



**ANNE ARUNDEL COUNTY  
OFFICE OF THE COUNTY AUDITOR**

July 16, 2014

The Honorable Members of the County Council  
The Honorable County Executive Laura Neuman  
44 Calvert Street  
Annapolis, Maryland 21401

Board of Directors  
Wiley H. Bates Legacy Center, Inc.  
1101 Smithville Street, Unit T-17  
Annapolis, Maryland 21401

Dear County Council members, Ms. Neuman, and Board of Directors:

At the request of the County Administration, we performed a performance audit of the Wiley H. Bates Legacy Center, Inc.'s compliance with the terms and conditions of the grant agreements executed by the County and the Bates Legacy Center for fiscal years 2012 and 2013.

We conducted our audit in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States. Those standards require us to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The specific objectives of our audit were to determine whether the Bates Legacy Center:

- (1) submitted timely interim and annual reports for each fiscal year that include the information required by the grant agreements.
- (2) used grant funds only for the purposes permitted in the grant agreements, namely "to fund the position of a center manager and expand hours of operations" and to fund "general operating expenses."
- (3) used any grant funds for prohibited purposes, namely "for lobbying or for any other activity that would result in a tax liability" to the Bates Legacy Center.
- (4) accurately reported in all material respects its use of County grant funds.

We interviewed members of the Bates Legacy Center Board of Directors and staff, and we reviewed minutes of the Board of Directors and Finance Committee meetings. We also examined invoices, contracts, cancelled checks, and other documents the center provided to support its assertions with respect to how it spent County grant funds. We applied our audit procedures only to the expenditure of grant funds in fiscal years 2012 and 2013.

This report is intended solely for the use of the County Council, the County Executive, and the Board of

Members of the County Council  
County Executive Neuman  
Bates Legacy Center Board of Directors  
July 16, 2014  
Page 2

Directors of the Bates Legacy Center, Inc. However, this report is a public document that may be obtained from the Office of the County Auditor.

### **Background**

The Wiley H. Bates Legacy Center, Inc. ("BLC") is an I.R.C. §501(c)(3) not-for-profit organization that is in good standing with the State Department of Assessments and Taxation. The center opened in 2006 and is dedicated to preserving and presenting the history of the Wiley H. Bates High School, a historic landmark that was the County's only high school for African American students until 1966. The center houses a collection of historical documents and memorabilia, provides tours to school children and the public, serves as a community meeting place for various groups, and provides facility rentals for graduation parties, showers, etc. The center's annual revenue is approximately \$50,000 with approximately \$32,500 in grant funds from the County and the City of Annapolis. Annual expenditures are approximately \$45,000, of which approximately \$28,000 is compensation for staff and consulting fees.

### **Criteria**

The BLC submitted applications to the County for \$50,000 of grant funds in fiscal years 2012 and 2013, and the County awarded \$7,500 in each year. The grant agreements between the County and the BLC for both years specify that the grant funds will be used "to assist the grantee in funding the position of a center manager and expand the hours of operations. In furtherance of this purpose, the Grantee will use the Grant: i. to fund general operating expenses." The grant agreements also specify that "No part of the grant shall be used by the Grantee for lobbying or for any other activity that would result in tax liability to the Grantee."

The grant agreement also requires the BLC to file a "detailed interim report" by January 15 of each year "describing its use of the Grant" for the period of July 1 - December 31. The agreement also requires the BLC to file by August 31 after the close of the fiscal year a "detailed annual report" covering the period of July 1 - June 30 describing its use of the grant, including an itemized accounting of the expenditures or intended expenditures with a statement signed by the Chief Financial Officer or his designee certified under the penalties of perjury that the expenditure of the grant was consistent with the allowable purposes in the grant agreement.

### **Audit Procedures and Results**

#### *Filing of Required Interim and Annual Reports*

We performed testwork to determine whether the BLC timely filed (1) detailed interim reports that describe the use of the grant funds; and (2) detailed annual reports that describe the use of the grant funds, including an itemized accounting of expenditures certified by the Treasurer under penalties of perjury. (The Treasurer is the Chief Financial Officer for the BLC.)

With respect to the required interim reports, we noted that the forms designed by the County Administration include an itemized accounting of the grant funds and a statement signed by the Chief Financial Officer under penalties of perjury stating that the grant funds were used for allowable purposes. However, the grant agreement itself requires only that the BLC in the interim report "describe its use of the grant." The agreement does not require an itemized accounting or statement signed under penalties of perjury certifying the grant funds were used for allowable purposes, and the agreement states that it "represents the complete and total and final

Members of the County Council  
County Executive Neuman  
Bates Legacy Center Board of Directors  
July 16, 2014  
Page 3

understanding between the parties, and no other understanding or representations, whether written or oral, regarding the subject matter of this agreement shall be deemed to exist or bind the parties after the execution of this agreement, unless set forth in writing and executed by the both parties hereto." Therefore, we limited the criteria we applied to the criteria specified in the grant agreements for the interim reports; namely, (1) did the BLC file the interim reports by January 15 of each year, and (2) did the interim reports describe the BLC's use of the grant funds.

In our testwork, we determined that the interim reports the BLC submitted for fiscal year 2012 and fiscal year 2013 described its use of the grant funds. We also determined that the BLC filed the interim report for fiscal year 2013 timely by January 15, 2013, but the BLC did not file the interim report for fiscal year 2012 timely. The BLC initially submitted its fiscal year 2012 interim report on January 20, 2012, and they submitted a revised interim report on January 24, 2012. Both were submitted after the January 17, 2012 deadline. (In 2012 the deadline was extended to January 17 because January 15 was a County holiday.)

With respect to the annual reports, we determined that the reports were filed timely by August 31 for both fiscal years, that the reports included an itemized accounting of expenditures, and that the BLC Treasurer signed the reports under penalties of perjury certifying the grant expenditures were only for allowable purposes.

#### *Expenditure Testing*

The BLC asserts in its annual report that it spent \$7,500 in fiscal years 2012 and 2013 for the purposes permitted in the grant agreement. We reviewed invoices and receipts, contract employee payment vouchers, cancelled checks, IRS Form 1099's, and contractual agreements with the staff, and we determined that:

- the BLC used the \$7,500 of grant funds in each fiscal year to fund the center manager position, to expand its hours of operations, and for general operating expenses.
- the BLC did not use grant funds for lobbying or for any other activity that would result in a tax liability to the BLC. (For the purposes of determining whether the BLC used grant funds for any activity that would result in a tax liability, we assumed that the requirement excluded any employment tax liability that could arise from the use of grant funds since the grants specifically allow the use of grant funds for the center manager position and general operating expenses.)
- the BLC accurately reported in all material respects its use of County grant funds.

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We thank the Board of Directors and staff of the Wiley H. Bates Legacy Center, Inc. for their courteous cooperation.

Sincerely,



Teresa Sutherland, CPA  
County Auditor