



# Colleges and Universities

## Apollo and the University of Phoenix

- DOE audit on recruiting and advising
- Stock options back-dating investigation
- The student loan scandals

Maricopa County CCD has issues with three presidents

Student financial aid offices

## Maricopa County Community College

- Bond issue
- Funding for campaign materials
- Relationships with builders and others who stood to benefit from the approval

Cornell and the research on lung cancer conflicts

ASU and president's wife  
Harvard researchers and relationships with pharmas

# Colleges and Universities

- Benjamin Ladner, former president American University
  - \$43,982 for dinners (13-course meals)
  - \$22,345 for first-class ticket to Nigeria
  - Personal chef \$220,000 (for 3 years)
  - Personal development trips for chef to Paris, Rome and London
  - \$100,000 for a social secretary
  - \$44,000 in alcohol
  - Furniture expenses
  - Engagement dinner for his son
  - \$54,000 for cars and drivers
  - \$5,000 lunch hosted by Mrs. Ladner for her garden club
  - \$500,000 of personal expenses in three years
- *“I do believe I have made mistakes, and I understand how the perception of the significance of these has been exaggerated in the media. In a few instances, I overlooked the fact that certain personal expenses were charged to the university. Because of my single-minded focus carrying out university business, I regret these accounting errors and have already reimbursed the university. In hindsight, I should have been more vigilant and precise. The amounts being leaked to the media are overblown and inaccurate, and will be shown to be wrong.”*

# Colleges and Universities

- Cloning fraud
- Research conflicts of interest
- Funding conflicts of interest
- Relationships with students
- Double-dipping by faculty on pay systems
- Text book conflicts
- Grade inflation
- College athletics
- Construction and facilities



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# Some Observations

**a. Those involved realized ethical issues were afoot**

## UT Austin

*"Larry loves tequila and wine. Since becoming director at UT Austin, he has not had to buy any tequila or wine. Lenders provide this to him on a regular basis."*

Senate Report on Financial Aid Offices and Student Lender Relationships

# Wachovia Knew

*“YIKES!!!!”*

*“DOUBLE YIKES!!!!”*

*“There is more, but nothing more that I want to put into a note.”*

Warning from a Wachovia bank executive to colleagues that the bank had received 4,500 complaints of fraud in two months from customers who had been fleeced of \$400 million by marketing firms who paid the bank large fees for access and on returned checks.

*“We are making a ton of money from them.”*

Charles Duhigg, “Papers Show Wachovia Knew of Thefts,”

*New York Times*, Feb. 6, 2008, p. C1, C8.

# Translating Across to Colleges and Universities

- The Credit Card Issues
- Access to students
- Terms and disclosure
- Benefits for colleges and universities
- Increasing complaints

## **b. These Were Not Close Calls: Most Common Government Lapses**

- Conflicts of interest
- Lying to employees
- Lying to customers and vendors
- Abusive behavior
- Misreporting hours worked
- Alteration of documents
- False financial reports

2007 Ethics Resource Center survey

**What makes good and smart people at great organizations, agencies, colleges, universities, and companies do really ethically dumb things?**

# Three Reasons

- We've lost sight of why ethics matter.
- We hate ethics.
- We make ethics too complex.

**I. We've lost sight of why ethics matter.**

**A. Ethics matter because we're not doing so well.**

# The Next Generation

- 60% of high school students cheated on an exam in the last year
- 62% of high school students lied to a teacher in the past year
- 82% of high school students lied to their parents in the past year
- 33% copied something from the Internet
- 28% stole from a store in the past year
- 23% stole from a parent or relative

Josephson Institute 2006

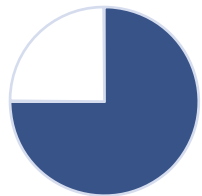
# Cheating in College



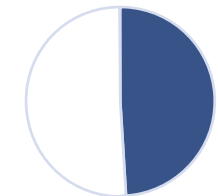
11% reported cheating in 1963



49% reported cheating in 1993



75% reported cheating in  
2003/2005/2006



50% graduate students  
reported cheating (2006)

## Work: A recent résumé study

- 50% had false information
- The false information was material: degree; job title; previous employment
- Examples
  - Dean of Admissions at MIT and the 28-year-concealment
  - University of West Virginia and the governor's daughter's MBA

# Ethics at Work 2008

- 56% of employees have observed unethical behavior at work (60% government)
- 9% of employees feel they have an ethical culture at work

Ethics Resource Center

**There is never a problem with spotting the ethical issue!**

# If employees see the issue, then what happens?

- 65% DIDN'T REPORT (1999)
- 37% DIDN'T REPORT (2003)
- 41%-50% DIDN'T REPORT (2006)
- 50% DIDN'T REPORT (2007)
- 42% DIDN'T REPORT (2008) (ERC)

# The Sandwich Effect

- Those at the top assume employees would tell
- Those at the bottom assume that those at the top don't want to hear about it

## Who has the highest success rate for uncovering shenanigans?

*“The latest research shows that uncovering financial issues and fraud has its best shot in employees.”* (M.M. Jennings)

Alexander Dyck, Adair Morse, & Luigi Zingales, “Who Blows the Whistle on Corporate Fraud?” *Financial Economics* February 2007. The authors find that employees are the best source for detecting fraud and support financial incentives for gaining more information from them, e.g. more *qui tam* recovery.

# So, why didn't they report?

- 96% feared being accused of not being a team player (same 1999, 2003)
- 81% feared corrective action would not be taken (2005 data leaning toward this as #1)
- 68% feared retribution from their supervisors
- 57% feel pressure to do “whatever it takes” to meet business targets
- 49% believe they are rewarded for results, not the means by which they achieve them  
(SHRM and industry surveys)
- One in 8 employees say they have experienced retaliation at work for reporting ethical issues (ERC)

# Testimony of NRC employee on why he didn't speak up

*"But again, at a meeting like that with your boss and your boss' boss' boss presiding, it takes something to raise your hand and say I think, you know, should shut them down and then you pose the question as to why you think - - the way you think. Okay. And I mean I don't have to explain that further, you know. It – it – I felt strongly enough about this that I thought they should be shut down."*

## FAA and Safety

- FAA Inspector Mark Lund given a desk job after throwing down the flag on a Northwest inspection problem in 2005
- Inspector General's Conclusion
  - “A potential negative consequence of FAA's handling of this safety recommendation is that other inspectors may be discouraged from bringing safety issues to the FAA's attention.”*
- Southwest problem in 2008: Bobby Boutris and Douglas Peters and their poor treatment for throwing down the flag

## FAA and Safety

- FAA inspectors Bobby Boutris and Douglas Peters and the flatlining
- Findings of IG

*“Mr. Boutris and Mr. Peters are not wide-eyed reactionaries who carry a grudge for some perceived injustice. They are honest, hardworking men, proud of what they do, and they attempted to work within the system to have their concerns addressed.”*

## Fear and Silence Antidotes

- Anonymous reporting alone won't do it
- Response and follow-up
- Review reports and disciplinary actions
- Reward system: We reward results only



## B. High Ethical Self-Esteem

Living in Denial and Slipping Into  
Complacency



# We all think we are ethical.

- None thought their ethical standards were lower than those of their peers in their organization (1%)

Society of Human Resource Managers

# Why do we all think we're the most ethical person in the room?

1. We are not talking about it with others.
2. We have rationalized, labeled, and defended ourselves into believing we are ethical.
3. We have grown complacent.

## Guess Who Said it!

*“It’s only illegal if you  
get caught.”*

## A CEO

Greg Reyes

Former CEO of Brocade, a Silicon Valley company

Nephew of Google's CFO

Convicted in 2007 of backdating options (fraud);

sentenced to 22 months

# Guess who said it!

*“I have the highest ethical standards.”*



## Guess Who Said It!

***“Go after the men who seek out prostitutes.”***

# **Eliot Spitzer, 2004, as New York Attorney General**

**Guess who said it!**

***“He deserves this bonus.”***

# Department of the Interior manager



On bonus awarded to agency  
official who came up with the  
idea of forging and  
backdating documents to  
satisfy auditors



**“Do more with less!”**

**Holly L. Moore**  
**former president, Shoreline**  
**Community College, WA to**  
**employees**  
**following her \$25,000 raise**  
**awarded in violation of open**  
**meeting laws**

***“We have ethics here.”***

***"Appearance of impropriety is as important as impropriety itself."***

## Ellen Frishberg

- Former head of student financial aid office at Johns Hopkins
- Accepted \$160,000 in consulting fees and tuition reimbursement from student lenders

## Guess who said it!

*“I did not do anything wrong.”*

**Lawrence Burt, VP of student affairs and director of the office of student financial services at UT Austin, who owns 1,500 shares and 500 warrants in Educational Lending Group, a preferred lender at UT Austin.**

## Another Quiz Question

What company had a 64-page, award-winning code of ethics?



# Enron

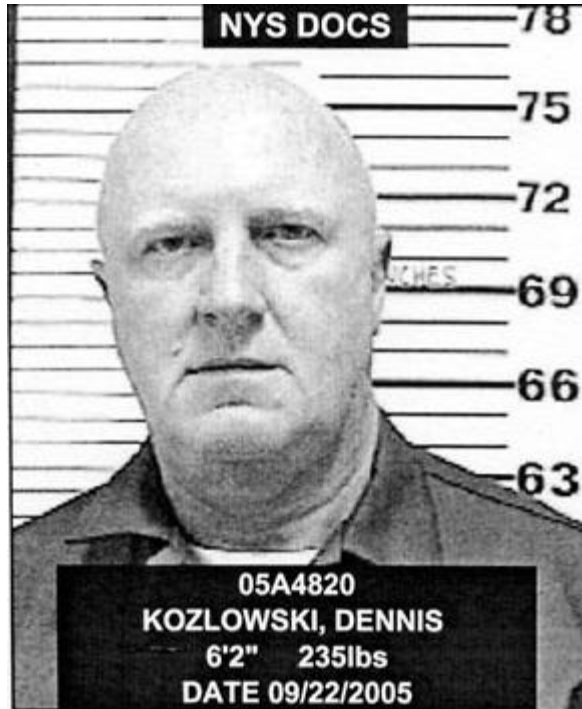
## Guess Who Said It!

*“Embezzlement cannot be condoned in any manner. [n]ot only did he steal from the stockholders . . . But he breached the fiduciary duty placed in him. Wrongdoing of this nature against society is considered a grave matter. . . . [h]e should receive the maximum sentence.”*



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## Introspection Tools

- Believe in conflicts of interest!
- Remember the two ways to manage a conflict:
  - Don't
  - Disclose

## Introspection Tools

- Pay attention to travel expenses and perks
- MBWA
- Watch institutional and individual relationships with industry, company, and legislative relationships

# **C. Fish Bowl Existence**

# Truth and Its Percolating Quality

The laws of probability do not apply when it comes to the surfacing of unethical or illegal conduct.

*Three people can keep a secret if two are dead.*

- Hell's Angels' motto (courtesy B. Franklin)

*Lying is good. It's the only way we ever get at the truth.*

- Dostoevsky

*Circumstances beyond your control will cause bad acts to be discovered.*

- Anonymous

- Don't underestimate probability of truth coming out.
- Don't overestimate your ability to manage the truth.

## **II. Getting Over the Hatred and Awkwardness of Ethics**

## A. The “Lack of Enforcement”

*What you are thunders so loudly that I cannot hear what you say to the contrary.*

- Ralph Waldo Emerson

# Remember two critical elements:

1. That “tone at the top” thing
2. Enforcement: Must be absolute, unequivocal, egalitarian

*“For many people, it’s good to see senior officers are disciplined like others. There is a perception that senior folks have a way around the regulations.”*

## That “Tone at the Top”

- 21% of government employees feel that their leaders do not follow the rules and are not held accountable for their own violations

# Testimony of DOI Inspector General

*"Short of a crime, anything goes at the highest level of the Department of Interior. Ethics failures on the part of senior department officials — taking the form of appearances of impropriety, favoritism and bias — have been routinely dismissed with a promise of not to do it again."*

Earl Devaney

# Enforcement is Absolute, Unequivocal, and Egalitarian

- *“If the janitor had taken the liquor, he would have been fired.”*

Student’s observation on discussion of tolerance for a manager who “borrowed” three bottles of vodka on a Friday night for her birthday party after work and brought in replacements on Monday morning

## That “tone at the top” thing

*“When you’re having dinner with customers, it’s normal to have a drink.”*

U.S. Postal Service spokesperson on explaining a \$13,500 dinner at Ruth’s Chris Steak House in Orlando, Florida that included 200 appetizers and \$3,000 in alcohol, including 40 bottles of wine at \$50 or more per bottle and lots of Johnny Walker Gold and other brand-name liquors

## B. Ethics: “It’s Too Difficult”

*I would never suggest that ethics is simple. Not only does one have to know the right thing to do - - one must also have the moral fortitude to do it.*

Norman R. Augustine

Former Chairman

Lockheed Martin

# Standards Change the Function

- Personal integrity
- Unit, division, college, university
- Think of and list the lines you will not cross to be successful
- The role of a personal credo

# There Are Moral Absolutes: The Role of a Credo

The lines you would never cross to be successful, to win, to gain a contract, to meet the numbers . . .

# Define Dilemmas by Values, Not Circumstances

**Avoid the “either/or” conundrum and its false security: Use value-based decision making**

- The ease of resolution vs. the long-term implications
- Failure to define the issue properly
- Interferes with creative and strategic thinking
- Solve the problem; don't compromise values

# Watch for the Seduction of Habit: Slippage

George Lefcoe, former commissioner of the Los Angeles County Regional Planning Commission on his retirement and the seduction of public office: The Honeybaked Ham

## C. The Rationalization Excuse

**“Everybody else does it.”**

*What is right is right even if no one is doing it.*

*What is wrong is wrong even if everyone is doing it.*

- Source unknown

# Rationalizing, Not Analyzing

- “If we don’t do it, someone else will.”
- “It doesn’t really hurt anyone.”
- “If you think this is bad, you should have seen . . . .”
- “That’s the way it’s always been done.”
- “That’s the way they do it at \_\_\_\_\_.”

## Stanford's Creative Costs

Overhead funds from federal grants used for:

- \$3,000 cedar-lined closet for Kennedy's home
- \$2,000 flowers
- \$2,500 grand piano refurbishing
- \$7,000 sheets
- \$4,000 wedding reception
- \$184,000 yacht depreciation

# The Lesson

March 23, 1991

*Our obligation is not to do all the law permits, but to do what is right. Technical legality is not the guiding principle. Even in matters as arcane as government cost accounting, we must figure out what is appropriate and act accordingly. With respect to indirect-cost recovery, we pursued what was permissible under the rules, without applying our customary standard of what is proper . . .*

Remarks to alumni

# Watch for the use of “warm” language

- “Cooking the books.”
- “Copyright infringement”
- “Manipulated appraisal”
- “Changed the numbers”
- “Backdating Options”
- “You lied.”
- “Financial engineering”
- “Managing earnings”
- “Smoothing earnings”
- “Getting results”
- “Peer-to-Peer file sharing”
- “Got a second opinion”
- “Pro forma adjustment”
- “Deseasonalized the data”
- “Periodic look-backs”
- “No, I misremembered.”



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## **III. Making Ethics Less Complex**

# Simple Tests for Resolving Ethical Dilemmas

## **Categorical Imperative**

How would you want to be treated? Are you comfortable with a world with your standards?

## **Christian principle: The Golden Rule**

*Do unto others as you would have them do unto you. Luke 6:29-38*  
*Thou shalt love thy neighbor as thyself.*  
Luke 10:27

## **Confucius:**

*What you do not want done to yourself, do not do to others.*

## **Aristotle:**

*We should behave to our friends as we wish our friends to behave to us.*

# Resolving Ethical Dilemmas

## Islam:

*No one of you is a believer until he loves for his brother what he loves for himself.*

## Hinduism:

*Do nothing to thy neighbor which thou wouldst not have him do to thee.*

## Sikhism:

*Treat others as you would be treated yourself.*

## Plato:

*May I do to others as I would that they should do unto me.*

## Judaism:

*What you hate, do not do to anyone.*

## Buddhism:

*Hurt not others with that which pains thyself.*

***TREAT PEOPLE THE WAY YOU WANT THEM TO TREAT YOU.***