through the Community Development department.

RHDC maintains a separate financial record keeping system from the City. The City contributes approximately \$44,000 annually to the RHDC and two city employees act as its staff.

## **Audit Objectives**

Our objectives are developed during our planning process and reflect our assessment of risk associated with RHDC.

The objectives of our review were to:

1. Evaluate financial and operational controls, including any policies and procedures;
2. Identify risks to the organization and determine if they are adequately mitigated.

### **Scope, Methodology and Limitations**

The review period for this audit covered financial operations and reporting for RHDC from July 1, 2009 through December 31, 2011.

We based our conclusions on interviews with staff, and a review of financial and operational records obtained from RHDC.

This audit was performed in accordance with Generally Accepted Government Auditing Standards. Our procedures were limited to those areas necessary to complete the objectives of the audit.

We did not review the 2011 Form 990 submitted to the Internal Revenue Service as the due date fell after the completion of our audit.

### **Findings, Recommendations, and Departmental Responses**

Our testing found that financial and operational controls were generally adequate for the period under review.

#### **Finding 1 – A Process does not exist to Monitor Covenants on Loans Issued**

One outstanding loan has a clause that requires the principal to be immediately repaid if one of three conditions is no longer being met. From a review of public records we determined that one of the conditions was no longer being met, and full repayment of the loan is now due.

**Recommendation** – RHDC should better monitor loan covenants so as to ensure that the City's interests are always protected. A process should include clear lines of responsibility and outline steps to identify borrowers in default.

***RHDC Response:***

*To address the issue of repayment, in future the commission intends to issue loans with fixed repayment dates. In addition, the commission will be designing and implementing stronger controls surrounding the revolving fund loan process.*

A handwritten signature in black ink, appearing to read "Martin Petherbridge". The signature is fluid and cursive, with a large loop at the end.

Martin Petherbridge, CPA, CIA  
Internal Audit Manager  
City of Raleigh, NC

February 27, 2012