

Wright State University

October 3, 2016

WSRI/WSARC Analysis

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October 3, 2016

D. Michael Crites, Esq.
Jennie K. Ferguson, Esq.
Dinsmore & Shohl, LLP
191 W. Nationwide Blvd., Suite 300
Columbus, OH 43215

Re: Wright State University – Research Entity Analysis

Dear Mr. Crites and Ms. Ferguson:

As requested, we provided forensic investigative services to you in your representation of Wright State University ("WSU" or the "University") in connection with an investigation involving Wright State Research Institute ("WSRI") and Wright State Applied Research Corporation ("WSARC"). Our work included an analysis of the inflows and outflows of cash in connection with Wright State Applied Research Corporation ("WSARC") for the fiscal years 2011 through 2015.

For this engagement, we performed the following:

- Data analytics to identify non-government grants, disbursements, etc.;
- Research on select grant providers;
- Research on select vendors; and
- Traced select grants and expenditures to supporting information to confirm validity.

Our report is to provide you with the results of our analysis. It is not intended to express an opinion on WSU's internal controls or financial statements in accordance with standards issued by the American Institute of Certified Public Accountants.

BACKGROUND

We were engaged to analyze the inflows and outflows of cash for WSARC for the fiscal years 2011 through 2015. WSARC is a 501(c)(3) corporation that acts as an administrative agency to provide contracting administration services for WSRI, a segment of WSU. In the current structure, WSARC is awarded contracts for various research projects to be performed by WSRI. For the purposes of this report, we refer to the contracts received by WSARC as awards. A large majority of WSARC's awards are cost recovery contracts whereby WSARC is reimbursed for the cost incurred to complete the research project per the terms of the award agreement. If WSARC requires additional resources, it subcontracts work to other entities through subgrant agreements.

The purpose of our analysis was to identify potentially problematic transactions requiring further review. As findings surfaced throughout our investigation, other requests were made that increased the scope of our engagement. On August 11, 2015, we presented our initial findings to WSU's Board of Directors. For this presentation, we had completed our analysis of the following items:

- H-1B Visa process;
- Named in Grant;
- Grant reporting;
- Contract issues;
- Affiliated entities;
- WSARC disbursements;
- Internal control issues (purchasing, invoice approval, conflict of interest); and
- Best practices going forward.

Subsequent to our presentation, direction was given by counsel to discontinue analyzing the aforementioned items and focus on analyzing additional potential issues. Proceeding in the direction given by counsel, we analyzed the following:

- WSARC payable to WSU;
- Phani Kidambi pay;

- Purchasing card/debit card process; and
- Select WSRI disbursements.

As requested, we completed the analysis of the additional items and included the findings in our presentation to WSU's Board of Directors on October 8, 2015. We also presented our findings to the board leadership and counsel at the Ohio Attorney General's office on November 24, 2015.

It is our understanding that additional information related to the aforementioned items may have become available subsequent to our analysis; however, the information provided in this report represents the findings as of the dates of the presentations for which the items were completed.

PROCEDURES PERFORMED

To perform our analysis we completed the following:

- Background research on select entities and individuals utilizing Thomson Reuters CLEAR¹ software.
- Data analytics using a risk-based scoring system to identify high risk vendors/transactions.
- Analyzed approximately 600 invoices, several award agreements and corresponding subgrant agreements relating to high risk vendors.
- Conducted interviews with project managers, human resource personnel, finance personnel and affiliated entities personnel in order to understand internal processes and controls.
- Analyzed financial activity of select affiliated entities.
- Analyzed H-1B Visa information for the applicants hired during our scope period.
- Analyzed items comprising the WSARC payable to WSU.
- Reviewed organizational structure and future plans.

¹ <http://legalsolutions.thomsonreuters.com/law-products/solutions/clear-investigation-software>

INTERVIEWS

In order to complete our objectives, we conducted interviews with the following individuals²:

- WSU: Robert Sweeney, Executive Vice President for Planning and Secretary to the Board of Trustees
- WSRI/WSARC: Jason Parker, Executive Director (“Director”)
- WSRI/WSARC: Dennis Andersh, Chief Executive Officer (“CEO”) and former Chief Operating Officer (“COO”)
- WSRI/WSARC: Keith Ralston, Chief Financial Officer (“CFO”)
- WSRI/WSARC: Richard Maresca, Secretary
- WSRI/WSARC/ATIC: Tim Feeser, Contracts Manager
- WSRI/WSARC: Aja Ash, Contracts Administrator
- WSRI/WSARC: Keith Grimes, Associate Director/Project Manager
- WSRI/WSARC: Michael Corbett, Business Logistics and Purchasing Executive (“Purchasing Executive”)
- WSRI/WSARC: Liz Weisman, (Human) Resource Manager
- WSRI/WSARC: Jenny Toth, Recruiting/Onboarding Manager
- ATIC: Janet Erickson, Financial Manager

² Positions of the individuals identified may have changed due to the restructuring of WSARC subsequent to our investigation.

OTHER INDIVIDUALS

Other individuals listed below are mentioned in this report but were not interviewed.

- WSU: Sundaram Narayanan, Provost
- WSU: Ryan Fendley, Senior Advisor to the Provost
- WSU: Dr. Mary Fendley, Ph.D., Assistant Professor in Biomedical Industrial & Human Factors Engineering
- WSRI/WSARC: Terry Rapoch, President

ANALYSIS

1. H-1B Visa Testing

At the time of our analysis, it was represented to us that there was an ongoing federal investigation of the H-1B Visa ("Visa") program at WSRI/WSARC. Representations made to us were that Visa's may have been obtained by WSRI/WSARC for individuals who were not performing services for them, but instead were working for "clients" who had awarded money to WSRI/WSARC. We were requested to review select activity within this program to identify if and/or how the supporting documentation corresponded to the representations. More specifically, we were to determine if WSRI and/or WSARC utilized the Visa process to obtain foreign labor and contracted these individuals to external organizations.

We were provided with the following documents:

- *WSU H1B List July, 2010 – June, 2015.XLSX*: This file was represented to us as a list of all Visa applicants from July 2010 through June 2015. We were provided an initial listing on June 15, 2015 and an updated listing on June 29, 2015.
- *All awards as of April 2015.xls*: This file was represented to us as a list of all WSRI awards from clients from WSRI inception to April 30, 2015.
- Payroll registers and payroll allocation journal entries for the WSU/WSRI/WSARC employees paid during our scope period³: These entries were utilized by accounting personnel to "properly allocate" labor costs to specific awards, grants, and/or University Departments, based upon where those individuals spent their time. For example, if an employee spent time working on the Web Yoga Spider Xchange System, then the portion of time they spent on that project would be allocated to Fund 668311, which was the fund established to track costs for that project. This ensures that WSU/WSRI/WSARC bills the correct award/entity for time spent by employees.

³ The payroll allocation entries were provided through May 31, 2015, as the June 30, 2015 entries had not been completed at the time of our request.

We performed the following steps to analyze the representations:

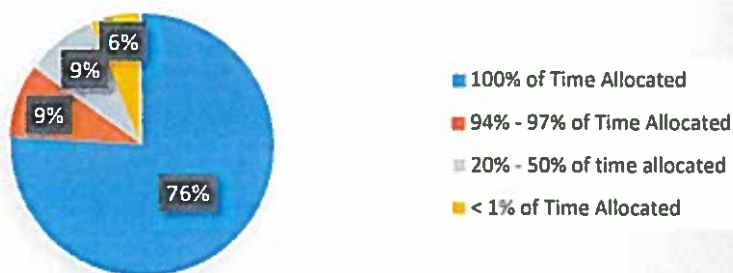
Step 1) Identify allocations of the Visa applicants on the provided listing.

We identified that 99 of the applicants in the file had payroll costs. Our first task was to compile a list of funds, by applicant, to which the applicants' payroll costs were allocated. This allowed us to identify which projects the applicants worked on. We matched the file containing the applicants' payroll costs and corresponding funds to the "All awards as of April 2015.xls" file, which showed that 33 applicants had time charged to a WSRI/WSARC award⁴.

Step 2) Identify the percentages of time spent by Visa applicants on awards.

We compared the percentage of labor costs allocated to awards against the Visa applicants' total labor costs, in order to quantify the percentage of time spent working on awards (i.e., for clients). For the 33 individuals, pay was allocated to the WSRI or WSARC awards as follows (adjusted for Fee Remission Grad Courses):

Percent of Time Allocated to Total Time Worked/Paid (33 Applicants)



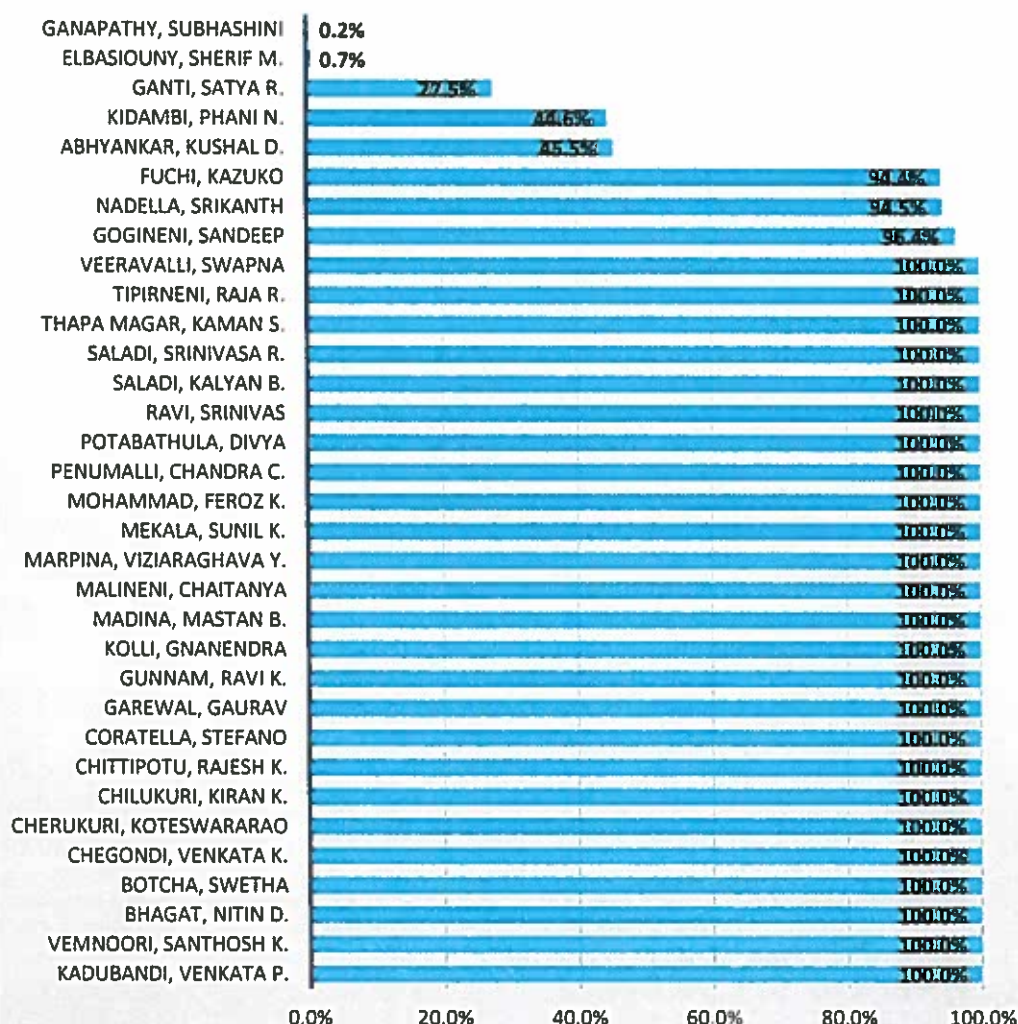
- 25 applicants (76%) had 100% of their time allocated to awards;

⁴ After the completion of our analysis of the applicants, we identified there were other awards/grants to which applicants had time allocated. This finding was discovered during an analysis related to another section of the report. Since we had requested all awards and grants for our analysis, we were under the assumption that WSRI/WSARC complied with our request. These additional payroll allocations were not analyzed in detail as they were not identified until after we were instructed by Counsel to focus on other WSARC/WSRI activities.

- 3 applicants (9%) had between 94% - 97% of their time allocate to awards;
- 3 applicants (9%) had between 20% - 50% of their time allocated to awards; and
- 2 applicants (6%) had less than 1% of their time allocated to awards.

The following chart details the applicants and the allocation of total pay to awards. Further detail is provided on **Attachment 1**:

Percentage of Pay Allocated



Step 3) Identify which clients provided the awards (i.e., “who” the applicants were working for).

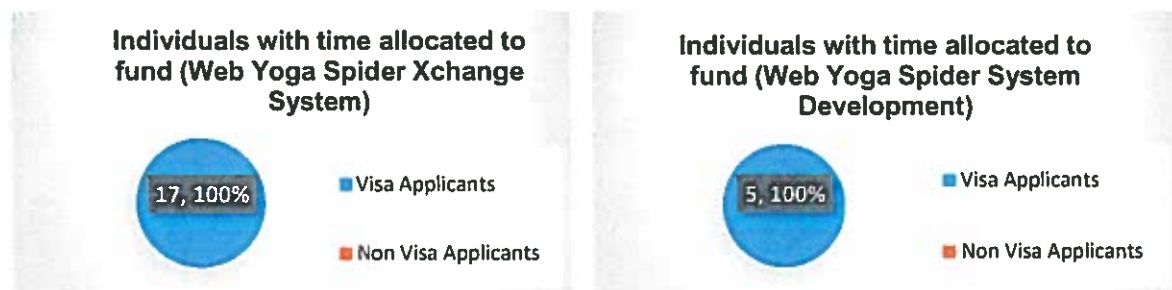
Our conversations with Dave Whalen, in addition to analysis of reports provided by Mr. Whalen, allowed us to identify which clients provided the corresponding awards for which the funds were set up to track. Our analysis identified WSRI/WSARC appears to have utilized its Visa program to obtain and provide foreign labor to the following entities:

- WebYoga, Inc.
- Universal Technology Corporation (“UTC”)
- LexisNexis
- UES

The ensuing subsections detail the Visa applicants and clients potentially at issue.

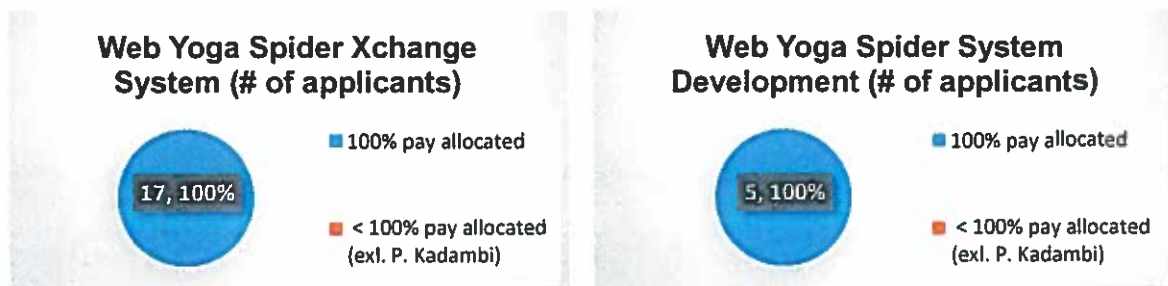
WebYoga, Inc.

Analysis of two funds containing “WebYoga” in their titles identified that the only individuals to have their payroll time charged against these funds were Visa applicants⁵ (see charts below).




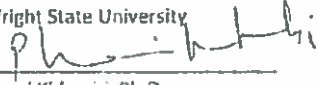

⁵ Phani Kadambi was excluded from the graphs as he was the “PI” (i.e., lead) for the Web Yoga awards; however, Mr. Kadambi was also a Visa applicant. Approximately 3.7% of his total pay was allocated to the Spider Xchange System award and approximately 1.8% of his total pay was allocated to the System Development award.

In addition, all 22 Visa applicants that worked on WebYoga, Inc. projects had their entire time/pay allocated to the awards, as shown below:



The allocation of the applicants' entire payroll time/pay appears to indicate that these individuals, who were all Visa applicants, only worked on WebYoga-related tasks.

Attachments 2 through 4 contain the Sponsored Research Agreement ("award") between WSRI and WebYoga, Inc. (Attachment 2), the No-Cost Extension (Attachment 3), and select invoices and cash receipts (Attachment 4). These attachments identify that Phani Kidambi authorized this agreement and that WebYoga was responsible for paying at least a portion, if not all, of the "Visa Related Expenses" for these individuals, as shown below:

WebYoga  Vijay Vallabhaneni 5/5/2011 Date	Wright State University  Phani Kidambi, Ph.D. 5/5/2011 Date
	 Ellen Reinsch Friese Assistant Vice President for Research 5/12/11 Date

5. Costs			
Personnel	Salary	Fully Burdened Yearly Rate ⁶	Cost
Koti Cherukuri	\$40,000/year	\$62,000/year	\$62,000
Swapna Veeravalli	\$40,000/year	\$62,000/year	\$62,000
Kiran Chilukuri	\$40,000/year	\$62,000/year	\$62,000
Gaurav Garewal	\$40,000/year	\$62,000/year	\$62,000
Chandra Sheel Ponumalli	\$40,000/year	\$62,000/year	\$62,000
Visa Related Expenses	\$10,000	\$11,500	\$11,500
Total	\$210,000		\$321,500

Based upon these findings, the documentation appears to support that WSARC/WSRI utilized the Visa program to provide foreign labor to WebYoga, Inc.

Universal Technology Corporation ("UTC")

Four (4) of the Applicants (Bhagat, Coratella, Thapa Magar, and Fuchi) appeared to have worked exclusively at UTC⁶.

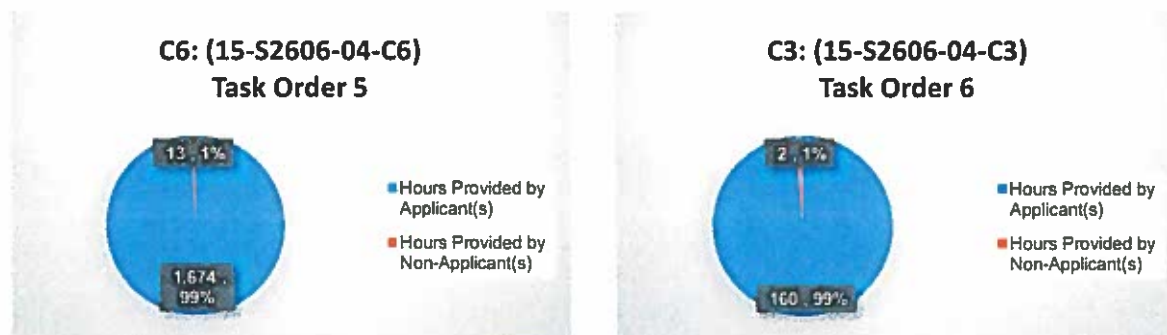
Analysis of the information provided by Mr. Whalen identified that these four (4) Applicants worked on several different UTC projects/task orders, which were approved via different subcontracts (Attachments 5B, 5C, 5T, & 5F, in correlation with the Applicants' first initial of their last name).

Once we identified which subcontracts these applicants had their time charged to (i.e., worked on), we obtained the detailed billing information regarding all personnel time charged to those subcontracts.

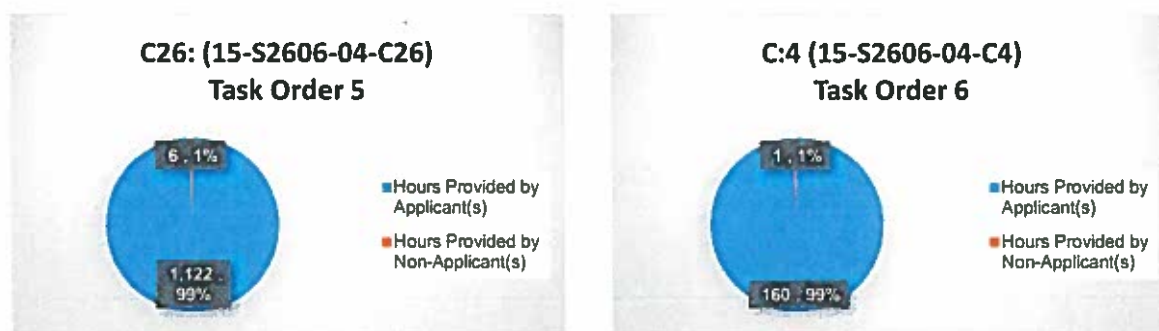
⁶ Ms. Fuchi appears to be a slight exception to this, as she may have also performed a limited amount of work for the University, given her \$4,000 in "Faculty Overload/Adjunct" pay (5.6% of total pay).

We noted seven (7) subcontracts, as follows:

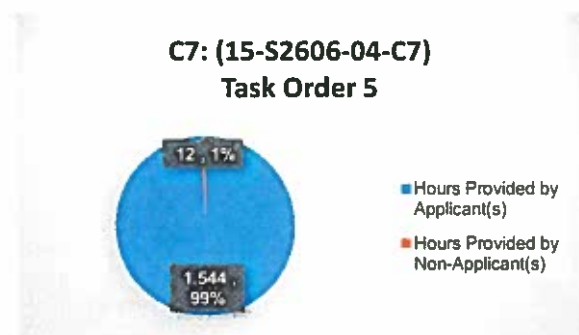
Automated Geometry Creation Research



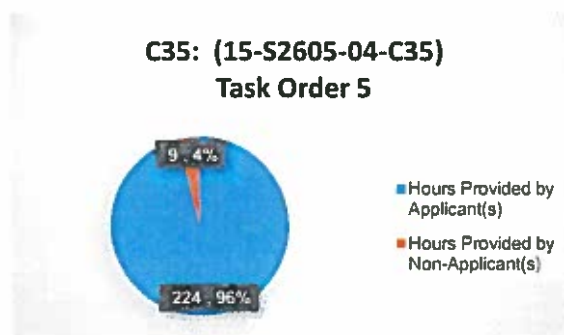
Novel Distributed Surface Flow Sensors



Origami Geometry Research



Design and Life Prediction of Laser
Peened Aircraft Structural Components



The detailed breakout of time charged by all personnel on the aforementioned UTC subcontracts is provided in **Attachment 6**. These charts and their underlying data indicate that, with the exception of a minimal amount of project management (0.88%), all labor provided by WSRI

to UTC in relation to these projects/task orders was provided by the Applicants. The total dollar value of these UTC projects, per the agreements, is \$763,814.00.

Analysis of supporting documentation identified inconsistencies in the Visa applications compared to what actually occurred, whereby select applications stated individuals would not be working at an off-site location; however, invoices show that the individuals were at the “client sites” versus WSRI. An example is provided below:

Visa application which identifies work to be performed at WSRI

Part D. Off-Site Assignment of H-1B Beneficiaries

☒ No ☐ Yes a. The beneficiary of this petition will be assigned to work at an off-site location for all or part of the period for which H-1B classification sought.

Invoice which identifies work performed at client (UTC) vs. company (WSRI)

JOB CATEGORY	EMPLOYEE NAME	RATE	CURRENT PERIOD		YEAR - TO - DATE	
			HOURS	DOLLARS	HOURS	DOLLARS
41 CLIENT SITE DL						
RE Research Engineer	Bhagat, Nitin	0.00	182.0	0.00	710.0	0.00
			182.0	0.00	710.0	0.00
42 COMPANY SITE DL						
AD Associate Director	Grimes, Keith	0.00	1.0	0.00	4.0	0.00

Based upon these findings, the documentation appears to support that WSARC/WSRI utilized the Visa program to provide foreign labor to UTC.

Lexis Nexis

Analysis of the fund titled “Lexis Nexis Support” identified two individuals with time allocated to the fund. One of the individuals, Kushal D. Abhyankar, was on the Visa applicant listing, while the other individual, Ramya Ramachandran Janaki, was not. Kushal Abhyankar’s time at WSU was allocated to Lexis Nexis Support as follows:

Lexis Nexis Support



While it did not appear Kushal Abhyankar was working exclusively "for" Lexis Nexis, analysis of the award information identified that he was specifically hired for the Lexis Nexis award and, further, Lexis Nexis paid for the "Visa Related Expenses."

3. Period of Performance & Named Resources

The initial period of performance shall begin October 11th, 2010 and continue through October 10th, 2011. The contract can be renewed bi-annually by the mutual agreement of both parties. Initially, two researchers will be hired. They are:

- i) Mr. Kushal Abhyankar – Human Factors Engineer
- ii) Ms. Ramya Ramachandran Janaki – Developer

Each will initially be hired for a six month duration. At the end of six months, upon satisfactory review by Lexis Nexis, each will be offered a second contract for the remaining duration of the period of performance. This process will be followed for any employees added to the contract in the middle of the period of performance.

5. Costs

Personnel	Salary	Fully Burdened Yearly Rate	Cost
Kushal Abhyankar	\$40,300/year	\$61,407/year	\$61,407
Ramya Ramachandran Janaki	\$47,775/year	\$72,797/year	\$72,797
Visa Related Expenses	\$860	\$977.5	\$978
Total	\$84,000		\$135,182

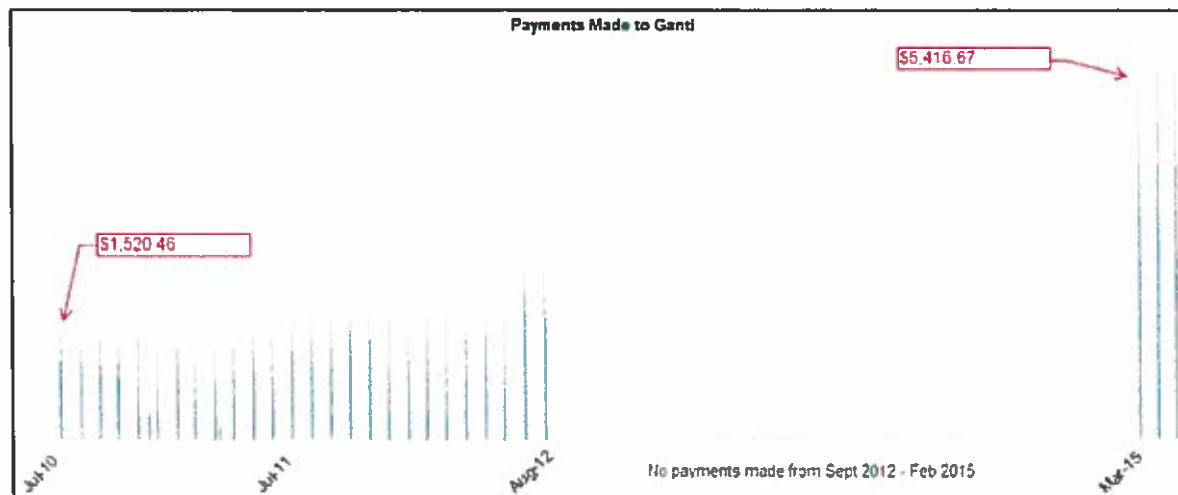
6. Invoicing

- Lexis Nexis will be billed equally in monthly invoices and is given a net 30 days to pay WSRI.

Based upon these findings, the documentation appears to support that WSARC/WSRI utilized the Visa program to provide foreign labor to Lexis Nexis.

UES

Our analysis of Satya Ganti's payroll allocations identified payments from July 2010 through August 2012 and from March 2015 through May 31, 2015, as shown on the ensuing table with each line representing a payment:

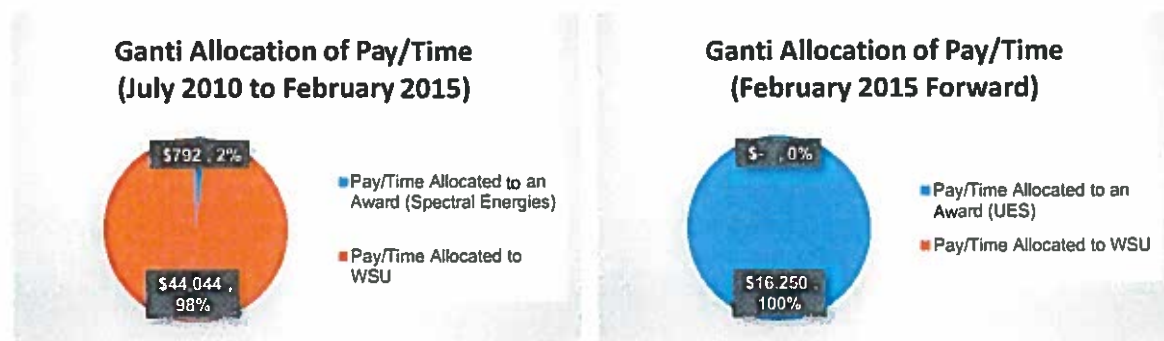


Ganti's pay from July 2010 through August 2012 was classified in the payroll register as Graduate Teaching Assistant, Graduate Admin Assist, Student Regular and Summer Earnings. These categories are distinctly different from Ganti's 2015 payroll classifications of "Staff Unclassified Salaries" and "Holiday Pay."

We noted that while only 27.5% of Ganti's total pay/time was allocated to contracts/awards, 100% of Ganti's pay/time⁷ since February 23, 2015⁸ has been allocated to an award/contract. We identified that the award was related to the UES subcontract (**Attachment 7**), as shown in the ensuing charts:

⁷ \$5,416.67 was allocated to fund 669474. This fund is the "named in grant" fund where time is first allocated prior to being applied to the correct account. Conversations with Mr. Whalen on July 9, 2015 identified this time was going to be applied to the UES award.

⁸ February 23, 2015 is the date that subcontract no. S-997-000-001 between WSARC and UES, Inc. was signed.



Further analysis of the subcontract identified that the sole purpose of the award appeared to be for UES to acquire Ganti's time, as shown in the excerpt below:

2.1 NOT TO EXCEED VALUE

UES shall have no obligation to compensate Seller for any amount exceeding the NTE Value stated below unless the Subcontract is modified in writing by the parties.

FIXED BILLING RATE	ESTIMATED LABOR HOURS	EXTENDED AMOUNT
\$75.46 Per Hour	1360	\$102,631

H1B Visa Processing fee	\$ 2,050
-------------------------	----------

2.2 PERSONNEL

(a) Seller shall designate "Key Personnel" who are essential to the successful completion and execution of this Subcontract. Key Personnel shall perform all work necessary for the timely and quality completion of the task to which they are assigned. Seller may not substitute or replace a Key Personnel without UES's prior written approval. Seller's Key Personnel are: Satya Ganti

It appears that Ganti was brought back to the University full time in February 2015 for the purpose of working on a UES project and has been working exclusively for UES since that time and, further, UES paid for Ganti's "Visa Processing Fee." The total dollar value of this subcontract is \$104,681.00.

Based upon these findings, the documentation appears to support that, although Ganti's initial Visa application was not for the purpose of providing foreign labor to UES, WSARC/WSRI subsequently utilized the Visa program to provide foreign labor (Ganti) to UES.

Facts Identified Subsequent to Visa Research (not researched in detail)

As previously mentioned, we identified applicants with time allocated to non-WSRI/WSARC awards/grants subsequent to our analysis of the Visa program. Given the timing of discovery, our analysis of those additional findings was limited as we were already provided direction by counsel

to discontinue researching the Visa issue and focus on other potential issues. However, we noted two (2) findings of interest:

- We identified 30 applicants for whom approximately \$2.7M in labor charges was allocated to the non WSRI/WSARC awards that were funded by clients (**Attachment 8**). Our analysis of those 30 applicants was limited to identifying individuals with 100% of their time charged to one award (i.e., those who worked exclusively for one company). Our analysis identified four (4) such applicants:
 - i. SOA Architects – Mandava, Nageswara (\$32,431.50)
 - ii. SOA Architects – Pothuluri, Bala K. (\$21,541.48)
 - iii. Vedainfo, Inc. – Sandeep Suman Paul (\$76,856.10)
 - iv. MRLets Technologies – Roy, Arunesh (\$58,088.61)
- We identified two other funds which contained company names that were represented to us to be potential “companies of interest.” These funds contained the names “Indus Valley Consultants, Inc.” and “Thruti Information Labs Ltd.”. We identified the names of the individuals whose labor was allocated to those two funds/awards and noted that none of them were noted on the Visa applicant listing we were provided and, therefore, no further research on those individuals was performed. We have provided a list of the names and their labor amounts charged to the awards in **Attachment 9**.

H-1B Visa Summary

In summary, our analysis identified multiple occurrences whereby it appears WSRI/WSARC utilized the H-1B Visa program to obtain foreign labor which was contracted out to external companies (i.e., to obtain foreign labor for clients). WSRI/WSARC did this for WebYoga, UTC, LexisNexis, and UES. Additionally, subsequent to our analysis of these transactions, it was identified this activity may have occurred for three other companies: SOA Architects, Vedainfo, Inc., and MRLets Technologies. It is understood that counsel further analyzed Visa applicant issues beyond the aforementioned findings.

2. Named in Grant

One of our tasks was to analyze the “Named in Grant” process. In WSARC’s current structure, it has no employees; all labor for WSARC is sourced through WSRI. Since WSRI is a segment of WSU, its employees are typically hired following the WSU hiring process. It was identified, however, that some WSRI employees were hired using Named in Grant⁹. It was represented to us that Named in Grant is a mechanism used by WSARC to identify employees to be hired at WSRI without having to go through the established University hiring process. Named in Grant allows WSRI to hire individuals who are specifically named in an award, as these individuals allegedly possess a specific skillset that is necessary for the awarded project. Our interviews identified that employees had different perceptions of the purpose and use of Named in Grant.

The Named in Grant issue that surfaced in this matter is related to an agreement that exists between WSARC and WSU (**Attachment 10**¹⁰). The agreement was executed May 23, 2011 with an objective “to maximize flexibility and permit the provision of short term or partial FTE resources to meet fluctuating contract demands.” When an individual is hired using Named in Grant, a modification is made to the agreement that specifies the name of the individual to be hired, their position and their fully-burdened labor rate. Interviews with Human Resources (“HR”) identified that, in the current process, the Secretary updates the agreement modification and the President signs to approve. As of June 30, 2015, there have been fifty-three (53) modifications made to the agreement in order to hire eighty-eight (88) individuals through the Named in Grant process.

As previously mentioned, in interviews it was represented that Named in Grant is used to hire employees with specialized skillsets required by an award agreement. Through analysis of the Named in Grant agreement and modifications, we identified that individuals for the following positions were hired using Named in Grant:

- Career Advisor Manager;
- Financial Specialist;

⁹ It is our understanding that the Named in Grant hiring process has been suspended.

¹⁰ Due to the voluminous nature of documents, the attachment includes only the Named in Grant agreement and modification 53. If requested, we can provide copies of the additional modifications.

- Junior Research Analyst;
- Leadership Programs Coordinator;
- Recruiting and Onboarding Manager; and
- Research Intern.

These positions do not appear to require specialized technical knowledge that would be necessary for WSARC to complete a project. Further, Project Managers represented that individuals for administrative positions would not be required by an award agreement.

We also identified that Named in Grant was used to hire Anna Maresca. Anna Maresca is a WSU alumni and had research experience at the University prior to joining WSRI. Our background research identified that Anna Maresca is the daughter of Richard Maresca. Analysis of the Agreement modifications revealed that Richard Maresca signed modification 10 which added Anna Maresca to the Named in Grant Agreement. We inquired about Anna Maresca during our interviews with Project Managers and it was represented that there was no pressure from Richard Maresca to hire his daughter. Further, it was indicated that her pay did not appear to be excessive for her position.

While there may be a legitimate purpose for a mechanism to hire individuals with specialized knowledge outside of the University hiring process to meet project demands, it appears that the use of Named in Grant has allowed a circumvention of WSU's hiring process.

Comparison of Named in Grant and the Established University Hiring Process

All WSU employees are typically hired following steps required by the University's hiring process. For WSARC, this process begins when a Project Manager has a need to hire. The first step performed by the Project Manager is to complete a Kickstart form, which specifies the position they are looking to fill and the source of the funding for the position. This form is given to the Recruiting/Onboarding Manager, who finalizes the position description and requirements and sends it to the CFO and the Director for approval. Once approved, the position is entered into the University's job posting system, PeopleAdmin. The Director must approve the position before going through a series of approvals by the University, including HR and the Office of Equity and Inclusion, prior to being posted to the public. Once the position is posted, the Recruiting/Onboarding Manager must wait seven days before applicants can be considered. The

top applicants are selected and a list is sent to the University to be approved before candidates are interviewed. After the interview process is complete and WSARC has identified the candidate to whom they would like to make an offer, the selected individual must be approved by WSU. Once approved, WSARC may make a verbal or written offer to the candidate. Upon successful completion of an education verification and background check, the candidate is hired by WSU since, as previously mentioned, WSARC employees are employees of the University through WSRI.

As with the established University hiring process, the Named in Grant process starts when a Project Manager has a need to hire. Prior to filling out a Kickstart form, the Project Manager will search for the candidate they would like to hire and will formally or informally interview the candidate. The Project Manager fills out the Kickstart form, which is approved by the CEO, the CFO and the Director. Once approved, the Recruiting/Onboarding Manager finalizes the position description and sends an offer letter to the candidate that is contingent upon successful completion of an education verification and background check. Upon WSARC's receipt of a signed offer letter, the candidate must go through the same series of approvals by the University as the established hiring process with two major exceptions:

- There is minimal, if any, salary negotiation because an offer letter has already been signed by the candidate; and
- The candidate is not reviewed by the Office of Equity and Inclusion, which is responsible for carrying out "all actions required to meet the University's equal employment opportunity and affirmative action commitments."

Compared to the traditional process, Named in Grant significantly reduces the involvement of the University in the hiring process. As a result, the use of Named in Grant may have impacted WSARC's ability to meet goals outlined in WSU's Affirmative Action Plan ("AAP")¹¹.

¹¹ If requested, we can provide a copies of the AAP and the related analyses separately due to the voluminous nature of the documents.

Potential Impact of Named in Grant on AAP Goals

While Named in Grant may speed up the hiring process to meet project immediate demands, it may also have adverse effects regarding the goals outlined in the University's AAP. Implemented November 1, 2014, WSU's AAP establishes goals for minority and female representation in each department at the University. It is our understanding that these goals were established through the following steps:

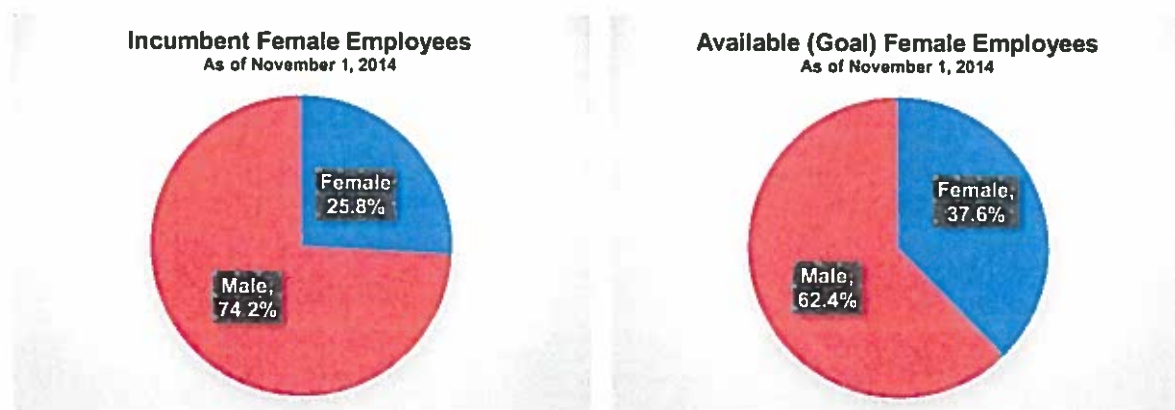
- A workforce analysis identified WSU employees individually by gender and race/ethnicity for each job title within an organizational unit.
- A job group analysis combined individual job titles for similar and related positions into a job group within an organizational unit.
- An availability analysis estimated the proportion of each gender and race/ethnic group available and qualified in the relevant labor market for employment at WSU for each job group.
- The percentage of incumbent employees within each job group was compared to the corresponding availability.
- WSU established an annual percentage placement goal whenever it found that minority or female representation within a job group was less than would reasonably be expected given the availability placement goals for minority and female representation within the various departments and positions at the University.

WSU's AAP states that, "by setting realistic goals, Wright State University should be able to meet the goals, assuming we conduct effective recruitment and advertising efforts to ensure an adequate pool of qualified minority and/or female applicants¹²." As previously mentioned, Named in Grant completely eliminates recruiting and advertising from the hiring process. Further, as

¹² Executive Order 11246 Affirmative Action Plan (AAP), Chapter 6, Page 16

previously stated, the employees hired using Named in Grant are not reviewed by the Office of Equity and Inclusion which is responsible for carrying out “all actions required to meet the University’s equal employment opportunity and affirmative action commitments¹³.”

To assess the potential impact that the use of Named in Grant may have had on WSU’s ability to meet the placement goals established in its AAP, we reviewed the University’s Comparison of Incumbency and Availability as of November 1, 2014. Our analysis focused on the goals established for WSRI as it is the source of labor for WSARC. Per the Comparison of Incumbency and Availability report, WSRI employees were placed into nine job groups. For each job group, the total number of employees classified within the job group is identified, as well as the current number of female and minority employees; the current percentage of female and minority employees is compared to the available (goal) percentage. Based on this information, we calculated the goal number of female employees for each of the nine job groups using the total number of employees and the female availability percentage for the job group. We totaled the number of goal females for each job group to determine the goal for WSRI and compared it to the total number of incumbent females in WSRI. As shown in the charts below, as of November 1, 2014, the actual number of female employees at WSRI is 11.8% (11 people) below the established placement goal.



We also calculated the goal number of minority employees for each of the nine job groups using the total number of employees and the minority availability percentage for the job group. We

¹³ Executive Order 11246 Affirmative Action Plan (AAP), Chapter 7, Page 18

totaled the number of available minority employees for each job group to determine the goal for WSRI and compared it to the total number of incumbent minorities in WSRI. As shown in the charts below, as of November 1, 2014, the actual number of minority employees at WSRI is 3.2% (3 people) below the established placement goal.



Considering the nine job groups identified for WSRI, we analyzed the Primary Staff Officers – Management and Operations job group, as it contains some of the highest paid individuals at WSRI/WSARC. The job group analysis identifies the positions included in each job group and whether the incumbent individual in each position is female or minority. Based on job title, we were able to identify the individuals in the Primary Staff Officers – Management and Operations that were hired using Named in Grant:

Primary Staff Officers - Management and Operations
As of 11/01/14

Job Title	Male	Female	White	Minority	Named in Grant
Chief Financial Officer, WSARC	X		X		X
Director, NCMR	X			X	X
Director of Outreach	X		X		
WSRI Associate Director	X		X		X
WSRI ATIC Ops Manager & Dir Tm/Ed	X		X		
WSRI Business Development	X		X		
WSRI Chief Comm Officer	X		X		X
WSRI Chief Operating Officer	X		X		X
WSRI Dir Training & Development APDC	X		X		
WSRI Director	X		X		X
WSRI Director of Operations	X		X		
WSRI Director of Special Programs	X		X		X
WSRI Executive Director APDC		X	X		X
WSRI Operations Officer	X		X		X
Employees (#)	13	1	13	1	9

Employees (%)	92.9%	7.1%	92.9%	7.1%
Availability (%) Goal	57.4%	42.6%	90.8%	9.2%

Although the job group is approximately at its placement goal for minority employees, it is 35.5% (5 females) below the placement goal for female employees. Of the 14 employees in this job group, nine were hired using Named in Grant, including two individuals who transferred to WSARC/WSRI from a different department at the University. The disparity between the actual number of female and minority employees and the established placement goals for WSRI could, therefore, be due the use of Named in Grant.

3. Grant Reporting

In performing our review of WSARC disbursements, we were tasked with identifying the appropriateness of high risk transactions. We requested a list of awards received by WSARC since July 1, 2010, which contained:

- The WSARC award number and project name;
- The client that awarded the contract to WSARC;
- The total value of the award; and
- The period of performance.

The *contracts.xlsx* file (**Attachment 11**) was represented to contain WSARC awards for fiscal year ("FY") 2011 through April 30, 2015.

Our analysis identified several potentially problematic disbursements that are related to WSARC Award 1034. WSARC Award 1034 is the workforce development contract with the State of Ohio (the "State"). We requested a copy of the agreement between WSARC and the State for Award 1034 to aid in our assessment of the appropriateness of the identified disbursements; however, WSARC did not have the contractual documentation related to this award onsite for our review. Further, the individuals we spoke with at WSARC were not aware of contractual documentation related to this award. Per our interviews, the fiscal year FY 2012-2013 biennial State budget included an appropriation for WSU to be used in support of defense workforce development ("workforce development funds"). This appropriation was reaffirmed in the FY 2014-2015 biennial State budget. As a result, WSU received \$4 million of funding per fiscal year and recorded the \$16 million appropriation as WSARC Award 1034.

Since WSARC was unable to provide contractual documentation regarding the appropriation, we contacted the State in order to obtain the award agreement and reporting requirements. We spoke with an individual at the Ohio Board of Regents who provided a Memorandum of Understanding ("MOU") regarding the FY 2014-2015 budget appropriation (**Attachment 12**); however, we were not provided any documentation for the FY 2012-2013 appropriation. The FY 2014-2015 MOU is between the Chancellor of the Ohio Board of Regents and the Defense/Aerospace Graduate Studies Institute ("DAGSI"), a component of WSRI. It was signed by Ryan Fendley on behalf of the University and John Carey, Chancellor of the Board of Regents,

in October 2013. Although the documentation we were provided is incomplete, we were able to identify the scope of services as follows:

ARTICLE I: SCOPE OF SERVICES

- DAGSI will perform the following duties:
 - o Use the funds to collaborate with the aviation, aerospace, and defense industries, to strengthen job training programs, equip Ohio's workforce with needed skills, and strengthen and grow research and educational linkages among Ohio's defense and aerospace aviation industry, federal agencies, state-assisted Ohio universities, and the University System of Ohio.
 - o Allocate a portion of the funds to develop a strategic plan to align the University System of Ohio's research and workforce development assets with the workforce needs of public and private sector employers.
 - o Use a portion of the funds to support the Aerospace Professional Development Center to establish processes necessary to link underemployed or unemployed person to job openings in these industries.
 - o Provide matching funds by private industry or educational partners or federal agencies in the aggregate amount of \$4,000,000 over the FY 2014-FY 2015 biennium.

Exhibit 1 of the MOU contains a Subsidy Expenditure Report Form that specifies the information required to be reported to the State:

[illegible]

We requested the reports from WSARC detailing the use of the State funds; however, no one we spoke with was able to provide us this documentation. Further, no one we spoke with at WSARC was aware of reporting requirements or stipulations regarding how the workforce development funds were spent. Going forward, WSARC should ensure compliance with proper reporting requirements.

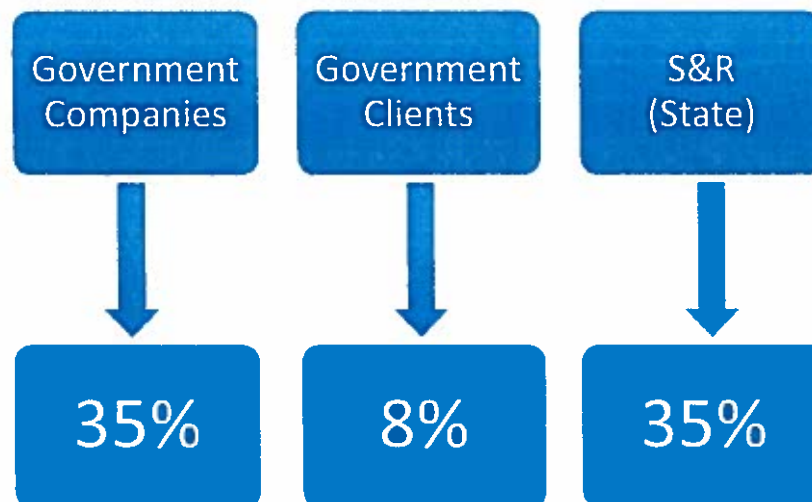
4. Contract Issues

During interviews with the CFO, it was represented that WSARC has historically received project awards and agreed to terms that prohibited WSARC from recovering the full cost incurred to perform the contract. While direct labor and direct material costs can be clearly allocated to a project award, indirect costs, including administrative, operating and employee benefit expenses are not directly accountable to the completion of a contract.

In order to appropriately cover all costs incurred to perform contracts, WSARC should charge a specified rate for each of the following in addition to direct labor and direct material costs:

- General and administrative (G&A) expenses;
- Overhead expenses; and
- Employee fringe benefit expenses.

The rates to be charged by WSARC are established by WSU and vary by the type of contract. For 2015, the University established a G&A allocation rate for all contracts of 19.12% along with overhead allocation rates, by category:



For 2016, the University's established rates will remain the same for government companies and government clients and the S&R category will be eliminated. The 2015 fringe rate is 36.4% for full-time, unclassified personnel¹⁴.

While WSARC should charge all awards for G&A, overhead and employee benefit expenses at the established rates to recover costs, WSARC has historically approved award agreements with the rates negotiated to be less than those established by the University. These awards with lower rates prohibit WSARC from recovering the full cost incurred to perform the contract and impact WSARC's ability to repay the University for such expenses. Specifically identified in our interviews were awards involving Richard Maresca, whose role as Secretary gives him signing authority for WSARC contracts. Our research identified that, at a minimum, Richard Maresca is the "Secretary", "Associated Director", and/or legal representative (i.e., has contract signing authority) for the following entities in addition to WSARC:

- DaytaOhio Holdings
- Wright Brothers Institute ("WBI")
- Dayton Development Coalition ("DDC")
- Development Projects, Inc. ("DPI")

Our interviews also identified that WBI and DPI have awarded contracts to WSARC and that these awards may have involved Richard Maresca. Since Richard Maresca has contract signing authority for both parties in these award agreements, a conflict of interest could exist if he was involved in approving the contract for either party; therefore, we reviewed select WBI and DPI awards.

¹⁴ Per the WSU website, fringe rates vary by employee positions.

<http://www.wright.edu/research/researchandsponsoredprograms/preaward/budgetdevelopment>

Wright Brothers Institute

In our interviews with the CFO, it was represented that the University had previously received awards from WBI which were transferred to WSARC once it was established. When the award agreements were between WBI and WSU, the CFO indicated that the full G&A¹⁵ rate of 26% was charged to the award; however, the G&A rate was reduced to 15% when the awards were transferred to WSARC. In order to confirm the change in the rates charged by WSARC when the WBI awards were transferred to WSARC, we requested all WBI award agreements since January 1, 2008. We were provided contractual documentation for ten awards, falling into two categories:

- Six awards between WSU and WBI (**Attachment 13**); and
- Four awards WSARC and WBI (**Attachment 14**).

It was represented that 12 additional award agreements between WSU and WBI exist:

- Ten in off-site storage (and not made available for our review); and
- Two destroyed per WSU's retention schedule prior to the start of the investigation.

The following timeline summarizes the ten contracts provided for our review:

		PERIOD ONE												PERIOD TWO				PERIOD THREE				PERIOD FOUR			
WSU / WBI	WBI 002 WBL002	Signed by McPhee (WBI) & Preece (WSU) Purpose: Year 002, full rates, no cost share																							
	WBI 003 WBL003	Signed by McPhee (WBI) & Preece (WSU) Purpose: Opened, full rates, cost share to reduce G&A rate to 15%																							
	WBI 004 WBL004	Signed by McPhee (WBI) & Preece (WSU) Purpose: McPhee, full rates, no cost share																							
	WBI 005 WBL005	Signed by McPhee (WBI) & Preece (WSU) Purpose: Open space, no cost share																							
	WBI 706 WBL007																								
	WBI 708 WBL008																								
WSARC / WBI	TIMELINE	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
	WBI 009 WBL009																								
	WBI 010 WBL010																								
	WBI 709 WBL011																								
	WBI 710 WBL012																								

¹⁵ Identified in the WBI contracts as Facilities and Administrative (F&A) rates.

Of the ten award agreements, four of the awards from WBI were effective prior to the fourth quarter of 2011 (“Period One”) and predated the existence of WSARC; therefore, these contracts were entered into with WSU. Once WSARC was established, the awards from WBI were transferred to WSARC and remained there from the fourth quarter of 2011 through the third quarter of 2014. During this period, there were four award agreements between WBI and WSARC: two that were effective for the one year period from the fourth quarter of 2011 through the third quarter of 2012 (“Period Two”) and two that were effective for the two year period from the fourth quarter of 2012 through the third quarter of 2014 (“Period Three”). The two WBI award agreements effective after the third quarter of 2014 (“Period Four”) were transferred to the University.

		PERIOD ONE														
WSU / WBI	WBSC 9023 WSU-OPS	Signed by: McFawn (WBI) & Friese (WSU) Purpose: TecEdge, full rates, no cost share														
	WBSC 9028 WSU	Signed by: Maresca (WBI) & Sellers (WSU) Purpose: Osgood, full rates, cost share to reduce G&A rate to 15%														
	WBSC 9028 WSU-DRP	Signed by: McFawn (WBI) & Friese (WSU) Purpose: Maresca, full rates, no cost share														
	WBSC 9028 WSU-OI	Signed by: McFawn (WBI) & Friese (WSU) Purpose: Open Innov, no cost share														
	WBSC 7255 WSU-CUPA															
	WBSC 7255 WSU-TE															
TIMELINE		Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	
WSARC / WBI	WBSC 9028 WSARC-TE															
	WBSC 9028 WSARC-TEW															
	WBSC 7255 WSARC-TE															
	WBSC 7255 WSARC-TEW															

Of the four WBI contracts effective during Period One, all but one charged full G&A and overhead rates. The contract that did not charge full rates has a cost share in the project that reduced the G&A rate to approximately 15%. The cost share represents the G&A expenses to be incurred by WSARC but not recovered from WBI and, therefore, absorbed by the University. This is also the only contract from Period One that was signed by Richard Maresca on behalf of WBI.

		PERIOD TWO				PERIOD THREE								
WSU / WBI	WBSC 9023 WSU-OPS													
	WBSC 9028 WSU													
	WBSC 9028 WSU-DRP													
	WBSC 9028 WSU-OI													
	WBSC 7255 WSU-CUPA													
	WBSC 7255 WSU-TE													
TIMELINE														
		Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	
WSARC / WBI	WBSC 9028 WSARC-TE	Signed by: McFawn (WBI) & Fendley (WSARC) Purpose: Mult staff, full rates, cost share to reduce G&A to 15%												
	WBSC 9028 WSARC-TEW	Signed by: Maresca (WBI) & Fendley (WSARC) Purpose: Osgood, full rates, cost share of \$50,000 + reduction of G&A to 15%												
	WBSC 7255 WSARC-TE	Signed by: McFawn (WBI) & Fendley (WSARC) Purpose: Mult staff, full rates, cost share to reduce G&A to 15%												
	WBSC 7255 WSARC-TEW	Signed by: McFawn (WBI) & Fendley (WSARC) Purpose: Mike Osgood, full rates, cost share of \$50,000 + reduction of G&A to 15%												

When the WBI awards transferred from WSU to WSARC, they continued to include a cost share in the project budget to be paid by WSARC/WSRI that reduced the G&A rate to approximately 15%. Further, the two awards to fund Mike Osgood each include an additional \$50,000 cost share to be provided by WSRI against Osgood's salary. Three of the awards were signed by Lester McFawn on behalf of WBI; one was signed by Richard Maresca. All four awards were approved by Ryan Fendley on behalf of WSARC. For these four awards, the CFO calculated just over \$1 million of unbillable indirect costs¹⁶.

¹⁶ We were provided a spreadsheet by the CFO containing calculations of what he deemed to be unbillable costs. We have not analyzed the calculations and/or assumptions on his spreadsheet; however, we have provided the figures for your reference (Attachment 15).

		PERIOD FOUR			
WSU / WBI	WBSC 9023 WSU-OPS				
	WBSC 9028 WSU				
	WBSC 9028 WSU-DRP				
	WBSC 9028 WSU-QI				
	WBSC 7255 WSU-CUPA	NA - \$2,850 award			
	WBSC 7255 WSU-TE	Signed by: McFawn (WBI) & Friese (WSU) Purpose: Mult Staff, full rates, cost share to reduce G&A to 15%			
TIMELINE		Q4 2014	Q1 2015	Q2 2015	Q3 2015
WSARC / WBI	WBSC 9028 WSARC-TE				
	WBSC 9028 WSARC-TEW				
	WBSC 7255 WSARC-TE				
	WBSC 7255 WSARC-TEW				

When the WBI contracts were transferred back to the University at the end of 2014, the cost share to reduce the G&A rate to approximately 15% was still included in the project budget.

In summary, our analysis of WBI identified the following:

1. Select WBI award agreements were approved by Richard Maresca who has a potential conflict of interest given his signing authority for both parties.
2. Select WBI awards contained costs shares to reduce the G&A rate to 15% which have caused both WSARC and WSU to incur unrecoverable costs.

Development Projects, Inc.

We requested and received both of the award agreements between DPI and WSARC (**Attachment 16**) that were included on the *Contracts.xlsx* file¹⁷ (**Attachment 11**):

- Agreement number OADPP-002 WSARC ("WSARC Award 1025"), effective January 1, 2012 through June 30, 2013 with a total estimated award of \$3,000,000; and
- Agreement number OADPP-007 WSARC ("WSARC Award 1050"), effective November 1, 2013 through June 30, 2015 with a total estimated award of \$3,475,000.

Per the terms of the award agreements, WSARC agreed to bill DPI at indirect rates lower than the University's established rates. The project budget for WSARC Award 1025 includes \$45,500 (26%) of indirect costs for \$175,000 of direct costs related to professional services and \$26,000 (2.16%) of indirect costs for \$1,200,000 of direct costs related to subcontracts; however, it does not include any indirect costs for direct labor, which is estimated at \$1,553,494.

¹⁷ The "client" in the *Contracts.xlsx* file is listed as Dayton Projects, Inc. versus Development Projects, Inc. However, we've surmised they are one in the same as the award amount (\$4,000,000) and the award's beginning effective date agree to each other.

The Project Budget			
Direct Labor			
Resource	FB Hourly Rate	Hours of Effort	Total Cost
Ryan Findley, PI	\$98.44	1040	\$102,376
Kevin Gomes, SME	\$129.94	3120	\$406,613
Chad Rater, SME	\$73.85	3120	\$230,412
Stephane Gotschlich, SME	\$47.96	3120	\$149,688
Terry Rapoch, SME	\$95.09	780	\$76,510
Rob Myers, SME	\$43.96	802	\$35,272
Bruce Press, SME	\$134.14	1525	\$205,784
Aaron Miller, SME	\$71.17	520	\$37,008
Phani Kodambi, SME	\$73.57	800	\$58,856
Shashin Nadeha, SME	\$48.77	875	\$31,944
Graduate Research Asst.	\$38.35	5200	\$189,020
Total Direct Labor			\$1,853,494
Professional Services			
Resource			Total Cost
Mindshen Consulting - Marketing Services			\$25,000
Internship and Industrial Partner Expansion			\$150,000
Subtotal Professional Services			\$175,000
Indirect Costs on Professional Services			\$45,500
Total Professional Services			\$220,500
Subcontracts			
Company			Total Cost
Cognitive Analytics and Research Design			\$100,000
Modeling, Simulation and Information Technology			\$100,000
Radance Technologies			\$500,000
Science Applications International Corporation			\$500,000
Subtotal Subcontracts			\$1,200,000
Indirect Costs on Subcontracts			\$28,000
Total Subcontracts			\$1,228,000
Total Project			\$2,809,994

WSARC Award 1051 is sourced by DPI using funds received from Ohio Third Frontier. The project budget section of WSARC Award 1050 includes a table outlining the use of the funds. This table details a projected \$630,000 of unrecovered indirect costs built into the total contract.

Use of Funds	
Year 1 OTF Funds	
Personnel	\$1,227,500
Supplies	\$10,000
Purchased Services	\$0
Travel	\$0
Other Direct Costs	\$500,000
Equipment	\$0
Total	\$1,737,500
Year 1 In-Kind Matching	
Personnel	\$605,000
Purchased Services	\$330,000
Unrecovered Indirects	\$315,000
Other Direct Costs	\$1,250,000
Equipment	\$100,000
Total	\$2,600,000
Use of Funds	
Year 2 OTF Funds	
Personnel	\$1,227,000
Supplies	\$10,000
Purchased Services	\$0
Travel	\$0
Other Direct Costs	\$500,000
Equipment	\$0
Total	\$1,737,000
Year 2 In-Kind Matching	
Personnel	\$605,000
Purchased Services	\$330,000
Unrecovered Indirects	\$315,000
Other Direct Costs	\$1,250,000
Equipment	\$100,000
Total	\$2,600,000

Both award agreements are signed by Jeffrey Hoagland on behalf of DPI and Ryan Fendley on behalf of WSARC. The CFO calculated approximately \$970,000 in unbillable indirect costs from the two DPI awards.

In summary, our analysis of DPI awards identified that WSARC entered into contracts with unfavorable terms that resulted in significant unrecoverable costs.

Advratech, LLC

Through our analysis of WSARC disbursements, we identified that the award for WSARC's Cochlea Ear Project required WSARC to provide funding to Advratech without charging indirect costs. It is our understanding that the University received funding to support the Cochlea Ear Project and awarded those funds to WSARC ("WSARC Award 1033"). We requested the contractual documentation for this award and were provided a letter dated August 27, 2011 from Ryan Fendley to John Bale, the Associate Dean of the Boonshoft School of Medicine (**Attachment 17**). The letter states that, once the funds are received from the University, WSARC will enter into an agreement with Advratech¹⁸ in the amount of \$64,222. Further, the letter specifies that WSARC will provide the services at no cost in order to facilitate the research effort. We were not provided modifications to this award.

Pursuant to WSARC Award 1033, WSARC entered into a subgrant agreement¹⁹ with Advratech effective for the one year period from September 1, 2012 to August 31, 2013 (**Attachment 18**). The agreement is a fixed-price contract of \$64,222 to be paid on receipt of Advratech's invoice for that amount. These terms are unfavorable as WSARC was to pay ahead of and/or regardless of work performed. Per the subgrant agreement, Advratech was to use the funding received from WSARC to support the work of WSRI Principal Scientist Dr. Yan Zhuang in the development of the Artificial Cochlea. The agreement is signed by Ryan Fendley on behalf of WSARC and Eric Graham on behalf of Advratech.

¹⁸ 33% of Advratech is owned by a wholly owned subsidiary of WSARC.

¹⁹ Due to WSARC's roles as a pass-through entity, this was an Agreement rather than a subgrant agreement.

On August 23, 2013, modification one to the subgrant agreement extended the period of performance through April 30, 2015 and increased contract price by \$60,000 to be paid on receipt of an invoice for that amount. The modified project budget was as follows:

Personnel:
Jared Evans
09.01.2012 – 12.31.2012
Stipend: \$8,000
Overhead: (20%) \$1,600
01.01.2013 – 08.31.2013
Stipend: \$16,000
Tuition: \$6,180 (One semester) +\$3,942 (2013 summer)
09.01.2013 – 04.30.2015 Budget
Personnel: \$27,000
Materials: \$5,500
Device Fabrication: 12,000
Device Testing: 4,000
Conference Travel: 1,500
Overhead (20%): 10,000
Yan Zhuang
0.5 month salary \$5,000
Graduate Student Assistance
\$4,000
Materials and Supplies: \$19,500
Total: \$ 124,222

In addition to the \$124,222 of funding provided by WSARC pursuant to the modified subgrant agreement, we identified a payment of \$31,050 to Advratech allocated to this agreement causing total payments to exceed the budgeted amount of \$124,222. Further, all three invoices for this contract contain limited spending detail to support their payment, as will be discussed in the Internal Controls Issues: Invoices section.

Per calculations by the CFO, WSARC has been forced to record over \$40,000 in unbillable indirect costs related to this award, as it agreed to pass-through funding from the University without charging Advratech for indirect costs. Additionally, while WSARC did not recover indirect costs related to Agreement 1033, the project budget per the modified subgrant agreement allowed for Advratech to charge WSARC \$11,600 in overhead costs.

Contract Issues Summary

As outlined in this section, WSARC and, ultimately, the University entered into several contracts that were not favorable, causing a loss of funds which are likely not recoverable. Going forward, WSARC should implement controls surrounding the contracting process to ensure:

- 1) Contracts are not initiated by those with potential conflicts; and
- 2) Contracts are not entered into with terms that are unfavorable unless approved by authorized representatives (such as the University's board) when it is decided it is in the best interest of WSU.

5. Affiliated Entities

Advratech, LLC

We identified that, on February 28, 2013, WSARC made a \$202,500 payment to DaytaOhio Holdings, Inc. (“DaytaOhio Holdings”), a wholly-owned subsidiary of WSARC. We selected this payment for further follow-up because our analytics identified the following red flags:

- The WSARC vendor file did not contain an address for the payee;
- The transaction was for a large, rounded dollar amount;
- The disbursement was in the top 50 checks paid by WSARC; and
- The vendor was paid over \$100,000 in total.

In order to understand the purpose of this disbursement, we requested all supporting documentation related to the transaction. The provided documents revealed the payment was for DaytaOhio Holdings to purchase an ownership interest in Advratech²⁰. The wire transfer was approved by the WSARC Board, including Ryan Fendley, Terry Rapoch and Sundaram Narayanan (**Attachment 19**). Per the Advratech Operating Agreement (“Operating Agreement”) drafted in October 2012²¹, DaytaOhio Holdings invested \$198,000 in Advratech to purchase a 33.3% ownership. Advratech Holdings, LLC, wholly-owned by Eric Graham and a distinct entity from Advratech, LLC, purchased the remaining 66.7% ownership interest for \$402,000 (**Attachment 20**). DaytaOhio Holdings’ investment in Advratech was approved by the DaytaOhio Holdings Board, including Ryan Fendley (President), Terry Rapoch (Treasurer) and Richard Maresca (Secretary). The Operating Agreement contains unfavorable conditions under which DaytaOhio Holdings’ ownership interest may be reduced by 10% annually; however, the agreement does not contain a similar provision for Advratech Holdings.

²⁰ Advratech, founded in April 2012 by Eric Graham, is a small business focused on intellectual property (“IP”) commercialization; (<http://advratech.com/research.html>).

²¹ We were not provided the signed agreement.

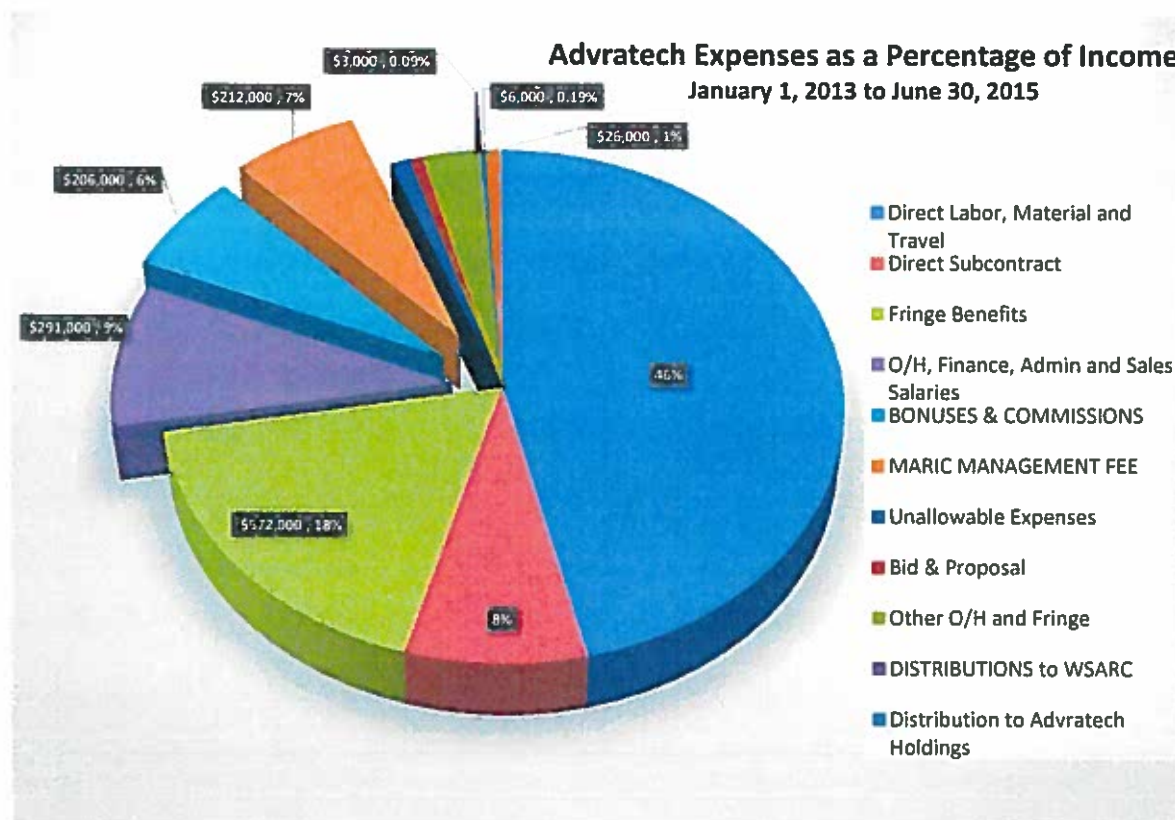
8.5 Adjustment of Shares. daytaOhio acknowledges that Holdings is entering into this Agreement in connection with and in reliance on the transactions contemplated by that certain Master Agreement of equal date herewith between the Company and Wright State University. daytaOhio is a wholly-owned subsidiary of Wright Stated Applied Research Corporation, which is controlled by Wright State University (“WSU”). As such, for any calendar year in which WSU does not offer any WSU Initiated Projects (as defined in the Master Agreement) to the Company and WSU does not accept any Advratech Initiated Projects (as defined in the Master Agreement), effective January 1 of the following calendar year, Holdings’ Points (and consequently its Sharing Ratio and Economic Rights) shall automatically and without any action on behalf of any Member or the Management Committee or compensation from Holdings, be increased by an amount equal to 10% of the then current-Points held by Holdings.

The Operating Agreement specifies that the Management Committee shall consist of three individuals including Eric Graham as Chairman and one WSU representative. Currently, Advratech’s Management Committee consists of Eric Graham, Patricia Kukulka, and Ryan Fendley. Background research identified that Patricia Kukulka’s maiden name is Patricia Graham; she is presumably related to Eric Graham. In addition to his position on the Management Committee, Eric Graham is also the Director of Advratech, with James Gates as Vice President and Timothy Sparling as Controller.

After learning that, through DaytaOhio Holdings, WSARC has an ownership interest in Advratech, we wanted to view the performance of WSARC’s investment. When we inquired about the return on the investment, WSARC’s CFO indicated that WSARC has only received a single distribution of \$3,000 since the investment was made. In order to understand the financial condition of Advratech and the reason(s) WSARC has received such a low return on its investment, we analyzed Advratech’s financial statements for the years ended December 31, 2013 and December 31, 2014, as well as the six-month period ended June 30, 2015 (**Attachment 21**). In total, Advratech had \$3.20 million of revenue and \$3.16 million of expenses, with net income per year as follows:

- 2013: \$88,100 loss
- 2014: \$87,800 profit
- 2015: \$35,200 profit (through June 30)

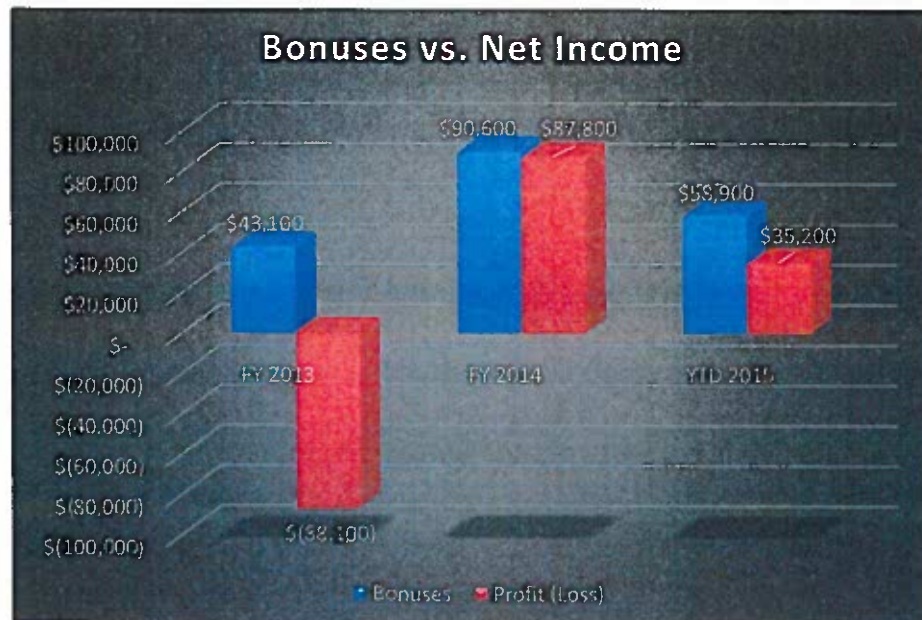
Advratech's expenses, expressed as a percentage of revenue (income), are presented in the following chart:



Our analysis of Advratech's financial and contractual documentation identified potential issues regarding bonuses, conflicts of interest, the total rate of indirect costs charged to awards and unidentified payments, as will be outlined in the ensuing subsections.

Bonuses

From January 1, 2013 through June 30, 2015, Advratech reported in its financial statements a total of \$206,000 in expenses for bonuses and commissions, equal to 6% of its income during this period. Of this expense, \$192,600 is for bonuses recorded by Advratech. Analysis of the expense reported per year revealed that Advratech's bonuses exceed net income each year in the periods analyzed.



We were unable to determine who received these bonuses and commissions based on the information provided because we were not provided the payroll records. The potential concern regarding bonuses and commissions is with the metrics used to determine them, as these expenses appear to be large considering Advratech's financial performance during the periods analyzed. Further, the fact that the bonuses and commissions exceed the reported net income could raise concern regarding whether Advratech's Board and/or Management Committee approved these expenses.

Conflict of Interest

In addition to having an ownership interest, WSARC has three subgrant agreements with Advratech:

- WSARC Subgrant Agreement 15-001: AHEAD Project Support (**Attachment 22**);
- WSARC Subgrant Agreement 1034-009: Intellectual Property ("IP") Commercialization (**Attachment 23**); and
- WSARC Subgrant Agreement 1033: Artificial Cochlea (**Attachment 18**).

Per Subgrant Agreement 1034-009, Advratech must address any conflict of interest issues pursuant to the following terms:

ATTORNEY WORK PRODUCT – PRIVILEGED & CONFIDENTIAL

ARTICLE 11. CONFLICTS OF INTEREST

Subgrantee certifies that there is in effect an administrative process to identify and resolve financial or other conflicts of interest that may affect or create the appearance of affecting the objectivity of any activity to be conducted with the support of Subgrant Funds provided under this Agreement. Subgrantee will inform WSARC in writing of all conflicting financial or other interests that have been identified and provide for each such conflict a description of how the conflict has been resolved to protect the execution of the Project from bias or the appearance of bias. Subgrantee certifies that its conflict of interest policies and procedures comply with Code of Federal Regulations Title 45, Part 94 and Ohio Revised Code §§ 102.03, 2921.42, 2921.43, and 3345.14.

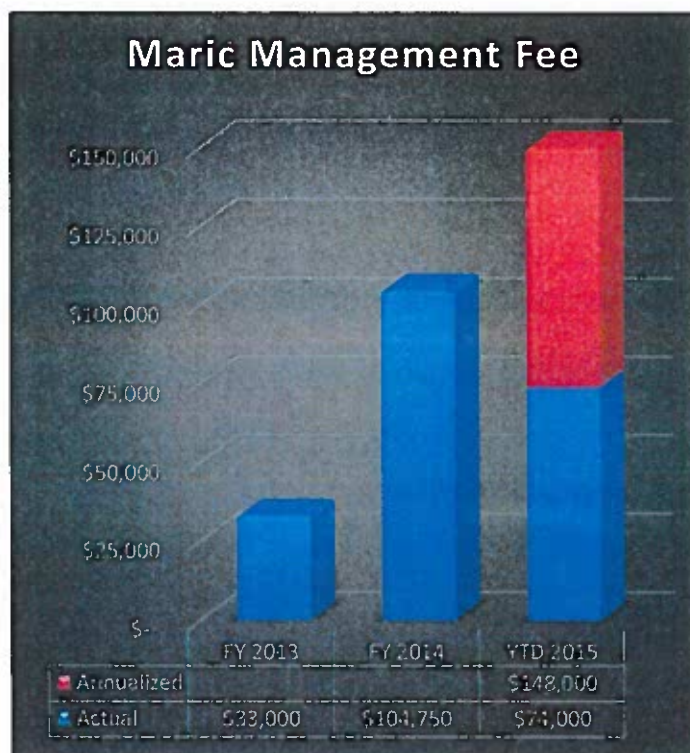
Based on discussions with the CFO, it is our understanding that WSARC has not received documentation from Advratech regarding conflicts of interest; however, we performed background research on select Advratech vendors and identified several potential conflicts of interest. Specifically, the relationships Advratech's Management has with each of the following entities could create the appearance of a conflict of interest that may require disclosure to WSARC under the terms of Subgrant Agreement 1034-009:

- Maric Management;
- Slone Gear International;
- MLPC, Inc.; and
- R-Designs, LLC.

Maric Management

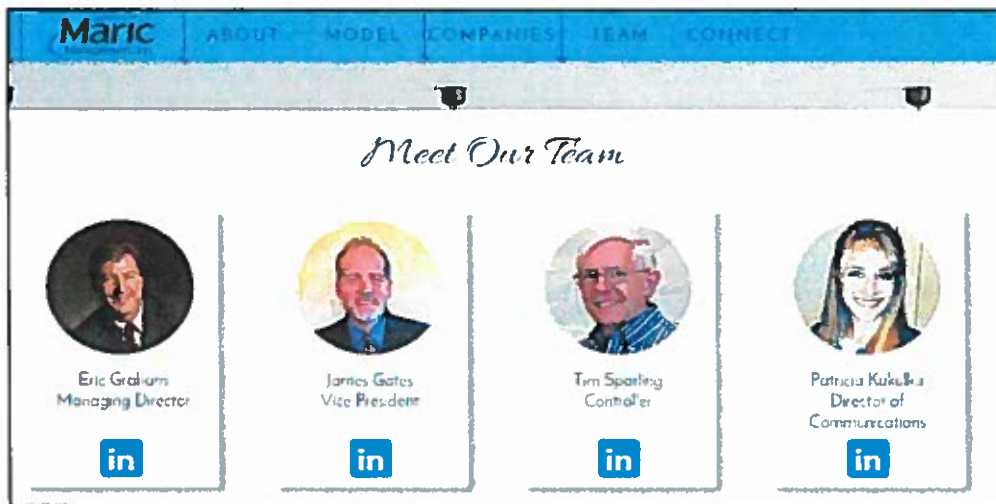
Maric Management provides services focused on helping entrepreneurs grow their businesses²². From January 1, 2013 through June 30, 2015, Advratech reported in its financial statements a total of \$212,000 in fees related to Maric Management. As shown in the chart below, the Maric Management fee increased from \$33,000 in 2013 to \$104,750 in 2014. Based on the data available through June 30, the annualized fee for 2015 is estimated at \$148,000.

²² maricmanagement.com/



The above chart identifies \$212,000 (\$33,000 + \$104,750 + \$74,000) of expenses reported in the financial statements. However, the actual cash paid by Advratech may have exceeded the \$212,000 of recorded expenses as we identified payments in the check register to Maric Management recorded as prepaid expenses (a liability account which does not impact recorded expenses).

In addition to the Maric Management fees, Advratech also loaned \$50,000 to Maric Management during 2014. Per Advratech's check register, the loan was made in September 2014. Advratech reported interest income of \$3.85 for the year ended December 31, 2014 and \$167.29 for the six months ended June 30, 2015. The balance of the note receivable for the loan remained at \$50,000 as of June 30, 2015. While the information provided did not contain details regarding the terms of the loan, the annual interest rate for the loan calculates to less than 0.7% based on six months interest income of \$167.29 on \$50,000. Shareholders of Advratech may find it concerning that nearly interest free loans to a related entity are being made at a time when minimal/zero distributions are being made to the investors. Our background research identified that the Maric Management team consists of the following individuals:



Public records indicate that Eric Graham is the company's Statutory Agent. All four of the individuals comprising the team at Maric Management also have key roles at Advratech, as previously discussed. Further, Maric Management's clients include entities doing business with Advratech: Slone Gear International and MLPC, Inc.

Loans to James Gates

As of June 30, 2015 Advratech reported three outstanding notes receivable totaling \$50,000. Review of Advratech's check register identified that all three notes were paid to James Gates, Vice President of Advratech and Maric Management, as follows:

- Note #1: \$5,000 paid in March 2013 and \$10,000 paid in April 2013.
- Note #2: \$10,000 paid to October 2013.
- Note #3: \$25,000 paid in April 2014.

The information provided did not contain details regarding the terms of the loans.

Slone Gear International

Slone Gear International (“Slone Gear”) develops and distributes gear related products²³. Public records indicate that Tim Sparling is the company’s Statutory Agent. As previously stated, Tim Sparling is the Controller at Advratech.

Advratech’s check register contained a \$400,000 check to Slone Gear dated March 31, 2015. Per the check register, the payment was recorded as a receivable; however, the receivable was not on the balance sheet as of June 30, 2015. Additionally, in 2014, Advratech reported \$13,250 in sales commissions in its financial statements to Slone Gear for “PECo Sales”. From the information provided we were unable to determine what Slone Gear did to earn these commissions or the reason(s) Slone Gear is “selling” on behalf of Advratech.

MLPC, Inc.

MLPC, Inc. (“MLPC”) a laser-focused micromanufacturing company that provides supplies to the medical and defense industries²⁴. Public records indicate that Tim Sparling is the Statutory Agent for the company. As previously mentioned, Tim Sparling is the Controller at Advratech and the Statutory Agent for Slone Gear.

R-Designs, LLC

In 2014, Advratech subcontracted \$3,075 to R-Designs, LLC (“R-Designs”). Per the check register, this expense was paid to Ryan Kukulka, the husband of Advratech Management Committee member Patricia Kukulka²⁵. We were not provided the invoice for this particular transaction; however, Ryan Kukulka’s LinkedIn profile state that R-Designs focuses on web-based media.

²³ <http://www.slonegear.com/>

²⁴ <http://www.mlpc.com/>

²⁵ Our research revealed that Patricia Kukulka’s maiden name is Graham, the same last name as Eric Graham, the managing member of Maric Management, Inc. It appears that Patricia is related to Eric.

Founder & CEO

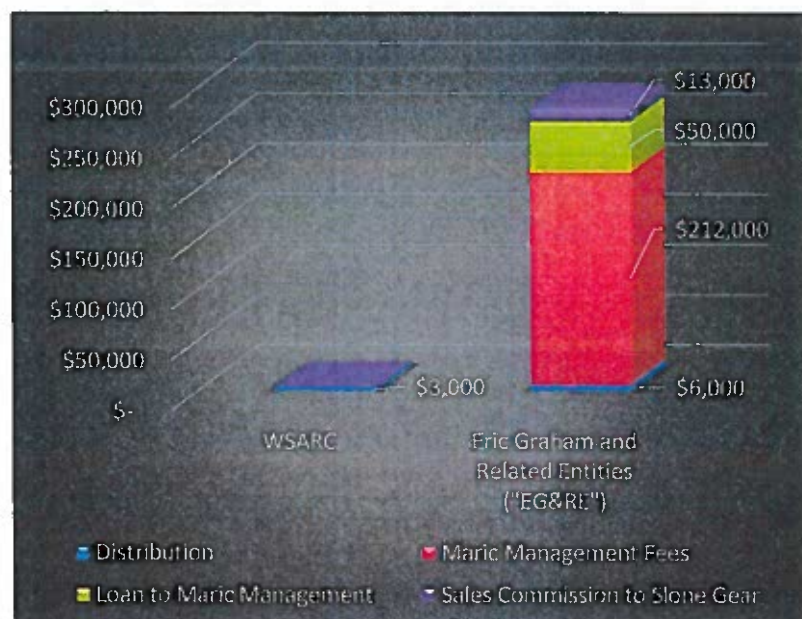
R-Designs LLC

March 2014 – Present (2 years 4 months)

As founder of R-Designs LLC, I collaborate with start-up companies to market their brand identity, develop web based media, and brand awareness in print. It is my job to create simple but effective graphic designs to attract more business in their niche markets.

It appears unusual that Advratech would need to subcontract its web design (presuming that was the scope of R-Designs' services) when they were hired by WSARC to do the same service. Specifically, the project description for Subgrant Agreement 15-001 indicates Advratech was hired to coordinate and develop a website for the Alliance for Human Effectiveness and Advancement ("AHEAD").

In total, expenses recorded (i.e., paid/to be paid) for Eric Graham and his related entities totaled 8.79% of Advratech's income (revenue) from January 1, 2013 through June 30, 2015. As previously stated, WSARC has received \$3,000 of distributions from Advratech, amounting to 0.094% of revenue during this period. The following chart identifies the difference in expenses recorded (i.e., paid/to be paid) between WSARC and Eric Graham and his related entities:



Additionally, based on the financial statements, there were \$483,600 in bonuses, overhead salaries, finance and administrative salaries and sales salaries in which some or all may have been paid to Eric Graham.

Indirect Costs Charged to Awards

As previously stated, WSARC has a subgrant agreement with Advratech for the IP Commercialization project, which was paid by WSARC using the workforce development funds. From January 1, 2013 through June 30, 2015, Advratech recorded expenses totaling \$363,200 for the IP Commercialization award. Of the expenses allocated to this contract, \$161,900 is for direct labor costs, which represent hours worked directly on the client's project. The remaining \$201,300 could have been used for other direct costs, such as travel and subcontracts; however, a total rate of up to 124% for indirect costs may have been charged by Advratech to the WSARC IP Commercialization contract (\$201,300 / \$161,900).

Our analysis of Advratech's financial statements identified that Advratech received awards from Slone Gear and MLPC. We identified the maximum rate(s) that could have been charged for indirect costs on these awards were significantly lower than the maximum rate for the IP Commercialization award.

Slone Gear: From January 1, 2013 through June 30, 2015, Advratech recorded expenses totaling \$154,200 for a commercial contract award from Slone Gear. Of the expenses allocated to this contract, \$94,000 was for direct labor costs. The remaining \$60,200 could have been used for other direct costs, such as travel and subcontracts; however, a maximum rate of 64% for indirect costs could have been charged by Advratech to the Slone Gear award (\$60,200 / \$94,000).

MLPC: From January 1, 2013 to June 30, 2015, Advratech recorded expenses totaling \$10,100 for a commercial contract award from MLPC. Of the expenses allocated to this contract, \$6,100 was for direct labor costs. The remaining \$4,000 could have been used for other direct costs, such as travel and subcontracts; however, a maximum rate of 65% for indirect costs could have been charged by Advratech to the MLPC award (\$4,000 / \$6,100). In addition to receiving an award from MLPC, Advratech subcontracted \$13,571 of work to MLPC in 2014. Since Tim Sparling is the Statutory Agent for both Advratech and MLPC, there is concern whether the services performed in the contract were at market rates.

In summary, the maximum overhead rates charged to Slone Gear and MLPC were approximately half the maximum overhead rate that could have been charged to WSARC. The possibility exists that Advratech is charging WSARC significantly higher overhead rates on the workforce development funds compared to funds from other clients; thereby, using State funds to disproportionately subsidize overhead expenses, including bonuses and payments made to related parties.

Unidentified Payee

Our analysis of Advratech's check register identified a \$400,000 check dated May 23, 2013 with no payee specified. It appears this payment may have been a transfer between Advratech's bank accounts (checking and savings); however, we were not provided bank statements to confirm this activity.

Type	Item	Date	Name	Item	Account	Paid Amount	Original Amount
Check		05/23/2013			1001 - PNC Checking		-400,000.00
					1002 - PNC Savings	-400,000.00	400,000.00
TOTAL						-400,000.00	400,000.00

ATIC

Through interviews and research, we identified several entities potentially affiliated with WSRI/WSARC. Based on analysis of WSARC's disbursements, it appears that these entities received significant funding. The limited control and/or oversight of these payments, as will be discussed in the Internal Control Issues: Purchasing section, leaves WSARC vulnerable to a variety of risks, including:

- Related party transactions that create and/or involve a conflict of interest.
- Activity that does not align with interests/culture.
- WSARC being double-billed for the same services (e.g., invoice sent to both WSARC and affiliated entity for the same goods/services).
- WSARC paying rates much higher than the market, including direct costs and overhead rates.
- Significantly reduced spending transparency.

While we attempted to analyze select potentially affiliated entities, little documentation was onsite at WSARC for these entities. We were, however, provided contractual and financial documentation for one entity: Advanced Technical Intelligence Center ("ATIC").

ATIC is a not-for-profit focused on developing human capital and technology within the intelligence community²⁶. Based on our interviews, it is our understanding that ATIC was initially funded by the State and had multimillion dollar contracts with the Air Force Institute of Technology and the National Air and Space Intelligence Center. After these two contracts expired, in 2012 and 2013, respectively, ATIC was primarily funded by tuition revenue from intelligence courses they provided; however, enrollment for these courses was low and ATIC was experiencing financial difficulty.

ATIC has been a vendor for WSARC since 2012. On October 14, 2014, WSARC entered into a management agreement with ATIC, signed by Mike Gearhardt (Treasurer) on behalf of ATIC and by Dennis Andersh on behalf of WSARC (**Attachment 24**). Pursuant to the agreement, all ATIC employees specified in Exhibit A, including ATIC President and CEO Hugh Bolton, became employees of WSU. Exhibit B contains the specific terms of Hugh Bolton's employment, indicating that he was to resign as ATIC's President and CEO and be hired by the University at a base salary of \$228,000. Per the terms of the agreement, WSARC was to invoice ATIC for actual labor costs and fringe benefits of individuals providing services to ATIC. WSARC is not, however, permitted to invoice ATIC for G&A or overhead costs. As of June 30, 2015, the WSARC CFO calculated over \$410,000 in unrecoverable costs as a result of the management agreement. In addition to these unrecoverable costs, ATIC is past due on over \$585,000 in labor costs with an additional \$82,000 to be billed as of June 30, 2015. Approximately \$337,000 of the outstanding charges are over 90 days old.

The unpaid direct expenses and unrecoverable unbillable indirect expenses have made this deal very costly for WSARC. Even if ATIC was not past due on labor costs, the contractual terms agreed to by WSU regarding the hire of ATIC's employees are concerning as WSARC would still be incurring substantial losses for unbillable indirect costs. In interviews, the WSU President represented the University was aware that ATIC was struggling financially and WSU's

²⁶ <https://atichcd.org/>

management deemed ATIC important to the community; therefore, they agreed to hire ATIC's employees under the management agreement. The WSU President further represented that, while this may not have been the best financial decision, management deemed it a good strategic decision.

Given that ATIC continued to struggle financially and was not paying the WSU labor costs per the management agreement, we reviewed select ATIC financial information, including its check register for January 1, 2011 through June 26, 2015 and the Form 990(s), Return of Organization Exempt From Income Tax, for 2011 through 2013 (**Attachment 25²⁷**). We identified that, despite being a "struggling organization", ATIC had paid its CEO significant bonuses in addition to a high-level salary. Per the Form 990s, Hugh Bolton received the following compensation:

- 2011: Base compensation of \$249,314, bonus and incentive compensation of \$72,644 and retirement and deferred compensation of \$107,998, with total compensation for the year of \$429,956.
- 2012: Base compensation of \$242,611 and bonuses of \$237,572, with total compensation for the year of \$480,233.
- 2013: Base compensation of \$205,416, with compensation total compensation for the year of \$205,416.

Our analysis of ATIC's disbursements also identified related party payments made by ATIC. These payments are as follows:

- From 2011 to 2014, ATIC paid over \$140,000 to Sebaly, Shillito, & Dyer, a law firm at which Beverly Shillito is a Partner. Beverly Shillito was also identified to be ATIC's Secretary. We did, however, identify that this relationship was disclosed on ATIC's tax returns.

²⁷ Due to the voluminous nature of documents, the attachment includes only Schedule J (Compensation Information) of ATIC's Form 990 for 2011 through 2013. If requested, we can provide copies of the form and additional schedules.

- From 2011 to 2014, ATIC paid over \$51,000 to the Dayton Development Coalition (DDC). Jeff Hoagland, ATIC Trustee and Vice Chairman, is the President/CEO of DDC.

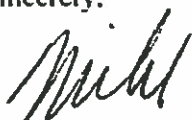
In 2012, a total of \$15,000 was donated by ATIC to Dayton First Events (DFE); however, ATIC was not listed as a sponsor on the website. Further, Beverly Shillito (ATIC Secretary) is the vice president of DFE. Upon further research, we received the supporting documentation shown below which indicates these donations may have been passed-through from commercial entities:

Dear Mr. Bolton: *Hugh —*

Please find enclosed a Presidential Grant of \$5,000.00 to the Advanced Technical Intelligence Center for Human Capital Development designated for support for the Dayton First Four Festival. This grant is awarded to your organization from the **HARRY A. TOULMIN, JR., AND VIRGINIA B. TOULMIN FUND OF THE DAYTON FOUNDATION.**

Please call me at 937-225-9977 if you have any questions regarding this grant.

Sincerely,



Michael M. Parks
President

Dear Hugh:

Dayton First Events Inc. ("DFE") organized the 2012 Dayton First Four Festival ("Festival") in connection with the NCAA and the United States Air Force. The Festival included educational activities to encourage children to pursue STEM education as well as to consider the Air Force as a career opportunity. Because a student population pursuing STEM education is fundamental to ATIC's ability to attract and develop intelligence and cyber analysts, ATIC agreed to a grant between ATIC and DFE in the amount of \$10,000 (the "Grant") supporting the activities in the tented area housing the family education experience.

Emerson Climate Technologies pledged \$10,000 in support of the Grant for educational activities at the Festival. The check has been received (issued by Emerson's parent company, Emerson Electric Co.) and is enclosed made payable to ATIC in the amount of \$10,000. To fulfill the Grant, please issue a check to Dayton First Events Inc. and return to me.

Thank you for your very generous support of educational opportunities in the Dayton Region.

Sincerely,



Heverly F. Shillito
Vice President

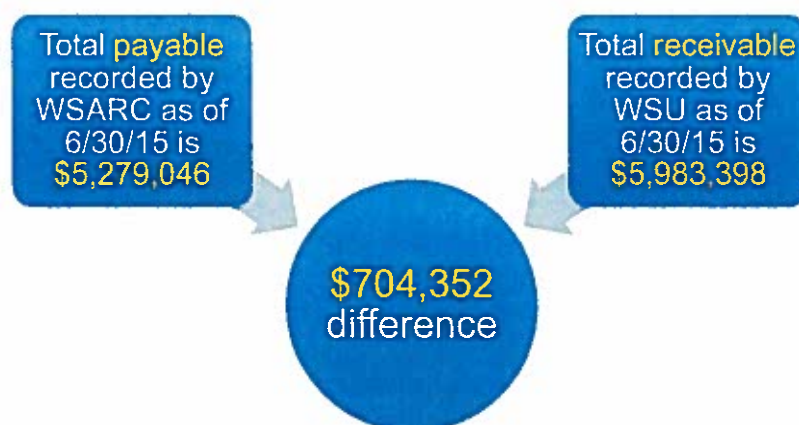
It is important to note that the disbursements discussed (large salaries, bonuses, and related party payments), with the exception of approximately \$6,000 to Sebaly, Shillito & Dyer, pre-date the management agreement and, therefore, WSARC did not have authority over these disbursements. However, further analysis identified the bonuses paid to Hugh Bolton came at a time when questionable payments to ATIC totaling \$500,000 were made by WSARC, as will be discussed in the Internal Control Issues: Invoices section.

Other Affiliated Entities

The other entities we identified as potentially affiliated with WSRI/WSARC are listed in Attachment 26.

6. WSARC Payable to WSU

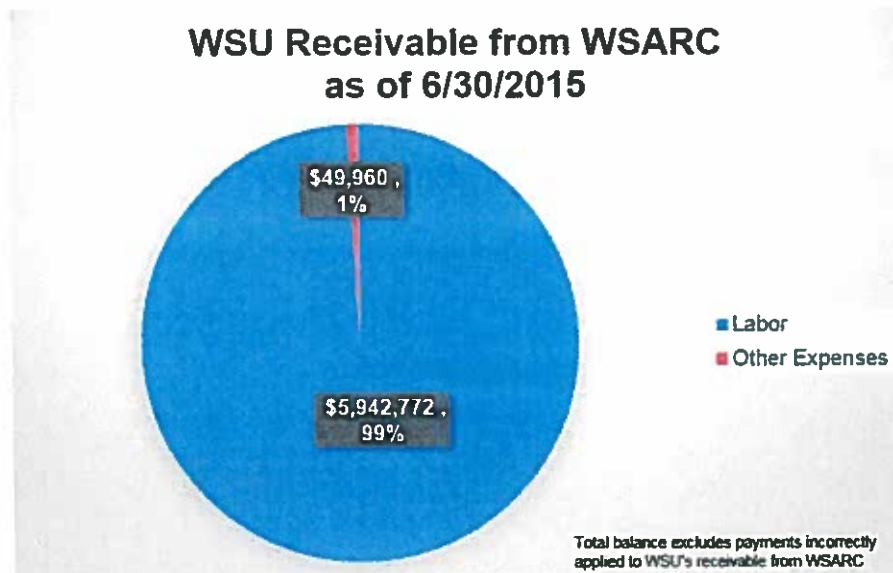
We analyzed the payable from WSARC to WSU to determine: 1) the amount of the payable; and 2) the components of the balance owed. As of June 30, 2015, the total payable recorded by WSARC is \$5,279,046 and the total receivable recorded by WSU is \$5,983,398.



We identified that the difference of \$704,352 is composed of the following four items:

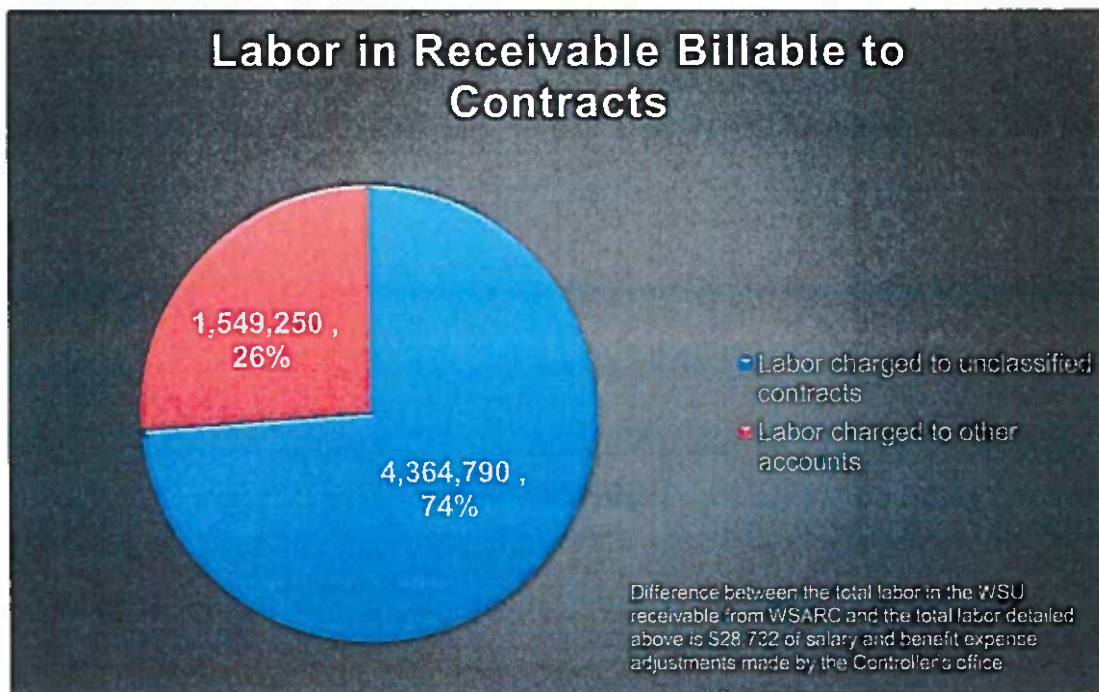
- 1) \$488,568 due to timing differences for payments made by WSARC on June 30, 2015. Since these payments were recorded by WSARC but were not yet received by WSU, they are not included in the receivable as of June 30, 2015.
- 2) \$192,262 due to an invoice recorded by WSU but never sent to WSARC. Since WSARC did not receive this invoice as of June 30, 2015, it is not included in the payable at that date. Subsequent to our inquiry, this invoice has been sent to and recorded by WSARC.
- 3) \$32,855 due to invoices recorded by WSU but not historically recorded by WSARC. Since the invoices were not vouchered by WSARC, they are not included in the payable as of June 30, 2015. These invoices have since been recorded and will continue to be recorded moving forward.
- 4) (\$9,333) due to payments incorrectly applied by WSU to their receivable. Since these payments from WSARC to WSU are not related to the receivable, they should not be included in the receivable.

As shown below, 99% of the balance of the receivable from WSARC recorded by WSU as of June 30, 2015 consists of labor expenses:



We would expect labor expenses owed to WSU by WSARC given the structure of the research entity. As previously discussed, WSARC has no employees as it sources all labor through WSRI. WSU, therefore, pays all WSRI employees and subsequently invoices WSARC for the labor expenses allocated to WSARC projects and operations.

Of the labor expenses in WSU's receivable from WSARC, approximately \$4.4 million is labor charged to unclassified contracts:



Labor charged to unclassified contracts represents labor costs for employees that worked directly on WSARC contracts and, therefore, WSARC, in theory, should be able to recover the cost of this labor through an award. The fact that, historically, WSARC entered into contracts with indirect cost rates that were lower than the University's established rates greatly impacted WSARC's ability to pay WSU. The difference between the established rates and the lower, negotiated indirect cost rates represent a portion of costs that WSARC had incurred but will not recover from the award(s) for which the costs were incurred. It is likely a large portion of the \$4.4 million of labor charged to unclassified contracts are unrecoverable labor costs due to these unfavorable contracts. WSARC, therefore, will be unable to reimburse the University for these costs unless another source of funding is used.

7. Internal Control Issues: Purchasing

One of our main tasks was to analyze WSARC's disbursement activity. Our first priority was to obtain an understanding of the purchasing processes and controls in place. Through numerous interviews, we understood the process to be as follows:

Project Managers have the authority to determine the ideas for the projects they lead. Once a project topic and scope is finalized, the Project Manager is able to select subcontractors and approve spending for direct materials required to complete the project. WSARC will then enter into subgrant agreements with the subcontractors and, when materials are needed, issue purchase orders to vendors. In some cases, Indefinite Quantity/Indefinite Duration ("IDIQ") contracts are established with vendors. Once subcontract work is performed and materials are purchased, the Project Manager approves the invoices received. For direct materials purchased on employee procurement cards, the receipts provided by the employees are reconciled with the procurement card statements by an administrative assistant.

We identified several internal control gaps in the current purchasing process. Project Managers have significant control over subcontractor and vendor selection and payment. In the current process, there is no approval regarding the appropriateness of invoice charges for the subcontractors and vendors beyond the Project Manager. Further, IDIQ contracts allow WSARC to purchase an indefinite quantity of goods or services over a fixed period of time specified in the contract. While these types of contracts are common within the industry for efficiency purposes, they can also pose a risk when there is a lack of oversight in the process. For purchases made on employee procurement cards, the reconciliation of statements with receipts can be an effective purchasing control; however, this reconciliation is performed by administrative assistants who have little or no knowledge of the purpose of the purchase. Additionally, Project Managers are not provided details for purchases made on procurement cards. The internal control gaps for subcontractor and vendor invoice payments as well as for procurement card purchases could, therefore, allow improper purchases to be charged to awards as they would not be identified with the limited review currently performed. One mitigating factor to this risk could be the client, as they may raise a concern if the costs exceed the award's budget. However, this mitigating factor does not exist for the workforce development funds from the State, as no evidence was provided to show that the State reviews these purchases.

While WSARC uses the process discussed above, WSRI uses Wright Buy, the University's purchasing process. Part of the Wright Buy process involves a secondary verification. It is our understanding that, since WSRI switched to Wright Buy, a conflict was identified whereby a project manager attempted to purchase materials from their own company. REVS Neuroscience invoice number 15-005, dated May 24, 2015, billed WSRI \$8,718 for 10 electrodes for a project led by Michael Weisand.

[illegible]

Since REVS Neuroscience was not a previous vendor of WSRI, the Purchasing Executive requested the W-9 for the company as part of the vendor background check required by the Wright Buy process. Pursuant to the request, Weisand disclosed that REVS Neuroscience was his own company. Due to this conflict, the REVS Neuroscience invoice was not approved for payment. While this conflict was identified as a result of the vendor background checks required by Wright

Buy, it likely would not have been identified in WSARC's current process due to the gaps in internal controls.

Subsequently, Brain Vision LLC quote number 1507106157 was submitted to purchase electrodes for Weisand's project.

BRAIN VISION LLC		Quote 1507106157		
Solutions for neurophysiological research				
2500 Gateway Centre Blvd Suite 100 Monroeville, NC 27560		Phone: 810-450-2510 Fax: 214-224-0629 E-Mail: sales@brainvision.com		
		Customer: Michael Corbett Contact: David Kadlec Reference: BV 8157 Quoted: 7/10/2015 Validity Date: 8/8/2015 Terms: Net 30 Ship Via: FedEx 2nd Day Air		
Bill To Wright State University 3640 Colonel Glenn Hwy Dayton, OH 45435		Ship To Wright State Research Institute Wright State University 4035 Colonel Glenn Hwy Beavercreek, OH 45431		
Estimated delivery time: 4-6 weeks		ATTN: Michael Corbett		
Product	Description	Quantity	Price	Amount
810-HS-120	Ag/AgCl sintered ring electrode 1.5mm touchproof safety socket termination and 120 cm heavy-duty cable	24.00	\$35.00	\$840.00
Shipping	Shipping and insurance	1.00	\$25.00	\$25.00
			Sub-total	USD 865.00
			Total	USD 865.00

The quote is to purchase 24 electrodes for \$35.00 per unit with a total of \$865.00 including shipping. Although this quote is for 14 more electrodes than the initial invoice, it appears that difference in the market value of the electrodes is approximately \$8,000. Further, per the

Purchasing Executive, no electrodes have been purchased from Brain Vision LLC as of September 17, 2015.

We recommend that WSARC switch to the Wright Buy purchasing process, if not already implemented, as this situation highlights the internal control gaps that exist in WSARC's current purchasing process.

8. Internal Control Issues: Invoices

In performing our review of WSARC disbursements, we traced select expenditures to supporting information to confirm validity. As outlined in the previous section, Project Managers have significant control over purchasing as they are able to select vendors, order goods/services, and approve invoices. Based on our understanding of the purchasing controls and processes, we performed data analytics and reviewed supporting documentation for approximately 600 transactions. During our review, we noticed that almost all invoices had limited support. Per discussions with Project Managers, it was identified that limited detail on invoices is normal in the industry. Therefore, the mitigating factor of a Project Manager's review that would help thwart inflated/fictitious billings by a vendor is limited.


We identified potentially problematic payments made by WSRI/WSARC to the following entities for invoices with limited detail and, in some cases, no supporting documentation at all:

- ATIC;
- Ron Wine Consulting Group ("RWCG");
- Global Stem Academy ("Global Stem"); and
- Advratech.

For select disbursements to these entities, further follow-up was required to assess the validity, as will be discussed in the following subsections.

ATIC

Our review of supporting documentation for ATIC disbursements identified that a majority of the invoices had a similar format and detail as follows:

	ADVANCED TECHNICAL INTELLIGENCE CENTER 7685 Hibiscus Way, Suite 110 Cincinnati, OH 45241-3704	Billing Period: 5/1 - 31/2012 Invoice #: CORRECTACH 12-085
	Proposal Number: CP00172 ATIC Job: A18	

TO: Wright State Research Institute Attn: Accounts Payable Dept 1640 Colonel Glenn Highway Fairborn, OH 45435	Contract Price: Phase I: 2 Apr 12 - 30 Jun 12 \$ 27,322.08 Phase II: 1 Jul 12 - 30 Sep 12 \$ 20,109.70 Phase III: 1 Oct 12 - 30 Sep 12 \$ 11,689.21 Total: \$ 59,730.48
--	---

Sponsor:
 Wright State Research Institute
 487 Kuhn Research Center
 1640 Colonel Glenn Highway
 Fairborn OH 45435

Description of work:
 "His effort is to establish security policy and procedures along with the construction of a SCIF for WSARE"

Line Item	Hours	Rate	Amount	Cumulative Hours	Amount	Funds Remaining
Phase I: 2 Apr 12 - 30 Jun 12						
Security Manager	15	\$ 219.02	\$ 3,285.30	26	\$ 5,694.57	
Security Administrator	36.5	\$ 47.78	\$ 1,743.97	36.5	\$ 1,743.97	
Info Systems Security Manager		\$ 102.53	\$ -	0	\$ -	
Total Labor:			\$ 5,029.27		\$ 7,438.49	\$ 22,483.59
Phase II: 1 Jul 12 - 30 Sep 12						
Security Manager		\$ 219.02	\$ -	0	\$ -	
Security Administrator		\$ 47.78	\$ -	0	\$ -	
Info Systems Security Manager		\$ 102.53	\$ -	0	\$ -	
Total Labor:			\$ -		\$ -	
					Funds Remaining	\$ 20,109.70
Phase III: 1 Oct 12 - 30 Sep 12						
Security Manager		\$ 219.02	\$ -	0	\$ -	
Security Administrator		\$ 47.78	\$ -	0	\$ -	
Info Systems Security Manager		\$ 102.53	\$ -	0	\$ -	
Total Labor:			\$ -		\$ -	
					Funds Remaining	\$ 11,689.21

By submission of this invoice, Subcontractor certifies that all labor charges identified in this invoice were performed by named individuals or personnel that meet all requirements, including but not limited to, the education and experience requirements of specified labor classifications applicable to this Subcontract.


Approved by: Timothy J. Peeser Date: 7-18-12
 Timothy Peeser, SVP, General Manager

While almost all of the ATIC invoices contain the format as shown above, we identified four invoices with a format that was inconsistent. Further, these four invoices contained limited supporting information as well as characteristics that are typical of fictitious invoices. Therefore, we performed further analysis on these unusual invoices:

- #11-152 for \$360,000;
- #12-185 for \$70,000;
- #12-186 for \$70,000; and
- #15-069 for \$255,000.

Invoice #11-152

ATIC invoice number 11-152, dated November 30, 2011, billed WSRI \$360,000 for the “establishment of analyst test bed infrastructure.”

 Advanced Technical Intelligence Center 2685 Hibiscus Way, Suite 110 Beavercreek, OH 45421 USA		INVOICE Invoice Number: 11-152 Invoice Date: Nov 30, 2011 Due Date: Dec 30, 2011
Voice: (937) 429-7801 Fax: (937) 429-7802		
<div style="border: 1px solid black; padding: 5px;">Wright State Research Institute 3640 Colonel Glenn Hwy. Accounts Pay Dept 301 Univ Hl Dayton, OH 45435-0001</div>		
Contract Number:		
Quantity	Description	Current Cost
1.00	Establishment of analyst test bed infrastructure.	360,000.00
TOTAL		360,000.00
Check No: _____ Date: _____		
Memo: _____		

Vch # 353

Analysis of this invoice identified it lacked an approval signature. The attached supporting documentation contained email correspondence between Ryan Fendley and WSARC's auditors (**Attachment 27**); therefore, it is surmised to have been approved by Ryan Fendley. The initial email from an auditor at Crowe Horwath to Aja Ash, Ryan Fendley and Ryan Forish inquires about ATIC invoice number 11-152 for the purposes of cutoff testing. The auditor noticed the

disbursement check for this invoice is dated October 18, 2012, which is 11 months after the invoice date. The auditor explained that if the payment is for services performed prior to the FYE June 30, 2012, then a liability and an expense would need to be recorded for FY 2012.

From: Russell, Blake [mailto:blake.russell@crowehorwath.com]
Sent: Tuesday, November 20, 2012 11:32 AM
To: Ash, Aja
Cc: Fendley, Ryan D.; Forish, Ryan
Subject: RE: Item 58

Aja,

Attached is one of the subsequent disbursement checks, \$360,000 for establishment of analyst test bed, to ATIC. The invoice date is 11/30/11, which is a concern of ours. Can you please explain what the services were for? Did ATIC complete the services by 11/30/11? If this payment is for services performed prior to 6/30/12, then there needs to be a liability booked, and corresponding expense, or fixed asset, where applicable.

Please let me know what you think and we can make the adjustment if necessary. Thanks.

Blake Russell, CPA

Crowe Horwath LLP
Office: 614.469.4013 | Cell: 614.623.6147 | Fax: 614.365.2222
blake.russell@crowehorwath.com<mailto:blake.russell@crowehorwath.com>
www.crowehorwath.com<http://www.crowehorwath.com>

In Ryan Fendley's response, he explains that the delay from the invoice date to the check date is due to the delay in State funding, since there was a lag between the passing of the State budget and the actual receipt of the \$4 million appropriation. In the email, Ryan Fendley states, "once the work associated with the invoice was substantially completed in Oct 2012, we processed it for payment."

From: Fendley, Ryan D. [mailto:ryan.fendley@wright.edu]
Sent: Wednesday, November 21, 2012 1:41 AM
To: Russell, Blake; Ash, Aja
Cc: Forish, Ryan; terry.rapoche@ws-arc.org<mailto:terry.rapoche@ws-arc.org>
Subject: RE: Item 58

Blake,

This is one of the many activities that are ultimately related to the \$4M funding from the state. The analyst test bed is a classified research platform that is housed at ATIC. They are contributing their unique expertise to the build-out and development of that facility.

Soon after the budget was passed by the state, and we dealt with the politics and process of getting the money, ATIC sent the invoice. It was not until well after the receipt of the invoice that we were informed by the state that our funding was tied to the casino license fees and would not be available until those revenues had actually been collected. As I recall the first casinos opened in May, paying their fees just before. This meant that the work that we were going to execute in year 1 was delayed significantly. Once the state released the funding (and we received it) in late June, the work began in earnest.

As the commitment to ATIC remained the same, as did the scope of the task, once the work associated with the invoice was substantially completed in Oct 2012, we processed it for payment.

If this does not address your question, or raises others please let me know.

Respectfully,

Ryan D. Fendley
Director, WSRI
CEO, WSARC
Interim Director, NCMR

The auditor's reply asking for support regarding the completion date is as follows:

From: Russell, Blake [blake.russell@crowehorwath.com]
Sent: Wednesday, November 21, 2012 10:29 AM
To: Fendley, Ryan D.; Ash, Aja
Cc: Forish, Ryan; terry.rapoche@ws-arc.org<mailto:terry.rapoche@ws-arc.org>
Subject: RE: Item 58
Do you have any support from ATIC to show that the \$360K project was completed in October 2012? Is there a work order or something else that shows the date as October 2012? The only thing we have is the invoice that has 11/30/11 as the date.
Blake Russell, CPA

Ryan Fendley responds, describing the new "facility that previously didn't exist, and now has more than \$1.5M in capital infrastructure" and "the fact we can use it was deemed sufficient for proof of completion."

From: Fendley, Ryan D. [mailto:ryan.fendley@wright.edu]
Sent: Wednesday, November 21, 2012 10:48 AM
To: Russell, Blake; Ash, Aja
Cc: Forish, Ryan; terry.rapoch@ws-arc.org
Subject: RE: Item 58

Blake,

Again, not trying to be flip here - but we can walk into a facility that previously didn't exist, and now has more than \$1.5M in capital infrastructure that is connected and ready to perform validation experiments supported by external research. The fact we can use it was deemed sufficient for proof of completion.

If you need me to obtain something from ATIC, I can attempt to do so; but I'd like you to specify the additional documentation you would require.

Respectfully,

Ryan D. Fendley

The auditor further explains "we are trying to verify the timing of when this facility was completed" and asks again for documentation that shows when the services were completed.

From: Russell, Blake [blake.russell@crowehorwath.com]
Sent: Wednesday, November 21, 2012 11:37 AM
To: Fendley, Ryan D.; Ash, Aja
Cc: Forish, Ryan; terry.rapoch@ws-arc.org
Subject: RE: Item 58

Ryan, I apologize if I wasn't clear earlier. We are trying to verify the timing of when this facility was completed. We have an invoice that is dated 11/30/11, and we need to verify that there was NOT \$360,000 of services performed before 6/30/12. If \$360,000 of services were performed, then there would need to be a liability and fixed asset or construction in process booked on the balance sheet. Is there a contract that shows when services would be

1

completed, a work order, email, or something else from ATIC that supports the \$360,000 services were performed after 6/30/12, that would be fine. Let me know if that helps clarify or not. Thanks.

Blake Russell, CPA

Ryan Fendley replies that he has received information from Hugh Bolton; however, it is not official because it does not have Hugh Bolton's signature block, stating "once I have an official communication I will pass it along."

From: Fendley, Ryan D.
Sent: Sunday, November 25, 2012 10:39 PM
To: Russell, Blake; Ash, Aja
Cc: Forish, Ryan; terry.rapoch@ws-arc.org
Subject: RE: Item 58

Blake,

I have asked Hugh Bolton of ATIC to provide the email. He has responded to me, but it was using his iPhone which does not include his signature block. Once I have an official communication I will pass it along.

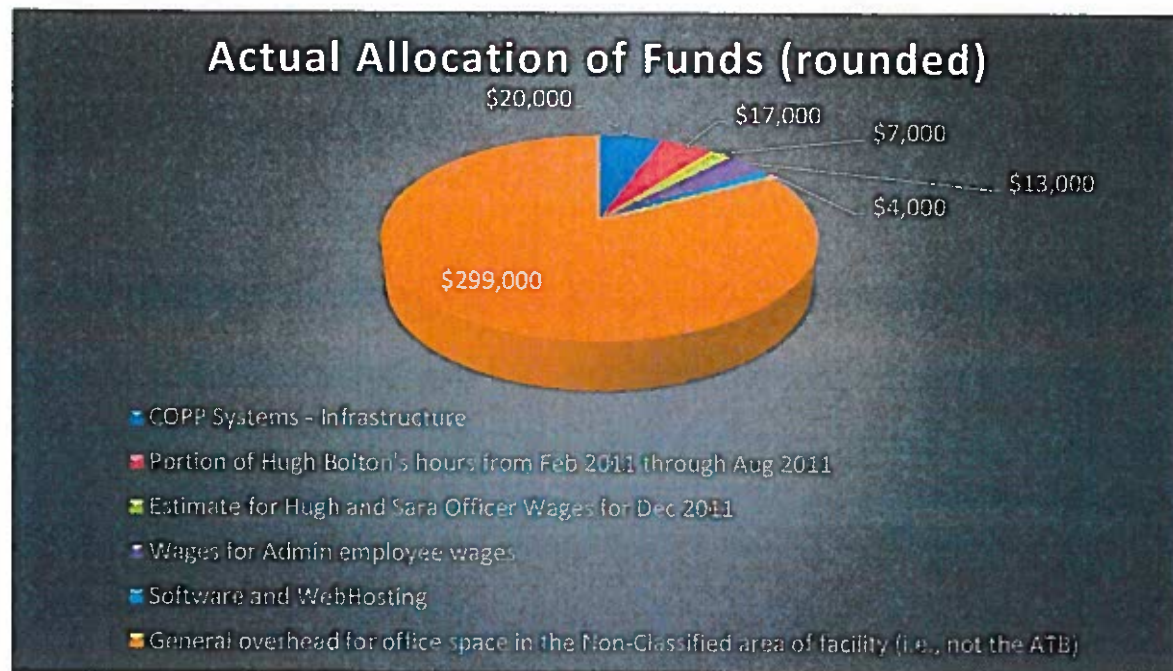
Respectfully,

Ryan D. Fendley

This is the end of the email communication between Ryan Fendley and Crowe Horwath that was provided with invoice number 11-152.

In order to determine whether Ryan Fendley's representation to Crowe Horwath that the construction of the Analyst Test Bed (ATB) infrastructure, specifically related to invoice 11-152, was "substantially completed in Oct 2012", we interviewed Keith Grimes and Tim Feeser who were directly involved in the ATB project. Keith Grimes indicated that he was the proposal manager for the ATB project. He represented that the **proposal** was completed in Fall 2012 and there were no significant ATB purchases until Summer of 2013. Tim Feeser recalled that there was a room set up at ATIC in Fall 2012 with computers and servers; however, he represented that there was no construction done at this time. Neither of these explanations support Ryan Fendley's representation to Crowe Horwath that the construction of the ATB infrastructure was substantially completed in October 2012.

In order to gain further insight regarding the establishment of the infrastructure, we interviewed Janet Erickson (ATIC Financial Manager) who prepares ATIC invoices. Janet Erickson provided us with a spreadsheet she uses to track the cost spend for the funds received from WSARC (*Accumulated cost.xlsx*). From this, we were able to identify the breakout for the \$360,000 paid by WSARC:



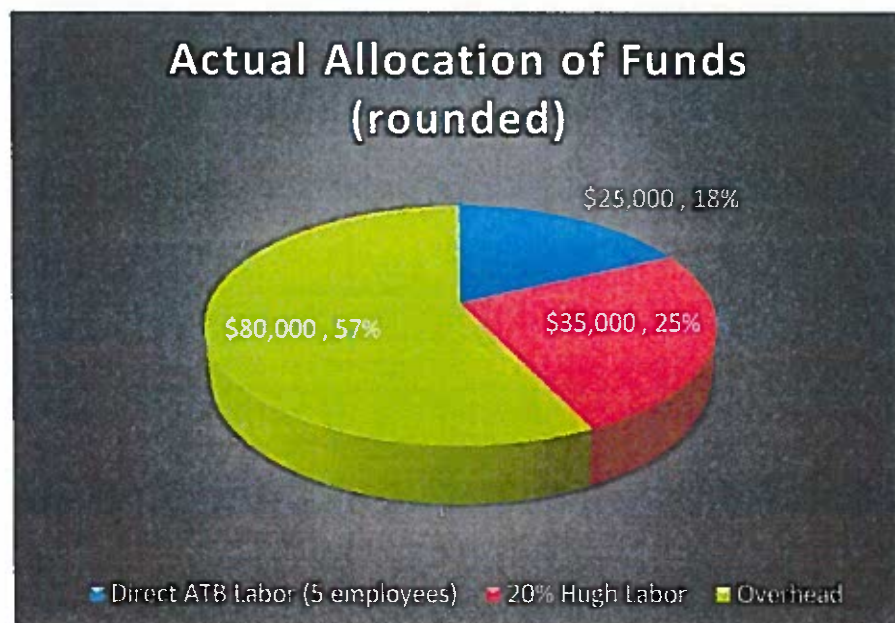
The actual allocation of funds indicates that \$61,000 of the \$360,000 may have been allocated to the establishment of the ATB infrastructure. A significant majority (83%) of the payment, however, was allocated to indirect costs for the office space at the front of the ATIC facility; the total rate of the indirect costs for this invoice calculates to approximately 491%. This area at the front of the ATIC facility is non-classified office space that is separate from the classified ATB space in the ATIC facility, conflicting with the invoice description and Ryan Fendley's explanation to the auditors.

Invoice #12-185 and #12-186

ATIC invoice numbers 12-185 and 12-186, dated November 20, 2012 and December 15, 2012, respectively, each billed WSARC \$70,000 for "continued support of ongoing Analyst Test Bed and AHEAD activities at ATIC."

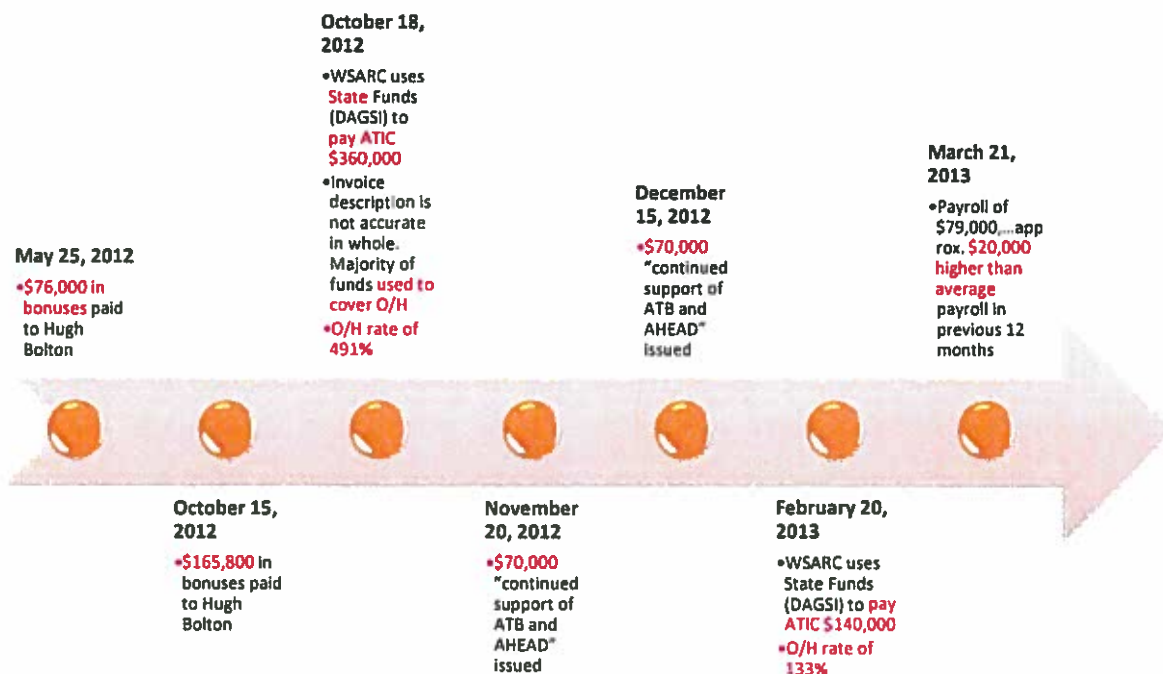
Advanced Technical Intelligence Center		INVOICE	
2635-M Beulah Way, Suite 110 Beaverbrook, OH 45437 USA		Invoice Number: 13-102 Invoice Date: Nov 20, 2012 Due Date: Dec 20, 2012	
Phone: (517) 423-7601 Fax: (517) 423-7602 Federal Tax ID: 20-8233196		Phone: (517) 423-7601 Fax: (517) 423-7602 Federal Tax ID: 20-8233196	
Customer: Wright State University 2635-M Beulah Way, Suite 110 Beaverbrook, OH 45437 Country: OH 45437-1511		Customer: Wright State University 2635-M Beulah Way, Suite 110 Beaverbrook, OH 45437 Country: OH 45437-1511	
Contract Number: 1034-05		Contract Number: 1034-05	
Description: 110 Computer support of ongoing Air Force Test Bed and ATIC activities at ATIC		Description: 110 Computer support of ongoing Air Force Test Bed and ATIC activities at ATIC	
Current Balance: \$1,800.00		Current Balance: \$1,800.00	
Check No: _____ Date: _____		Check No: _____ Date: _____	
Memo: _____		Memo: _____	

These invoices lack an approval signature but were paid from the workforce development funds. However, the aforementioned spreadsheet provided by Janet Erickson detailed the allocation of the funds from these two invoices:



Of the funds, \$60,000 from ATIC invoice numbers 12-185 and 12-186 was allocated to direct costs while \$80,000 was allocated to indirect costs. The total rate of indirect costs for the two invoices approximates 133%.

When we inquired about ATIC invoice numbers 11-152, 12-185 and 12-186 during interviews, interviewees represented that these payments may have been made to “help out” ATIC since the entity was struggling financially. Upon review of the financial information provided by ATIC, we noticed that the timing of these payments was questionable when compared to the timing of bonuses and increased payroll, as shown on the timeline below:



As shown, Hugh Bolton received bonuses from ATIC of \$76,000 and 165,800 on May 25, 2012 and October 15, 2012, respectively. Three days later, WSARC paid ATIC \$360,000 for invoice number 11-152 from the workforce development funds. On February 20, 2013, WSARC paid ATIC \$140,000 for invoice numbers 12-185 and 12-186. Approximately one month later, ATIC had payroll of \$79,000 which was approximately \$20,000 higher than the typical payroll in the previous 12 months. The fact that ATIC paid such large bonuses and increased payroll during a time when the entity was experiencing financial difficulties raises concern surrounding the validity of the cause of the entity's financial problems. Further, given that a total of \$379,000 of the

payments for the three unusual ATIC invoices was allocated to overhead, it is possible that the workforce development funds were used to subsidize the large bonuses and increased payroll expenses.

Invoice #15-069

The fourth ATIC invoice we selected is invoice number 15-069, dated March 5, 2015. This \$255,000 invoice is for "CLEAT Support" and was approved for payment by Dennis Andersh.

Advanced Technical Intelligence Center		INVOICE	
2685 Hibiscus Way Suite 110 Beavercreek OH 45431 USA		Invoice Number: 15-069 Invoice Date: Mar 5, 2015 Due Date: Apr 4, 2015	
Voice: (937) 429-7801 Fax: (937) 429-7802 Federal Tax ID: 82-000009			
Bill To: Wright State Applied Research Corp 4038 Colburne Farm Hwy B17 Beavercreek OH 45431			
Contract Number:			
Quantity	Description	Current Cost	
1.00	CLEAT Support	255,000.00	
A-voice 25379			
A-voice 25379			
Total 255,000.00			
Amount		255,000.00	
Deposit Paid			
Balance Due		255,000.00	
Check No. _____ Date _____			
Memo _____			

The invoice was recorded by WSARC as a debit to a receivable from WSU and a credit to rental expense. We found this journal entry to be unusual since expense accounts are typically debit accounts and a credit to the account decreases the expense. Further, based on the invoice description, rental expense was not the appropriate expense account to record this invoice in the financial statements. It is possible that this entry was recorded in this manner in order to "hide" the invoice; however, we cannot validate the reason for this questionable entry.

When we presented a copy of this invoice in our interviews with Tim Feeser and Janet Erickson, neither individual wanted to discuss it; Tim Feeser stated, "I don't want to talk about that one." After her initial hesitation, however, Janet Erickson indicated that she had prepared ATIC invoice 15-069 and that the funding was used to hire Mike Martinsen. It is our understanding that Martinsen, former WSU police chief, was suspended and dismissed from the University in March 2013. Janet Erickson represented that it was recommended by WSU that ATIC hire Martinsen and that WSU would provide the funding for his compensation. Per an email provided by Janet Erickson dated March 6, 2015, Beverly Shillito contacted Cassie Burlow (ATIC Executive Director) and the other members of ATIC's executive committee to share that WSARC decided to provide funds in support of ATIC's CLEAT Program and Ryan Fendley asked that ATIC send an invoice with the designation "invoice in support of ATIC CLEAT Program."

From: Beverly Shillito <bshillit@ssdlaw.com>
Date: Fri, Mar 6, 2015 at 11:25 AM
Subject: Good News! Applied Research Corporation makes grant to support ATIC CLEAT Program [WVOV-iDocs FID3285235]
To: "Cassie Burlow (cassie.burlow@wright.edu)" <cassie.burlow@wright.edu>
Cc: "Bolton, Hugh (hugh.bolton@wright.edu)" <hugh.bolton@wright.edu>, "Jeff Hoagland (jhoagland@daytonregion.org)" <jhoagland@daytonregion.org>, "Gary O'Connell (garry.oconnell@peerless.com)" <garry.oconnell@peerless.com>, Landess John <jlandess@hmmturnerfoundation.org>, "Mike Gearhardt (mike@btkmfc.com)" <mike@btkmfc.com>, Isadora Huntley <ihuntley@ssdlaw.com>, Nick Endsley <nendsley@ssdlaw.com>, Tim Shaw <tshaw@atched.org>, Janet Erickson <jerickson@wright.edu>

Dear Cassie and Executive Committee

I spoke with Ryan Fendley today and he let me know that the ARC has decided to provide funds in support of ATIC's CLEAT Program in the amount of \$250,000. Ryan asked that ATIC send an invoice (it can be hand carried) to the ARC with the designation -invoice in support of ATIC CLEAT Program - for the sum of \$250,000 in full within ten days and will hand carry the funds back to CLEAT so we can put them to good use.

Congratulations on getting the Grant! Please let me know if we can help.

Thank you.
Bev

Beverly F. Shillito, Esq.
SEBALY SHILLITO + DYER, A Legal Professional Association
1970 Metcalf Tower | 40 N. Main Street | Dayton, Ohio 45423-1013
Main: 937.224.2500 | Local: 937.224.2500 | bshillit@ssdlaw.com | ssdlaw.com

*The above documentation is presented exactly as provided (i.e., edge of email cutoff).

Also on March 6, 2015, ATIC entered a Service Agreement with Michael Martinsen in which ATIC agreed to compensate Martinsen for certain services performed for ATIC, specifically related to the CLEAT program (**Attachment 28**). Per the terms of the agreement, ATIC shall pay Martinsen a \$50,000 signing bonus and \$175 per hour for his services; however, the aggregate amount paid to Martinsen, including the signing bonus and his hourly compensation, is not to exceed \$250,000 unless the agreement is renewed or extended. Further, pursuant to the agreement, Martinsen signed a Certificate of Acknowledgement, covering the two year period March 6, 2015 through March 5, 2017 with the following terms:

I, on my own behalf and on behalf of my respective spouse and former spouse, if any, immediate family members, trustees, beneficiaries, heirs, descendants, administrators, personal representatives, agents, attorneys, executors, and assigns, past and present, in their capacities as such (collectively, the "Martinsen Releasing Parties"), hereby forever release and discharge ATIC, Wright State University, Wright State Applied Research Corporation, Wright State University Foundation, Inc., Wright State Research Institute, an operating unit within Wright State University, Double Bowler Properties Corp., and their respective subsidiaries, trustees, affiliates, attorneys, and shareholders, and each of the foregoing's respective representatives, heirs, beneficiaries, executors, administrators, assigns, predecessors, successors, officers, directors, members, managers, employees, trustees, agents, and attorneys, past and present (collectively, the "ATIC Parties"), from and against all actual and potential claims, charges, demands, actions, suits, rights, obligations, liabilities, debts, losses, accounts, damages, duties, judgments, and causes of action of any kind or nature whatsoever, whether statutory or common law, whether federal, state, local, or otherwise, whether known or unknown, whether asserted as of the last day of the Acknowledgment Period or otherwise, including without limitation all costs, expenses, and fees (including actual attorneys' fees reasonably incurred) now known or hereafter discovered (the "Claims"), arising on or prior to the last day of the Acknowledgment Period or on account of or arising out of any matter, cause, or event occurring on or prior to the last day of the Acknowledgment Period that I or any other Martinsen Releasing Party now have, have had in the past, or might have in the future, against any ATIC Party, including without limitation Claims arising from or in any way related to (i) the Services Agreement, or (ii) my federal, state, or local tax obligations (collectively, "Martinsen Claims"). I represent and warrant that I have not transferred, sold or assigned any Claim relating to, arising from, or in any way pertaining to any Martinsen Claim, nor are they aware of any portion of any Claim, right, action or cause or action, relating to, arising from, or in any way pertaining to any Martinsen Claim, which has been assigned or transferred in any manner, including by way of subrogation or operation of law. Except as otherwise prohibited by law, I covenant, on my own behalf and on behalf of each other Martinsen Releasing Party, never to sue any ATIC Party for any Claim or allegation relating to, arising from, or in any way pertaining to any Martinsen Claim, except that I retain the right to enforce any future right or obligation owed by ATIC under the Services Agreement.

Based on Martinsen's service invoices to ATIC provided by Janet Erickson, it appears that Michael Martinsen is providing consulting services to ATIC. An example has been provided as **Attachment 29**.

Ron Wine Consulting Group

Our analysis of WSARC and WSRI disbursements identified that RWCG is one of the highest paid vendors at both entities.



Through interviews, it was identified that WSARC used part of the workforce development funds from the State for a subgrant with RWCG; however, Project Managers provided limited information regarding the project. In order to determine the services provided by RWCG to WSARC, we requested all contractual documentation. We made these requests in both June and July 2015. For several months, the only contractual documentation provided was WSARC subgrant agreement 1034-006 (**Attachment 30**); however, in October 2015 (over three months after our initial request), we were provided WSARC subgrant agreement 12-1034 modification one (**Attachment 31**), WSARC consulting agreement CA-15-020 (**Attachment 32**), and WSU purchase order #25871 (**Attachment 33**).

Subgrant agreement 1034-006 **(Attachment 30)**

Subgrant agreement 1034-006 between WSARC and RWCG states the total estimated cost would be \$400,000 and covers the period of October 1, 2012 through December 31, 2013. The agreement is signed by Ryan Fendley on behalf of WSARC and Ron Wine on behalf of RWCG. Per the subgrant agreement, RWCG "agrees to use good faith efforts to perform the work specified in, and fulfill the obligations under, this Agreement in accordance with the Project and estimated project budget, attached to the Agreement as Exhibit A." Examination of Exhibit A identified the Project section, which should contain specific details of the work to be completed by the subgrantee, was blank.

EXHIBIT A

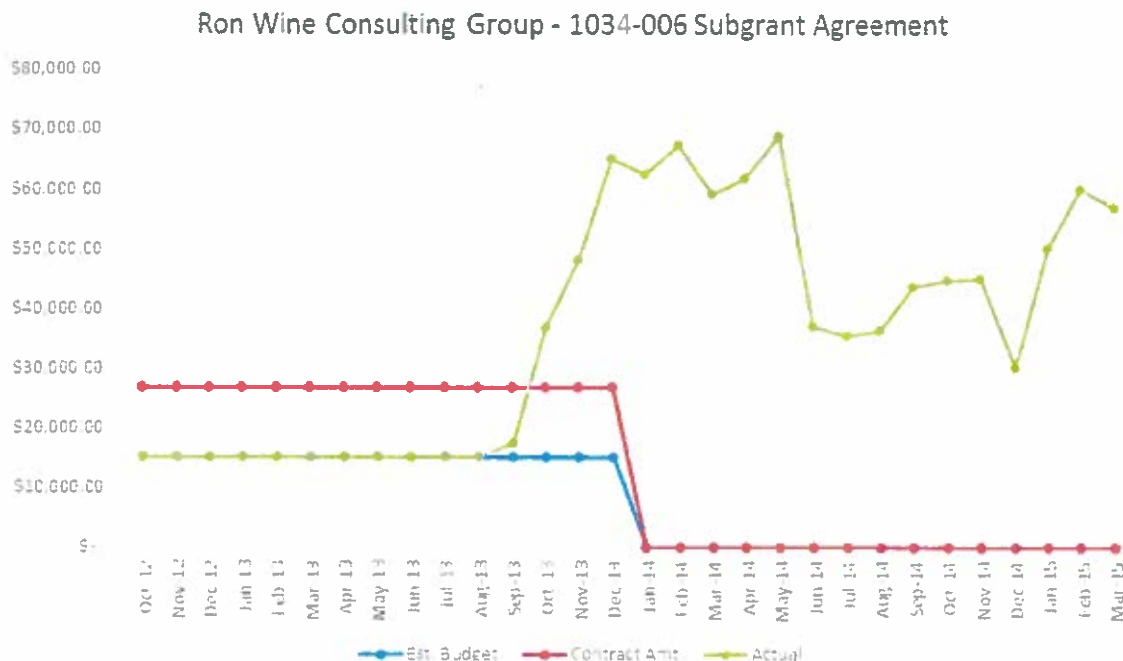
A. THE PROJECT

B. PROJECT BUDGET

Consulting Services applicable to The Project for the Defense Aerospace Graduate Studies Institute will be billed by Subgrantee at an hourly rate of \$250. Estimated hours worked per month for this agreement is 60.

Exhibit A estimates the project budget to be 60 hours per month at a rate of \$250 per hour, or \$15,000 per month. The total estimated contract cost, including labor and materials, is \$400,000, which is approximately \$26,700 per month over the 15 month period.

Our analysis of the WSARC check register and select invoices identified payments allocated to subgrant agreement 1034-006 continued beyond the 15 month agreement period. We compared the actual monthly costs to project budget and contractual amounts from October 2012 to March 2015, as follows:



The actual monthly payments per the check register agreed to the estimated project budget of \$15,000 for the first 11 months of the agreement period. However, the check amounts paid for the services performed began to increase in September 2013 and reached a level as high as \$65,000 for the December 2013 services. For invoices dated from January 2014 through March 2015, while no subgrant agreement was in place with RWCG, the amounts invoiced/paid ranged from \$30,000 to \$68,750. In total, RWCG was paid almost \$1.1 million from October 2012 to March 2015 for this subgrant agreement.

We obtained supporting documentation for 18 of the 30 payments detailed on the chart above. The 18 payments were judgmentally selected based on our analysis and deemed sufficient to address this section. Therefore, the documentation for the remaining 12 payments was not requested.

The invoices for subgrant agreement 1034-006 detail the total hours worked, the rate at which the hours were billed (\$250) and a description which lists the project's name (Defense Aerospace Graduate Studies).

Contact		Payment Terms	Due Date
Melissa Wine		Due on receipt	30 days

Qty	Description	Unit Price	Line Total
1	Defense Aerospace Graduate Studies - 240 hours @ \$250	60,000.00 USD	60,000.00 USD
	# 10 1034-006		
	Month of February, 2015		
	Ron Wine, Melissa Wine and David T. Jar		

INVOICE

Date: March 5, 2015
INVOICE #: WSARC1028

To: Wright State Applied Research Corporation
ATTN: Keith Roston
Wright State University
280 Joshi Research Center
3640 Colonel Glenn Hwy.
Dayton, OH 45440

From: Mr. Ron Wine
Ron Wine Consulting Group
1401 Holstead Circle
Dayton, Ohio 45458

We analyzed the invoices dated from October 2013 through March 2015 (18 invoices) for services performed under subgrant agreement 1034-006 and noted that ten (10) included additional

supporting documentation that describes the tasks performed and the number of hours spent on each task, as shown below:

<p style="text-align: center;">Defense Aerospace Graduate Studies Institute</p> <p style="text-align: center;">Invoicing Documentation for October, 2013 – 147 hours @\$250</p> <ul style="list-style-type: none">• Coordination and planning of aerospace research, innovation and workforce development activities with local officials, industry, WPAFB and university partners to expand capabilities to attract future business (47 hours)• Organization of Autonomy research and workforce development initiative with academic and university collaborators (5 hours)• Organization of meetings and dialogue with Air Force Research Lab leadership and S & T directors to advance human performance research and workforce development initiatives (40 hours)• Meeting with aerospace industry representatives on research priorities, business development, private investment and workforce development initiatives (45 hours)• Communication and meetings with NASIC on research and training requirements to build future business opportunities. (10 hours)
--

This supporting documentation, however, appears to be duplicated from month-to-month but for the order of the tasks and the number of hours spent on each task, as shown below:

<p style="text-align: center;">Defense Aerospace Graduate Studies Institute</p> <p style="text-align: center;">Invoicing Documentation for March, 2015 – 228 hours @\$250</p> <ul style="list-style-type: none">• Organization of meetings and dialogue with Air Force Research Lab leadership and S & T directors to advance human performance research and workforce development initiatives (45 hours)• Meeting with aerospace industry representatives on research priorities, business development, private investment and workforce development initiatives (49 hours)• Coordination and planning of aerospace research, innovation and workforce development activities with local officials, industry, WPAFB and university partners to expand capabilities to attract future business (54 hours)• Communication and meetings with NASIC on research and training requirements to build future business opportunities. (37 hours)• Organization of Autonomy research and workforce development initiative with academic and university collaborators (42 hours)

Further, the subgrant agreement 1034-006 invoices provided for February 2014 and May through November 2014 do not include this additional supporting documentation.

Although the invoices for Subgrant Agreement 1034-006 do not detail the hours per employee, they indicate that the work was performed by Ron Wine, Melissa Wine, and David Tilton. As previously mentioned, all hours worked were billed at a single rate of \$250 per hour. Per our CLEAR research, Melissa Wine is married to Ron Wine. Additional background research identified that David Tilton is the Managing Director of Mindshare Resource Solutions, located in Spokane, Washington. The website for MindShare has the following testimonial from Ron Wine²⁸:

Our success depends on adding value to our clients' bottom line. MindShare expertise in grant and proposal writing has lead to the capture of multiple and valuable contract awards. Our partnership with MindShare has been profitable and mutually beneficial. I know I can trust them to act professionally and get results for my clientele.

—Ron Wine, President and CEO - Ron Wine Consulting Group

Further, WSARC Award 1025 from DPI specifically budgets \$25,000 for marketing services from Mindshare.

Professional Services	
Resource	Total Cost
Mindshare Consulting - Marketing Services	\$25,000
Internship and Industrial Partner Expansion	\$150,000
Subtotal Professional Services	\$175,000
Indirect Costs on Professional Services	\$45,500
Total Professional Services	\$220,500

In total, WSARC has charged \$156,037 to the DPI award, \$31,375 to the workforce development funds, and \$41,935 to other awards for services performed by Mindshare. The invoices from Mindshare included supporting information detailing the date, hours worked, employee title, contract task number, and rate charged per employee.

²⁸ <http://www.consultmindshare.com/SuccessStories.aspx>

Mindshare Resource Solutions 120 N Stevens Ste 300 Spokane, WA 99201							
Invoice 2307							
Date	Period	Hours	Associate	Position	Contract Task Number	Rate	Total
3/1/2013	March	4	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 500.00
3/4/2013	March	10	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 1,250.00
3/5/2013	March	6	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 750.00
3/6/2013	March	8	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 1,000.00
3/7/2013	March	10	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 1,250.00
3/12/2013	March	6	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 750.00
3/13/2013	March	8	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 1,000.00
3/14/2013	March	8	David Tilton	Senior Associate	WSARC 1 - Strategic Market Analysis	\$ 125.00	\$ 1,000.00
3/15/2013	March	7	David Tilton	Senior Associate	WSARC 2 - Capability Analysis & Dev.	\$ 125.00	\$ 875.00
3/20/2013	March	10	David Tilton	Senior Associate	WSARC 2 - Capability Analysis & Dev.	\$ 125.00	\$ 1,250.00
3/22/2013	March	9	David Tilton	Senior Associate	WSARC 2 - Capability Analysis & Dev.	\$ 125.00	\$ 1,125.00
3/26/2013	March	8	David Tilton	Senior Associate	WSARC 2 - Capability Analysis & Dev.	\$ 125.00	\$ 1,000.00
3/29/2013	March	10	David Tilton	Senior Associate	WSARC 2 - Capability Analysis & Dev.	\$ 125.00	\$ 1,250.00
3/29/2013	March	7	David Tilton	Senior Associate	WSARC 2 - Capability Analysis & Dev.	\$ 125.00	\$ 875.00
Total Hours		111				Total Labor	\$ 13,875.00
3/18/2013	March	4	Karsten Olson	Senior Associate	WSARC 4 - Project Management	\$ 125.00	\$ 500.00
3/29/2013	March	4	Karsten Olson	Senior Associate	WSARC 4 - Project Management	\$ 125.00	\$ 500.00
Total Hours		8				Total Labor	\$ 1,000.00
						Invoice Grand Total	\$ 14,875.00

The hours worked by David Tilton charged via Mindshare Consulting were billed at rate of \$125 per hour, half the hourly rate RWCG charged for him.

Purchase Order #25871

(Attachment 33)

In addition to payments allocated to subgrant agreement 1034-006, WSARC also paid RWCG for consulting services pursuant to WSU purchase order ("PO") #25871, issued on September 7, 2012. The PO, for \$53,500, is for a professional service agreement with RWCG for FY2013. The monthly cost based on the PO is approximately \$4,458. On March 13, 2013, PO #25871 was increased by \$88,500 to \$142,000 "to cover invoices through June 30, 2013". The monthly cost of the revised PO based on the 12-month scope period is approximately \$11,833. This is the only revision to PO #25871 that we were provided.

We were provided an Excel file represented to contain a list of RWCG invoices (for WSARC and WSRI) from approximately August 2010 through September 2013. This file contains 12 invoices allocated to PO #25871 for FY 2013, which agree in total to the revised PO amount. Our analysis of the WSARC check register and select invoices identified payments allocated to PO #25871 had continued beyond the PO scope period. It appears, at a minimum, the total charged by RWCG for PO #25871 is at least \$405,700, exceeding even the revised PO amount of \$142,000.

ATTORNEY WORK PRODUCT – PRIVILEGED & CONFIDENTIAL

plante
moran

The invoices for the services performed pursuant to PO #25871 have a description of "Consulting Services" and include the total hours worked during the period and a single rate at which all hours were billed.

AP Vch# <u>1927</u> 7/14/14 DW			
Account: <u>1034-001-52</u>			
Amount: <u>\$33,250</u>		INVOICE	
Approved: <u>[Signature]</u>		Date: July 7, 2014 NVOICE #: WSARC 056	
TO: Wright State Research Institute ATTN: Keith Ralston Wright State University 3640 Cochrane Gern Hwy. Dayton, OH 45440		Remit To: Mr. Ron Wine Ron Wine Consulting Group 1401 Halstead Circle Dayton, Ohio 45458	
Contact	Payment Terms	Due Date	
Melissa Wra	Due on receipt	30 days	
Qty	Description	Unit Price	Line Total
1	Consulting Services	33,250.00 USD	33,250.00 USD
	- Related to WSU subcontract #: P0025871		
	Month of June		

The invoices provided for PO #25871 did not contain additional supporting documentation.

As previously stated, on October 6, 2015 we received two additional contractual agreements between WSARC and RWCG:

- WSARC subgrant agreement 12-1034 modification one (**Attachment 31**); and
- WSARC consulting services agreement CA-15-020 (**Attachment 32**).

***Subgrant agreement 12-1034 modification one
(Attachment 31)***

Subgrant agreement 12-1034 modification one, entered into on March 27, 2015, was signed by Dennis Andersh on behalf of WSARC and Ron Wine on behalf of RWCG. This agreement modifies subgrant agreement 1034-006 and retroactively extends the period of performance from December 13, 2013 to April 30, 2015. While the modification addresses that the initial contract

period had ended 15 months prior, it does not address the estimated total cost of \$400,000 at approximately \$15,000 per month (compared to actual monthly costs of, at times, over \$60,000).

Agreement CA-15-020

(Attachment 32)

WSARC consulting services agreement CA-15-020, entered into on May 31, 2015, was signed by Dennis Andersh on behalf of WSARC and Ron Wine on behalf of RWCG. The agreement is retroactively effective May 1, 2015 and, per the project budget, has a period of performance through June 30, 2019. The consulting agreement contains a scope of work that includes both goals and strategic activities for the services to be provided. Further, the project budget identifies three separate hourly rates to be charged for RWCG employees.

Global Stem Academy

Our analytics identified three payments made by WSARC to Global Stem Academy warranting further review. We requested check copies and all supporting documentation for these payments.

Check #3166

Check number 3166, dated February 21, 2013, was issued to Global Impact Stem Academy ("Global Stem") for \$250,000. The support provided for this payment was Global Stem invoice number 1 and an email chain discussing the payment. Per the invoice, dated February 1, 2013, the payment was for "Infrastructure and Start-up Support."

Global Impact STEM Academy
c/o ESC of Central Ohio
2080 Citygate Drive
Columbus, OH 43219

INVOICE 1 **2.1.2013**

BILL TO:	SHIP TO:	INSTITUTE CONTACT:
Wright State Applied Research Corporation 4035 Colonel Glenn Hwy. Dayton, OH 45431	Same as recipient	ATTN: Scott Gooding

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
N/A	Infrastructure and Start-up Support	N/A	\$250,000

SUBTOTAL	\$250,000
SALES TAX	---
SHIPPING & HANDLING	---
TOTAL DUE BY 2.28.2013	\$250,000

Thank you for your support!

Per the chain of emails, on February 21, 2013 Ryan Fendley contacted Scott Gooding at the Educational Service Center ("ESC") of Central Ohio indicating that he was given his name "by Dr. Estrop as the individual to work with related to funding gisa" and requested details regarding who should be paid to provide the funding. Eric Ulas at the ESC of Central Ohio responded to Ryan Fendley, thanking him for reaching out. He indicated that the check should be payable to Global Stem and sent to ESC of Central Ohio located in Columbus. Ryan Fendley forwarded this email response to Aja Ash and Terry Rapoch with the following instructions:

From: Fendley, Ryan D.
Sent: Thursday, February 21, 2013 2:04 PM
To: Ash, Aja; terry.rapoch@wsu-arc.org
Subject: Fwd: Funding from Dr. Estrop

Aja,

We need a \$250,000 check, payable to the entity id'd below.

It should come out of the \$4m pot of state funds.

Once Terry has signed it, please email me a copy. I will countersign when I am back in the office.

I will draft the documentation to support it when I return, however I have been informed we need to provide the email copy by noon tomorrow.

Respectfully,

Ryan

Per the instructions, the payment was made from the workforce development funds. Further, this email indicates that check number 3166 to Global Stem is based on invoice documentation that was created by Ryan Fendley.

Check #4017

Check number 4017, dated June 10, 2014, was issued to Global Stem for \$250,000. We were provided a Request Payment form that indicates the source of this disbursement is the workforce development funds. The form was approved by Dennis Andersh on June 4, 2014.

Request Payment	
Project: <u>STEM funding</u>	
Source: <u>1034-001-43</u>	
Amount: <u>\$250,000.00</u>	<u>Global Impact Stem Academy</u>
Bill To: <u>STEM Academy</u>	<u>Attn: Josh Jennings</u>
Bill To: <u>100 Scott Gooding</u>	<u>P.O. Box 1344</u>
Bill To: <u>ERC of Central Ohio</u>	<u>Springfield OH 45501</u>
Bill To: <u>2080 Chygate Drive</u>	
Bill To: <u>Columbus, OH 43219</u>	
Description: <u>\$250,000.00 to STEM Academy</u>	
Approved: <u>[Signature]</u>	DATE: <u>6/4/14</u>
View: <u>1832</u>	<u>4/4/14</u>
Check: _____	
AP Initials: _____	Date: _____

The only other support provided beyond the Request for Payment was the same email chain to support the payment of check number 3166, as previously discussed. Based on the documentation provided, check number 4071 was issued to Global Stem with limited, to no, support for the payment.

Check #3957

We requested check number 3957 for \$150,000 and its supporting documentation because it is recorded as paid to Global Stem in the WSARC check register. The provided check copy, however, revealed it was actually issued to Midwest Clinical Research Center, LLC ("Midwest Clinical").

3957

Wright State Applied Research Corporation
4035 Colburn Avenue Highway Suite 200
Blomington, OH 45110
(637) 795-0000

FIRST
One Hundred Bush
\$6-91 422

DATE
5-22-14

CONTROL NO.

AMOUNT
\$150,000.00

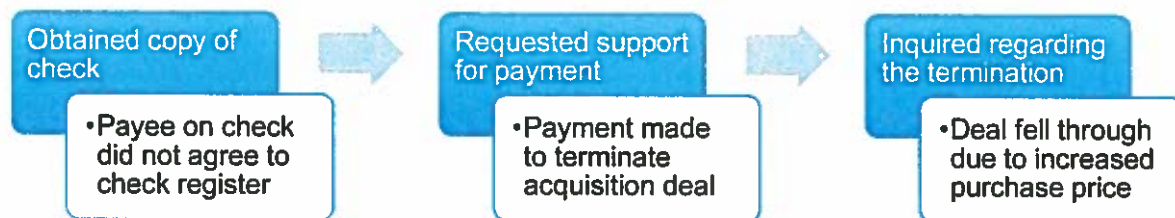
PAY
TO THE
ORDER
OF
MIDWEST CLINICAL
RESEARCH CENTER, LLC

100

100003957# 0422009600 5310483531#

During our interviews, the Contracts Administrator represented the \$150,000 was initially recorded as a payable to Global Stem based upon her verbal conversation with the CFO. The Contracts Administrator was later informed by the CFO that the payment was actually supposed to be to Midwest Clinical, so the entry recording the \$150,000 to Global Stem was reversed and recorded to Midwest Clinical. The Contracts Administrator indicated that when the check was issued, she probably selected the amounts recorded to and then reversed for Global Stem in addition to the amount to Midwest Clinical in order to clear it out of the Accounts Payable module, which could have resulted in the check being recorded as issued to Global Stem.

Given that this is a handwritten check and the actual payee did not agree to the payee in the check register, we concluded to perform additional research on this transaction:



While limited documentation was available regarding this deal, the CFO represented that the payment made to Midwest Clinical was to terminate an acquisition deal. The CFO indicated that he had been involved in the initial discussions regarding the potential acquisition of Midwest Clinical and that the purchase price was represented to be around \$2 million. Pursuant to these discussions, a letter of intent (LOI) dated January 21, 2014 was sent to Dr. Bernadette D'Souza (Member) at Midwest Clinical containing the terms and conditions under which WSARC proposed to purchase the assets of Midwest Clinical, including its clinical trial book of business, equipment, and other tangible assets to be identified in a subsequent purchase agreement (**Attachment 34**). The LOI is signed by Dennis Andersh (as COO) on behalf of WSARC and Robert Magrino (Director of Operations) on behalf of Midwest Clinical. Per the LOI, the purchase price is as follows:

\$11 Million Dollars (\$11M); discounted by \$4 Million Dollars through a recognized gift (provided through a tandem gift agreement or other suitable vehicle) to the WSU Foundation. The remainder, \$7,000,000 will be payable in the following:

\$3,000,000 in cash at the closing of the asset sale;
50% of the net income from operations within 30 days of the end of year 1;
75% of the net income from operations within 30 days of the end of each of years 2 and 3
The remaining balance of the \$7,000,000 within 30 days of the end of year 4.
The \$4,000,000 installments payments will bear interest at an agreed upon rate.

From provided email communication regarding the transaction, it appears that an addendum to the LOI was received by Ryan Fendley on March 14, 2014.

On Mar 14, 2014, at 5:42 PM, "Fendley, Ryan D." <ryan.fendley@wright.edu> wrote:

> Fully executed modification...
>
> I'm meeting with our internal folks next week. We'll be in touch after that to drive to the finish line.
>
> Thanks.
>
> Ryan D. Fendley
>
> Senior Advisor to the Provost
>
> Wright State University
>
>
>
> 937.775.5164

> From: Bernadette D'Souza <bdsouza@midwestclinical.com>
> Sent: Friday, March 14, 2014 2:45 PM
> To: Fendley, Ryan D.
> Cc: Robert Morigino
> Subject: Signed LOI addendum

> Here it is Ryan... thanks

> Bernadette

> -----Original Message-----

> From: pyrin@panner.com.br [mailto:pyrin@panner.com.br]
> Sent: Friday, March 14, 2014 2:48 PM
> To: Bernadette D Souza
> Subject: Message from "RNPF3D061"

- This E-mail was sent from "RNPFID061" (9060)

> Scan Date: 03/14/2014 14:47:33 (-0400)

> Queries to: www.connector.com:local

> <Modification to Midwest Clinical LOI - Executed.pdf>

We were not provided a copy of the addendum. Subsequent to the modification, it was decided that WSARC no longer wanted to purchase the assets of Midwest Clinical. Based on interviews with the CFO, this decision was the result of the \$9 million increase in purchase price due to a valuation that was allegedly performed. In order to understand the increase in the purchase price, we requested documentation regarding the valuation. WSARC represented not to have the valuation documentation onsite because they were required to return it or destroy per a non-disclosure agreement (“NDA”) entered into ahead of the potential transaction. We were provided the NDA regarding the transaction that confirmed this requirement:

4. The undersigned further agree that all Confidential Information and copies thereof shall remain the property of the disclosing Party, and shall be returned to the respective owner of the Confidential Information or destroyed in the event the undersigned elect not to participate in the Transaction, or at any time upon demand of the respective owner.

Analysis of the LOI identified that, if WSARC wished to terminate the LOI, it was required to provide Midwest Clinical with written notice as well as a \$150,000 termination fee:

5. Due Diligence Period:

Buyer shall have from February 1, 2014 until March 15, 2014 to determine whether or not to purchase the assets. Seller is expected to make available any and all information requests to support Buyer's review of Seller's existing book of business and business financials. If Buyer determines that it does not desire to purchase the assets, for any reason other than identification of fraudulent business practices or those identified in Section 9, Buyer shall deliver to Seller, prior to the end of the due diligence period, written notice that Buyer wishes to terminate the Letter of Intent, and a \$150,000 termination fee. In such case, the Letter of Intent shall automatically terminate, except for those matters which are indicated therein as surviving termination. Neither party shall have any liability to the other from that point forward.

On May 23, 2014, Michael Booth from Sebaly, Shillito and Dyer provided written notice of termination by WSARC that included check number 3957:

SEBALY SHILLITO + DYER
ATTORNEYS AT LAW
1000 N. KETTERING TOWER
DAYTON, OH 45423
PHONE: 937.233.7050
FAX: 937.233.7050
WWW.SSDLA.COM

May 23, 2014

VIA HAND DELIVERY

Paul E. Zimmer, Esq.
Pickrel, Schaeffer & Fabeling Co., LPA
2700 Kettering Tower
40 North Main Street
Dayton, OH 45423

RE: Wright State Applied Research Corporation /Midwest Clinical Research Center

Dear Paul:

Enclosed please find Wright State Applied Research Corporation's check for \$150,000. This letter will also serve as Wright State Applied Research Corporation's written notice of termination of the Letter of Intent dated January 21, 2014, as amended. Please let me know if you have any questions.

Very truly yours,
Michael A. Booth
Michael A. Booth

It was represented by the WSARC CFO that, after the acquisition was cancelled, Midwest Clinical attempted to donate its assets to WSARC; however, no documentation was provided to support this representation. We do not know when this attempted donation occurred.

Advratech

As previously mentioned, we reviewed the contractual documentation related to WSARC subgrant agreement 1033. Analysis of the disbursements for this subgrant agreement identified that the invoices provided to support payments had limited spending detail. Our analysis of these invoices is outlined below.

Invoice #1001

Advratech invoice number 1001, dated May 10, 2013, charged WSARC \$64,222 for "Fixed Price Labor and Materials for Cochlea Task 1".

Advratech LLC
2154 Liberty Road
New Carlisle, OH 45344

Invoice

Due Date: 5/10/2013
Invoice #: 1001

Bill To:
Wright State Applied Research Corporation
6035 Colwell Drive NW
Durham, OH 43015

Quantity	Description	Rate	Amount
1	Fixed Price Labor and Materials for Cochlea Task 1	\$64,222.00	\$64,222.00
Total			\$64,222.00

If you have any questions regarding this invoice, please contact Joe Spadaro at (513) 242-1234.

The format of this invoice is inconsistent with other Advratech invoices. While the invoice description identifies the terms of the contract and the project, it does not contain spending detail regarding labor and materials. Further, this invoice lacks an approval signature.

Invoice #1011

Advratech invoice number 1011, dated October 23, 2013, charged WSARC \$60,000 for "Fixed Price Labor and Materials Cochlea Task 1".

Advratech, LLC P.O. Box 128 Fairborn, OH 45324		AP Vch # <u>1227</u> <i>10/11/13 DW</i> Account: <u>1033-002-52</u> Amount: <u>\$60,000.00</u> Approved: <i>Verbal OK to pay from Keith Ralston.</i>	Invoice <table border="1"><tr><th>Date</th><th>Invoice #</th></tr><tr><td>10/23/2011</td><td>1011</td></tr></table>		Date	Invoice #	10/23/2011	1011							
Date	Invoice #														
10/23/2011	1011														
B.B.T.® Wright State Applied Research Corporation 5015 Coland Green Hwy Dayton, OH 45424															
		<table border="1"><tr><th>P.O. No</th><th>Terms</th><th>Project</th></tr><tr><td>Agreement 1011</td><td>Net 30</td><td>2001</td></tr></table>	P.O. No	Terms	Project	Agreement 1011	Net 30	2001							
P.O. No	Terms	Project													
Agreement 1011	Net 30	2001													
<table border="1"><thead><tr><th>Quantity</th><th>Description</th><th>Rate</th><th>Amount</th></tr></thead><tbody><tr><td>1</td><td>Fixed Price Labor and Materials Cochlea Task 1</td><td>\$60,000.00</td><td>\$60,000.00</td></tr><tr><td colspan="2"></td><td>Total</td><td>\$60,000.00</td></tr></tbody></table>	Quantity	Description	Rate	Amount	1	Fixed Price Labor and Materials Cochlea Task 1	\$60,000.00	\$60,000.00			Total	\$60,000.00			
Quantity	Description	Rate	Amount												
1	Fixed Price Labor and Materials Cochlea Task 1	\$60,000.00	\$60,000.00												
		Total	\$60,000.00												

The format of this invoice is inconsistent with other Advratech invoices. While the invoice description identifies the terms of the contract and the project, it does not contain spending detail

regarding labor and materials. The address, which is a P.O. Box, also differs from the address provided on invoice number 1001.

Invoice number 1001 and 1011 total to \$124,222, which agrees to the total of the subgrant agreement price in the contractual documentation we were provided. While these invoices contain limited spending detail, WSARC appeared obligated to pay them per the unfavorable terms of the contract, as discussed in the Contracting Issues section.

Invoice #4501-03

Advratech invoice number 4501-03, dated August 19, 2014, charged WSARC \$31,050 for "Fixed Price Labor and Materials" for the Artificial Cochlea project.

ADV RATECH

Invoice Number: 4501-03 Invoice Date: 08/19/14

Contact: Tony Spacing at tspacing@advratech.com or 937.412.1225 if you have any questions regarding this invoice.

Bill To: Wright State Applied Research Corporation
4035 Colonel Glenn Highway
Dayton, OH 45424

Send To: Advratech, LLC
Attn: Accounts Receivable
PO Box 128
Fairport, OH 42324

Agreement Number	1033	Contract Value	Funded Value
Project Number	4501	Cost: 155,272.00	155,272.00
Project Name	Artificial Cochlea	Fee: 0.00	0.00
Project Period of Performance	01/23/12 to 01/11/2015	Total: 155,272.00	155,272.00
Terms	Net 30	Cumulative Amount Billed: 155,272.00	
Due Date	09/12/14		

	Current Amount	Cumulative Amount
Fixed Price Labor and Materials	31,050.00	155,272.00
Direct Labor	31,050.00	155,272.00
Invoice Total	31,050.00	155,272.00

APR 11 2033 3/11/14 200

Account: 1033-001-52

Amount: \$ 31,050.00

APPROVED: Keith Palston

Tony A. Spacing
Controller

The format of this invoice is consistent with other Advratech invoices; however, it does not contain spending detail regarding labor and materials. Further, contractual documentation to support this payment was not included in the documentation provided subsequent to our request for all Advratech subcontracts.

9. WSRI Data Testing

We performed analytics tests on the WSRI check register and requested supporting documentation for select transactions.

Duplicate Payments: Jason Parker

We analyzed two payments made to Jason Parker:

- Check number !0023933 dated May 8, 2015 for \$490; and
- Check number !0024622 dated June 5, 2014 for \$490.

We selected these transactions for analysis as payments made for the same amount to the same individual is a potential characteristic of duplicate payments. The supporting documentation for each check was a travel expense report combined with a travel authorization worksheet. This worksheet outlined the reimbursement to be paid to Jason Parker based on the total travel expenses he incurred, less the expenses charged to his procurement card. Review of the worksheet detail for check number !0023933 and check number !0024622 identified that the same travel authorization worksheet, for travel to Bangalore, India in February 2015, was provided as support for both payments.

Travel Authorization Form

TRAVEL AUTHORIZATION WORKSHEET

Traveler: Jason Parker Organization Code: 250000/21700/700000/000000 Travel ID: 10017472
From: International Partnership & Business Development (7200-000) Location: Bangalore India

1. Type of Transportation
Airfare: \$1,596.70 Personal Auto: \$ 20.00 \$0.00 Airfare Total: \$0.00
0 miles car/mileage

2. Lodging & Meals

Date	Location	Lodging	Meals	Auto	Travel
13-Feb-15	Bangalore, India	\$0.00	\$0.00	\$0.00	\$20.00
14-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
15-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
16-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
17-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
18-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
19-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
20-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
21-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32
22-Feb-15	Bangalore, India	\$138.32	\$0.00	\$0.00	\$138.32

3. Travel-related expenses

Date	Location	Description	Amount
21-Apr-15	Dayton, OH	visa for trip	\$217.00
08-May-15	Dayton, OH	visa for India	\$121.00
11-Feb-15	Dayton, OH	Airfare Bangalore Trip	\$1,596.70
11-Feb-15	Dayton, OH	Business cards	\$10.00
10-Feb-15	Bangalore, India	Airfare India 2015	\$1,596.70
10-Feb-15	Bangalore, India	Airfare India 2015	\$1,596.70
17-Feb-15	London, England	Hotel	\$10.00
10-Feb-15	Bangalore, India	Car rental	\$123.00
10-Feb-15	Bangalore, India	Car rental	\$123.00
10-Feb-15	Bangalore, India	Car rental	\$123.00
10-Feb-15	Bangalore, India	Telephone charges	\$1.00
21-Feb-15	Dayton, OH	taxi	\$10.00

TOTAL COST: \$6,764.12

Less: Prepaid expenses from Procurement Card: \$6,274.00

Travel Reimbursement: \$490.12

As a result, Jason Parker was reimbursed twice for travel expenses to Bangalore, India incurred in February 2015. Given this discovery, WSARC confirmed that check number !0024622 was a duplicate payment and has contacted Jason Parker for reimbursement.

ASH, Inc.

We concluded to analyze the WSRI payments to ASH, Inc. because we wanted to identify if the company is related to the Contracts Administrator, Aja Ash, who is responsible for processing checks at the University; therefore, we requested the contract to support the payments to Ash, Inc. We were provided a sponsored research agreement between WSU and Acclimate Technologies, Inc. ("Acclimate"), whereby Acclimate was sponsoring the development of an asset tracking system by WSU. Per the agreement, the project was to be performed over the one year period from April 15, 2010 through April 14, 2011 and was to include Dr. Jack Jean, Dr. Mary Fendley and two WSU graduate students. Ryan Fendley is listed as the WSU contact. Per the terms of the agreement, WSU would bill Acclimate on a cost reimbursable basis, with total costs to be billed of \$140,000. The following details the scope of services to be provided by WSU:

Milestone	Description	Delivery Date
#1 – Demo System Installation	<ul style="list-style-type: none">• Acquire hardware• Configure the contents of the database for Living Lab application• Install at Living Lab one demo system with one reader and three room locators. The installation locations will not be permanent. The demo system serves two purposes:<ul style="list-style-type: none">(1) providing a small system for Living Lab personnel to demonstrate RFID technology, and(2) provide a setup for the system developers to understand the constraints introduced by Living Lab layout.	EOM 1
#2 – Site Survey and System Design	<ul style="list-style-type: none">• Use the demo system at Living Lab to perform a full site survey• Determine optimal hardware installation requirements, including the placement of readers and room locators, and electrical/network requirements• Deliver site survey/system design report for approval	EOM 2
#3 – Full System Installation	<ul style="list-style-type: none">• Enhance the software to meet system design requirements• Install the full system• Configure the contents of the database for the full system	EOM 3
#4 – Training and System Validation	<ul style="list-style-type: none">• Prepare system documentation• Train Living Lab personnel on proper use and administration of system• Collect and evaluate the usage information once the system is operational• Validate the system; debug the system if necessary• Finalize system documentation	EOM 5
#5 – Final Report	<ul style="list-style-type: none">• A final technical report covering the activities of the effort, and containing the results of the market analysis and technology feasibility studies	EOM 6

We were also provided three modifications to the agreement. Modification one, dated July 11, 2010, allows the WSU Project Manager²⁹, Dr. Jack Jean, to make any revisions to the proposed budget deemed necessary as long as the total project cost does not exceed \$140,000. Modification two, dated November 29, 2010, changes the contract from cost reimbursable to a fixed price contract for \$140,000. Modification three, dated January 18, 2011, extends the period of performance for the agreement through June 30, 2011. Further, in the third modification, Acclimate acknowledges that there was some confusion in documentation regarding the name of the WSU subcontractor; however, the correct provider is as follows:

Ash, Inc. 1115 Inman Avenue Suite 305 Edison, New Jersey 08820

We were provided the subagreement between WSU and Ash, Inc. regarding the asset tracking system project. Per the subagreement, the period of performance is the one year period from April 15, 2010 to April 14, 2011. The key investigator at Ash, Inc. is to be Ashok Rao and the cost of the work performed was not to exceed \$21,763.89. The statement of work for the Subagreement is as follows:

²⁹ For the University, the individual with the role of Project Manager is called a Principal Investigator.

Statement of Work for Nanash, Inc.

1.0 PROBLEM STATEMENT

The Wright State Research Institute will use active RFID hardware and build a middleware to support the Living Laboratory Center of the Nursing Institute. Additionally, market analysis and feasibility studies will be conducted to determine the commercial potential of the applications developed. Nanash, Inc. will support certain aspects of this effort.

2.0 PERIOD OF PERFORMANCE

The period of performance shall be effective 15 April 2010 and continue through 14 April 2011.

3.0 TASKS

The tasks to be performed include:

- Support the determination optimal hardware installation requirements, including the placement of readers and room locators, and electrical/network requirements
- Submit recommendations of site survey/system design
- Support the Validation the system; debug the system if necessary
- Support the generation of Final system documentation

4.0 DELIVERABLES

The deliverables will include:

- System design recommendations, validation report, and system documentation.

5.0 EFFORT AND COST

The budget to execute these tasks for the stated period performance is calculated on a firm fixed price basis:

<u>Item</u>	<u>ITEM COST</u>
System design recommendations	\$10,000
Validation report and system documentation	\$11,763.89

6.0 CONTRACTING CONTACT INFORMATION

Ashok Rao
Nanash, Inc
1115 Inman Avenue
Suite 305
Edison, NJ 08820
t-973 417-6380
f-732 815 9846

We analyzed the invoices for the two WSRI payments to Ash, Inc. related to the subagreement and noted the two invoices totaled \$27,908.57, which exceeds the total costs specified in the subagreement. Invoice number 7400, dated December 15, 2010, charged WSARC a total of \$20,000 as follows:

10126307

ASH, INC
1115 INMAN AVENUE, SUITE 305
EDISON, NJ 08820
TEL: 973-417-6380 FAX: 732-813-9846
EMAIL: NANA817@aol.com

DATE: 12/28/2011
TIME: 2:10 PM
15RC1202

INVOICE # 7460

SOLD TO: Wright State University
3610 Colonel Glenn Hwy
Dayton, OH 45435-0001

SHIP TO: SAME

INVOICE # 7460 DATE 12/15/2010 SHIP VIA THRUMS UPON RECEIPT

CRIST #	Log #	CRIST PO #	BUYER	SALESREP
WR-ASH10				Heave

DESCRIPTION	QTY	PRICE	AMOUNT
Physics Design Recommendations To develop ROOM 4136	1	\$10,000	\$10,000
Valid on Requested Physics Documentation	1	\$10,000	\$10,000
CONF. PHYSICS RV			
TOTAL			\$20,000

FCAR 608010-2 40352-7764 2 AND 2

Amount: \$20,000.00

FSR: ~~XXXXXXXXXX~~ R1 Approval:

Amount: ~~XXXXXXXXXX~~

RSP Approval: **GRAND TOTAL: \$20,000**

This invoice is owned by Ash, Inc. 1115 INMAN AVENUE SUITE 305, EDISON, NJ 08820. When prompt notice is given of any objection to any part of this invoice as rendered, Goods returnable for any reason shall be returned only upon written notice from Ash, Inc.

Please remit this invoice to Ash, Inc. 1115 INMAN AVENUE, SUITE 305, EDISON, NJ 08820.

NO RETURNS ACCEPTED OR CLAIMS ALLOWED AFTER 1 DAYS FROM DATE OF RECEIPT OF SHIPMENT
OUR RECEIVING DEPARTMENT WILL ACCEPT NO RETURNS WITHOUT AN AUTHORIZED RETURN

Per the invoice description, the work performed appears to fall within the scope of work detailed in the subagreement. The second invoice (number 7460) is dated December 28, 2011 and charged WSARC \$7,908.57 for the "development of protocols for SCADA Security White Paper."

ASH, INC
1115 INMAN AVENUE, SUITE 305
EDISON, NJ 08820
TEL: 973-417-6380 FAX: 732-815-9846
EMAIL: NANASH@AOL.COM

RECEIVED
12 APR 18 PM 3:23
WRIGHT STATE UNIVERSITY
PURCHASING/CONTROLLER

2012 APR 20 PM 4:43

INVOICE # 7460

SOLD TO: Wright State University
3640 Colonel Glenn Hwy
Dayton, OH 45435-0001

SHIP TO: SAME

INVOICE #	DATE	SHIP VIA	TERMS
7460	12/28/2011		Upon Receipt

CUST #	Log #	CUST PO #	BUYER	SALESREP
WR-ASH10				Home

DESCRIPTION	QTY	AMOUNT
Development of Protocols for SCADA Security White Paper	1	\$7,908.57
TOTAL		\$7,908.57
GRAND TOTAL:		\$7,908.57

(If invoice is owed by Ash, Inc 1115 INMAN AVENUE, SUITE 305, EDISON, NJ 08820 no return prompt notice must be given of any objections to payment of this invoice as rendered.)

Please remit this invoice to Ash, Inc 1115 INMAN AVENUE, SUITE 305, EDISON, NJ 08820.

.....
NO RETURNS ACCEPTED OR CLAIMS ALLOWED AFTER 5 DAYS FROM DATE
OF RECEIPT OF INVOICE.

The invoice date is over nine months after the end of the subagreement period of performance and the invoice description does not appear to fall within the subagreement scope of work. Further, our analysis of invoice number 7460 identified several unusual characteristics that could be indicative of a fictitious invoice when compared to invoice number 7400, as follows:

- The invoice has a different font for the company name and contact information.
- The size of the font for the invoice number is larger.
- The grand total is not underlined.
- There is different text at the bottom of the invoice.

We concluded to perform background research on Ash, Inc. given the inconsistencies identified. We were provided the form completed by Ashok Rao, which contained the information the University utilized to issue the 1099(s). We performed a business entity search based on the employer identification number provided on the form; however, the employer identification number was unable to be verified. We also used CLEAR background research software, which identified that Ash, Inc. appears to be a clothing store.

Business Name:	ASH CLOTHING INC	Legal Business Name:	
Address:	1115 INMAN AVE EDISON, NJ 08820 Phone: (973) 417-6380		
County:	MIDDLESEX		
Primary ISO Country Code:	USA		
Address:			
Secondary ISO Country Code:			
Area Code & Phone Number:	(973) 417-6380	Fax Phone Number:	
E-Mail Address:		Web Address:	www.ashclothing.com
Contact:	ASHOK RAO	Title Description:	VICE PRESIDENT
Primary SIC Code:	5137 WOMEN'S, CHILDREN'S, AND INFANTS' CLOTHING AND ACCESSORIES		
Secondary SIC Code:	5136 MEN'S AND BOYS' CLOTHING AND FURNISHINGS		
Primary NAICS Code:	424320 MEN'S AND BOYS' CLOTHING AND FURNISHINGS MERCHANT WHOLESALE		

In summary, our analysis of Ash, Inc. identified two potential problems:

- 1) The second invoice from Ash, Inc. contained several characteristics of fictitious invoices, including discrepancies in font, format, etc. In addition, this second invoice did not appear to fall within the scope of the subagreement, and exceeded the approved amount. We were unable to conclude whether this invoice was fictitious and/or for legitimate services, given the historical age of the project and limited knowledge/lack of involvement by current WSRI personnel.
- 2) Findings from our background research identified that Ash, Inc. appears to be a clothing store. We do not know the technical background of Ash, Inc.'s employees, but it is

suspicious that a clothing store would be invoicing WSRI for “developing protocols for a SCADA security white paper” (in addition to it not being within the scope of the subagreement). Further, we found it suspicious that Ash, Inc. would be performing the services that were within the original scope of work, both “system design” and “reporting” for an RFID technology research project. Interviews identified Ash, Inc.’s role may have been related to installing RFID technology into clothing, but we were unable to substantiate that assertion given the historical age of the project and limited knowledge/lack of involvement by current WSRI personnel.

10. Other Matters Researched

Purchasing Cards

We reviewed the activity of the WSRI purchasing card and WSARC debit card given the lack of control surrounding the use of the workforce development funds. The possession of cards, and our corresponding analysis, of the key individuals is detailed in the ensuing table:

	WSRI Purchasing Card	WSARC Debit Card
Dennis Andersh	Analyzed	Does not exist (per Aja Ash)
Ryan Fendley	Analyzed	Analyzed
Richard Maresca	Does not exist (per Michael Corbett)	Does not exist (per Aja Ash)
Sundaram Narayanan	Analyzed	Does not exist (per Aja Ash)
Terry Rapoch	Analyzed	Analyzed
Keith Ralston	Analyzed	Does not exist (per Aja Ash)

An analysis of purchasing card statements and travel expense reports showed that personal expenses, including additional hotel nights and room service, were charged to purchasing cards, but subsequently recovered by WSARC/WSRI during the travel expense reimbursement process. We recommend that personal expenses be discouraged on purchasing cards (e.g., extra hotel night should be paid separately.) We also suggest that employees are provided continuous training on the use of purchasing cards in conjunction with WSU policy.

Phani Kidambi Pay

We were requested to analyze Phani Kidambi's pay because it was represented to us during interviews that he may have been receiving unallowable summer pay from WSARC. To determine the amount of summer pay he received, we reviewed the payroll register covering our scope period for Phani Kidambi. We also reviewed Kidambi's personnel file to determine whether the summer salary he received was included as part of his compensation. For Phani Kidambi's positions as CECS Lecturer and Director of International Programs, Wright State International Gateway ("WSIG") Director and Director of Business Process Reengineering for WSRI, three

months of summer salary was permitted. The following timeline summarizes the positions Phani Kidambi held at WSU and the salary and stipends he received:



We also analyzed Phani Kidambi's payroll allocation to determine the source of his summer salary. For the summer salary received as part of the compensation for his position as CECS Lecturer and Director of International Programs, the payroll allocations revealed two payments totaling \$15,778 allocated to BIEWSRI. The information in Phani Kidambi's personnel file does not specify the department responsible for his summer salary.

It should be noted that while the summer pay Phani Kidambi received was allowed per the offer letters for his positions held at WSU, our analysis revealed that an error resulted in an overpayment of \$5,917 in May 2013.

Internal Control Issues: Conflict of Interest

It was identified in our interviews that Keith Grimes³⁰ was a full-time employee at WSARC; however, effective February 2015 his time was reduced to 60%. The other 40% of his time was spent working at another company, Eccrine Systems, Inc., with his role as CEO. Per the

³⁰ It is our understanding that Keith Grimes is no longer employed at WSARC.

documents filed with the Ohio Secretary of State, Eccrine Systems focuses on the development of Bluetooth sweat sensor technology. Keith Grimes indicated that he disclosed this relationship to WSRI multiple times. Although it was represented that Eccrine Systems currently does not compete with WSARC, it is possible that it could in the future.

WSARC should enforce the University's conflict of interest policy. Further, WSARC should ensure there is a policy in place that prohibits its employees from entering into a business that directly competes with WSARC and/or the University.