

OHIO ETHICS COMMISSION

Dr. Herb Asher, *Chair*
Merom Brachman, *Vice Chair*



8 East Long Street, 10th Floor
Columbus, Ohio 43215
Telephone: (614) 466-7090
Fax: (614) 466-8368
Web site: www.ethics.state.oh.us

David E. Freel, *Executive Director*

February 25, 2003

Informal Opinion 2003-INF-0225-2

Ted A. Mallo
Vice President and General Counsel
The University of Akron
Akron, Ohio 44325-4706

Dear Mr. Mallo:

The Ohio Ethics Commission received your request for an advisory opinion on October 15, 2002. In your request, you have asked for guidance regarding the application of the Ohio Ethics Law to a proposed agreement under which the University of South Florida (USF) will assign rights to intellectual property to The University of Akron (UA) for commercialization. Dr. George Newkome developed the intellectual property while he was employed at USF. Dr. Newkome is now employed by UA as the Vice President of Research, Dean of the Graduate School, and President of the UA Research Foundation.

Brief Answer

As set forth more fully below, and under the facts you presented, the Ohio Ethics Law and related statutes do not prohibit Dr. Newkome from receiving a financial benefit from the commercialization of the intellectual property rights that would be assigned to UA by USF. However, both the Ethics Law, and UA's policy adopted pursuant to recent statutory changes that enable public faculty to have an interest in entities commercializing their research, prohibit Dr. Newkome from soliciting or using his position as Vice President of Research and Dean of the Graduate School in any way to secure any benefit for himself and his business interests that is directly and definitely related to the commercialization of intellectual property rights assigned to UA by USF.

Because of Dr. Newkome's multiple positions, UA is required by law to exercise its authority to establish a process that protects against his inherent conflicts of interest. That process should clearly state that matters related to Dr. Newkome's financial interests will be reviewed and decided by an official within the UA administration who holds a position that is equivalent or superior to Dr. Newkome's positions, or independently reports to someone holding such a position. This independent and objective review will help protect both UA and Dr. Newkome from prohibited conflicts of interest that remain in the circumstances you present.

Facts

You have explained that Dr. George Newkome was employed by UA as the Vice President of Research and the Dean of the Graduate School on January 1, 2001. Dr. Newkome is also the President of the newly created University of Akron Research Foundation (UA foundation). You have explained that, as President of the foundation, Dr. Newkome signed an agreement between UA and the UA foundation to seek commercial application of research conducted at UA. Dr. Luis Proenza, the president of the University of Akron, also signed the agreement.

Prior to his employment with UA, Dr. Newkome had been employed with USF for fourteen years. During that time, he had several assignments, including Vice President for Research, Dean of the Graduate School, and President of the USF Research Foundation (USF foundation). While he was employed at USF, Dr. Newkome did research work that resulted in the development of intellectual property. That intellectual property is owned by USF. Pursuant to USF policy, Dr. Newkome is entitled to receive an allocation from revenue resulting the intellectual property both during his employment and after his retirement or termination from USF.

UA proposes to enter into an agreement with USF for the assignment to UA of the rights to commercialize the intellectual property Dr. Newkome developed at USF. The agreement was negotiated by Kenneth Preston, UA's Associate Vice President for Research and Director of Technology Transfer, and signed by Dr. Proenza. Mr. Preston reports directly to Dr. Newkome. Mr. Preston was also formerly employed by USF, and reported directly to Dr. Newkome.

As a result of the agreement, UA, acting through the UA foundation of which Dr. Newkome is the President, will be responsible for seeking commercial application for the intellectual property that Dr. Newkome developed while he was employed at USF. You have asked whether the commercialization of Dr. Newkome's intellectual property pursuant to this agreement raises any issues under the Ohio Ethics Law and related statutes.

Application of the Ohio Ethics Law and Related Statutes

At the outset, it should be noted that the Ohio Ethics Law and related statutes do not limit UA or the UA foundation from entering into a contract of the kind you have described. There is nothing in the Ethics Law that limits UA from contracting with other educational institutions to share or assist in the commercialization of intellectual property owned by one of the institutions.

You have stated that, except for the financial and other obligations assumed by UA under the proposed agreement, the receipt of the intellectual property through the assignment appears essentially risk-free, and augments UA's research and commercialization efforts. While the Commission may accept these representations, the questions of whether UA has the authority

to enter into a contract of this kind or the contract is in the best interests of UA are not questions within the purview of the Ohio Ethics Commission.

The Ethics Law does impose limits on a public employee who may benefit personally from decisions of the public agency he serves. Conflict of interest protections contained within the Ethics Law, such as R.C. 102.03(D) and (E), prohibit a public employee from soliciting, accepting, or using his position to secure anything of value if the thing of value is of such a character as to have a substantial and improper influence upon him with respect to his public duties. These provisions protect the public against the misuse of public resources by public employees who have a definite and direct personal interest in matters before them.

Restrictions against person and business conflicts contained in the public contract statutes, R.C. 2921.42, also prohibit a public employee from securing, or having an interest in, a public contract entered into by the public agency he serves. R.C. 2921.42(A)(1) and (A)(4). As Vice President of Research, Dean of the Graduate School, and President of the UA foundation, Dr. Newkome is subject to both of these provisions. R.C. 102.03(B) and (C) and 2921.01(A).

Commercialization of Research—R.C. 3345.14

Before applying the Ethics Law to your question, it is necessary to review the statutory guidelines on the commercialization of public university research. R.C. 3345.14 concerns the rights to and interests in discoveries, inventions, or patents, and applies to any state university, college, or other public institution of higher education, as defined in R.C. 3345.12(A)(1) or (A)(2). R.C. 3345.12(A) provides that the term “state college or university” includes the University of Akron. See R.C. 3345.011. Therefore, the provisions in R.C. 3345.14 apply to your question.

R.C. 3345.14(B) provides that UA retains all rights to and interests in discoveries, inventions, or patents that result from research or investigation conducted on any UA facility. R.C. 3345.14(C) provides that the trustees of any state university may retain, assign, license, transfer, sell, or otherwise dispose of any rights to, interests in, or income from any discoveries, inventions, or patents that the university owns or may acquire.

R.C. 3345.14(D) provides an exception to the Ohio Ethics Law and related statutes whereby a university may establish rules that set forth the circumstances under which an employee of the college may have an equity or other financial interest in a private entity to which the board has assigned, licensed, transferred, or sold the university’s interest in discoveries or inventions made or created by that employee or patents issued to that employee. This exception was created after joint discussions with the General Assembly, the Ethics Commission, and university representatives to help enable public academic excellence and competitiveness by allowing university inventors to benefit from the commercialization of their research, while attempting to protect against the inherent personal and business conflicts of interest that would arise. The exception in R.C. 3345.14(D) will be discussed more fully below.

As described above, the contract between UA and USF will result in UA acquiring the rights to commercialize the intellectual property described in the agreement. If this intellectual property falls within the description in R.C. 3345.14(C)¹, and is intellectual property that the university owns or has acquired, UA may dispose of the rights to, interests in, and income from that intellectual property as set forth in R.C. 3345.14(C). It is clear, assuming that the intellectual property is property UA owns or has acquired, that UA may enter into an agreement with Dr. Newkome to pay him a royalty from the income it earns as a result of the commercialization of his research. You have also explained that UA has established policy guidelines concerning these matters.

Because of the multiple positions Dr. Newkome holds within UA directly related to the administration of technology development (Vice President of Research and President of the UA foundation), it is likely that he is required to play a role with respect to both the creation and implementation of these policies. In such a case, the Ohio Ethics Law would apply to protect the public institution and the public against the inherent personal and business conflicts of interest involving the use of public resources present in these circumstances.

Conflict of Interest Provisions—R.C. 102.03(D) and (E)

R.C. 102.03(D) and (E) provide:

- (D) No public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.
- (E) No public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

The term "public official and employee" is defined to include any person who is employed by any public agency, excluding educators whose positions do not involve the performance of, or authority to perform, administrative or supervisory functions. R.C. 102.01(B) and (C). A state university is a body politic and corporate and an instrumentality of the state. R.C. 3345.011. Collins v. University of Cincinnati (1981), 3 OApp3d 183. Therefore, UA is a public agency for purposes of R.C. 102.01(B) and (C). As Vice President of Research and President of the UA foundation, Dr. Newkome holds positions with both administrative and

¹ The question of whether the intellectual property acquired by UA pursuant to the contract with USF falls within the description in R.C. 3345.14(C) is a question for your office, rather than the Ethics Commission.

supervisory authority. Therefore, Dr. Newkome is a public employee subject to the provisions of R.C. 102.03(D) and (E).

The term "anything of value" is defined for purposes of R.C. 102.03 in R.C. 1.03 to include money and every other thing of value. R.C. 102.03(G). A definite and direct pecuniary benefit is a thing of value under R.C. 102.03(D) and (E). Ohio Ethics Commission Advisory Opinions No. 88-004 and 92-019. The application of R.C. 102.03(D) and (E) is dependent upon the facts and circumstances of each individual situation. Adv. Ops. No. 87-007 and 89-003.

R.C. 102.03(D) and (E) generally prohibit a public employee from using his public position in any way to secure or solicit a benefit for himself. R.C. 102.03(D) prohibits a public employee from participating in official decisions that affect his own financial interests and from using his relationships with other public officials and employees to secure favorable decisions or actions regarding his private financial interests. Adv. Ops. No. 90-002 and 96-004. R.C. 102.03(E) prohibits a public employee from soliciting any benefit for himself or his private business interests. Adv. Op. No. 96-004.

R.C. 102.03(D) and (E) prohibit Dr. Newkome, within the scope of his UA employment as the Vice President of Research and President of the UA foundation, from soliciting, or using his position in any way to secure, any benefit related to the commercialization of his research. Dr. Newkome is prohibited from participating in any decision-making regarding the patenting or UA commercialization of his research work. He is also prohibited from using his position of authority over other UA officials and employees to secure favorable decisions that definitely and directly impact upon the patenting or commercialization of his research work.

Because of Dr. Newkome's multiple roles, UA is required by law to exercise its authority to establish a process that protects against his inherent conflicts of interest involving his own business and financial interests. The process should clearly state that any matters in which Dr. Newkome has a definite and direct personal or business financial interest are reviewed and decided by officials and employees who are not subject to Dr. Newkome's authority, within the administration of UA, with respect to those matters. Decisions can be made either by a UA official or employee who is equivalent or superior to Dr. Newkome in the UA administration, or by an official or employee who independently reports to a UA official or employee equivalent or superior to Dr. Newkome in the UA administration.

These restrictions apply to Dr. Newkome with respect to matters involving the commercialization of intellectual property where he is the "inventor." In addition, for university employees who have developed intellectual property, R.C. 3345.14 provides a limited exception to the application of the Ethics Law and related statutes. The exception set forth in R.C. 3345.14(D) is also relevant to your question.

Exception to the Ohio Ethics Law and Related Statutes—R.C. 3345.14(D)

As stated above, R.C. 3345.14(B) provides that UA retains all rights to and interests in discoveries, inventions, or patents that result from research or investigation conducted on any UA facility. R.C. 3345.14(C) provides that the trustees of any state university may retain, assign, license, transfer, sell, or otherwise dispose of any rights to, interests in, or income from any discoveries, inventions, or patents that the university owns or may acquire. If the intellectual property in the proposed agreement falls within the description of property in R.C. 3345.14(C), and UA may dispose of the rights to, interests in, and income from that intellectual property as set forth in R.C. 3345.14(C), the exception in R.C. 3345.14(D) would apply. R.C. 3345.14(D) provides as follows:

- (1) Notwithstanding any provision of the Revised Code to the contrary, including but not limited to sections 102.03, 102.04, 2921.42, and 2921.43 of the Revised Code, the board of trustees of any state college or university may adopt rules in accordance with section 111.15 of the Revised Code that set forth circumstances under which an employee of the college or university may solicit or accept, and under which a person may give or promise to give to such an employee, a financial interest in any firm, corporation, or other association to which the board has assigned, licensed, transferred, or sold the college or university's interests in discoveries or inventions made or created by that employee or in patents issued to that employee.
- (2) Rules established under division (D)(1) of this section shall include the following:
 - (a) A requirement that each college or university employee disclose to the college or university board of trustees any financial interest the employee holds in a firm, corporation, or other association as described in division (D)(1) of this section;
 - (b) A requirement that all disclosures made under division (D)(2)(a) of this section are reviewed by officials designated by the college or university board of trustees. The officials designated under this division shall determine the information that shall be disclosed and safeguards that shall be applied in order to manage, reduce, or eliminate any actual or potential conflict of interest.
 - (c) A requirement that in implementing division (D) of this section all members of the college or university board of trustees shall be governed by Chapter 102. and sections 2921.42 and 2921.43 of the Revised Code.

- (d) Guidelines to ensure that any financial interest held by any employee of the college or university does not result in misuse of the students, employees, or resources of the college or university for the benefit of the firm, corporation, or other association in which such interest is held or does not otherwise interfere with the duties and responsibilities of the employee who holds such an interest.
- (3) Rules established under division (D)(1) of this section may include other provisions at the discretion of the college or university board of trustees.

One of the most important aspects of the exception in R.C. 3345.14(D) is that the rules adopted by a university in accordance with the exception shall include guidelines to ensure that the financial interest held by the university inventor does not interfere with his duties and responsibilities as a university employee. R.C. 3345.14(D)(2)(d).

UA adopted Rule 3359-11-18 in accordance with R.C. 3345.14(D). Rule 3359-11-18 provides guidelines under which an employee of UA who is the creator of a discovery, invention, work or trade secret that is owned by UA can acquire an equity or other financial interest in a private entity to which UA has transferred its interest. Among other requirements, Rule 3359-11-18 provides that, regardless of the nature of the financial interest involved, the UA inventor must comply with UA Rule 3359-11-17 relating to consulting and collateral employment. Among other things, Rule 3359-11-17 requires that each university employee will submit a conflict of interest and commitment report annually to his or her immediate supervisor. In the report, the employee must disclose any outside activities that could represent a conflict of interest or commitment.

Rule 3359-11-18 provides that the UA inventor who wishes to have an equity interest in a company commercializing his inventions must submit, to his supervisor and as a supplement to the conflict of interest and commitment report described in Rule 3359-11-17, a complete disclosure of his proposed financial interests and a conflicts management plan. The conflicts management plan must include a description of the UA inventor's university duties and explain how potential conflicts of commitment will be managed so that these UA duties can continue to be fully performed. The term "conflicts of commitment" is defined in Rule 3359-11-17(H)(3) as:

[A] real or apparent competition of outside activities such that an independent observer might reasonably question whether the employee's professional actions or decisions are or will be adversely affected by competing outside activities and interests to the detriment of the employee's specific and primary duties to the university and its mission.

Finally, Rule 3359-11-18 provides that university officers and employees shall not participate in the approval process or in the administration or enforcement of the policy described in the rule with respect to a company in which they have a financial interest.

Application to Dr. Newkome

As set forth in the exception in R.C. 3345.14, the Ohio Ethics Law and related statutes do not prohibit Dr. Newkome from having an equity or other interest in a company to which UA transfers its interest in the intellectual property described in the proposed agreement in order for the company to commercialize the intellectual property. However, Dr. Newkome must adhere to the guidelines described in R.C. 3345.14(D) and set forth in UA Rule 3359-11-18.

Because Dr. Newkome is the Vice President of Research and President of the UA foundation, it is particularly important that both he and UA take careful steps when drafting and approving the conflicts management plan described in Rule 3359-11-18 to ensure that he is removed from any exercise of his authority as a UA official in matters that affect any company to which UA transfers its interest for commercialization of the intellectual property he developed. There are a number of provisions in UA Rules 3359-11-17 and 3359-11-18 that require action by the Vice President of Research. For example, if a dean or other administrative supervisor determines that the case involving an employee under his supervision appears to have a potential conflict of interest or conflict of commitment, the dean or supervisor is required to forward his concerns to the Senior Research Officer (the Vice President of Research), along with suggestions for remediation or management of the conflict. Rule 3359-11-17(B)(31). The Senior Research Officer can authorize plans to manage conflicts of interest. Rule 3359-11-17(C)(2). The Senior Research Officer plays a key role in appeals, inquiries, and federal compliance issues that arise under Rule 3359-11-17.

Rule 3359-11-18 provides that the Vice President of Research has final approval of conflicts management plans, and may make additional conflict management requirements as deemed necessary for the approval of such plans. The Office of Research, under the governance of the Vice President of Research, is required to assist in compliance and annual review of the inventor's performance under the conflicts management plan.

If Dr. Newkome were to perform any of these duties, or to supervise employees of the Office of Research in any of these activities, in situations that directly and definitely apply to the intellectual property described in the proposed agreement, such participation would clearly give rise to a conflict of commitments as described in UA Rule 3359-11-17. It is clear that Dr. Newkome will be unable to perform these duties and comply with the requirements in the UA rule. Failure to comply with the UA rule regarding these matters could result in a violation of the Ohio Ethics Law. See R.C. 3345.14(E) and UA Rule 3359-11-18(B)(2)(a).

It is of paramount importance that UA exercise its authority to establish a process whereby any conflicts management plans submitted by Dr. Newkome in accordance with UA Rule 3359-11-18 can be effectively reviewed, approved, and monitored without Dr. Newkome's involvement, either as the Vice President of Research, the Senior Research Officer, director of the Office of Research, or President of the UA foundation. Therefore, if UA desires to implement the commercialization of the intellectual property described, it must have the review and decisions of matters related to the commercialization made by a university official who is equivalent or superior to Dr. Newkome in the UA administration, or by an official or employee who independently reports to a UA official or employee equivalent or superior to Dr. Newkome in the UA administration.

Other Matters

You have asked about the application of the Ohio Ethics Law to the commercialization of intellectual property assigned to UA by the proposed agreement. If Dr. Newkome continues to conduct research work while he is employed by UA, other issues may arise outside the scope of the proposed agreement. For those issues, the Ohio Ethics Law and related statutes would govern Dr. Newkome's activities as Vice President of Research. R.C. 102.03(D) and (E), as discussed above, would prohibit Dr. Newkome from using his position in any way, with respect to matters that arise separate and apart from the proposed agreement, to solicit or secure a benefit for himself. Once again, as noted above, UA is required to exercise its authority to establish a process to remove Dr. Newkome from participation in any such matters before they arise.

Conclusion

As set forth more fully above, and under the facts you presented, the Ohio Ethics Law and related statutes do not prohibit Dr. Newkome from receiving a financial benefit from the commercialization of the intellectual property rights that would be assigned to UA by USF. However, both the Ethics Law, and UA's policy adopted pursuant to recent statutory changes that enable public faculty to have an interest in entities commercializing their research, prohibit Dr. Newkome from soliciting or using his position as Vice President of Research and Dean of the Graduate School in any way to secure any benefit for himself and his business interests that is directly and definitely related to the commercialization of intellectual property rights assigned to UA by USF.

Because of Dr. Newkome's multiple positions, UA is required by law to exercise its authority to establish a process that protects against his inherent conflicts of interest. That process should clearly state that matters related to Dr. Newkome's financial interests will be reviewed and decided by an official within the UA administration who holds a position that is equivalent or superior to Dr. Newkome's positions, or independently reports to someone holding such a position. This independent and objective review will help protect both UA and Dr. Newkome from prohibited conflicts of interest that remain in the circumstances you present.

Ted A. Mallo
February 25, 2003
Page 10

The Ohio Ethics Commission approved this informal advisory opinion at its meeting on February 21, 2003. The Commission commends you and the University of Akron for seeking advisory guidance.

The opinion is based on the facts presented and is limited to questions arising under Chapter 102. and Sections 2921.42 and 2921.43 of the Revised Code and does not purport to interpret other laws or rules. If you have any questions or desire additional information, please contact this Office again.

Sincerely,

A handwritten signature in black ink, appearing to read "Jennifer A. Hardin". The signature is fluid and cursive, with a large initial "J" and "H".

Jennifer A. Hardin
Chief Advisory Attorney