STATE OF OHIO OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

REPORT OF INVESTIGATION



AGENCY: WRIGHT STATE UNIVERSITY FILE ID NO.: 2017-CA00001 DATE OF REPORT: JULY 2, 2019

The Office of the Ohio Inspector General ... The State Watchdog

"Safeguarding integrity in state government"

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Randall J. Meyer Ohio Inspector General



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REPORT OF INVESTIGATION

FILE ID NUMBER:

2017-CA00001

Contractor

Referral

Wright State University

Procedures, or Policies.

Failure to Comply with State or Department Rules,

SUBJECT NAME: Double Bowler Properties Corp.

POSITION:

AGENCY:

BASIS FOR INVESTIGATION:

ALLEGATIONS:

INITIATED:

January 5, 2017

DATE OF REPORT:

July 2, 2019

INITIAL ALLEGATION AND COMPLAINT SUMMARY

On January 5, 2017, the Office of the Ohio Inspector General received a referral of a complaint from the Ohio Attorney General's Office (OAG) pertaining to Wright State University (WSU) and payments the university made to a consultant. While interviewing Greg Sample, an employee of Wright State University and the CEO of Double Bowler Properties Corp. (Double Bowler), Sample told OAG investigators that prior to his appointment as CEO, Double Bowler had been paying \$9,000 a month for the lobbying services of consultant Steve Austria. Sample told OAG investigators that he could not determine what work Austria had performed since his contract began on June 1, 2014, and there was no work product evident as a result of his services.

BACKGROUND

Double Bowler Properties Corp.

Double Bowler Properties Corp. (Double Bowler) is a private 501(c)(3) non-profit corporation, incorporated on May 12, 2014, established by Wright State University for the purpose of providing "... efficient and effective real estate administration and management for Wright State University."¹ Article Three of the corporate Code of Regulations lists the charitable, scientific, and educational purposes of Double Bowler "... exclusively for the benefit of Wright State University." The board of directors for Double Bowler is comprised of the chair and vice chair of the Wright State University (WSU) Board of Trustees, and an additional WSU trustee appointed by the chair. The president of Wright State University may appoint three members to the Double Bowler Board of Directors. The board of directors themselves may also appoint an additional three members, with the stipulation that the majority of members on the Double Bowler Board of Directors are Wright State University trustees, officers, or employees.

Double Bowler also acts as the parent company and sole member of various other non-profit corporations involved in real estate transactions for the benefit of Wright State University.

¹ Double Bowler Properties Corp. Code of Regulations, Article 1 Section 2.

INVESTIGATIVE SUMMARY

Issues Involving Steve Austria and Associates, LLC.

On January 5, 2017, the Office of the Ohio Inspector General met with attorneys from the Anti-Trust Division of the Ohio Attorney General's Office (OAG) to discuss a matter they had uncovered during an unrelated investigation. While interviewing Greg Sample, an employee of Wright State University (WSU) and CEO of Double Bowler Properties Corp. (Double Bowler), Sample had stated to OAG investigators that prior to his becoming CEO, Double Bowler had been paying \$9,000 a month to Steve Austria for consulting services. Austria had entered into a contract with Double Bowler when Sample's predecessor, Ryan Fendley, served as CEO and Sample was serving as COO. Sample stated that he was unaware of the contract between Double Bowler and Austria until after it was executed, when Austria submitted his first invoice.

Records subpoenaed by the Office of the Ohio Inspector General from Double Bowler showed that on June 1, 2014, Ryan Fendley, then-CEO of Double Bowler, and Steve Austria executed a consulting contract. The statement of work listed five "action items":

- a) Assist in the development and execution of strategies that maximize the return on investment of the organization's real estate portfolio.
- b) Identify mutually beneficial public/private partnership opportunities, and help bring selected opportunities to successful completion.
- c) Identify relevant sources of funds that support the near and long-term priorities of the organization, and help develop strategies that support the successful acquisition of those funds.
- d) Develop and support the execution of strategies that strengthen the position of the organization with the appropriate local, state, and federal agencies.
- e) Support specific projects currently under consideration, such as the Boulevard, and the expansion of the community engagement zones.

The contract listed two "delivery requirements." Austria was to provide a monthly invoice that included a breakdown and distribution of charges, and a monthly progress report outlining the services and accomplishments completed during the prior month. The contract specified a fixed

amount of \$9,000 was to be paid each month for "labor and services." The contract period was from June 1, 2014, through June 30, 2015.

From a review of documents that were either submitted by Austria or subpoenaed from Double Bowler, investigators learned that Austria had submitted a monthly, two-page invoice for each month during the contract period. The first page of each invoice included the billing amount of \$9,000 and payment or direct deposit information. The second page of each invoice included a summary of actions completed during the invoice period, titled "Activity Report."

Additionally, investigators reviewed the "Activity Reports" submitted by Austria. The reports showed no record of specific dates or times he worked, and only included a list of general work performed, such as "Meeting with Fendley" or "Project update with Fairborn Mayor." Investigators also learned Austria performed work for entities other than Double Bowler, such as "Meeting with Jason Parker at WSRI regarding international offsets and supporting WPAFB" in March of 2015, or "Continue to identify new strategic partners for WSU" in December 2014. This work for the university or affiliated entities was outside the scope of the contract with Double Bowler.

The Office of the Ohio Inspector General interviewed Steve Austria on August 20, 2018. Austria told investigators that though he believed his contract was with Double Bowler, he also believed the work he was performing was to benefit WSU itself, and that he was essentially working for WSU through Double Bowler. Austria stated that after leaving congress,² he had lunch with then-Wright State University President David Hopkins. The purpose of the lunch was to discuss ways in which Austria could use his local connections and government experience to benefit WSU. Austria stated that at the lunch, Hopkins introduced him to Ryan Fendley, and Hopkins indicated that Fendley would be the primary contact for Austria. After this meeting, Austria entered into the contract with Double Bowler. Austria stated that although he did not write or structure the contract, he always believed he was working on behalf of WSU. Austria stated that the university wanted to "expand its footprint" and enlarge its campus, and that his

² Steve Austria served in the U.S. House of Representatives from 2009 to 2013, representing the 7th District, which at the time included the main campus of Wright State University, as well as the cities of Fairborn and Beavercreek.

primary role was to work with the cities of Fairborn and Beavercreek to identify target properties into which the university could expand. The Office of the Ohio Inspector General requested to interview Ryan Fendley during a concurrent investigation; however, Fendley's legal counsel³ denied the request.

From a review of invoices and the information obtained during Austria's interview, investigators determined Austria, who was contracted to perform work for Double Bowler, also performed work for both WSU and other affiliated entities. Further, the contract Austria entered into with Double Bowler was a "flat rate" contract, requiring him to provide an outline of his time and activities. Investigators determined that this contract should have been a "time and materials" contract based on an hourly rate, in order to avoid paying for services not performed, or overpaying for services requiring little to no time to perform.

Structure of Double Bowler

The Office of the Ohio Inspector General opened a separate investigation to assess the relationships of various organizations affiliated with Wright State University (WSU). Investigators determined that though the university had created separate 501(c)(3) non-profit organizations, WSU failed to maintain sufficient independence between the organizations and the university itself. Investigators concluded the 501(c)(3) organizations were component units within the university system, and not separate, independent organizations.⁴ Based on the findings from this investigation, the Office of the Ohio Inspector General determined to expand the scope of the investigation to evaluate the structure and activities of Double Bowler.

Through a review of records subpoenaed from Double Bowler, investigators determined that Double Bowler maintained sufficient financial independence from the university and did not operate as a component unit of the university. Unlike the 501(c)(3) organizations subject in the previous investigation, Double Bowler maintained its own bank accounts and financial structures and did not rely on the financial infrastructure of the university to process and pay invoices. Double Bowler employed contractors as property managers and did not rely on university

³ Ohio Inspector General Report of Investigation 2016-CA00002.

⁴ Ohio Inspector General Report of Investigation 2016-CA00002.

employees (other than Greg Sample) to perform work. Further, Double Bowler employed its own financial management and auditing firm and did not rely on the university or Ohio Auditor of State to perform those services.

For purposes of this investigation Double Bowler was treated as an independent private entity, and not a component unit of the university.

Purchasing of Real Estate

The Office of the Ohio Inspector General reviewed real estate purchases made by Double Bowler to determine if Double Bowler was acting on behalf of the university and whether the corporation's actions indicated that it was serving as an "agent" of the university as it related to Ohio Revised Code (ORC) §3333.071.

ORC §3333.071 states, in part:

... no expenditures shall be made for land for higher education purposes by public institutions of higher education **or agents of such institutions** [emphasis added] from any fund without the approval of the chancellor of higher education and the controlling board.

Further, page 20 of the Controlling Board Manual Rev. 02/2012 states "... all expenditures for acquisitions of real estate **made by state-assisted institutions of higher education or agents of such institutions** require Controlling Board approval, **regardless of the source of funds** [emphasis in original]."

Black's Law Dictionary defines "agent" as "one who is authorized to act for or in place of another; a representative."

Ohio Administrative Code §3333-1-03(E) states that universities can lease property owned by a separate nonprofit organization; however, the chancellor of the Ohio Department of Higher Education must first approve a "joint use" agreement prior to the release of capital funds.

Ohio Revised Code §3345.16 allows the board of trustees of the various state colleges and universities to use endowment trust funds to purchase real property, which is to be held in the endowment portfolio as investment property. However, ORC §3333.071 specifically requires that these purchases need to be approved by the chancellor of the Ohio Department of Higher Education and the Ohio Controlling Board.

On November 6, 2017, WSU employee and Double Bowler CEO Greg Sample was interviewed by the Office of the Ohio Inspector General. Sample stated that Double Bowler is a component unit of Wright State University, and its mission is to obtain and hold property for university use at a later date. To meet this objective, Sample said Double Bowler purchased property on behalf of Wright State University.

Sample told investigators that he was not familiar with ORC §3333.071, and that he had never personally been involved with the process of seeking approval from either the Ohio Department of Higher Education or the Ohio Controlling Board. He stated that he did not know if someone else at the university was responsible for seeking Controlling Board approval of purchases of real property.

Investigators reviewed Controlling Board requests and determined that neither WSU nor Double Bowler ever sought Controlling Board approval for the purchases of any real property that Double Bowler purchased. In addition, a review of records by the chief legal counsel for the Ohio Department of Higher Education showed that neither WSU nor Double Bowler ever sought the approval of the chancellor of the Ohio Department of Higher Education for any "joint use" or lease agreements related to the properties purchased by Double Bowler.

A review of records conducted by investigators showed that Double Bowler purchased various properties around WSU's main campus, the Dayton area, and the area of Wright State University Lake Campus located in Mercer County, Ohio. Some of the properties purchased by Double Bowler were cash purchases. In other instances, Double Bowler secured a mortgage on the property, and in effect leased the property back to WSU through a "Master Lease Agreement." (Lease Agreement) (Exhibit 1) Addendum #1 to the Lease Agreement specifically authorized

Double Bowler to act as "agent" of the university for the purposes of subleasing properties to third-party tenants, in order to generate money from the property. The Addendum also contained a clause stating that the obligation of WSU to pay the mortgage costs "... shall not constitute an obligation or an indebtedness of the University within the meaning of the Constitution and law of the State."

In almost every instance, each property was purchased through the creation of a unique limited liability corporation, with Double Bowler as the sole member. The common naming convention used for the purchases was to title the LLC by the name of the property; for example, "Smith Street, LLC." Sample stated that the creation of various limited liability corporations was done intentionally to obscure that WSU was the entity purchasing the property. Sample called this the "Disney Model" and compared it to the strategy employed by Walt Disney when he purchased property in Florida for what ultimately became Disney World. Sample stated that the reason Double Bowler employed this strategy was because they wanted to reduce the likelihood of price gouging by sellers who might try to exploit the university's "deep pockets."

Investigators learned the Lease Agreement covered the properties located at 3040 Presidential Drive and 2455 Executive Park Boulevard, in the city of Fairborn, near the WSU main campus. Section 6(c) of the Lease Agreement required the university to pay all costs associated with the leased properties, including all property taxes and paying the mortgages if Double Bowler was unable to make the payments. Section 6(d) of the Lease Agreement stated that the university "… selected the leased property without the assistance of Double Bowler and that Double Bowler has acquired the leased property at the University's request specifically for the purpose of leasing the leased property to the University."

Sample stated that Double Bowler Properties Corp. originated by using "seed money" from the university, but that it became entirely self-funded through leasing the properties it owned. The seed money was used to purchase some of the properties outright, including farmland located in Mercer County and blighted properties on Grimes Street in Dayton.

The Grimes Street properties consisted of two vacant parcels - the first parcel comprised 15 and 17 Grimes Street and the second parcel comprised 23 and 25 Grimes Street. The two vacant parcels were purchased by Double Bowler for the benefit of the university through an LLC called "Grimes St. LLC." Both parcels were owned by the city of Dayton prior to being purchased for the use of WSU. Sample stated the Grimes Street lots were acquired to expand parking around the Duke Ellis Institute for Human Development and the School of Professional Psychology, located at 9 North Edwin C. Moses Boulevard in Dayton. The building housing the two Wright State programs was located at the convergence of Edwin C. Moses Boulevard, West 3rd Street, and Grimes Street. The two vacant lots sat directly across Grimes Street from the parking lot attached to the building. Sample told investigators that no work had been performed to convert the vacant lots into functioning parking lots.

Investigators learned that Double Bowler purchased 506 East Xenia Drive, located in Fairborn, Ohio, outright for the university, through an LLC called "506 E. Xenia Dr. LLC." According to Sample, the property was the site of a cement factory for many years and was consequently environmentally blighted. Sample stated the property was referred to as "Calamityville" within the Wright State community. The WSU Foundation declined to purchase the property and subsequently Double Bowler purchased it through an LLC. The property currently serves as the Wright State Research Institute⁵ National Center for Medical Readiness. Contemporaneous news articles in the Dayton Daily News showed that WSU announced it was purchasing the property prior to taking ownership and held a "transfer ceremony," issuing a press release announcing the purchase.⁶ Prior to this transfer, WSU leased the property from the city of Fairborn.

Double Bowler also purchased for the university a large tract of farmland located at 7741 State Route 703, which sits next to the Wright State University Lake Campus in Mercer County. Double Bowler purchased the land through an LLC named "7741 SR 703 LLC." Sample told

⁵ Wright State Research Institute is a component unit of WSU, as determined by Ohio Inspector General Report of Investigation 2016-CA00002.

⁶ See "Wright State to take over Calamityville property" by Steven Matthews, Dayton Daily News, November 2, 2014. <u>https://www.mydaytondailynews.com/news/local-govt--politics/wright-state-take-over-calamityville-property/6Qy2xUdDd5uUAJohSKa90N/</u>

investigators the purpose of the land purchase was to expand the size of WSU's Lake Campus, and eventually build student dormitories on the property. Lake Campus sits on a peninsula, jutting to the north side of Grand Lake St. Mary. The farmland and the Lake Campus are the only properties that sit on the peninsula. Sample stated that no work to expand the Lake Campus had been performed. At the time of this investigation, Double Bowler rented the purchased property to a farmer.

Investigators noted neither the Grimes Street properties nor the Xenia Drive property needed to have the purchaser shielded from public disclosure. The properties were purchased from other governmental entities, not private sellers who might exploit the deep pockets of the university. Similarly, the State Route 703 property did not need to have the identity of the purchaser shielded because the only two practical uses for the property was either farming or expanding WSU's campus. Investigators concluded WSU used an entity it controlled to effectuate the purchase of various properties to support the educational mission of the university or its component units. Specifically, WSU directed Double Bowler to purchase the properties for the university, circumventing WSU's obligation to seek Ohio Controlling Board approval for the purchases as required by statute and the Controlling Board Manual.

Investigators discovered Double Bowler had secured an \$18 million line of credit from 5/3rd Bank. This line of credit was used to purchase additional properties, using the Loan Agreement as a security. Sample stated that as a new company, Double Bowler did not have the necessary leverage to secure the credit by itself. The Loan Agreement was used by Double Bowler to demonstrate to the bank that the loans were not "risky investments," as Double Bowler had the ability to repay the loans through Wright State University.

Investigators also discovered Double Bowler purchased 2555 University Boulevard through a limited liability company named Fairborn Value Investments I LLC (FVI I). Records indicated that Double Bowler through FVI I was only able to secure the loan to purchase the property by assigning its rights under the Master Lease Agreement to the bank; specifically, making WSU liable for the loan payments. Double Bowler also sought a property tax exemption for the property. In its application to the Ohio Department of Taxation supporting its exemption, FVI I

stated that "Double Bowler operates exclusively for the benefit of Wright State University." FVI I further stated that the building was being held for "... future use by its school of medicine and other ancillary university faculty and employees [sic] offices, which are part of Wright State University's educational purposes."

Moreover, investigators learned Double Bowler purchased 3100 Presidential Drive through a limited liability company called Fairborn Value Investments II LLC (FVI II). Records indicated that Double Bowler, through FVI II, was only able to secure the loan to purchase the property by assigning its rights under the Master Lease Agreement to the loaning bank; making WSU liable for the loan payments. Double Bowler also directly purchased 3040 Presidential Drive. It then sought property tax exemption status through the Ohio Department of Taxation. In the application for tax exempt status, Double Bowler stated that the property was owned and operated "... for the benefit of Wright State University, and its students, faculty and employees." Double Bowler claimed the "... student programming conducted at the real property is part of Wright State University's educational purposes."

Double Bowler again sought property tax exemption status through the Ohio Department of Taxation for its purchase of 2455 Executive Park Boulevard. In the application for tax exempt status, Double Bowler stated that the property was owned and operated "... for the benefit of Wright State University, and its students, faculty and employees." Double Bowler also claimed that research conducted on the property would be "... by Wright State University Students and is part of Wright State University's educational purposes." Sample told investigators that the building currently housed various administrative offices for WSU.

In all the instances where Double Bowler sought a property tax exemption, it claimed each of the various properties fell under ORC §5709.07(A)(4) which exempts property owned by non-state entities from property taxes. ORC §5709.07 allows property tax exemptions for buildings not owned by universities, but that are used primarily for purposes related to the educational purpose of the university.

On October 11, 2017, the Office of the Ohio Inspector General met with Ohio Controlling Board President Christine Morrison and Chief Legal Counsel Joy DeMarco to obtain additional guidance on the application of ORC §3333.071, and the meaning of the term "agent" as used in the statute. Morrison stated that the Controlling Board had not issued any additional guidance with regard to the term "agent," other than what was currently printed in the Controlling Board Manual. Morrison also stated that the Controlling Board assumed the universities knew when they are required to seek Controlling Board approval and added the board did not monitor universities to ensure their compliance.

Investigators concluded that Wright State University, through its agent Double Bowler, improperly acquired various properties for Wright State University's use in a manner to avoid public scrutiny and transparency.

CONCLUSION

On January 5, 2017, the Office of the Ohio Inspector General met with attorneys from the Ohio Attorney General's Office (OAG) to discuss the referral of a matter uncovered during an unrelated investigation. The matter pertained to Wright State University (WSU) and payments the university made to a consultant. While interviewing Greg Sample, an employee of Wright State University and the CEO of Double Bowler Properties Corp. (Double Bowler), Sample told OAG investigators that prior to his appointment as CEO, Double Bowler had been paying \$9,000 a month for the lobbying services of consultant Steve Austria. Sample told OAG investigators that work Austria had performed since his contract began on June 1, 2014, and there was no work product evident as a result of his services.

Investigators confirmed that the contract Austria had entered into with Double Bowler was a "flat rate" contract of \$9,000 per month. The contract required Austria to submit monthly invoices outlining the work performed during that invoice period. However, investigators concluded Austria's contract should have been a "time and materials" contract based on an hourly rate, in order to avoid paying for services not performed, or overpaying for services requiring little to no time to perform. Investigators also discovered Austria, who was contracted to perform work for Double Bowler, was also performing work for WSU and other affiliated

entities outside the scope of his contract.

Accordingly, the Office of the Ohio Inspector General finds reasonable cause to believe a wrongful act or omission occurred in these instances.

Double Bowler is a 501(c)(3) charitable organization established by WSU for the purpose of acquiring property for use by WSU in pursuit of its educational mission. Through Double Bowler, WSU was able to acquire property without obtaining either Controlling Board approval or the approval of the chancellor of Ohio Department of Higher Education, as required by ORC §3333.071 and OAC §3333-1-03(E).

ORC §3333.071 and the Controlling Board Manual both require universities to get the approval of the Controlling Board prior to purchasing real estate, regardless of the source of funds for the purchase. Further, ORC §3333.071 and the Controlling Board Manual require a university to seek approval, even when using a third-party agent, such as a 501(c)(3) organization created by the university.

Accordingly, the Office of the Ohio Inspector General finds reasonable cause to believe a wrongful act or omission occurred in these instances.

RECOMMENDATION(S)

The Office of the Ohio Inspector General makes the following recommendations and asks the president of Wright State University to respond within 60 days with a plan detailing how the recommendations will be implemented. The university should:

- Implement policies and procedures to ensure compliance with the various purchasing and capital project rules and regulations as issued by the Ohio Controlling Board; and those contained in the Ohio Revised Code and Administrative Code.
- 2) Develop and implement a training program to ensure all employees involved in the purchasing of real property, especially employees who also serve as officers of affiliated

entities, are educated in the requirements of real estate purchasing as required by the Ohio Controlling Board; and contained in the Ohio Revised Code and Administrative Code.

REFERRAL(S)

The Office of the Ohio Inspector General has referred this investigation to the Ohio Auditor of State to determine if Double Bowler is a component unit of Wright State University and should therefore be included in the university audits. Additionally, the Office of the Ohio Inspector General has referred this investigation to the Ohio Department of Higher Education for consideration in providing guidance to state universities under its jurisdiction regarding the appropriate acquisition of properties as defined in the Ohio Revised Code and Ohio Administrative Code.



STATE OF OHIO OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

NAME OF REPORT: Wright State University FILE ID #: 2017-CA00001

KEEPER OF RECORDS CERTIFICATION

This is a true and correct copy of the report which is required to be prepared by the Office of the Ohio Inspector General pursuant to Section 121.42 of the Ohio Revised Code.

Jill Jones KEEPER OF RECORDS

CERTIFIED July 2, 2019

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