The Effects of a Charismatic Leader’s Actions in a Public Community College

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Application

Appropriate courses for the case would include: auditing, forensic accounting, non-profit, or business law, where the student would benefit from a parallel-structure narrative and insightful questions focused on fraud. The actions of the various players in the case are analyzed using easy to understand concepts related to grief, power, and elements of fraud.

This case applies the French and Raven model that recognizes leaders use different forms of power in order to achieve their goals. Their widely recognized model includes five forms of power: coercive, reward, legitimate, referent, and expert. While the authors do not know for certain what transpired between Keen and his employees, we try to give the students sufficient information to form ideas about what likely transpired. Specifically, we ask students to speculate about what perceptions of power would have led to the employees complying with Keen’s questionable requests for setting up and paying for his secret apartment.

Elisabeth Kübler-Ross posed the very commonly know five stages of grief in 1969 in her book *On Death and Dying*. The five stages include: denial, anger, bargaining, depression, and acceptance. In each stage particular behaviors can be observed by the person experiencing this grief. We ask students to apply this model by analyzing the institution’s actions in light of the definitions for each of the five stages. We also challenge them to recognize the conflict between needing to act quickly, even though they may not be fully prepared to make decisions objectively.

This case was offered as a bonus opportunity to an auditing class. Seventeen students opted to submit a solution and complete a follow-up survey about the case. At this point in the course the

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students had not been exposed to the fraud triangle or SAS 99. In the results of the survey, the students indicated that completing the case improved their knowledge of the fraud triangle, types of power and stages of crisis. They overwhelmingly recognized the case as interesting, real-world, and a positive learning experience. In fact, one student stated that the case seemed so far-fetched that he felt compelled to investigate its veracity. In reading the solutions, it was obvious that the students used the key word “hints” that we included in the questions. In fact, we were very impressed with the students’ ability to read and digest this material on their own in developing a solution.

Case Overview
What compromises an institution more: when its chief executive bends the rules for his own private and unauthorized purposes, or when the institution that discovers the secret attempts to bury the truth under the fawning praise and piles of cash heaped on the chief executive at the rushed announcement of his resignation for personal reasons? Such two-fisted duplicity might not surprise us in corporations that have internal control overrides, but when it occurs at a public college, where the chancellor is secretly living on the campus rent-free and the college uses public resources to pay a six-figure amount as part of the chancellor’s separation agreement, it seems all the more troubling. Even more so was the college’s futile attempt to brand the chancellor a champion at the announcement of his resignation.

Specifically, this case evaluates the misuse of public resources by Mark Keen, the former chancellor of Ivy Tech Community College-Fort Wayne, whose unethical living arrangements compromised employees below him who were needed to carry out his demands for dormitory-like accommodations. Compromise continued when Ivy Tech’s central administration discovered the situation and yet concluded that the best resolution was to give Keen a separation agreement that was many times over what he, in effect, grafted from the state of Indiana – provided he agreed to pay back what he wrongfully took. Hoping the public would not notice the curiosity of such an arrangement, Ivy Tech Community College mandated that its Vice President of Communications, Jeff Fanter, issue a flattering press release following Keen’s late-night resignation. Perhaps the public would not have noticed, but the local press did and, as detailed in the case study, Keen and Fanter found themselves in a losing battle with the truth.
This case allows the student to evaluate the following institutional reactions: could the response to the unapproved, on-campus living arrangements have been handled differently; what key decision points affected the institution’s integrity, as well as compromised the college employees involved in the case; and whether the college exhibited any of the stages of grief in ending a relationship with a highly-valued charismatic leader who had worked for the institution for many decades.

Implementation

After completing this case, students should be able to:

1. Understand the elements of the fraud triangle and recognize those elements in a given situation.

2. Assess the impact of unethical and/or fraudulent activities in a non-profit university as they pertain to the stewardship over assets and the tone of the work environment.

3. Differentiate among the different types of supervisory power and recognize the effects on subordinates in a potentially fraudulent situation.

4. Evaluate the institutional reactions to this crisis and assess if the remedies were appropriate considering the stages of grief the institutional representatives were experiencing.

This case is tailored for use in a forensic accounting/fraud examination course, but could easily be used in an auditing course as the authors included key word hints in the required questions. A simple web search using the key words will lead the students to the concepts they must understand to answer the required questions. Specifically, the authors tested this case with students before any coverage of the fraud triangle had occurred, so the authors believe the case could also be useful and doable in non-profit or law courses as well.
If used as a written assignment, the case is most appropriate for assignment as an individual rather than group project. However, allowing students to meet in small groups in class and then discussing as a class could be very interesting given the nature of the situation.

Case

Introduction
Dr. Mark Keen woke up in a hospital bed in Fort Wayne, Indiana, on June 10, 2009. It would be the last time he would sleep in the straight-backed frame with its industrial-strength, one-size-fits-all mattress that he had come to call his own for over five months. For on this day, Keen was going to be released. Across the state in Indianapolis, Jeff Fanter, Ivy Tech’s vice president of communications and marketing, awoke in his own bed, having slept no better than Keen might have that night, and for the same reason. Keen’s release was not from the hospital, but from the secret location where he had been living at the expense of his employer, Ivy Tech Community College. He had been the regional chancellor of Ivy Tech Northeast, until his peculiar living arrangements—having been discovered by the college’s central administrators—caused him to end his 25-year relationship with the college later that day. Fanter’s release was in the form of a publicity statement – the kind made by people like him announcing the resignations of people like Chancellor Keen.

Unfortunately for Fanter, Keen, and Ivy Tech, Fanter’s statement rang with such grand praise that by the time the real facts came to light, everyone involved would need a fainting couch, if not another hospital bed – in a real hospital. In fact, had Fanter been given a “do-over,” he might have thought to himself, “How might this problem have been handled differently? Could we be making an awkward situation more problematic if we publicly praise and financially reward a college executive at his hasty resignation for what we believe would seem to be a violation of his public role?”

Institutional Structure of Ivy Tech Community College
Ivy Tech Community College began in 1963 as Indiana Vocational Technical College, a two-year college. Over the decades, the technical college expanded its curriculum to include associate degrees that, by name, were similar to their four-year-college counterparts. In 1995,
the name was changed to Ivy Tech State College. In 2005, it was re-branded by the Indiana Legislature as Indiana’s exclusive community college, and re-named Ivy Tech Community College of Indiana. The community college operates at 14 regional sites (known as “regions”), each with its own chancellor, regional board of trustees, and full cadre of administrative personnel, full-time faculty, and many part-time, adjunct faculty.

At the top of the Ivy Tech structure is the Ivy Tech Community College Central Office, headed by the Ivy Tech president, who is the CEO and the person to whom the regional chancellors report. The Ivy Tech Central Office has its own board of trustees whose members are appointed by the governor. The Central Office also has a slate of administrative and academic officers to whom the regional, administrative and academic officers report. For instance, the Central Office has a vice president of finance, and each region has an executive director of finance, through which regional budget and purchase requests are made.

Ivy Tech Community College’s annual financial statements are audited by the Indiana State Board of Accounts. The Indiana State Board of Accounts is an executive agency in Indiana’s government that audits all governmental units within the state, including the other state-sponsored colleges and universities. If requested by one of the seven state-sponsored institutions, the Indiana State Board of Accounts will also provide other auditing services.

Ivy Tech has a written policy in place for capital projects being undertaken at regional campuses. Summarily, it requires all construction projects (including repair or rehabilitation of existing structures) to be approved first by the Ivy Tech central office’s vice president for finance/treasurer (Ivy Tech Community College, 2011). An exception for those repair or rehabilitation projects that cost under $10,000 can be obtained, through the approval of the central office executive dean (Ivy Tech Community College, 2011).

**Chancellor Keen’s Tenure**

Keen’s employment history at Ivy Tech Community College—Fort Wayne could have been plotted with one line: a straight one. The 46-year-old former chancellor began his career as an adjunct instructor at the Fort Wayne region of the statewide two-year college that would become
Indiana’s only community college, including a statewide enrollment for 2007-08 of more than 120,000 students. He later became a full-time Electronics Program faculty member, and then the Manufacturing Program chair. In 1994, he assumed the position of academic dean, and in 2006 became chancellor of the Fort Wayne Ivy Tech, the second-largest in the state. Ivy Tech’s students were often displaced employees or otherwise unemployed, cost per credit was cheap, and professors were paid less at Ivy Tech than at comparative colleges, yet Keen’s annual salary was $128,800.

The Unraveling Resignation

Keen’s resignation came shortly after a hastily called board meeting on June 10 and was effective within one day of the announcement. In the press release, Keen stated, “At this time I need to step away from my role at Ivy Tech Community College to spend time with my family. I recently lost my mother and my father is battling health issues and I need to be there for him and others in my family. This decision was not an easy one to make but I do know it is the right one. I want to thank Ivy Tech for the support it has provided to me and I look forward to spending time with my family and friends (Ivy Tech Community College press release, June 11, 2009).”

Speaking to the press on June 11 about Keen’s resignation, Fanter would say on behalf of Ivy Tech Community College, “You can do nothing but respect somebody for making that type of decision” (Soderlund, 2009).

Some may attribute both of those initial public statements to institutional fear, because within days of the orchestrated releases, the truth began to surface, and following the investigative journalism of the Fort Wayne Journal Gazette, Keen’s and Fanter’s later statements to the press had the exasperation that accompanies a “no comment.” The truth was waiting to be found, much like the hospital bed and institutional furniture that sat inside part of a vacated building on Ivy Tech’s north campus where Keen lived, but refused to call home.

The whole mess started when Keen’s wife asked him to leave the marital residence, by a protective order presented to him on December 3, 2008. Rather than move into an apartment, Keen sought shelter in an unoccupied portion of a building that had recently become part of the Ivy Tech north campus. This facility was adjacent to the Indiana University Purdue University–
Fort Wayne campus. The building was named Bliss Hall. To say that Keen secretly lived at Bliss Hall was only partially accurate. In order to prepare the space for him, certain Ivy Tech personnel needed to change the locks and secure keys, purchase and install a water heater, clean the facility, install bathroom fixtures, and find a bed, some furniture, and prepare a space for a computer and printer. And as later discovered, the executive director of facilities, who would be needed to order and oversee the remodeling, the executive director of human resources, and various employees in the purchasing department were aware of the living arrangements.

Despite Keen’s initial claim of a pressing need to reacquaint himself with his father and spend more time with friends, and despite Ivy Tech’s official praise of Keen’s difficult decision, two days later the truth surrounding the late-night resignation began to appear. Initially, it was the announcement of the severance package paid to this public servant that began the unraveling. Besides being paid his full salary until October 31, 2009 for what was called “consulting services,” Keen was paid for his unused sick and vacation time (a sum other resigning Ivy Tech employees did not receive). Keen was also paid a $10,000 “performance bonus” and was provided $5,272 for a rental car to drive on college business. It might seem odd for a public institution to pay someone full salary when he had just resigned under the auspices that he should no longer work, but rather spend time with his family. In addition, the college was willing to spend more than $1,300 a month for the newly home bound, former employee to drive a car on company business for the next four months. But what caught the attention of the press and anyone reading between the lines of the “transition agreement” was that Keen would be responsible to pay back to the college $5,734 in personal expenses attributed to his personal use of college facilities, including “facility rental.” The repayment of such money indicated improper use of state property. When the Indiana State Board of Accounts discovers this type of unauthorized spending, typically it discloses that information to the public. At that point, Fanter, the college’s mouthpiece, stated that he had no answer to the question of why Keen was using campus facilities because such an issue was a “personnel matter” (Soderlund, 2009).

As the Journal Gazette’s investigation continued, the real story of Keen’s resignation was far different from the institutional back story. Despite the administration’s initial statement on June 11, 2009 praising Keen, his occupation of a small portion of a college building had come to the
attention of Keen’s boss, Dr. Thomas Snyder, the president of Ivy Tech Community College, on May 28, 2009. On June 1, 2009, Ivy Tech’s vice president of administration and the school’s corporate counsel traveled to Fort Wayne to meet with Keen, whereupon he was suspended with pay. This fact not only flies in the face of the initial press release, but also runs counter to earlier denials of a suspension. When asked how Dr. Snyder became aware that Keen was living on the campus, Fanter refused to respond (Soderlund, 2009).

While who exactly blew the whistle on this situation was never publicly revealed, the public was informed that video surveillance tapes were discovered confirming Keen’s presence at Bliss Hall. Police employed by nearby Indiana University Purdue University—Fort Wayne confirmed that twice they responded to the location, where cars were reported being parked at the back of the building during the night. Furthermore, guests slept over at the makeshift apartment. As confirmed to a reporter, Keen picked up the mother of his grandchildren—along with three of her friends—at Pierre’s, a nearby nightclub, late one evening and allowed them to spend the night on surplus hospital mattresses. And he acknowledged that friends spent the night at Bliss Hall three times.

What Keen would not acknowledge was that he lived in the apartment. Responding to repeated requests for information from the Journal Gazette, the chancellor, whose every press contact was e-mailed to Ivy Tech’s Fort Wayne employees, initially did not respond. Finally, Keen submitted an e-mailed statement. According to Keen, his occupation of the college facility was more of a plus to his employer than a cause of its humiliation. He had never changed his mailing address upon separating from his wife, and he had a lake house 70 miles away from campus. Plus, he did not have any personal furniture in the three-room apartment. He also would occasionally sleep at his son’s Fort Wayne apartment. In his statement to the reporter Keen said, “At first I stayed sporadically but later began staying much more frequently. The college actually benefited from my time there, because I often worked until well after midnight on e-mail or whatever project happened to be underway at the time” (Soderlund, 2009). Fanter would at least be in agreement with Keen’s burdensome schedule because his initial statement on Keen’s resignation included praising Keen for “stepping down from the 15- to 16-hour days as Chancellor to spend more time with his father and family” (Soderlund, 2009). Bringing the matter full circle, Keen referenced
his wife: “My wife and I are back together and doing fine. She deeply regrets that our private lives have become the object of so much scrutiny and speculation” (Soderlund, 2009). And for his part, Fanter refused to answer the question of whether Keen’s use of college resources qualified as embezzlement (Soderlund, 2009).

Keen’s sudden departure left a vacancy that was filled by Russell Baker, the Fort Wayne Ivy Tech vice chancellor of academic affairs, who became interim chancellor. When contacted by the press for his response to his former boss’ departure and the conflicting statements that melted in the light of day, Baker’s answers indicated the difficult position that Keen’s actions had put him in. They also belied the initial pronouncements about this surprise resignation. Baker acknowledged that he had suspected Keen was living on campus, but was uncomfortable discussing it with the man who hired him three and a half years earlier. “The dynamic of boss-employee relationship means there are certain questions that are more uncomfortable to ask, and I think that was something that was certainly relevant in this situation” (Soderlund, 2009), Baker said to the press. Yet Baker’s prior knowledge of the situation was confirmed by an e-mail he sent June 10 to another Ivy Tech vice chancellor that stated, “Only update is that Mark has apparently asked for the college to pay for a rental car during his period of ‘consulting’” (Soderlund, 2009). Although he wouldn’t answer whether Keen’s personal life affected his ability as chancellor, Baker did say, “A lot of us were kind of mad at Mark because we lost a boss and Chancellor that we really enjoyed working for and really respected” (Soderlund, 2009).

As a result of being suspended for unethically and secretly living rent-free for six months in an employer-provided remodeled campus building, Keen was granted the opportunity to negotiate the terms of his resignation and severance package, and was paid over $58,000, as well as unspecified unused sick and vacation pay. In return, he was asked to pay back Ivy Tech a little under $5,800 for his prohibited use of college property, an act which compromised the integrity of numerous employees under Keen, including those who accommodated his requests for on-campus housing, not to mention the institution who hoped no one else would either notice or care – or both. At the announcement of Keen’s resignation, Fanter stated that a national search for a new chancellor would begin in a few months (Soderlund, 2009). Also of note was the advertisement for a new maintenance supervisor within a few months of Keen’s resignation.
Required Questions:

1. Did Chancellor Mark Keen act in an ethical manner?

2. Does your campus have a personal use policy for facilities? If so, would you be violating policy if you camped out in an empty room every night?

3. What attributes of the fraud triangle can you identify in this case? (See related chapter in any auditing or fraud text or search the Web using “fraud triangle”.) In your opinion, did Keen commit fraud against Ivy Tech Community College?

4. Some people who read this case may feel that the amount of money involved was immaterial. If so, why was it important for Ivy Tech to let this otherwise valuable employee leave the organization?

5. What constituents of the organization and community were harmed by Keen’s actions? How were they impacted by this story as it was made public? How would you feel about a similar occurrence at your school?

6. In order to create his living space on campus, Keen had to enlist both the maintenance and accounting departments. In this situation, the employees kept quiet about what they knew. What type of perceived power kept them quiet? Explain your reasoning. (See French and Raven “Five Forms of Power”.)

7. If you question the ethics of your supervisor, what actions would be available for you to take? What could Ivy Tech do to facilitate reporting questionable activities?

8. People, as well as organizations, pass through stages of crisis (same as the stages of grief developed by Elisabeth Kübler-Ross). Ivy Tech has been publicly criticized for the generous severance package given to Keen. Based on the actions of Ivy Tech, what stage of crisis was it in at the time of this case? How did the stage of crisis affect its decision? Could Ivy Tech have waited to dismiss Keen until it was in a different stage and perhaps could have then been able to make a clearer decision?
Suggested Solutions to Required Questions

1. Did Chancellor Mark Keen act in an ethical manner?

   We all have known someone who has camped out in his or her office due to treacherous travel conditions or some mechanical problem at home. The purpose of this question is for the students to decide at what point an action crosses the line and becomes unethical. Answers will vary based on the ethical convictions of each student.

2. Does your campus have a personal use policy for facilities? If so, would you be violating policy if you camped out in an empty room every night?

   We want students to learn that policies likely exist on their own campus about appropriate usage of facilities. Answers, of course, will vary according to the policies adopted by your own campus.

3. What attributes of the fraud triangle can you identify in this case? (See related chapter in any auditing or fraud text or search the Web using “fraud triangle”.) In your opinion, did Keen commit fraud against the organization?

   The fraud triangle includes: perceived pressures (in this case there appears to be a financial need), perceived opportunity (unused building space, Keen’s ability to override normal controls, and coercing or convincing Ivy Tech personnel to go along with the cover-up of the living arrangements), and rationalization (Keen’s statement about his living arrangements being good for the organization since he worked on projects late into the evening).

   In the authors’ opinion, and despite the lack of any legal actions, the authors believe students’ responses should indicate that Keen acted both unethically and fraudulently. He ordered the building supervisor to alter the building for his own personal gain – a place to conveniently and freely live while separated from his wife. Another key indicator that his actions were inappropriate was the fact that he deliberately hid the knowledge of this
apartment from his superiors. For those employees who may have been aware of Keen’s living arrangements, Keen was able to gain their trust of silence.

4. Some people who read this case may feel that the amount of money involved was immaterial. If so, why was it important for Ivy Tech to let this otherwise valuable employee leave the organization?

If Keen had not resigned, it is likely that Ivy Tech would have had to go through the process of firing him. Students need to know that actions that are counter to policy and detrimental to the good stewardship of an organization’s resources will not be tolerated. This is especially important since Keen was the top administrator at the Fort Wayne campus. As a state supported institution, Ivy Tech is also accountable to the state and taxpayers which makes Keen’s actions objectionable to a wide range of constituents who felt it was “their” money being abused. A very good answer will also point out that smaller frauds frequently lead to bigger and bigger abuses and, therefore, even small frauds must be dealt with quickly and severely.

5. What constituents of the organization and community were harmed by Keen’s actions? How were they impacted by this story as it was made public? How would you feel about a similar occurrence at your school?

Constituents included: students, faculty, staff, community, taxpayers, and the State of Indiana. A thorough answer will include consideration of the loss in reputation of and respect for the school by its constituents including the external community, stress on those who knew what was going on but felt pressure to keep quiet, loss in financial resources, embarrassment by faculty and staff, and loss of the expertise of an otherwise productive employee. An especially astute student may recognize that Ivy Tech has set a terrible and very public example about the lack of consequences for unethical activities – one could be paid both a substantial separation package and resign under the appearance of legitimate sounding reasons (which should facilitate securing another job).
6. In order to create his living space on campus, Keen had to enlist both the maintenance and accounting departments. In this situation, the employees kept quiet about what they knew. What type of perceived power kept them quiet? Explain your reasoning. (See French and Raven “Five Forms of Power”.)

French and Raven (1959) suggested five categories of power, including the following: reward (get a benefit from obeying), coercive (punished for not obeying), expert (I know what to do and you don’t so do what I say), legitimate (make others believe you have authority to act), and referent (use of an existing relationship). Since details on the interactions between Keen and his employees were not available, students must make some assumptions. Specifically, employees likely complied with his requests due to perceptions of: coercive (threatened to fire if employee did not obey by doing what they were told or processing purchases), legitimate power (employees deferred to his orders since Keen was the “top dog”), and possibly referent power (the authors believe that Keen must have had long-time friends at Ivy Tech who supported his activities and perpetrated the cover-up).

7. If you question the ethics of your supervisor, what actions would be available for you to take? What could Ivy Tech do to facilitate reporting questionable activities?

In regards to possible actions available, student responses will likely range from talking with the supervisor directly or approaching someone at a level above the perpetrator to report the unethical activity. A good student will mention finding and following company policies for such situations. If a student suggests going to an outside authority, such as the police, it would be a good opportunity to discuss the potential cost of being wrong about one’s knowledge of the facts.

While answers will range on suggestions for Ivy Tech, one item that students should certainly mention is an anonymous hotline and training. Several employees had to have been complicit in both the setup and support of Keen’s living arrangement on campus. One may hope at least one of these employees may have wanted to report what was happening, but may have been afraid to do so publicly.
8. People, as well as organizations, pass through stages of crisis (same as the stages of grief developed by Elisabeth Kübler-Ross). Ivy Tech has been publicly criticized for the generous severance package it gave Keen. Based on the actions of Ivy Tech, what stage of crisis is it in at the time of this case? How did the stage of crisis affect its decisions? Could Ivy Tech have waited to dismiss Keen until it was in a different stage and perhaps could have then been able to make a clearer decision?

The stages of crisis include the following: denial (screening out reality), anger (frustration with the situation or persons), rationalization (justification of another’s actions), depression (sense of loss or disappointment), and acceptance (realistic understanding of what happened).

Ivy Tech, as all companies should, had to act quickly in ascertaining facts and taking some action. It appeared to us that the statewide leaders likely passed through the denial and perhaps anger stages quickly. We suspect they were in the rationalization stage when they made their final decisions since they allowed Keen to resign for “family reasons” and gave him such a generous severance package. Waiting until the acceptance stage would be the ideal and likely would have resulted in a less generous financial package for Keen and perhaps a more honest announcement of his reasons for dismissal.

Epilogue

In the five-month period after Keen’s resignation, the news media followed up on Keen’s “consulting” activities. Keen provided Ivy Tech a calendar of his activities performed from June to October 2010. Most of Keen’s activities “…included meetings, lunches, and time spent setting up an e-mail account and responding to media questions regarding his resignation, among other duties (Soderlund, 2010).” When the news media requested a statement regarding any other projects accomplished by Keen, Fanter stated in an e-mail that work performance was not discussed publicly; however, Keen had performed the agreed upon tasks “…consistent with the transition agreement.” Based on time cards provided by Keen to Ivy Tech, Keen took forty hours of sick time, thirty-two hours of vacation, and seventy-two hours of “other” paid time with
benefits during this time period. For the five-month consulting period, Keen received salary, bonus, and car totaling more than $58,900 plus benefits. The Indiana State Board of Accounts was not asked by Ivy Tech Community College to audit the financial records related to the Keen affair. According to Jeff Arthur, the university audit supervisor at the Indiana State Board of Accounts, Ivy Tech’s internal audit department performs audits of possible fraud (personal communication, Jeff Arthur, February 28, 2011).

On April 6, 2011, Mark Keen was arrested at a mobile home about 20 miles east of Muncie, Indiana, in a drug raid conducted by a multi-county drug taskforce (Stockman, 2011). He was charged with “visiting a common nuisance,” (Stockman, 2011) a misdemeanor charge that concerns knowingly visiting a structure or building that is used for illegal drug purposes (Indiana Code, 2011). At the time of his arrest, Keen was employed by Ivy Tech once again, this time as an industrial technology faculty member at the Kokomo campus (Stockman, 2011).
REFERENCES


Indiana Code § 35-48-4-13, Visiting or maintaining a common nuisance, West 2011.


