

## **“Cracking the Nut,” Part 9**



The subtitle to this analysis might be “Following in the Money Trail to Oblivion: The Continuing Saga of Misplaced Priorities.”

I would like to thank Rudy Fichtenbaum and Jim Vance for providing the analysis and several members of our Executive Committee for providing feedback on the early drafts of this piece.

Most of the information in this article comes from the Plante Moran Audit (“the Audit”) dated October 3, 2016 and WSARC’s 990 filed for (IRS Return for Tax Exempt Organizations) for FY 2015, the latest available. While the Board and the administration have been claiming that they support transparency, they refused to release the Audit for more than six months. The Audit covers a myriad of topics. In this article, we will try to focus somewhat narrowly on the relationship between Wright State Applied Research Institute (WSARC), the Wright State Research

Institute (WSRI), and an affiliated entity, ATIC. In subsequent articles, we will present additional analyses of the findings presented in the Audit.

Let us start with the relationship between WSRI and WSARC. WSARC is a 501(c)(3); that is the Internal Revenue Service (IRS) designation for a charitable organization. WSARC is a non-profit organization that “provides contracting administration services for WSRI.” WSARC is used to obtain contracts, and then the work is performed by WSRI. According to the Audit, all labor for contracts and grants received by WSARC is provided by WSRI, and all WSRI’s employees are employees of WSU.

This is consistent with Schedule J Part III of the 990 filed for WSARC (IRS Return for Tax Exempt Organizations). This schedule shows that WSU paid compensation to four officers and 15 other key employees in FY 2015. Although the Secretary’s salary is not listed in the FY 2015 990, it was listed in the FY 2014 990, and using that number, this group of four board members (two working part-time) and 15 other key employees were paid \$2.9 million, or an average of \$153,525 per person, per year. WSARC’s annual costs for salary as shown as \$6.9 million, but even this figure may not include benefits, payroll taxes, and other costs.

Our main story begins in the “Grant Report” section of the Audit. Here, Plante-Moran (P-M) reports that WSARC received an award for a workforce development contract with the state of Ohio. The funds for this contract came from a state appropriation of \$4 million per year for four years, totaling \$16 million. When P-M asked how the money was spent, WSARC could not provide any documentation, and no one in WSARC was aware of reporting requirements or stipulations as to how the money could be used.

The Audit lists ATIC (Advanced Technical Intelligence Center) as one of WSRI’s affiliated entities. ATIC received a significant amount of its funding from WSARC, much of it from the workforce development grant. P-M notes that WSARC has “limited control and/or oversight” of its payments, leaving it vulnerable to conflicts of interest, double billing, and payments at higher than market rates, especially for overhead. The last of these potential risks is particularly ironic since

P-M criticized WSARC for not charging properly for overhead while at the same time paying other “affiliated entities” of the university outrageous rates for overhead.

Now ATIC had been a vendor for WSARC starting in 2012. The audit identified “four invoices [issued by ATIC to WSARC that] contained limited supporting information as well as characteristics that are typical of fictitious invoices.” Three of these were paid by early 2013 and, to summarize the Audit’s implications, seem to represent payments by WSARC for work that had not been completed (or even begun), to “help out” ATIC since ATIC was already struggling financially.

Then, in 2014, ATIC and WSARC signed a management agreement wherein all employees of ATIC became employees of WSU. Among them was Hugh Bolton, the President and CEO of ATIC, whose 2014 WSU base salary was \$228,000. WSARC was left to collect money owed to WSARC from ATIC by invoicing them for labor costs including benefits, but under the management agreement was not allowed to collect overhead or G & A. WSARC’s CFO calculates that \$410,000 is unrecoverable. Moreover, ATIC was past due on over \$585,000 in labor costs and additionally was to be billed for \$82,000 more. (\$337,000 of these outstanding charges due by ATIC were already 90 days old.) *What this all means is that WSU effectively started running a failing company by hiring all ATIC’s employees, when this same company owed WSU at least \$1.1 million that will likely never be collected.*

The Audit reports that President Hopkins justified this management agreement because he thought that ATIC was important to the community. The Audit further reports that while President Hopkins admitted it “may not have been the best financial decision, management deemed it a good strategic decision.”

But wait! It gets even worse! P-M then looked at ATIC’s 990’s and found that in 2011 Hugh Bolton, before he became a WSU employee, was paid a base salary of \$249,314, incentive compensation of \$72,644, and deferred compensation of \$107,998, for a grand total of \$429,956. In 2012, with salaries and bonuses he was paid \$480,233, and finally in 2013 he received base pay, without any bonuses, of

\$205,416. So, after this year with no bonuses and running a company that could not pay its bills, it must have been a relief to be put on the WSU payroll.

Finally, before the management agreement, ATIC also paid Sebaly, Shillito, & Dyer (S, S, & D) over \$134,000. This is a law firm where Beverly Shillito, the Secretary of ATIC, is a partner.

While these ATIC payments to Bolton and S, S, & D were made before WSARC signed the management agreement with ATIC, and according to the Audit may have contributed to ATIC's financial struggles, the question remains: why was signing this agreement with a company that was struggling to stay afloat a "good strategic decision"?

Maybe the President thought this was a good strategic decision because he was being praised by the Board of Trustees while the Board approved budgets supporting an administrative spending spree, hiring administrators as if they were an endangered species, and paying them exorbitant salaries including, in many cases, outrageous stipends (not to mention reimbursements for "car phones" of as much as \$8,000 annually). Why was it not clear already to the Board that these reckless expenditures did not support the University's academic mission and were putting us on a course to insolvency, while it paid the President bonuses and deferred compensation making him more highly paid than his counterparts at UC-Berkeley and the UNC-Chapel Hill.

In late March, the Board hired an interim President at an annual salary rate of \$1.2 million to "set things right." Since then a remarkable stream of revelations has occurred. Notably, on April 7 alone, as the interim President announced a prohibition on hiring consultants, the AAUP-WSU negotiating team first met a consultant (an attorney from a huge pro-management law firm) hired to be the new chief negotiator for the administration, and this consultant announced that the administration would not be ready to continue negotiations until May 26. (Never mind the ground rules ground rules for negotiations, agreed upon in writing by both AAUP-WSU and the administration, state that the parties would exchange economic proposals on April 7.) A few days later, we learned that the

university has hired another consultant, specifically a PR firm. AAUP-WSU has requested information regarding expenditures for this PR firm, for the attorney/consultant/chief negotiator, the interim president, and the president designee. We are still waiting for replies.

So, where do we stand?

First, it is now more obvious than ever before that Bargaining Unit Faculty are not responsible for the out-of-control spending spree that has led our university to the current financial and leadership crisis. In fact, this spending has illustrated what we have observed for many, many years: the administration and Board have continued to hold fast to misplaced priorities, rather than focusing its attention and money on our university's academic mission. So, it would be ridiculous and border on obscene to ask BUFMs and our students to "take one for the team" – to accept FEWER BUFMS to do the work or cuts in real compensation, considering inflation and the cost of health benefits. Remember that faculty's working conditions are student learning conditions.

Second, the only viable means to avoid our "taking one for the team" is to negotiate a fair contract. Although we have a talented negotiating team, the real battle will be won or lost away from the table. The way to win and get a contract that is fair to faculty and our students is for BUFMs to overtly and publicly stand together during the negotiations. You can expect AAUP-WSU to call upon *you* to undertake various actions in the weeks ahead. In the meantime, REMEMBER THE STUFF WE HAVE ALREADY ASKED YOU TO DO.

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On April 15, the *Dayton Daily News* published an article by Max Filby titled "Audit: Underbilling, Cost Overruns Led to WSU's Budget Woes." The article includes the subtitle "Wright State Officials Say They Have Taken Steps to Fix the Problems."

The article includes these comments on ATIC:

## **ATIC**

*One area agency that embodies several of the auditors' concerns is the Advanced Technical Intelligence Center, a Fairborn-based nonprofit that partners with WSU for research and technical training. Its website says in 2016 it became a division of the Wright State Applied Research Corporation.*

*WSARC's Andersh said ATIC is valuable to the university because it is accredited to handle the highest-level of top secret government information.*

*"It gives the university and the community access to a facility that is pretty unique in the country," Andersh said.*

*But ATIC has struggled financially and in 2014 all of its employees were put on WSU's payroll under a management agreement that had Wright State billing WSARC for the labor.*

*The auditors found that Wright State underbilled by at least \$410,000 — money the university won't be able to recover, according to the audit.*

*In addition, at the time of the audit WSARC still owed the university another \$1.4 million because of payments that weren't made, the auditors said. Andersh on Friday said about \$500,000 of that total has been repaid.*

*ATIC's financial struggles were known to Wright State officials, according to the audit, but the school wanted to preserve its ties to what it considered to be a community asset. "Therefore, they agreed to hire ATIC's employees under the management agreement," the audit says.*



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I am a Professor of English at Wright State University's Lake Campus, where I have been a faculty member for more than 25 years. I have now served multiple terms as the President of the WSU chapter of AAUP, which now includes all full-time instructional faculty, and as the Vice-President of the Ohio Conference of AAUP. I have also served several terms as an

at-large member of the Executive Committee of AAUP's Collective Bargaining Congress. In addition to serving as co-editor of the Academe blog, I am also a member of the editorial board of Academe and have been a guest editor for an issue of the magazine on collective bargaining strategies. As co-chair of the Ohio Conference's Communication Committee, I began to do much more overtly political writing during the campaign to repeal Ohio's Senate Bill 5, which would have eliminated the right of faculty to be unionized. I have sustained that activism, and at the risk of stating the obvious, I have very much enjoyed contributing to the Academe Blog and to our chapter blog. I also maintain several other blogs to which I have re-posted, by topic, my posts to the Academe blog, as well as some other items. [View all posts by martinkich](#)

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