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by

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2015

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**Ethics in Local Government: Cultivating a Robust Ethical Environment**

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# **Ethics in Local Government: Cultivating a Robust Ethical Environment**

**by**

**Mary Christine Dory, B.A.**

## **Report**

Presented to the Faculty of the Graduate School of

The University of Texas at Austin

in Partial Fulfillment

of the Requirements

for the Degree of

**Master of Public Affairs**

**The University of Texas at Austin**

**May 2015**

## **Dedication**

I dedicate this professional report to my husband, Garrett, who is a limitless source of strength and encouragement. Without his aid, whether in the form of emotional support, managing the household, or simply ensuring I consumed food on a regular basis, this report would never have been completed.

## **Acknowledgements**

Thank you to my readers, Professor Robert Wilson and Professor Angela Evans. Not only have my readers generously made time to provide advice and edits on this report, but they have also provided invaluable learning experiences inside and outside the classroom. Professor Wilson and Professor Evans' dedication to the personal and professional growth of their students is much appreciated and admired.

I also wish to acknowledge Dr. Steven Ungerleider, who generously supported my graduate experience through the Powers Fellowship. Being a Powers Fellow granted me the precious luxury of being able to focus entirely on my studies, without the distraction of financial pressures.

Thank you to the City of Austin, and particularly to the Office of the City Auditor, for giving me the opportunity to serve with one of the country's most well-managed cities. I particularly value the support of my supervisors, who encouraged my curiosity and allowed me the flexibility to balance my work and my educational pursuits.

Finally, I wish to acknowledge the support of my graduate cohort at the Lyndon B. Johnson School of Public Affairs. The enthusiasm and collaborative spirit of the student body is one of the most valuable assets of the school. Thank you for always being willing to help each other, whether in the classroom or in our personal lives.

## **Abstract**

### **Ethics in Local Government: Cultivating a Robust Ethical Environment**

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The University of Texas at Austin, 2015

Supervisor: Robert H. Wilson

This professional report identifies best practices for building and sustaining an ethical environment within local government. A healthy ethical environment benefits governments and citizens alike by safeguarding the public trust and by protecting resources from loss due to fraud, waste or abuse. Ethics are particularly important – and apparent – within local government, due to the direct presence of local services in many citizens’ lives. The first half of this report applies leadership and development theory to create an ideal operational framework for an ethical environment at the local government level. Specifically, the report finds that strong organizational values, postconventional reasoning, and adaptive leadership should be incorporated into the basic ethical framework of every local government. The second half of this report addresses the sustainability of ethical environments by analyzing the root cause of recurring ethical risk factors within local government. In particular, the report addresses risk factors involving internal controls, conflicts of interest, the limits of managerial discretion, and data transparency. With respect to each of these vulnerabilities, the report provides a set of policy recommendations tailored to the level of local government. The report concludes that while each local

government must ultimately adopt the ethics structure that best suits that particular entity's needs and resources, the following best practices emerge for building and sustaining an ethical environment within local government: respect for the public trust, strong organizational culture that empowers ethical leadership at all levels, regular risk assessment and risk mitigation activities, appreciation of the power of public perception, and commitment to transparency regarding ethical successes and failures.

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## INTRODUCTION

A strong ethical environment is the cornerstone of well-managed, responsible government. The primary value of consistent ethical behavior in the public sector does not lie purely within the behavior itself, but rather within the ramifications of such behavior amongst both government employees and the public. Namely, repeated modeling of ethical behavior and organizational values can dissuade employees against performing unethical acts of their own. Consequently, the government in question loses fewer resources to acts of fraud, waste, and abuse. Most importantly, an ethical environment safeguards the public trust by supporting the public's faith that elected officials and government employees are acting in the public's interest.

In plain terms, a government with a reputation for a stellar ethical environment is in a better position to serve the public than a government with a poor reputation. If citizens do not trust the government to make ethical decisions, public tolerance for programmatic or financial risks on the part of that government is also diminished. As an example, consider the role of public trust in the outcome of major bond elections. If the public has reason to believe that government employees will either waste or embezzle funds, the public is less likely to approve large amounts of debt for capital projects.<sup>1</sup> An inability to finance capital projects hurts quality of life for citizens in the short and long term, as the government may be unable to make critical infrastructure repairs or otherwise meet strategic planning goals.

Ethics are particularly important within local government, as local government has the most direct presence of any level of government in most citizens' lives. Local governments are often responsible for maintaining streets, collecting waste, providing public safety services, and regulating development through land use codes. Unethical

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<sup>1</sup> "No East Ramapo Bond until State Monitor in Place," *Lohud.com*, accessed March 10, 2015, <http://www.lohud.com/story/opinion/readers/2015/02/02/east-ramapo-bond-monitor-place/22756859/>.

behavior at the local government level thus has the potential to immediately, visibly, and negatively impact citizens' quality of life. Moreover, as property taxes and sales taxes are usually vital revenue streams for the local government, citizens have a direct and transactional interest in ensuring that the government is an ethical steward for their monies.

Despite the benefits of an ethical environment and the heightened level of citizen scrutiny, research indicates that local governments do a poor job of maintaining such environments. A 2007 study by the Ethics Resource Center indicates that local government employees are under significant pressure to commit ethical misconduct, are very unlikely to report observed misconduct, and – if such a report occurs – are at risk for high levels of retaliation.<sup>2</sup> Yet one would be hard-pressed to identify a local government that does not make some provision for ethics within its personnel policies and codes of conduct, if not in its charter. Additionally, the International City/County Management Association has a strong professional code of ethics.<sup>3</sup> The data from the Ethics Resource Center, as well as numerous cases of ethical misconduct, suggest that codes and policies are of little use if they are not well-implemented. In short, an ethical environment requires a strong operational framework, but must also be carefully maintained in order to be sustainable.

This report identifies best practices for building and sustaining an ethical environment within local government. Rather than developing a globally prescriptive set of principles, Part One of this report focuses on major concepts of ethics that are pertinent at the local level. Such concepts are then used to analyze key leadership and development theories that support an ideal operational framework for sustaining ethics at the local level.

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<sup>2</sup> “National Government Ethics Survey: An Inside View of Public Sector Ethics” (Ethics Resource Center, 2008), ix, [http://www.ethics.org/files/u5/The\\_National\\_Government\\_Ethics\\_Survey.pdf](http://www.ethics.org/files/u5/The_National_Government_Ethics_Survey.pdf).

<sup>3</sup> “ICMA Code of Ethics with Guidelines” (International City/County Management Association, September 2013), [http://icma.org/en/icma/knowledge\\_network/documents/kn/Document/100265/ICMA\\_Code\\_of\\_Ethics\\_with\\_Guidelines](http://icma.org/en/icma/knowledge_network/documents/kn/Document/100265/ICMA_Code_of_Ethics_with_Guidelines).

However, simply building a framework is insufficient – an ethical environment must be monitored and adjusted in order to be sustainable. Accordingly, in Part Two, the report analyzes some of the recurring vulnerabilities that can undermine a city’s ethical climate through the lens of survey research and case studies. Particular emphasis is given to internal controls, conflicts of interest, the limits of managerial discretion, and data transparency regarding ethics violations. The report concludes by providing a set of policy recommendations tailored to the unique challenges of sustaining an ethical environment at the local government level.

## **PART ONE: UNDERSTANDING ETHICS AND THE FRAMEWORK OF AN ETHICAL ENVIRONMENT**

### **Chapter One: Why Ethics?**

Is an ethical environment worth the amount of time and resources required to sustain it? Setting aside incidents of ethical misconduct that are motivated primarily by individual self-interest, political theorists such as Machiavelli argue that governmental entities may be able to accomplish their work more effectively by pursuing power that is unfettered by ethical constraints. However, other perspectives suggest that unethical activity is anathema to the notion of public service, and may damage the local government's ability to serve its citizens. An analysis of the value of the ethical environment at the local government level forms the main focus of this chapter.

Unethical behavior on the part of an organization or major organizational representative does not always present barriers to political and programmatic success, as the first part of this chapter explores. For example, in 2003, Mayor Daley of Chicago, Illinois unilaterally ordered the destruction of a small airfield located near downtown, citing reasons of homeland security and the desire to create a park on the property.<sup>4</sup> The destruction was accomplished without warning and at night, effectively achieving the city's goal while also removing the opportunity for input by citizens. While this act did not violate any legal agreements, it was perceived as unethical by several citizen groups.<sup>5</sup>

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<sup>4</sup> "Mayor Daley Bulldozes Chicago's Meigs Field," accessed April 21, 2015, [http://www.aopa.org/News-and-Video/All-News/2003/March/31/Mayor-Daley-bulldozes-Chicagos-Meigs-Field-\(2\)](http://www.aopa.org/News-and-Video/All-News/2003/March/31/Mayor-Daley-bulldozes-Chicagos-Meigs-Field-(2)); "Ten Years after Meigs Field Raid, the Makeover of Northerly Island Is Slow to Take Shape," *Tribunedigital-Chicagotribune*, accessed April 21, 2015, [http://articles.chicagotribune.com/2013-03-31/news/ct-met-meigs-field-10th-anniversary-0331-20130331\\_1\\_gia-biagi-meigs-field-northerly-island](http://articles.chicagotribune.com/2013-03-31/news/ct-met-meigs-field-10th-anniversary-0331-20130331_1_gia-biagi-meigs-field-northerly-island).

<sup>5</sup> John W. Fountain, "Chicago Mayor Bulldozes A Small Downtown Airport," *The New York Times*, April 1, 2003, sec. U.S., <http://www.nytimes.com/2003/04/01/us/chicago-mayor-bulldozes-a-small-downtown-airport.html>.

Yet any perceived benefits of skirting ethical guidelines may well be offset by the loss of valuable resources, not the least of which is the public trust. The Federal Career Intern Program, for example, was a successful means of recruiting high-performing individuals to public service.<sup>6</sup> However, the program was shut down in 2010, at least partially due to a perception that it was deliberately used to circumvent competitive hiring processes.<sup>7</sup> An analysis of the value of ethics with respect to resource preservation forms the third part of this chapter. Ethics are also evaluated as a strategic choice from the perspective of game theory. The chapter concludes that ethics are vital not simply in a philosophical sense, but because of the time and resources they secure.

#### **A NOTE ON INDIVIDUAL VERSUS ORGANIZATIONAL BEHAVIOR**

While this report focuses on the ethical environment at an organizational level, it is vital to recognize that individual actions and ethics affect the organizational environment, and vice versa. Any organization may experience the occasional outlier employee who engages in blatant misconduct, such as stealing city equipment or accepting bribes. However, if a local government has a high rate of ethical misconduct, the prevalence of such behavior suggests a poor ethical environment at the organizational level. Additionally, if city officials or executives are engaged in ethical misconduct, such individual actions set an organizational tone that has substantial ripple effects for the overall ethical environment.<sup>8</sup> Finally, if the public is constantly observing ethical violations on the part of local government employees and officials, the public may perceive the organization itself

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<sup>6</sup> “Obama to End Federal Career Intern Program,” July 18, 2011, <http://www.federalnewsradio.com/697/2213707/Obama-to-end-Federal-Career-Intern-Program>.

<sup>7</sup> The program has since been replaced by the Pathways Program, which requires all positions to be publically posted. “Three-Track System to Replace Federal Career Internship Program,” December 27, 2010, <http://www.federalnewsradio.com/697/2214194/Three-track-system-to-replace-Federal-Career-Internship-Program>.

<sup>8</sup> “Government Operations: Standards for Internal Control in the Federal Government,” 22, accessed March 15, 2015, <http://www.gao.gov/products/GAO-14-704G>.

to be endorsing such behavior. Thus when this report references individual actions, the intention is not to refer to actions by rogue individuals, but rather to allude to how the aggregated actions of individuals affect the overall ethical environment.

### **CONSIDERING THE DARK SIDE**

Machiavelli, the renowned political theorist, is a classic example of someone who advocates the pursuit of power over the practice of ethical principles. He characterizes force and deceit as necessary tools to safeguarding one's position, and reassures his audience that "he who wishes to deceive will never fail in finding willing dupes".<sup>9</sup> For Machiavelli, these tactics are not perceived as ethical or unethical, but rather as practical skills that every resourceful and adaptable leader should be prepared to make use of. The results – that is, the retention or expansion of power – are sufficient to justify the means.<sup>10</sup> There is no real concept of public good or public trust at play, rather the minimum necessary to prevent revolution (and the subsequent loss of one's position).

Machiavelli has a valid point that power is important. While this report disagrees that ethical conduct is incompatible with the accumulation of power, it is undeniable that achieving effective policy and programmatic changes requires reserves of political and administrative capital. Preparing the operating budget, for example, would be quite difficult if the chief financial officer had no legitimate authority to set funding targets for the next fiscal year.<sup>11</sup> Similarly, achieving delicate financial compromises would be virtually impossible if a city manager did not have the trust and/or respect of department directors. If a city administrator cannot gather sufficient power – whether created by statute

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<sup>9</sup> J. Thomas Wren, *The Leader's Companion* (Free Press, 1995), 68.

<sup>10</sup> Ibid.

<sup>11</sup> Legitimate power is defined here as authority deriving from one's official position. Timothy R. Hinkin and Chester A. Schriesheim, "Development and Application of New Scales to Measure the French and Raven (1959) Bases of Social Power," *Journal of Applied Psychology* 74, no. 4 (August 1989): 562, doi:10.1037/0021-9010.74.4.561.

or personal relationships – to successfully achieve the critical tasks of local government, he will lose his position. Machiavelli would view the loss of position as the ultimate failure in and of itself. However, an inability to pass budgets and other organizational activities also negatively impacts the city as a whole, and consequently the services that are delivered to citizens.

Machiavelli's tactics appear to function well even in the present day. Consider the Chicago administration of Mayor Richard M. Daley, which was regularly accused of being mired in corruption and political graft.<sup>12</sup> In 2006, these sentiments were affirmed by the conviction of four former members of the Daley administration after an extensive federal investigation.<sup>13</sup> The administration was rife with ethical scandals, including the aforementioned demolition of an airfield and a contracting scheme that resulted in criminal charges for fourteen former city employees in 2005.<sup>14</sup>

Although Daley himself was never formally accused of ethical wrong-doing, Chicago's strong mayor form of government places him as both the figurative and literal chief administrator of the city. Accordingly, if one assumes that citizens are wholly intolerant of unethical activities, one would expect Daley to experience some political consequences for the unethical actions of his subordinates. Yet such behavior did not appear to constitute a political hindrance. Daley was re-elected for an unprecedented sixth term in 2007, and concluded his public service in 2011 as the longest-serving mayor in

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<sup>12</sup> Jodi Wilgoren, "Corruption Scandal Loosening Mayor Daley's Grip on Chicago," *The New York Times*, January 6, 2006, sec. National, <http://www.nytimes.com/2006/01/06/national/06chicago.html>.

<sup>13</sup> Gretchen Ruethling, "Chicago Officials Convicted in Patronage Arrangement," *The New York Times*, July 7, 2006, sec. National, <http://www.nytimes.com/2006/07/07/us/07chicago.html>.

<sup>14</sup> "Daley Rips up Meigs Runways in Surprise Raid," *Chicago Tribune*, accessed March 8, 2015, [http://articles.chicagotribune.com/2003-04-01/news/0304010326\\_1\\_mayor-richard-daley-meigs-field-homeland-security](http://articles.chicagotribune.com/2003-04-01/news/0304010326_1_mayor-richard-daley-meigs-field-homeland-security); "2 Plead Guilty for Roles in Hired Truck Program," *Chicagotribune.com*, accessed March 7, 2015, <http://www.chicagotribune.com/news/chi-0506020314jun02-story.html>.

Chicago history.<sup>15</sup> Thus, although Daley was widely perceived to have been involved in unethical activities, the outcomes he generated for the citizens of Chicago were sufficient to re-elect him, time and again. Such a political result in the face of perceived ethical misconduct is not unique to the Daley administration: Marion Barry was re-elected mayor of Washington, D.C. after he had served a federal sentence for drug possession.<sup>16</sup> While the actions of these mayors do not reflect the actions or beliefs of local government officials as a whole, these two examples suggest that unethical behavior is not always incongruous with political popularity.

If some degree of power is necessary, and if citizens will forgive the occasional unethical activity if the results achieve a valid public purpose, what need is there to cultivate an ethical environment at the expense of potential loss of power or efficiency? Some would argue that ethics should be cherished in its own right, as a universal set of ideals whose pursuit requires no justification. Such beliefs are honorable, and these individuals will generally act in an ethical fashion without external motivation. However, not all individuals have such innate respect for ethics, and thus may require additional persuasion to fully accept the cost of sustaining an ethical environment. To convince this latter group of the necessity of an ethical environment within local government, this report presents a series of arguments that justify ethics on the basis of resource preservation and long-term strategy.

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<sup>15</sup> Susan Saulny, "Daley Easily Wins Re-Election in Chicago," *The New York Times*, February 28, 2007, sec. National, <http://www.nytimes.com/2007/02/28/us/28daley.html>.

<sup>16</sup> Richard L. Berke, "THE 1994 CAMPAIGN: THE NATION; Barry Wins in Washington 4 Years After Drug Violation," *The New York Times*, September 14, 1994, sec. U.S., <http://www.nytimes.com/1994/09/14/us/1994-campaign-nation-barry-wins-washington-4-years-after-drug-violation.html>.

## **THE VALUE OF ETHICS**

A healthy ethical environment generates two major forms of dividends: retention of resources that would otherwise be lost to misconduct such as fraud, waste and abuse, and preservation of the public trust. The latter can be conceived of as a critical resource in its own right. Additionally, an analysis of the relationship between local government and the public within the context of game theory will demonstrate that an ethical environment provides the best strategy for securing the public trust in the long term.

### **Direct Resource Loss via Fraud, Waste and Abuse**

Fraud, waste and abuse – three major categories of ethics violations – all have the potential to bleed resources out of an organization. Fraud is an obvious loss point: when someone is embezzling funds from a local government, those funds are not being used to pay for public activities. In 2014, for example, administrators for the city of Pasadena, CA discovered that employees had embezzled approximately \$6.5 million from the public works department.<sup>17</sup> While such funds may eventually be recoverable, the process is likely to be lengthy and expensive. In the mean-time, lost revenue, particularly for non-enterprise programs, may necessitate the reduction of city programs and services to compensate for the loss. Additionally, the city may have to delay the introduction of new programs, or forgo grant opportunities that require a certain amount of matching funds. Financial loss is therefore also a loss of opportunity.

Waste, defined as an egregiously poor or inefficient use of city resources, is not always immediately associated with unethical behavior. However, consider the actions of the Austin Emergency Medical Services employee whose failure to submit Medicaid bills

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<sup>17</sup> “Pasadena Fires 2 City Executives in \$6-Million Embezzlement Case,” *Los Angeles Times*, accessed March 9, 2015, <http://www.latimes.com/local/lanow/la-me-ln-pasadena-embezzle-firings-20150120-story.html>.

in a timely manner resulted in approximately \$150,000 - \$345,000 of lost revenue to the city between 2009-2010.<sup>18</sup> The delayed billing was not an isolated error, but rather a pattern of behavior that was known to management. Careless oversight can result in lost revenue and resources, even without the presence of outright theft or fraud. Such inefficient use of resources is categorized as unethical by many inspectors general, as the poor level of decision-making violates the public's trust that its resources will be well managed by the government in question.<sup>19</sup>

Abuse, or the use of an official position to secure a special favor or privilege, can also result in lost resources. If a city employee compels his or her subordinates to build personal furniture using city time and materials, a two-fold loss of both material resources and productivity occurs. However, abuse cases also wreak more insidious damage, as well. In 2013, a City of Austin employee attempted to use his position as a reason to waive boat docking fees for his personal vehicle, resulting in a series of disputes with Travis County Parks.<sup>20</sup> While the county temporarily lost revenue (in the form of the employee refusing to pay the fees), the actions of this employee also damaged the city's reputation with the county agency. In the worst case scenario, a city employee who uses his or position to demand bribes from the public in exchange for performing the basic functions of his job does significant damage to the public's trust in local government.<sup>21</sup>

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<sup>18</sup> "City Auditor Investigation Finds EMS Billing Problems in 2009-10," accessed March 9, 2015, <http://www.statesman.com/news/news/local/city-auditor-investigation-finds-ems-billing-probl/nWxpw/>; City Auditor's Integrity Unit, "Report on Integrity Violations Involving an Emergency Medical Services Employee" (Office of the City Auditor, City of Austin, Texas, January 14, 2013).

<sup>19</sup> "Auditor Fraud Resources: Fraud, Waste and Abuse Defined," *Office of the Inspector General, United States Department of Defense*, accessed April 28, 2015, [http://www.dodig.mil/resources/fraud/fraud\\_defined.html](http://www.dodig.mil/resources/fraud/fraud_defined.html).

<sup>20</sup> City Auditor's Integrity Unit, "Report on Allegations of Integrity Violations Involving a Planning & Development Review Employee" (Office of the City Auditor, City of Austin, Texas, November 7, 2013), 1.

<sup>21</sup> "Ex-City Permit Reviewer Indicted on Bribery Charges," accessed March 9, 2015, <http://www.mystatesman.com/news/news/crime-law/ex-city-permit-reviewer-indicted-on-bribery-charge/nYRxK/>.

## **Loss of Public Trust**

Local governments which engage in unethical activity, whether through entrenched cultural habits or frequent misconduct by employees, signal to citizens that the public welfare is not the government's highest priority. Citizens observe such actions and quite reasonably reduce their levels of trust in government. As this sub-section will demonstrate, loss of public trust diminishes the options available to government in terms of policy-making and future service provision, due to citizens' unwillingness to allow the suspect government to take programmatic or financial risks.

Research indicates that perceived commitment to the public interest is one of the most important factors in determining the level of public trust in a given local government. Feldheim and Wang examined how various public perceptions affect levels of public trust by regressing various factors on an index of public trust. Feldheim and Wang found that public perception of loyalty to the public interest on the part of both the government as an organizational entity and on the part of individual employees has the greatest effect on public trust, as reflected by their standardized coefficients in the afore-mentioned regression (See Table 1 below). That is, if all other factors are held constant, increasing (or decreasing) the public perception of such loyalties has the largest impact on the level of public trust in the local government out of all the factors considered in the model. Furthermore, the authors found that prioritization of the public interest trumps basic competency in service delivery in terms of generating public trust – indeed, levels of service competency and consistency did not generate an effect on public trust that was statistically distinguishable from zero at the .05 level.<sup>22</sup>

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<sup>22</sup> Mary Ann Feldheim and Xiaohu Wang, "Ethics and Public Trust," *Public Integrity* 6, no. 1 (Winter2003/2004 2003): 72.

<i>Independent variables</i>	<i>Regression coefficient (b)</i>	<i>Standardized coefficient (<math>\beta</math>)</i>	<i>t statistics</i>
Constant	6.924	1.507	
Moral leadership	.463	.087	1.559
Worker honesty	.907	.130	2.336*
Organizational openness	.001	.015	.266
Individual openness	.622	.173	2.944**
Organizational loyalty	1.152	.392	5.371**
Individual loyalty	1.708	.153	2.622**
Organization competency	.003	.017	.281
Organization consistency	.007	.020	.290

*N* = 237  
*r*<sup>2</sup> *adjust* = 0.453  
*F*-*probability* = 0.000  
\* *p* < .05, \*\* *p* < .01

Table 1: “Multiple Regression Results on Public Trust.” Reproduced from Feldheim and Wang (2004).<sup>23</sup>

Loss of public trust means that the local government has less freedom in which to operate, and particularly so in areas where the public has a direct effect on the decision-making process. The public may demand stricter scrutiny and less risk if it has lower faith

<sup>23</sup> Feldheim and Wang’s model is based on a survey that measured five dimensions of ethical behavior: integrity, openness, loyalty to the public interest, ethical competence (i.e., ethical programs and infrastructure), and service consistency. Additionally, a section of the survey measured the perception of public managers regarding the trust of citizens, elected officials, and businesses. This latter section was used to develop a “Public Trust Index”, which forms the dependent variable of the cited regression. The survey was sent to city administrators in every large United States city (population above 50,000). A total of 541 surveys were sent out, yielding a set of 249 completed surveys. The bulk of the surveys were completed by city managers or chief budget officers. A check for nonresponse bias indicated a slight bias towards response by council-manager cities. *Ibid.*, 68–72.

in the local government, which ultimately means that the government may be limited in the types of new policies and capital programs it can undertake. Think of the public trust as analogous to a city's financial credit rating. Such ratings are developed after a lengthy scrape through a city's finances, existing debts, capital management policies, funding reserves, and more, but are ultimately summarized as a statement on whether or not an expert third party believes that a city is capable of paying its debts on time and without damaging future operations.<sup>24</sup> Just as higher credit ratings allow cities more financial flexibility, higher levels of public trust grants cities more policy-making flexibility.

“AAA” credit ratings are the platinum standard, and mean that a city's bonds will be attractive to investors. Lower tier credit ratings are less desirable to investors, and a “junk” rating may mean that a city would find it impossible to sell any bonds at all. An inability to issue debt would immobilize most cities, as local government financial structures are usually designed to use debt (in the form of bonds) to pay for large-scale capital improvements and maintenance. Furthermore, local governments find it very difficult to recover from a dismal credit rating: it is difficult for a city to demonstrate its ability to pay back debt if no one wishes to loan the city any funds.<sup>25</sup>

The equivalent of an “AAA” credit rating in terms of public trust means that citizens have considerable confidence in the ability of the government to effectively and efficiently make use of public funds. Citizens with a high level of trust in the local government, then, are more likely to have faith in the decision-making capacity of city councilmembers and management staff. Such trust may translate to allowing the city to

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<sup>24</sup> Justin Marlowe, William C. Rivenbark, and A. John Vogt, *Capital Budgeting and Finance: A Guide for Local Government*, 2 edition (Washington, D.C.: International City/County Management Association, 2009), 217.

<sup>25</sup> Campbell Robertson and Mary Williams Walsh, “Debt Crisis? Bankruptcy Fears? See Jefferson County, Ala.,” *The New York Times*, July 29, 2011, sec. U.S., <http://www.nytimes.com/2011/07/30/us/30jefferson.html>.

raise the millage rate beyond rollback levels, or to voting for a large bond proposition.<sup>26</sup> Conversely, citizens who have low or “junk” levels of trust in public government may consume large amounts of council and staff time at public hearings and actively campaign against bond propositions or other major initiatives. Indeed, if citizens are writing letters to the editor of the local newspaper declaring the government body unfit to manage funds and citing embarrassing audit reports, this is likely a warning sign that levels of public trust are low.<sup>27</sup>

Much like a poor financial credit rating, it is very difficult for a local government to recover public trust. Again, research indicates that public perception of the organization’s dedication to the public interest is the key factor in determining levels of public trust. Such perception may not be substantially affected by the actions of a few isolated individuals, but is likely to be swayed by a high rate of misconduct or misconduct by prominent officials and executives. What the organization means to do is far less important than how the public interprets its actions. Changing belief is quite a difficult task, and changing negative beliefs even more so: negative information has a more powerful effect on the brain than neutral or positive information, and thus is more difficult to overcome.<sup>28</sup> Actively sustaining an organization’s trust rating is more efficient, as rebuilding public faith in a tarnished organization requires significant time and resources.

### **Ethics as the Strategic Choice**

Having reviewed how a strong ethical environment prevents resource loss and secures the public trust, this report next argues for ethics as a strategic choice on the part

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<sup>26</sup> Robert L. Bland, *A Budgeting Guide for Local Government*, 3 edition (Washington, D.C: Intl City County Management Assn, 2013), 72.

<sup>27</sup> “No East Ramapo Bond until State Monitor in Place.”

<sup>28</sup> Tiffany A. Ito et al., “Negative Information Weighs More Heavily on the Brain: The Negativity Bias in Evaluative Categorizations,” *Journal of Personality and Social Psychology* 75, no. 4 (October 1998): 896, doi:10.1037/0022-3514.75.4.887.

of local government. Years of game theory research indicate that choosing to pursue an ethical path will secure the best long-term, cooperative outcome between the local government and the public.

Consider local government activities as a game in the mathematical sense. If this game was only played one time – for example, if a city council passed a single budget and immediately resigned – then Machiavellian strategies are actually recommended in order to maximize success.<sup>29</sup> Single-use games encourage the players to focus on their short-term interests. Those individuals who do not have a personal commitment to ethical behavior may, consequently, be incentivized to follow a less moral path due to the lack of immediate repercussions.

However, local government activities are more analogous to a *repeated* game between the government and the public.<sup>30</sup> If government employees commit unethical activities and are caught doing so, the government has to deal with the ramifications of those activities in its continued interactions with the public. Successful strategies for repeated games revolve around securing the cooperation of the other party in the game. More specifically, game theorists have found that a “tit for tat” strategy secures the best outcomes for the player in a repeated game.<sup>31</sup> Tit for tat means that if the player’s partner cooperates, the player cooperates as well; if the partner makes a choice that negatively impacts the player, then the player must retaliate to prevent future abuses. Adopting a “tit

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<sup>29</sup> Robert Axelrod, “More Effective Choice in the Prisoner’s Dilemma,” *Journal of Conflict Resolution* 24, no. 3 (September 1, 1980): 381, doi:10.1177/002200278002400301.

<sup>30</sup> Game theory is a branch of mathematics that, among other things, attempts to identify ideal strategies for particular situations. Such situations are modeled as “games” that can be reproduced in an experimental setting. A “repeated game” is a game with a defined set of rules that is repeated over and over again with the same players. Repeated games require a different set of strategies than single-instance games, because players have the opportunity to both retaliate and cooperate over multiple interactions.

<sup>31</sup> Axelrod, “More Effective Choice in the Prisoner’s Dilemma,” 382.

for tat” strategy generally results in on-going cooperation between both players, as each player is aware of the consequences for engaging in negative tactics.

If local government administrators commit to maintaining an ethical environment, they are choosing to cooperate with their partner – the citizens. If there is a high level of ethical misconduct in a city, citizens will respond through previously discussed channels of public outcry and voting, which diminishes the policy choices available to local government.<sup>32</sup> As discussed previously, angry and mistrustful citizens are less likely to vote for bond propositions, re-elect councilmembers, and generally allow the city to take policy risks. Thus, administrators have a logical incentive to sustain an ethical environment.

This chapter has reviewed the advantages of sustaining an ethical environment for local government in terms of resource preservation, protection of the public trust, and long-term strategy. Having determined that an ethical environment is a worthwhile investment of time and resources, the report next considers how a local government can build the best possible ethical environment a theoretical perspective.

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<sup>32</sup> Arguably, this is not a perfect analogy, because the local government has no real means of responding to “negative behavior” initiated by citizenry. However, given the power imbalance already in the local government’s favor, my emphasis is how citizens respond to negative (unethical) behavior initiated by the local government.

## **Chapter Two: A Theory-Based Operational Framework for a Sustainable Ethical Environment in Local Government**

Developing a strict operational framework to provide ethical guidance in all possible circumstances and accommodate all personalities is an impractical endeavor. A set of ethical rules that are inviolate to one individual may be rejected by another, due to differences in beliefs, culture, and personal experiences. To address the problem of creating a firm but flexible operational framework that can be embraced by every employee within a given local government, this chapter applies the lens of leadership and development theory.

Ethics and values are first analyzed as separate concepts, in order to set the stage for a discussion of how strong organizational values can reduce the variation in ethical decision-making produced by the myriad of individual values within an entity. Next, postconventional reasoning is highlighted as a key mechanism for local governments that seek to achieve an ideal balance between defined ethical principles and necessary improvisation on the part of employees.<sup>33</sup> Finally, this chapter reviews how local governments can use the philosophy of adaptive leadership to enhance the ethical responsibility and decision-making power of every employee, creating a more robust ethical environment.

### **ETHICS, VALUES, AND WICKED PROBLEMS**

Distinguishing between ethics and values allows the reader to appreciate the wicked problem of prescribing an ideal set of ethical principles. The following section analyzes

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<sup>33</sup> Postconventional reasoning is defined as a level of moral reasoning which relies on ethical principles as decision-making criteria. This concept is more fully explored in the “Balancing Organizational Principles and Employee Judgment” section of this chapter.

the roots of the wicked problem and identifies the role of organizational values in developing a sustainable solution.

## **Values**

Values are statements about what an individual or organization considers to be important aspirations.<sup>34</sup> Honesty, loyalty, compassion, concern for family are characteristics that might easily come to mind as values. However, items such as objectivity, self-sufficiency, and financial success can all be considered values as well. Value is created by the importance with which an activity or goal is endowed by a particular individual or organization; that is, activities and goals do not have inherent value in and of themselves.<sup>35</sup>

## **Ethics**

Ethics can be described as a set of decision rules for determining how to behave in a variety of situations.<sup>36</sup> That is, ethics are the processes by which someone sifts through their values and determines how to apply them in practice.<sup>37</sup> Just as each individual likely has a different set of values, so too might their ethics vary according to personal belief systems.

## **Organizational Ethics as a Solution to a Wicked Problem**

One can see how the wicked problem of defining an ethical framework begins to form. Rittel and Webber argued that a hallmark of a wicked problem is that framing the

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<sup>34</sup> Richard Hughes, Robert Ginnett, and Gordon Curphy, *Leadership: Enhancing the Lessons of Experience*, 7 edition (New York: McGraw-Hill/Irwin, 2011), 152.

<sup>35</sup> I sense a disturbance of the force, as we encounter a rare instance in which ethicists and economists come into alignment.

<sup>36</sup> Hughes, Ginnett, and Curphy, *Leadership*, 154.

<sup>37</sup> Jonathan P. West and Evan M. Berman, *The Ethics Edge*, 2nd ed. (Washington, D.C.: International City/County Management Association, 2006), 26.

problem is impossible without simultaneously developing a solution path: “every specification of the problem is a specification of the direction in which a treatment is considered”.<sup>38</sup> If two individuals have very different values, they are likely to prioritize different ethical frameworks that solve whatever value deficit they have identified – a deficit which is, in itself, framed by their own personal ranking of values.

As a basic example, imagine that Individual A places a high value on compassion, whereas Individual B places a high value on objectivity. When asked to tackle an ethical dilemma, Individual A frames the dilemma in terms of interpersonal relationships, and relies on a set of rules (ethics) that emphasize compassion. Meanwhile, Individual B’s high value on objectivity causes her to frame the dilemma in terms of clear-cut policy violations, and to apply an ethical framework that discourages special treatment or exceptions. The differing values of Individual A and B have led them to both perceive and develop solutions for an ethical dilemma in quite different ways. While such differences can create innovative solutions, one can also see how easy it may be for an ethical conflict to emerge: Individual A may waive fines for individuals for whom she feels pity, which Individual B may perceive as an act of waste.

The infinite array of different value rankings means that if individuals are left to act independently, they may understand and resolve for ethical dilemmas in quite contrasting ways. The variation in responses can create a chaotic ethical environment at the organizational level, because there is not a consistent set of principles that are guiding behavior across the entire city. Fortunately, the wicked problem of ethics can begin to be solved if individuals are made to comply with an overarching ethical framework – such as the values and ethics of an organization.

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<sup>38</sup> Horst W. J. Rittel and Melvin M. Webber, “Dilemmas in a General Theory of Planning,” *Policy Sciences* 4, no. 2 (June 1, 1973): 161, doi:10.1007/BF01405730.

The approach an organization takes to ethics has a significant effect on the behavior of that organization's members. When seeking to track patterns of ethical behavior amongst politicians and public administrators, de Vries found strong links between the opinions and behavior of individuals in the same municipality.<sup>39</sup> Specifically, the majority of the variation in city administrators' opinions regarding various ethical dilemmas was explained by opinions held by politicians in the same municipality.<sup>40</sup> de Vries' analysis is not ideal because it fails to account for potential endogeneity amongst opinions held by politicians and administrators in the same vicinity: that is, it fails to account for the fact that opinions held by one group are likely to influence the other, and vice versa. Consequently, the analysis likely overstates the statistical power of the relationship between opinions and behavior of politicians and administrators. However, it is reasonable to assume that the shared socio-cultural environment of the politicians and administrators is a primary source of this endogeneity. Indeed, standard risk assessment tools for both the public and private sectors designate the internal environment of an organization as a major object of analysis.<sup>41</sup> Thus, the organizational culture which surrounds local government employees is likely to have a considerable impact on the ethical choices those employees make.

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<sup>39</sup> de Vries' analysis is based on a large international dataset produced by the *Democracy and Local Governance* project. The project gathered survey data from approximately 9,993 politicians and public administrators located in 17 countries. The survey included questions regarding the value of honesty and transparency, which formed the bulk of de Vries' modified dataset. de Vries clustered his data into 408 communities in order to analyze the effect of local politicians and administrators on each other's opinions and behavior. Each community consists of observations from approximately 5-10 city administrators and 5-10 elected politicians. Michiel S. de Vries, "Can You Afford Honesty? A Comparative Analysis of Ethos and Ethics in Local Government," *Administration & Society* 34, no. 3 (July 1, 2002): 312-313, 323, 326-328, doi:10.1177/009539902400387218.

<sup>40</sup> de Vries cites an  $R^2$  value of .73 for the tendency of city administrators to present one-sided facts (as explained by the tendency of political administrators in the same community to present one-sided facts), and an  $R^2$  value of .84 for the tendency of city administrators to conceal facts (as explained by the tendency of political administrators in the same community to conceal facts). *Ibid.*, 326.

<sup>41</sup> "Government Operations," 21; Colleen Sayther-Cunninham, "Enterprise Risk Management: The COSO Framework," *Ethics Resource Center*, accessed March 15, 2015, <http://www.ethics.org/resource/enterprise-risk-management-coso-framework>.

Organizations can influence ethical culture in a variety of ways. Perhaps the most direct example is the creation of a mission, set of values, and a code of conduct that acts as a literal decision guide regarding ethical dilemmas that employees might encounter.<sup>42</sup> However, as will be discussed in Chapter Three, city administrators cannot simply write down a set of carefully chosen principles and expect perfect ethical behavior to result: the sheer variety of situations that government employees may encounter means that they must be able to improvise variations on the written ethical policies. Thus, robust ethical culture results when employees are able to internalize the organizational principles and reflect them through their own decision-making processes.

### **BALANCING ORGANIZATIONAL PRINCIPLES AND EMPLOYEE JUDGMENT**

Setting organizational ethics is a critical step towards shaping the ethical behavior of individuals belonging to that organization, as argued above. Yet while it is fairly easy to write a code of conduct, it is much more difficult to develop a code that achieves the appropriate balance of flexibility and prescription. If the code is too flexible, the level of variance in employee decision-making may be too wide for comfort. On the other hand, if the code is too rigid, employees may feel disempowered or overly constrained, and consequently may begin to doubt the validity of the code.<sup>43</sup>

Many of the ethical dilemmas that local government employees may face are quite complex. Certainly, basic concepts such as not physically harming others and not committing crime are plain enough. Many of the daily decisions that employees may

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<sup>42</sup> “Why Have a Code of Conduct?,” *Ethics Resource Center*, May 29, 2009, <http://www.ethics.org/resource/why-have-code-conduct>.

<sup>43</sup> “Broward Ethics Code Headed for Rewrite,” *Tribunedigital-Sunsentinel*, accessed April 22, 2015, [http://articles.sun-sentinel.com/2014-04-22/news/fl-broward-ethics-code-20140422\\_1\\_ethics-code-gift-ban-new-code](http://articles.sun-sentinel.com/2014-04-22/news/fl-broward-ethics-code-20140422_1_ethics-code-gift-ban-new-code); Einar Stefánsson, Ólöf Ýrr Atladóttir, and Björn Guðbjörnsson, “Are Ethics Rules Too Strict in Retrospective Clinical Studies?,” *Acta Ophthalmologica* 86, no. 6 (September 1, 2008): 590, doi:10.1111/j.1755-3768.2008.01413.x.

encounter, however, exist in a much grayer continuum. Consider the dilemmas raised by the prospect of extending historic landmark status to a house over the owner's hearty objections, as done in 2014 by the City Council of Austin, Texas.<sup>44</sup> City staff and preservation-minded groups cited the unique architectural character of the house and its resulting value to the community as a whole.<sup>45</sup> However, the owners of the property resisted the designation, stating that they had alternate development desires for the property and, moreover, that they did not wish to invest in the costly repairs needed to maintain the property in its historical state.<sup>46</sup>

The case demonstrates a tension between the interests of the larger community and the interests (and rights) of property-owners, with no way of resolving the issue in a manner that appeases both groups. Legal statute supported the city's actions, but did not assuage the concerns of the affected citizens: the property-owners considered suing the city to overturn what they perceived to be an unjust law.<sup>47</sup> Thus while the actions of the city were ethical in terms of complying with the law, the decision was nevertheless perceived to be unethical by certain members of the public. However, if the Council had voted to deny the landmark status, other citizens involved in historic preservation efforts would have considered the surrender of a perceived community resource to be unethical.<sup>48</sup>

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<sup>44</sup> "Council OKs Landmark Status for Red River House," *Austin Monitor*, accessed March 15, 2015, <http://www.austinmonitor.com/stories/2014/12/council-oks-landmark-status-red-river-house/>.

<sup>45</sup> Anne Harris et al., "Queen of the Hill: 3805 Red River Stands Another Day," accessed March 15, 2015, <http://www.austinchronicle.com/daily/news/2014-07-30/queen-of-the-hill-3805-red-river-stands-another-day/>.

<sup>46</sup> "Council OKs Landmark Status for Red River House."

<sup>47</sup> "Austin Woman Says Unwanted Historic Designation Will Cost Her...," accessed April 20, 2015, <http://www.mystatesman.com/news/news/local/austin-woman-says-unwanted-historic-designation-wi/njd8Q/>.

<sup>48</sup> Harris et al., "Queen of the Hill."

Other classically “wicked” sources of ethical struggle include tradeoffs between efficiency and equity, as in the case of many resource allocation decisions.<sup>49</sup> Political prudence may also be a necessary consideration. Simply put, longevity and power means that a city employee may be able to accomplish more good for more people. Choosing to use political capital on a specific project, no matter how helpful in the short-term, may negatively affect that employee’s ability to aid a greater number of individuals in the future.<sup>50</sup>

A code of ethics cannot possibly anticipate all the situations that an employee might face, and thus cannot provide employees with an exact recipe for every ethical dilemma. How can local governments design ethical frameworks which demarcate critical lines – do not physically harm, do not steal – while simultaneously carving out room for employees to use their best judgment? Moreover, how can local governments ensure that employees’ best judgment reflects the values upheld by the organization itself?

James S. Bowman persuasively argues that organizations can answer these questions by modelling their ethical codes and training after Lawrence Kohlberg’s famous stages of moral reasoning. Specifically, Bowman states that organizations should strive to achieve an ethical environment that mirrors the higher stages, dubbed postconventional reasoning.<sup>51</sup> Conveniently, the stages of moral reasoning correspond closely to our previous discussion of ethics as a set of decision rules: Kohlberg describes the differences between different stages as differences in the criteria used to make the ethical decision. Notably, Kohlberg is rather uninterested in the ultimate outcome or choice – he is almost

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<sup>49</sup> Rittel and Webber, “Dilemmas in a General Theory of Planning,” 158–159; Ron Carlee, “Ethics in Local Government: It’s More Than Not Doing Bad Things,” *Public Management (00333611)* 86, no. 6 (July 2004): 4.

<sup>50</sup> J. Patrick Dobel, “Integrity in the Public Service,” *Public Administration Review* 50, no. 3 (May 1, 1990): 361–362, doi:10.2307/976617; West and Berman, *The Ethics Edge*, 59.

<sup>51</sup> James S. Bowman, “The Ethical Professional: Cultivating Scruples,” in *The Ethics Edge*, 2nd ed., vol. 1, 1 vols. (Washington, D.C: International City/County Management Association, 2006), 24–45.

exclusively concerned with the reasoning process in and of itself.<sup>52</sup> However, when employees are primed by the appropriate organizational values, their reasoning is likely to lead to outcomes preferred by the organization.

Kohlberg split his stages into three major levels: preconventional, conventional, and postconventional. Preconventional reasoning is the most basic level, and based on criteria of self-interest. Good behavior is rewarded, while bad behavior is punished: individuals at this level of reasoning seek reward and avoid punishment, and base their decisions accordingly.<sup>53</sup> One can see how this level of reasoning is not ideal for local government. Employees seeking to avoid punishment might hide errors, whereas employees seeking to obtain a reward might push subordinates to unreasonably high performance levels, causing them to cut ethical corners to deliver sufficient results.

The next stage, known as conventional moral reasoning, is based on social norms. Good behavior is that which others approve of, whereas bad behavior is that which is condemned by others.<sup>54</sup> Again, there is potential for conflict here. While employees exhibiting conventional reasoning may well avoid choices that would shame them in front of their peers, problems arise if their immediate group is accustomed to ethics violations. For example, if fraudulent timekeeping is rampant within a workgroup and endorsed by the supervisor, an employee displaying conventional moral reasoning may not report the behavior, as doing so would violate the norms of the group.

The third and final level, named postconventional reasoning, is based upon an individual's allegiance to the social contract or a defined set of ethical principles.<sup>55</sup>

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<sup>52</sup> Hughes, Ginnett, and Curphy, *Leadership*, 158.

<sup>53</sup> *Ibid.*, 159; Bowman, "The Ethical Professional: Cultivating Scruples," 27.

<sup>54</sup> Hughes, Ginnett, and Curphy, *Leadership*, 159; Bowman, "The Ethical Professional: Cultivating Scruples," 27.

<sup>55</sup> Hughes, Ginnett, and Curphy, *Leadership*, 159; Bowman, "The Ethical Professional: Cultivating Scruples," 27.

Employees at this level might well comply with social norms, but, critically, will deviate from these norms or rules if they perceive them as violating a higher set of principles.<sup>56</sup> Bowman argues that the postconventional represents the only acceptable level of moral reasoning for public sector administrators. Employees exhibiting postconventional reasoning do not violate rules for their own self-interest, nor do they unthinkingly abide by social norms; rather, they weigh potential solutions against a “higher claim of human dignity”.<sup>57</sup> Using human dignity or similar principles as the primary decision-making criteria allows for creativity in ethical decision-making while ensuring the ultimate result is still in line with organizational values. Thus postconventional reasoning, in tandem with a commitment to ethical principles that mirror those of the organization, produce results that achieve the critical nexus between situational flexibility and ethical bright lines.<sup>58</sup>

How should a local government begin cultivating an operational framework for ethics that emphasizes postconventional moral reasoning, particularly given Kohlberg’s belief that few adults achieve such a level of analysis?<sup>59</sup> Bowman suggests that administrators can effectively cause the organization as a whole to adopt postconventional levels of reasoning by imbuing its organization’s ethical culture with postconventional criteria. Bowman calls this a “high road” approach and contrasts it to a “low road” strategy that encourages lower stage, more undesirable levels of reasoning. A summation of strategies is provided in Figure 1, below.

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<sup>56</sup> Hughes, Ginnett, and Curphy, *Leadership*, 159; Bowman, “The Ethical Professional: Cultivating Scruples,” 27.

<sup>57</sup> Bowman, “The Ethical Professional: Cultivating Scruples,” 28.

<sup>58</sup> The term “bright-line” is used here in the legal sense: that is, a precedent that establishes an unambiguous test for right and wrong.

<sup>59</sup> Hughes, Ginnett, and Curphy, *Leadership*, 158.

	<b>Low Road Strategies</b>	<b>High Road Strategies</b>
<b>Ethos:</b>	Conformity with external standards	Self-governance according to chosen standards
<b>Objective:</b>	Prevent criminal conduct	Enable responsible conduct
<b>Leadership:</b>	Lawyer-driven	Management-driven
<b>Methods:</b>	Training, limited discretion, controls, penalties	Education, leadership, accountability
<b>Assumption:</b>	People driven by material self-interest	People guided by humanistic ideals

Figure 1: Bowman’s High and Low Road Organizational Strategies. Reproduced from Bowman (2006).<sup>60</sup>

In essence, if the organization holds itself to the high standard of postconventional reasoning, Bowman argues that the influence of the organizational environment will affect the decisions of the individual. Adopting a set of ethical principles, providing education on those principles, and leading by example are all means by which the organization as an entity pursues postconventional reasoning and simultaneously encourages similar practices amongst its employees.

#### **LEADERS, FOLLOWERS, AND THE RESPONSIBILITY FOR ETHICAL DECISION-MAKING**

Having discussed how the organization can seed its ethical culture through a particular set of strategies, the next section reviews how ethical behavior is modelled and transmitted by employees themselves. More specifically, ethical behavior is examined as a series of interactions between leaders and followers – bearing in mind that followers can easily become leaders, and vice versa. Local governments should not rely on a single

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<sup>60</sup> Bowman, “The Ethical Professional: Cultivating Scruples,” 32.

leader to enforce the ethical environment, but should rather encourage all employees to be active, engaged participants in developing the ethical culture.

### **Great Leaders Are Not Enough**

Many studies of ethics conclude that leadership is a crucial ingredient in building an ethical environment.<sup>61</sup> Such studies argue that, if the primary administrators are engaging in ethical misbehavior, subordinates will not be inspired to engage in ethical behavior themselves. Yet while it is critical for executive leadership to model good ethical behavior, such displays are not sufficient to uphold the entire ethical environment.

As an illustration, consider Thomas Carlyle's enthusiastic endorsement of the "Great Man" form of leadership. One simply needs to locate the "Ablest Man" within a society – who also happens to be the "truest-hearted, justest, Noblest Man" – and anoint him to be a benevolent dictator, whose orders are followed without question. Because the leader is good and great, Carlyle reasons that his actions will be ethical by default, and will automatically be in the best interest of society as a whole.<sup>62</sup>

There are a number of flaws with Carlyle's model. First, how is the public supposed to identify the Ablest Man? The task seems quite arduous and impractical. Moreover, even if the public gathers expert counsel— such as a skilled recruiter – it is likely that the public will disagree about the proper candidate and perhaps make the wrong choice. Secondly, if the public *does* make the wrong choice, it has committed itself to quite a vulnerable position. After all, if the public agrees not to question the Ablest Man, citizens are hardly in a position to protest if they start noticing problems with resource allocation.

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<sup>61</sup> Carlee, "Ethics in Local Government," 5; Sheldon S. Steinberg and David T. Austern, *Government, Ethics, and Managers: A Guide to Solving Ethical Dilemmas in the Public Sector*, 1st ed. (Westport, CT: Quorum Books, 1990), 131; Peter G. Northouse, "Leadership Ethics," in *The Ethics Edge*, 2nd ed. (Washington, D.C.: International City/County Management Association, 2006), 46.

<sup>62</sup> J. Thomas Wren, *The Leader's Companion*, 53–54.

Most seriously, if citizens – including government employees - rely on the Ablest Man determine all their ethical decision-making, what happens when that individual leaves the city government? What if the Ablest City Manager happens to be sick, or simply just busy attending to other projects? City employees at all levels need to be able to navigate ethical dilemmas on their own, as executive staff may not always be available or familiar with the relevant details.

This report does not deny that executive-level leadership plays a vital role in setting the ethical tone of the organization. However, instead of relying heavily on one specific individual, or even a small set of individuals, this report suggests that local government administrators focus on developing ethical leadership that emanates from the *organizational culture* rather than a specific individual.

### **Empowering Followers to Make Ethical Decisions**

If the origin of ethical leadership is viewed as deriving from organizational culture rather than a specific leader, one effectively charges employees – those often considered to be followers – with responsibility for making ethical decisions. After all, culture is enacted by the individuals which compose it: the anthropologist Clifford Geertz described culture as the “ensemble of stories we tell about ourselves”.<sup>63</sup> The actions of those storytellers define and refine the culture, and when viewed in aggregate represent the ethical environment of the overall entity.

Ronald Heifetz’ model of adaptive leadership provides an excellent guide for determining when to delegate ethical decisions to followers and when executive leadership should step forward. Matters that involve conflicts of belief and values, argues Heifetz, should be addressed by their primary stakeholders; namely, those whose beliefs and values

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<sup>63</sup> Clifford Geertz, *The Interpretation of Cultures: Selected Essays* (Hutchinson, 1975), 448.

are at risk of being changed.<sup>64</sup> Without the involvement of primary stakeholders, durable solutions cannot be developed. Noted leadership scholar John Gardner echoes this logic, arguing that:

“[Americans] believe that a society should be vital in all its parts and not just at the center [...] Some functions and decisions are best made at the periphery of the system, some at the center. It is a matter of allocating functions to the appropriate level”.<sup>65</sup>

Delegating all ethical decisions to executive staff is impractical and damaging for the organization as a whole, as illustrated by the following example.

Consider a salaried, exempt employee who regularly works more than forty hours a week and is feeling pressured to meet outside obligations, such as a secondary business. The employee is wrestling with the decision of whether it is ethically appropriate to work on his secondary business during down-time at work, using city resources such as a computer or copier. The employee could certainly ask his manager for guidance. However, if the employee makes the final decision that misusing city resources is inappropriate, that ethical behavior is much more likely to be continued in the future. The employee has thought through the logic and come to the solution on his or her own terms, rather than following a policy out of rote obedience. The latter option is not wrong, but it does much less to strengthen the ethical culture of the organization.

Readers may ask why simply having employees obey written policy is not sufficient. Here, a concept borrowed from statistics is quite useful: the idea of *robustness*. A statistical or econometric model is said to be robust if it can withstand a reasonable amount of changes in its variables or underlying assumptions. Consider a model that predicts harvest rates for a particular field, based on previously measured observations such

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<sup>64</sup> Ronald A. Heifetz, *Leadership Without Easy Answers* (Harvard University Press, 1994), 121.

<sup>65</sup> John W. Gardner, *On Leadership*, Reprint edition (New York: Free Press, 1993), 88–89.

as soil quality, rainfall levels, and days of sunshine. However, it turns out that an otherwise dutiful assistant made a measurement error, and overstated a few measurements of rainfall – for example, she recorded 10 inches rather than 1 inch. A robust model is able to recognize and respond appropriately to unusual outliers, and thus produces results that are not overly different than if the observations were recorded properly in the first place. A model that is *not* robust effectively breaks down and produces skewed, incorrect conclusions in the presence of these outliers.

The concept of robustness translates well to the idea of ethics at a local government level. We have previously discussed how local governments are unable to predict every possible ethical scenario and diagram it in a book of policy or code of conduct. If an employee is only able to solve ethical dilemmas by consulting policy, she is not robust and may perform quite poorly when she encounters an ethical issue that has not been pre-solved. Conversely, employees who are trained and encouraged to not only consult policy, but to reason out a solution using the overarching values of the organization, will be a greater asset to the overall ethical environment.

Despite his support for empowering followers, Heifetz does not advocate for a total abdication of leadership responsibility. He specifies that leaders should intervene if they believe that the followers lack the tools or understanding to come to an acceptable solution, or if there is insufficient time to allow followers to develop their own response.<sup>66</sup> For example, if a department head discovers that a public works field supervisor is allowing inebriated employees to steer heavy machinery around town, the danger to public safety requires the department head to intervene right away rather than to allow his division managers to formulate a response.

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<sup>66</sup> Heifetz, *Leadership Without Easy Answers*, 121–122.

Empowering employees at all levels of local government to pursue ethical decision-making fosters a robust organizational culture and reinforces the elements of postconventional reasoning discussed in the previous section. If employees are constantly asked to make their own ethical decisions, with appropriate guidance from management, it seems plausible that they will familiarize themselves with the core ethical principles of the organization and use these principles as criteria – as opposed to chasing self-interest or blindly obeying policy.

### **SUMMARIZING THE OPERATIONAL FRAMEWORK**

Leadership and development theory highlights key elements that comprise an ideal operational framework for ethics within local government. These elements consist of organizational ethics and values, modeling postconventional reasoning, and encouraging adaptive leadership.

Organizational ethics and values help to untangle the wicked problem of defining ethics by promoting a consistent, defined ethical culture. Consequently, the local government avoids significant variances in decision outcomes that would arise if employees solely relied on their individual values.

The complex nature of ethical dilemmas means that it is impossible to identify every solution in advance. Employees, commissioners, and councilmembers encounter a variety of situations on a daily basis, and one cannot write an ethics code that addresses every possible context. An ethical environment that promotes postconventional reasoning allows employees the flexibility to address ethical dilemmas that lack a written guide, while simultaneously ensures that the organization's core values act as overarching decision criteria.

Along similar lines, employees who are accustomed to having decisions made for them do little to promote a robust ethical environment, as they may stumble badly when they are (inevitably) placed in a situation where they must make their own choice. Furthermore, organizations which look to a single leader as their ethical talisman are placed in an awkward position when that leader leaves or is otherwise occupied. Encouraging an adaptive leadership model that defers ethical decision-making authority to subordinates – as appropriate – means that employees at all levels are working to reinforce and strengthen the ethical environment.

### **Avoiding Overgeneralization**

The preceding chapter has intentionally avoided specifying a particular ethical decision model that should be universally applied by local governments, because each local government must develop an ethical framework that is customized to fit its particular needs. While ethical decision models are readily available, they vary in terms of emphasized decision-making criteria – a close approximation to the concept of individual values discussed earlier in this section. Consequently, distinct ethical decision models may generate quite different outcomes. To illustrate the potential discrepancies, consider the underlying philosophical differences between Bowman’s Ethics Triangle and Doherty’s Three Aspects of Public Integrity:

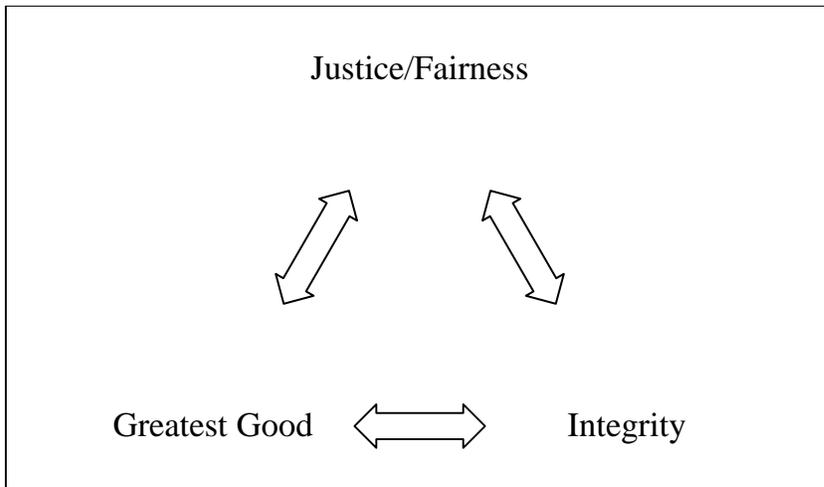


Figure 2: Bowman’s Ethics Triangle. Adapted from Bowman (2006).<sup>67</sup>

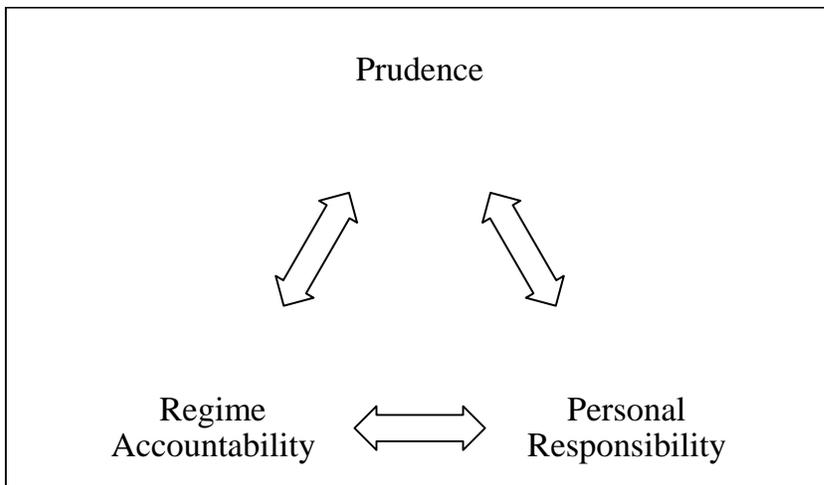


Figure 3: Dobel’s Three Aspects of Public Integrity. Adapted from Dobel (1990).<sup>68</sup>

Both of these models emphasize that ethical decisions should be made after carefully weighing a particular set of values. However, the prioritized values comprise entirely different sets, as illustrated above. Without exploring the intricacies of each model, it is

<sup>67</sup> Bowman, “The Ethical Professional: Cultivating Scruples,” 29.

<sup>68</sup> Dobel, “Integrity in the Public Service,” 363.

clear that an organization adopting Bowman’s Triangle might come to different ethical conclusions than an organization that adopts Dobel’s Aspects. Bowman’s Triangle emphasizes the values of integrity, greatest good, and justice or equity. Conversely, Dobel’s model emphasizes the values of prudence, regime accountability, and personal responsibility. While these models are not inherently oppositional, one can see how the prioritization of “greatest good” in Bowman and “prudence” in Dobel may lead to divergent solutions. Specifically, the Dobel decision model is built on an assumption that long-term policy stability may achieve the greatest long-term outcome for the public; essentially, Dobel emphasizes durability over potentially destabilizing controversy.<sup>69</sup> As an alternative, the Bowman model is not expressly based on a long-term outlook: the “greatest good” in this model may necessitate controversial or politically damaging action. Local government administrations in a delicate political situation may choose to adopt a decision model akin to Dobel, whereas an administration with fewer political concerns may choose to adopt a model similar to Bowman.

The unique needs of each organization translates to the need for flexibility in ethical decision models. Each local government has different stakeholders, previous histories, constraints, and future plans – consequently, a model that fits one entity may not align well with another. A government might find that a particular model aligns well with one department, while a different model is needed for another. Moreover, different models may be required depending on the exact nature of the ethical situation.

Rather than specify a universal decision model, this report defers to the needs and internal expertise of each entity. However, the theoretical elements reviewed in this chapter should be incorporated into each entity’s operational framework regarding ethics, as these

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<sup>69</sup> *Ibid.*, 361.

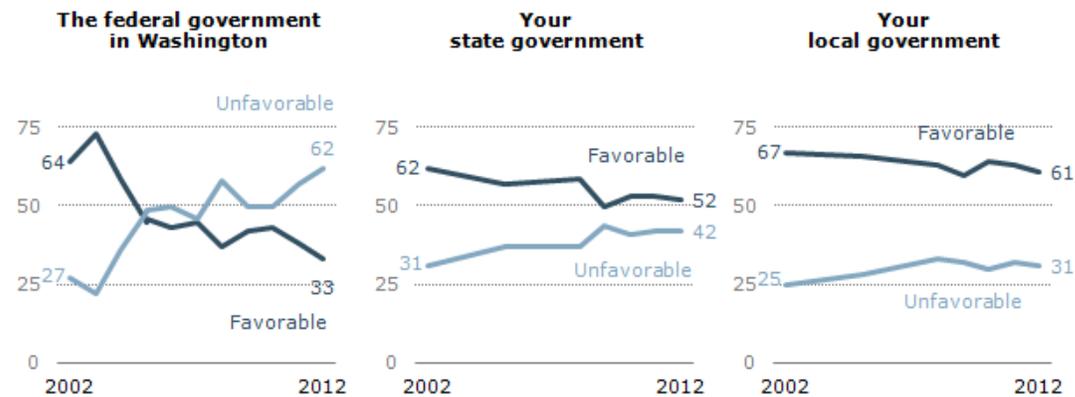
elements will provide a strong basis of support for whichever decision model is ultimately selected. Clearly defined organizational values provide a guiding frame that subdues the chaos of individual values, setting the stage for an organizational set of ethics and organizational decision models. Emphasizing postconventional reasoning enables employees to critically engage with the chosen ethical decision model, developing innovative solutions that remain true to the overall organizational principles. Finally, empowering ethical leadership at every level of the organization puts the responsibility for an ethical environment in the hands of each employee, meaning that adopted decision models will be used and reinforced throughout the organization.

## Chapter Three: The State of Local Government Ethics

Having reviewed the value of an ethical environment and having identified critical elements that every local government should incorporate into its ethics infrastructure, this report now considers the current state of local government ethics. Given that this report has largely cited existing research rather than original experiments, one might expect local governments to have access to the same data and have developed similar conclusions. Accordingly, one might expect ethical failures should be few and far between.

Yet the state of government ethics in general is grim, and local government is no exception. Data collected by the Pew Research Center demonstrates that the public perception of government has been declining over the past decade. While the sharpest declines have been at the federal and state levels, local government has also experienced a persistent drop in ratings.

### Views of Government: 2002-2012



PEW RESEARCH CENTER Apr. 4-15, 2012.

Figure 4: Views of Government: 2002- 2012 (% of individuals who have a favorable or unfavorable view of various levels of government). Reproduced from Pew Research Center (2012).<sup>70</sup>

One might be tempted to focus on the dips in ratings of the federal and state governments, and argue that local government has performed comparatively well. However, doing so would mean overlooking a growing problem.

A 2007 survey of public sector employees conducted by the Ethics Resource Center (ERC) revealed that local government is more at risk for ethical misconduct than federal agencies. The ERC noted that while “overtly illegal” forms of misconduct had declined in comparison to similar surveys in 2000, more subtle ethical violations such as conflicts of interest were on the rise.<sup>71</sup> Sixty-three percent of the sample of local government employees had observed some form of ethical misconduct – more than any other level of government.<sup>72</sup> To make matters worse, respondents indicated that:

- They both experienced and feared retaliation if they reported ethics violations, and that reported rates of retaliation (20%) exceeded those of either federal or state employees;<sup>73</sup>
- If they did report ethical violations, they preferred to keep matters within the department by reporting observed misconduct to a supervisor (49%) rather than a hotline (3%) or ethics officer (12%)<sup>74</sup>, effectively reducing transparency; and, perhaps most worryingly,

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<sup>70</sup> 1615 L. Street et al., “Growing Gap in Favorable Views of Federal, State Governments,” *Pew Research Center for the People and the Press*, accessed April 21, 2015, <http://www.people-press.org/2012/04/26/growing-gap-in-favorable-views-of-federal-state-governments/>.

<sup>71</sup> “National Government Ethics Survey,” 3.

<sup>72</sup> *Ibid.*, 31.

<sup>73</sup> *Ibid.*, 33.

<sup>74</sup> *Ibid.*, 32.

- Local government employees felt as if the organizational ethical environment either conflicted with their own values or felt as if internal expectations pressured them to violate organizational values (16%).<sup>75</sup>

Such statistics cannot be attributed to a lack of ethics programs. Ninety-one percent of respondents reported knowledge of a code of ethics, eighty-five percent were aware of an ethics hotline, and eighty-one percent had received ethics training.<sup>76</sup>

The ERC report indicates that having all the ingredients for a high-quality ethics program is not enough to maintain a healthy ethical environment. Readers may recall the well-publicized example of the Government Services Administration (GSA), which in 2010 received a stamp of approval from the presidential Office of Governmental Ethics based on a review of its ethics policies, training materials, and accounting records.<sup>77</sup> Unfortunately, the Office of Governmental Ethics did not identify that the GSA had recently spent a considerable sum on a conference in Las Vegas, which would later be the subject of both public outcry and an Inspector General's report that referred to the activity as "excessive, wasteful, and in some cases impermissible".<sup>78</sup> Having the key elements on paper does not a sustainable ethics program make.

Local governments who establish ethics programs without evaluating the program's success run a serious danger of being blind-sided by ethical scandal. Employees that emulate compliance with ethical principles without actually internalizing it are

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<sup>75</sup> Ibid.

<sup>76</sup> Ibid., 33.

<sup>77</sup> Timothy R. Smith, "GSA's Ethics Program Approved Just Days after Scandal-Plagued Conference," *The Washington Post*, August 5, 2012, [http://www.washingtonpost.com/politics/gsas-ethics-program-approved-just-days-after-scandal-plagued-conference/2012/08/05/b050168e-dd85-11e1-9ff9-1dcd8858ad02\\_story.html](http://www.washingtonpost.com/politics/gsas-ethics-program-approved-just-days-after-scandal-plagued-conference/2012/08/05/b050168e-dd85-11e1-9ff9-1dcd8858ad02_story.html).

<sup>78</sup> Office of Investigations, *Management Deficiency Report: General Services Administration Public Buildings Service 2010 Western Regions Conference* (Washington, D.C.: Office of Inspector General, U.S. General Services Administration, April 2, 2012), 1, <http://www.gsaig.gov/?LinkServID=908FFF8C-B323-14AD-270C38936310AEBD&showMeta=0>.

effectively practicing the politics of “as-if”: they are acting as if they are in compliance, but are well aware that their actions constitute a charade.<sup>79</sup> Although such simulation does reinforce the ethical environment to some extent, it also exposes it to serious weaknesses. Because employees in such a scenario are aware that the majority of other employees do not actually believe in the ethics program, employees may ignore ethical violations by others, or engage in their own misconduct so long as it is not immediately visible.

A solid operational framework is crucial for establishing an ethical environment: without the key elements of organizational values, postconventional reasoning, and adaptive leadership, local government employees will lack adequate tools and guidance to address ethical dilemmas. However, a framework is merely a beginning: an ethical environment can only be sustained if program is revised and enhanced based on the lessons of experience. The second half of this report will focus on case studies of ethics violations within local government, with the intent of identifying failure points and determining how similar policies can be reinforced in the future.

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<sup>79</sup> Lisa Wedeen, “Acting ‘As If’: Symbolic Politics and Social Control in Syria,” *Comparative Studies in Society and History* 40, no. 3 (July 1, 1998): 510.

## **PART TWO: LEARNING FROM PAST MISTAKES**

Every good model rests upon theory, but this theory must be tested before the model can be used as a reliable predictor. Testing is doubly useful because it can be used to refine future versions of the model. The above-cited ERC report provided valuable data by revealing common vulnerabilities in the ethical environment of local government, which are analyzed in the following chapter in order to expand upon the operational framework developed in Part Two. While it would be ideal to add another evidence source for the purposes of comparison, the ERC report is the only recent national work on local government ethics that provided sufficient detail at the time of this professional report.

Although the ERC report identifies a total of nine major risk factors for ethical environments at the local level, this report focuses on only four for reasons of brevity as well as impact.<sup>80</sup> The four cited risk factors were chosen because they provide an opportunity to highlight root causes of unsustainable ethical environments. The remaining vulnerabilities highlighted by the ERC had similar root causes to the cited risk factors, or were more descriptive in nature.

Identifying the root causes of identified ethics vulnerabilities in local government allows this report to develop recommendations which address the vulnerabilities at their source. Specifically, relevant case studies are used as a lens to analyze why such vulnerabilities may occur, and to generate solutions for local governments who wish to cultivate a more sustainable ethical environment.

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<sup>80</sup> Non-cited risks included the prevalence of local government environments that are “conducive to misconduct”, high rates of retaliation against whistleblowers, lack of employee awareness regarding ethics resources at work, a high rate of local government ethics programs that are not well-implemented, and the risk that ethics violations will damage public trust in local government. “National Government Ethics Survey,” 31–34.

### ***Identified Risks***

- Local governments experience higher rates of overall observed ethical misconduct compared to state and federal levels of government.<sup>81</sup>
  - Analyzed in Case #1, “Bluegrass Airport”
  - Root Cause: Weak controls allow misconduct to flourish unchecked.
- Conflicts of interest comprise one of three most prominent forms of ethical misconduct within local government. (The remaining two are abusive behavior and abuse of the internet, the latter of which can be more generally classified as misuse of resources.)<sup>82</sup>
  - Analyzed in Case #2, “Daniela Ochoa-Gonzalez”
  - Root Cause: Lack of knowledge regarding appropriate regulations, as well as a lack of emphasis on the impact of public perception in training materials, create environments ripe for conflicts of interest. Additionally, jurisdictional confusion over unpaid staff may exacerbate how certain officials interpret whether an action is a conflict of interest.
- Executive level management (including City Councils) are often not aware of incidents of misconduct, due to a tendency within local government to report issues to supervisors rather than hotlines.<sup>83</sup>
  - Analyzed in Case #3, “EMS Salary Error”
  - Root Cause: Managerial discretion regarding ethical misconduct is often too broad, and overlooks incentives that managers may have to suppress incidents.

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<sup>81</sup> Ibid., 31.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid., 32.

- Local governments are perceived by their employees as having weak organizational values.
  - Analyzed in Case #3, “EMS Salary Error”
  - Root Cause: Failure to routinely review organizational values and rates of ethical misconduct with employees and citizens alike weakens the overall ethical environment, reducing social controls over employees and increasing incentives for misconduct.

## Chapter Four: Case Studies

### CASE #1: WEAK CONTROLS MAY RAISE RATES OF MISCONDUCT

#### Case Overview: Blue Grass Airport, Kentucky

In February 2009, the Kentucky Auditor of Public Accounts completed an audit of the Blue Grass Airport. Although the airport was under the jurisdiction of the Lexington-Fayette Urban County Council, council members had requested that the state auditor review the airport's financial transactions and financial management procedures. (The airport had previously relied on the same private auditor to conduct its annual financial audit for over twenty years.)<sup>84</sup>

The Kentucky Auditor's report contained twenty-two separate findings, including the revelation that over the three year scope period (2006-2007), airport staff had spent more than \$500,000 of airport funds on expenses with minimal or no supporting documentation.<sup>85</sup> This amount represents about 2% of the airport's annual revenue at the time.<sup>86</sup> The former Executive Director of the airport was identified as being responsible for \$152,763.25 of the suspect transactions, including expenses such as:

- Prince Hotels, Hapuna Beach (\$3,729.31)
- Liquor Barn (\$619.88)
- Best Buy (\$451.45)
- Penzeys Spices (\$750.53)
- Hobbytown USA (\$1007.01)<sup>87</sup>

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<sup>84</sup> Crit Luallen, Auditor of Public Accounts, "Examination of Certain Financial Transactions, Policies, and Procedures of the Lexington Blue Grass Airport" (Commonwealth of Kentucky, February 25, 2009), ii, [http://apps.auditor.ky.gov/Public/Audit\\_Reports/Archive/2009bluegrassairportexamination.pdf](http://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2009bluegrassairportexamination.pdf).

<sup>85</sup> *Ibid.*, v.

<sup>86</sup> *Ibid.*, 5.

<sup>87</sup> *Ibid.*, 85-103.

Other individuals named as engaging in potential misconduct included the former Director of Operations, the former Director of Administration and Finance, the former Director of Planning and Development, the Director of Marketing and Community Relations, the Manager of Administration, the Manager of Marketing, and the former Director of Marketing.

The findings indicated that corruption was widespread among airport leadership. The ethical ramifications were summarized by the Auditor, who wrote:

“The former Executive Director established a culture of wasteful and excessive spending that provided personal benefits for himself and others through inappropriate expenditures and arbitrary personnel actions. [...] Blue Grass Airport management staff lost sight of their responsibility as stewards of a public agency to be accountable to the community they served.”<sup>88</sup>

Not only did the airport experience a significant loss in funds, but the blatant misconduct by senior management officials tarnished public perception of the airport as a local government enterprise. Over the course of the investigation, several members of the executive team resigned. A subsequent criminal investigation resulted in the indictment of key officials, including the former Executive Director.<sup>89</sup>

## **Case Analysis: Blue Grass Airport**

### ***Lack of Oversight Allows Unethical Activity to Occur***

The root cause of the Blue Grass Airport misconduct was a lack of oversight of credit card purchases and direct payments made to both the former Executive Director and senior management officials. The former Executive Director was able to approve all

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<sup>88</sup> Ibid., v.

<sup>89</sup> Rick Howlett, “Luallan Releases Bluegrass Airport Audit,” *89.3 WFPL News*, accessed March 18, 2015, <http://archives.wfpl.org/2009/02/25/luallan-releases-bluegrass-airport-audit/>; Jennifer Hewlett and Ryan Alessi, “Gobb, Three Former Airport Leaders Indicted,” *Kentucky.com*, accessed March 18, 2015, <http://www.kentucky.com/2009/10/21/984884/gobb-three-former-airport-leaders.html>.

expenditures, and although the county officials could intervene, policy did not require these officials to review purchases – nor did it require them to approve travel for the Executive Director. The former Administration and Finance Director admitted that he did not request or review documentation for any credit card purchases, and stated that all expense reports were either signed by himself or the former Executive Director.<sup>90</sup> In sum, few controls were in place to stop the former Executive Director and other management officials from abusing the public trust by using airport funds for personal expenditures.

***Minimize Risks to the Organization through Controls and Monitoring***

If the public sector was made up entirely of inherently ethical individuals, local governments would have little need of any type of organizational ethics policy. However, this scenario is not the case, as evidenced by the examples of misconduct cited in this report. Thus, in addition to maintaining an ethical environment that emphasizes appropriate behavior by employees, incorporating control activities that minimize ethical temptations is also advisable. On some level this is basic common sense. If an individual wants to reduce the probability that his or her car is broken into, the individual takes care to ensure that any valuables are removed or hidden out of sight. The key is prevention: identify risky situations ahead of time, and then devise control activities that minimize risk while not stifling operations.

Steinberg and Austern describe three important elements to consider when evaluating the likelihood of bribery: opportunity, incentive, and risk to the employee.<sup>91</sup> If the opportunity and incentive are high, but the risk is small, the likelihood of bribery – and related ethical misconduct – is at its maximum. Consider the situation from the perspective

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<sup>90</sup> Crit Luallen, Auditor of Public Accounts, “Examination of Certain Financial Transactions, Policies, and Procedures of the Lexington Blue Grass Airport,” 42–46.

<sup>91</sup> Steinberg and Austern, *Government, Ethics, and Managers: A Guide to Solving Ethical Dilemmas in the Public Sector*, 62.

of the former Executive Director of Blue Grass Airport. Like many individuals, he may have felt the desire to travel or own new technology. These desires acted as incentive. Because policy allowed the former Executive Director to effectively approve his own expenses, he also had sufficient opportunity to spend money on personal desires. Finally, due to the lack of enforced monitoring activities, there was very little risk that the former Executive Director would be caught and subsequently punished – that is, until outside intervention arrived in the form of the Kentucky Auditor.

Certain activities, by their very nature, are high risk. For example, employees who process payments from the public, and especially cash payments, are presented with an opportunity for theft multiple times a day. Employees who work in city customer service centers may have access to sensitive information that, if misused, could allow them to engage in identity fraud. Utility repairmen could tamper with electricity meters to ensuring a house receives service without a corresponding bill. Employees working in health clinics or other scenarios in which they have access to prescription drugs could steal them from the office. Many more examples exist. However, these activities are also vital for the continued operation of the local government entity – they cannot be stopped simply because they pose a high risk for fraud, waste or abuse.

Ethics training and quality leadership can minimize the incentives to engage in ethical misconduct, primarily by reminding employees of the organization's values and encouraging employees to adopt these values as their own. Again, harkening back to the postconventional moral reasoning discussed in Part One, employees that internalize the organization's ethical principles will be motivated by those principles rather than basic self-interest. However, ethics training can only partially combat incentives if the employee is highly motivated by monetary greed.

Opportunity to engage in theft or other ethical violations can be reduced through various control activities that minimize the actual scenarios in which an employee can engage in misconduct. For example, best practices for cash handling activities require clear segregation of duties: a different individual should be responsible for collecting the funds, reconciling the funds in the accounting system, and depositing the funds in the bank.<sup>92</sup> Without such controls, an employee who is simultaneously reconciling the funds and depositing them in the bank may intentionally fail to record various transactions – keeping the funds for themselves. Employees without access to the funds in question have no opportunity to illegally retain funds. Various records-based controls, such as requiring the use of serially numbered sales receipts, can also reduce the likelihood that an employee may pocket funds.

Finally, local governments can raise the risk of being caught – and thus reduce the likelihood of ethics violations – by instituting an array of monitoring activities. Management should regularly review items such as purchasing agreements, reconciliation logs, and expense approvals in order to ensure employees are following all appropriate policies. When management staff are themselves engaged in a potentially risky activity – such as claiming reimbursement for expenses – these activities should be reviewed by an individual who is senior in authority to the manager in question. Doing so prevents possible independence issues caused by a subordinate who fears contravening his or her superior’s orders.

In the case of the Blue Grass Airport, much of the misconduct could have been averted by segregating duties and ensuring appropriate monitoring activities were taking place. The former Executive Director was allowed to both make purchases and sign off on

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<sup>92</sup> Mary Taylor, “Best Practices in Cash Handling,” *Ohio Auditor of State Mary Taylor’s Best Practices*, Fall 2007, 12, [https://ohioauditor.gov/publications/bestpractices/Vol4Issue2\\_Fall2007.pdf](https://ohioauditor.gov/publications/bestpractices/Vol4Issue2_Fall2007.pdf).

his own expense reports, producing plenty of opportunity for abuse. Additionally, failure by the airport's board of directors to monitor the former Executive Director's expense purchases – by, for example, reviewing expense reports on a quarterly basis – meant that there was very little chance that the violations would be caught. Failure to institute appropriate control and monitoring activities is equivalent to leaving a platter of warm cookies unattended in an employee break room, with a small sign saying “Please Do Not Eat”. Many individuals might behave honorably, but others may succumb to temptation. Better to remove the risk by instituting appropriate safeguards from the beginning.

### **Recommendations**

By taking the following preventative actions, local governments may be able to reduce the overall incidence rate of unethical activities.

***Conduct regular departmental assessments to identify activities that carry a high risk of fraud, waste, or abuse.***

The above-mentioned “opportunity, incentive, risk” framework is a starting point in recognizing activities at high risk of fraud, waste, or abuse, but it is certainly not the only option. Risk can also be assessed by reviewing available data and identifying unusual trends, such as a sharp fall-off in ticket revenue despite record attendance. If available, prior performance and financial audits can be a valuable source of previously identified risks. Media reports, public hearings, and other venues for citizen feedback can act as barometers of where citizenry perceives (or has observed) ethical risk.

Employees are an invaluable resource in identifying risk, as they are the de-facto experts in their positions. Conducting interviews with management and front-line staff can

help the local government to identify potential loopholes and risks that may not be obvious to outside observers.<sup>93</sup>

Lastly, if the local government employs an internal auditor, his or her expertise and staff can be helpful in conducting internal risk assessments. However, the auditor cannot simultaneously and continuously audit every department, and as such, the auditor is no substitute for on-going risk assessment by managerial staff.

Identifying activities at high-risk for fraud, waste, and abuse is advantageous because doing so allows the organization to more efficiently target its preventative activities and controls. While conducting internal risk assessments consume staff hours and may require the hiring of an outside expert if no previous assessment has been conducted, local governments will find that the resulting knowledge is worth the cost.

***Design appropriate controls to reduce the risk of identified activities, and incorporate the controls in formal, written policies and procedures.***

The process of risk assessment reveals the vulnerable points of the relevant activity. Once those vulnerabilities have been identified, local governments should institute controls that are designed to neutralize, or minimize, any exploitation of said vulnerability. For example, a local government may be concerned that field staff may be using city cars for personal business, or that staff may not be making efficient use of their time in the field. The government could control for this risk by installing GPS tracking on the vehicles, and ensuring that each field staff member is assigned a particular vehicle.

When designing control activities, local governments may struggle to find the balance between controls that are too strict and controls that are too lenient. Controls that are too strict may flag innocent behavior, or may hamper efficiency to the point where the

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<sup>93</sup> Fiona Earle, "How to Conduct a Citywide Risk Assessment," *Local Government Auditing Quarterly*, Fall 2013, <http://ky-alga.civicplus.com/index.aspx?NID=268>.

cost of the control does not merit the benefit. Conversely, controls that are too lenient may allow unethical behavior to go undetected. The program evaluation field refers to these issues as inclusion and exclusion errors, respectively. Although each governmental entity should choose a level of control that fits their unique needs, it is less risky to err on the side of caution. Controls can be loosened, with no harm done other than a temporary hit to efficiency and, potentially, employee morale. On the other hand, if an entity waits to tighten controls until after a major ethical violation occurs, the public trust has been needlessly damaged.

Local governments looking for resources in developing appropriate controls may wish to consult the Government Accountability Office's 2014 *Standards for Internal Control in the Federal Government*, commonly referred to as the "Green Book". The Green Book is used by state and local governments as well as at the federal level, and provides a comprehensive overview of how to build an appropriate internal control environment. Although the Green Book is similar to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) risk assessment framework, which is frequently employed in the private sector, the Green Book has been specifically designed with public sector activities in mind.

Controls are ineffective if they are not actually put into place. In addition to designing control activities, local governments should produce detailed policies and procedures describing each activity and when it should be occur. These documents should be written in such a way as to act for reference tools for employees. Staff who are required to conduct these control activities should be trained on the process, and required to sign statements attesting to their knowledge of the appropriate procedure.

Designing and implementing controls for high-risk activities benefits local governments in two ways: opportunities to commit ethical violations are reduced, and the

probability that ethical violations will be quickly identified is increased. Accordingly, the impact of any given ethical violation may be substantially reduced by being caught and appropriately handled early on. However, implementing controls may reduce perceived efficiency of operations – for example, two employees may be required to count cash receivables rather than one. Local governments should select controls that appropriately balance efficiency and risk reduction.

***Monitor controls and risk areas to protect against employee misconduct.***

Local governments should protect areas of highest risk by ensuring that these areas are routinely monitored by an outside party. Independent party does not necessarily mean an auditor or third-party firm, although that may be preferable in some circumstances. Rather, it may mean that the financial services department conducts a quarterly spot-check of a department's internal expense approvals, or that a manager conducts unannounced checks of employees' cash drawers or vault deposits. Regular monitoring activities improve the odds that the local government will catch any ethical violations that fly under the radar of existing controls – or that the government will quickly recognize if certain controls are not being enforced. Consider how quickly the Blue Grass Airport scheme would have ended if the airport's board had examined the former Executive Director's first set of questionable expenses more closely.

Although there is no guarantee that monitoring activities will catch every indiscretion, the knowledge of observation can introduce a benevolent version of Foucault's theory of panopticism. A Panopticon, invented by Jeremy Bentham, is a prison design that consists of individual cells ringed around a central observation tower. Each individual prisoner can only see the tower, but the observers in the tower can see every prisoner. The tower is additionally designed such that the prisoners cannot tell if someone

is or is not in the tower. Foucault argues that the threat of surveillance – whether or not it is actually present – dispenses with the need for constant monitoring. Because inmates are constantly aware that they *might* be under observation, they behave as if they are constantly observed, effectively becoming their own minders:

“So to arrange things that the surveillance is permanent in its effects, even if it is discontinuous in its action; that the perfection of power should tend to render its actual exercise unnecessary; that this architectural apparatus should be a machine for creating and sustaining a power relation independent of the person who exercises it; in short, that the inmates should be caught up in a power situation of which they are themselves the bearers.”<sup>94</sup>

Monitoring activities can thus act as a control in and of themselves, reducing the risk of unethical behavior by employees. However, this threat must be credible: if employees do not see evidence that monitoring activities occur, they are likely to discount the possibility of being monitored at any particular point in time.

## **CASE #2: CONFLICTS OF INTEREST MAY EMERGE FROM CONFUSION, LACK OF CONCERN FOR PUBLIC PERCEPTION**

### **Case Overview: Daniela Ochoa-Gonzalez**

In April 2014, the Office of the City Auditor for Austin, Texas published a report stating that a City Commissioner had violated the city’s policy against conflicts of interest.<sup>95</sup> Specifically, the report stated that the Commissioner (Daniela Ochoa-Gonzalez) had been employed by a private company which frequently appeared before her commission, that Ochoa-Gonzalez did not disclose this conflict of interest to city staff, and that Ochoa-Gonzalez participated in discussions or votes that involved the entity with

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<sup>94</sup> Michel Foucault, “Discipline and Punish, Panopticism,” in *Discipline & Punish: The Birth of the Prison* (New York: Vintage Books, 1977), 195–228, <http://foucault.info/documents/disciplineandpunish/foucault.disciplineandpunish.panopticism.html>.

<sup>95</sup> City Auditor’s Integrity Unit, “Report on Allegations Involving a Zero Waste Advisory Commissioner” (Office of the City Auditor, City of Austin, Texas, April 18, 2014).

which she had a substantial interest. The latter two activities are specifically prohibited by Austin municipal code (§2-7-64 and §2-7-63 (A)).

The report quickly became controversial, and set off a long chain of consequences. Ochoa-Gonzalez was asked to resign from the Zero Waste Advisory Commission by her appointing City Councilmember, Mike Martinez.<sup>96</sup> The University of Texas, which had recently offered Ochoa-Gonzalez a position, also asked her to resign.<sup>97</sup> However, Ochoa-Gonzalez and the company with which she had a conflict of interest quickly marshalled a defense, securing legal representation and statements of public supports from both Ochoa-Gonzalez' fellow commissioners and prominent environmental activists in Austin.<sup>98</sup> Ochoa-Gonzalez' team questioned the conclusions of the City Auditor's Integrity Unit, who had undertaken the investigation, and demanded a public apology. While Ochoa-Gonzalez did not deny working for the company in question, her representatives argued that her actions did not rise to the level of a conflict of interest.

Ochoa-Gonzalez ultimately received a formal apology in the form of a unanimous resolution from the Austin City Council, which expressed its regret that the City had not followed the appropriate process for investigating the allegation, and thanked Gonzalez for her service to the community. (Notably, the resolution does not state that Gonzalez' actions did not constitute a conflict of interest.) The resolution also states that Council "does not accept" the City Auditor's report and directed the Auditor to place a notice on the report –

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<sup>96</sup> "Austin Waste Commission Member Violated Ethics Rules, Auditor..." accessed March 5, 2015, <http://www.mystatesman.com/news/news/local-govt-politics/austin-waste-commission-member-violated-ethics-rul/nfkCz/>.

<sup>97</sup> "Then There's This: The 'Witch Hunt' of a Commissioner," accessed March 5, 2015, <http://www.austinchronicle.com/news/2014-05-30/then-theres-this-the-witch-hunt-of-a-commissioner/>.

<sup>98</sup> Ibid.

or any reference to the report – stating that “this Report has not been accepted by the Austin City Council” and citing the relevant resolution.<sup>99</sup>

### **Case Analysis: Daniela Ochoa-Gonzalez**

The Daniela Ochoa-Gonzalez controversy arose for two major reasons: lack of understanding of conflicts of interest and jurisdictional confusion.

#### ***Confusion Over the Role of Public Perception in Conflicts of Interest Creates Ethical Risk***

None of the main parties disputed the facts as recorded in the report. Ochoa-Gonzalez admitted to working for the private company, and there is video evidence of her participation and votes on the relevant issues. Thus, the ensuing controversy revolved around what actually constituted a conflict of interest, rather than a denial that activity had ever occurred. Indeed, the lawyer representing the private company that Ochoa-Gonzalez worked for stated that, if the report’s standard of conflict of interest were upheld, at least two other members of the same commission could be cited for having conflicts.<sup>100</sup> Other individuals highlighted Ochoa-Gonzalez’ declarations that there were “no improper motives” behind her work, implying that a conflict of interest could not occur if no one meant any harm.<sup>101</sup>

However, an employee with good intentions may still commit an ethics violation. Breaking procedure to help someone or something still results in a violation of the rules. Repeated procedural infractions undermine the ethical structure of local governments, which may eventually lead to more pervasive misconduct. Moreover, intentions mean little if the public perceives the activity to be unjust. Recall the earlier discussion of how public

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<sup>99</sup> City Council, “Resolution NO. 20141016-024” (City of Austin, Texas, October 16, 2014), <http://www.austintexas.gov/edims/document.cfm?id=220265>.

<sup>100</sup> “Then There’s This.”

<sup>101</sup> “Austin Waste Commission Member Violated Ethics Rules, Auditor...”

trust is empirically linked to the public's perception of government. Good intentions cannot restore public faith if the public perceives the government's activities as deliberately undermining the public interest.

Conflict of interest provisions are written into codes of ethics in order to prevent both actual ethical misconduct and the *perception* of ethical misconduct. All city employees should be trained to disengage from any situation in which a conflict of interest might be possible or perceived, regardless of their intentions.<sup>102</sup> Ochoa-Gonzalez' representation argued that the matters Gonzalez voted on did not meet the threshold of substantial or direct relevance to her private employer, which – if true – would have meant that Ochoa-Gonzalez did not violate City Code. From an ethical perspective, however, it does not matter: if there is a chance that the public might interpret one's actions as violating the public trust, it is preferable to recuse oneself entirely.

### ***Jurisdictional Confusion Creates an Inconsistent and Inefficient Ethical Culture***

Careful readers of the City Council's resolution apologizing to Ochoa-Gonzalez will note that the Council is apologizing not for falsely accusing Ochoa-Gonzalez, but rather for not following the appropriate process. During the debates between Ochoa-Gonzalez, the private company's representatives, and City staff, it was discovered that City Code did not grant the City Auditor's Integrity Unit explicit authority to determine whether or not a City employee or official had violated the city's code of ethics. Rather, such determinations were judged to be within the sole jurisdiction of the Ethics Review Commission. The Ethics Review Commission did not formally approve the report against Ochoa-Gonzalez prior the report being issued, for which Council apologized.

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<sup>102</sup> Such training should emphasize that that voting against an item that benefits an entity with which an employee has a substantial interest still constitutes a conflict of interest violation.

Such jurisdictional authority was unfamiliar to the Ethics Review Commission, which consists of citizen volunteers and which typically hears matters involving lobbying, campaign finance, and public accusations of misconduct involving city executives and Council. The Ethics Review Commission had no interest in investigating matters involving ordinary city employees, due to both the volume of allegations and the complexity of the typical investigatory process.<sup>103</sup> The Commission worked with the Integrity Unit to re-write city code such that the Ethics Review Commission was specifically absolved of jurisdiction for employees covered by the municipal service code.<sup>104</sup> However, in the interim between the official revision of city code on 1/29/2015 and the initial publication of the Ochoa-Gonzalez report, the Integrity Unit was unable to issue any reports due to concerns over proper jurisdiction.

Although many of the issues involving the Ochoa-Gonzalez report and resulting jurisdictional controversy are specific to the City of Austin, confusion over to whom the ethics code applies and which entity represents the appropriate body of judgment are generalizable to many local governments. Ethics violations that are committed by employees are generally addressed by ethics codes, but what about violations committed by volunteers or other unpaid staff? Are these individuals subject to the same consequences and expectations? What about hourly staff versus salaried staff? If the designated jurisdictional body consists of City employees, who determines whether or not a city executive or city councilmember is guilty of an ethics violation?

Failure to clarify these questions of coverage and jurisdiction create confusion amongst city employees and the public alike. If individuals feel as if the city ethics code is

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<sup>103</sup> Mary Dory, "Personal Notes from Ethics Review Commission Hearing," November 12, 2014.

<sup>104</sup> City Council, "Ordinance NO. 20150129-021" (City of Austin, Texas, January 29, 2015), <http://www.austintexas.gov/edims/document.cfm?id=225438>.

being inconsistently applied, they may question whether or not it is equitable, and consequently may not apply the organization's espoused ethical principles in their everyday behavior. Jurisdictional confusion can also delay the efficient review and processing of ethical violations, resulting in delayed consequences. Without a clear association between cause and effect, employees may wrongly interpret the organization as failing to uphold its own ethical culture. Finally, questions regarding coverage and jurisdiction, if allowed to evolve into outright organizational conflict, signal that the organization is unsure of its own ethical principles and procedures. Local governments cannot expect employees to internalize proper ethical conduct if the organization has internal disputes regarding the definition of appropriate conduct.

### **Recommendations**

***Develop a clear and comprehensive conflict of interest policy that defines (1) what constitutes a conflict of interest, (2) when conflicts should be disclosed, and (3) when an employee or official should recuse him or herself.***

City officials and employees should be intimately familiar with what a conflict of interest is from both a personal and financial perspective, so that conflicts of interest are not overlooked due to lack of information. Setting specific criteria for disclosure ensures that conflicts are disclosed and reduces the possibility that valid conflicts will be dismissed as insignificant by the relevant employee. Similarly, outlining definite situations that warrant recusal removes the burden and uncertainty of the decision from the employees' shoulders, by providing firm guidance from the organization itself.

The conflict of interest policy should be an exception to the post-conventional reasoning discussed earlier in this paper: this is a circumstance where one wishes to set

explicit boundaries at an organizational level.<sup>105</sup> Accordingly, the conflict of interest policy is an important tool through which the organization can communicate its ethical principles.

While a detailed conflict of interest policy has many advantages, as outlined above, crafting such a policy may well require significant city resources and legal expertise. However, once an organization has committed the resources necessary to produce a robust conflict of interest policy, it can serve as an asset for many years to come.

***Provide annual training to Council members, commissioners, and key employees regarding both the purpose and details of the conflict of interest policy, and provide avenues for individuals with questions and concerns.***

Council-members and commissioners should receive a thorough training regarding conflicts of interest followed by annual refresher courses, due to these individuals' frequent decisions involving and affecting external parties. Additionally, city employees with significant decision-making capacity involving external parties, such as those involved with contracting or purchasing, should receive the training.

As discussed above, the annual training should emphasize not merely the facts of the policy, but also the reason for its existence, with a heavy emphasis on the importance of public perception. By emphasizing the rationale behind the conflict of interest restrictions, city employees and officials will be in a better position to recognize and respond to conflicts of interest.<sup>106</sup>

The local government should also maintain a means through which employees and officials can receive prompt advice regarding conflict of interest concerns, *prior* to an ethical violation actually occurring. For example, the City of Austin maintains an Ethics and Compliance team that answers any hypothetical question that an employee might

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<sup>105</sup> Michael W. Manske and H. George Frederickson, "Building a Strong Local Government Ethics Program," *Public Management (00333611)* 86, no. 5 (June 2004): 19.

<sup>106</sup> *Ibid.*

pose.<sup>107</sup> Officials who are questioning whether or not they should recuse themselves from a particular vote can protect themselves, and the city, by seeking advice before the vote actually occurs.

By undertaking the preventative measures of regular training and accessible, situation-specific advice, local governments may reduce the rate of conflict of interest violations. While supporting training and advice will require additional staff hours, the cost may be fairly minimal after the initial training materials have been created.

***Identify who is covered by the City Code of Ethics, and to what extent.***

Local governments may find it difficult to enforce appropriate consequences if the written ethics code omits a major relevant group. For example, if an entire section is written using the language “City employees”, the section may be legally interpreted as not applying to volunteers or contracted employees. If a volunteer violates a portion of code that does not obviously reference volunteers, confusion may erupt as to how the organization should respond. To prevent such uncertainty, local governments may wish to ensure that their code of ethics adequately addresses that following major categories:

- City councilmembers
- Unpaid volunteers, including commissioners as applicable
- City executives, who may be held to more stringent requirements than non-executives
- Salaried employees
- Hourly employees
- Temporary and/or contracted employees
- Employees belonging to applicable civil services and unions.

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<sup>107</sup> Law Department, “Ethics and Compliance,” *The Official Website of the City of Austin*, March 10, 2015, <http://austintexas.gov/departments/ethics-and-compliance>.

Writing such an inclusive code may require many hours of negotiation with relevant parties, and particularly so if civil service and union groups are involved. Yet investing the resources to do so may result in more efficient handling of ethics violations down the road. The organization may be able to respond more quickly to ethical infractions, signaling to employees and the public alike that misconduct incurs swift consequences.

***Define the organizational entities that have jurisdiction to determine ethics violations, and provide these entities with the appropriate resources to conduct investigations.***

Local governments may wish to grant jurisdiction to one entity, or to portion responsibility out amongst various groups depending on the nature of the violation and the individuals involved. For example, the City of Austin Ethics Review Commission felt comfortable ceding jurisdiction over employees covered by the municipal civil service, because these employees had access to extensive due process hearings through the Municipal Civil Service Commission.<sup>108</sup> Conversely, the Integrity Unit did not wish to investigate allegations regarding the Mayor and Council, due to perceived independence issues.<sup>109</sup> (Independence issues will be discussed more extensively in Case #3.)

In addition to assigning jurisdiction to specific entity or set of entities, the local government must also provide this entity with sufficient resources to conduct investigations. Gathering appropriate evidence can involve extensive data analysis, lengthy background research, and the interrogation of potential wrong-doers.<sup>110</sup> Volunteer commissions may lack the time and techniques to complete such analysis, and particularly so if the volume of allegations is high. Accordingly, local governments may wish to consider assigning at least one full-time staff member in support of ethics investigations.

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<sup>108</sup> Dory, “Personal Notes from Ethics Review Commission Hearing.”

<sup>109</sup> The Office of the City Auditor reports to the City Council, not the City Manager. Ibid.

<sup>110</sup> This assertion is based on personal experience as a former audit investigator for a large local government.

Assigning jurisdiction over ethics violations ensures that the local government can investigate ethical violations with a minimum of internal confusion and delay, and requires few resources. However, providing the assigned entity with sufficient resources may be quite costly from a financial perspective depending on the size of the organization and frequency of reported violations. Smaller local governments without the economies of scale to support a full-time ethics unit may find it more efficient to outsource investigations to a third party.

**CASE #3: BROAD MANAGERIAL DISCRETION MAY LIMIT ORGANIZATIONAL AWARENESS OF AND RESPONSE TO ETHICAL ISSUES**

**Case Overview: EMS Salary Error**

In August 2004, many employees within the Austin Emergency Medical Services (EMS) department received salary adjustments as a result of a recent market study. One particular employee, deemed “John Doe” for the purposes of anonymity, received an increase to his hourly wage that was mistakenly high. However, like many other EMS employees, Doe had received notification from EMS Human Resources that his salary would be increasing. Doe had also increased his work week from forty hours to fifty-six hours during this time period, which would have increased the size of his paycheck regardless of the wage error. Thus, Doe did not recognize his pay increase as a mistake.<sup>111</sup>

In 2011, other employees who held the same position as Doe complained about the pay discrepancy to EMS management. EMS identified the error and subsequently reported it to the city’s corporate human resources department (HRD). In early 2012, HRD informed EMS that Doe’s wage needed to be corrected to the appropriate level. However, in December 2012, EMS notified HRD that the error had still not been corrected. The wage

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<sup>111</sup> City of Austin, Texas, *May 28, 2014 Audit and Finance Committee*, 2014, <http://austintx.swagit.com/play/05282014-644>.

was finally returned to its accurate level in February 2013. The director of HRD later informed the Austin City Council's Audit and Finance Committee that Doe had been earning approximately \$83,000 in base annual salary, but was only entitled to approximately \$60,000.<sup>112</sup>

The city's legal department informed EMS and HRD that the city could only rely on a two-year look-back period in which to recover the extraneous wages. This amount added up to approximately \$68,000. (A city councilmember estimated the total amount of overpayment to Doe over the eight year period as \$230,000.) When presented with this request, Doe engaged legal counsel. The city ultimately negotiated a settlement wherein Doe repaid the City \$6,240. Additionally, Doe transitioned into a new position within the city's Homeland Security department, earning the same hourly rate that he had (erroneously) earned within EMS.<sup>113</sup>

The Austin City Council did not learn of the salary overpayment until May 2014, when a local news outlet obtained copies of various documents relating to the legal settlement and departmental investigations.<sup>114</sup> Although the City Auditor had received an allegation regarding the issue in 2013 and begun an investigation, the Auditor chose not to release the report, rationalizing that the various departments had already taken corrective action. Specifically, the Auditor noted that between 2013 and the City Council becoming aware of the error in 2014, EMS and HRD collaborated to identify any other historical salary errors and to institute new controls designed to avoid future errors.<sup>115</sup>

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<sup>112</sup> Ibid.

<sup>113</sup> Ibid., 28.

<sup>114</sup> "Clerical Error Causes City of Austin to Overpay EMS Employee by \$200,000," accessed March 19, 2015, <http://kut.org/post/clerical-error-causes-city-austin-overpay-ems-employee-200000>.

<sup>115</sup> City of Austin, Texas, *May 28, 2014 Audit and Finance Committee*.

## **Case Analysis: EMS Salary Error**

The EMS Salary Error case is notable not so much for the salary overpayment itself, which stems from an administrative error, but for the significant financial consequences to the city. Failure to take immediate action on the issue once it was brought to the light, coupled by a subsequent failure to report the issue to proper levels of management, resulted in an expensive ethical issue which cost the City of Austin between \$62,000 and \$224,000 depending on one's perspective.

### ***Failure to Act May Constitute Ethical Misconduct***

The City of Austin executives involved in the Salary Error case would likely contest the notion that any ethical misconduct was present. The department directors of HRD and EMS, as well as the Assistant City Manager responsible for EMS, repeatedly stated to the Audit and Finance Subcommittee that they did not believe fraud or criminal activity occurred. In fact, the Assistant City Manager characterized as error as an administrative issue, one of the thousands that city executives deal with on a yearly basis.<sup>116</sup>

However, this report identifies at least two issues of ethical concern. Firstly, failure to act swiftly after the salary error was identified effectively deprived the city of the opportunity to reclaim thousands of dollars, given that the city was limited to a two-year recovery period. The loss of public dollars on this scale can be interpreted as waste, or a grossly inefficient use of city resources.

Secondly, the failure of the then-City Auditor to issue a report – thereby notifying Council of the error and resulting activities – constitutes a failure of the Auditor to fulfill one of his primary duties to Council and the public. The position of the City Auditor is designed to be organizationally independent of city management, so that the Auditor can

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<sup>116</sup> Ibid.

act as an unbiased agent in reporting findings from performance audits and ethics investigations to Council and the public. By failing to publicly report the results of the Salary Error case, the Auditor may not have violated a specific section of city code, but he did violate the public trust.

***Failure to Alert Executives May Derive From Independence Concerns***

Failure to recognize and report ethical violations to the appropriate body is not unique to Austin. In fact, the Ethics Resource Center report identified that local government employees had a significant reporting problem with regards to ethical issues: the employees either did not report the issue at all, due to fear of retaliation, or preferred reporting issues to their immediate workgroup supervisors.<sup>117</sup> While reporting ethical issues to anyone is preferable to remaining silent, reporting issues to supervisors is not ideal due to issues of independence.

The Generally Accepted Governmental Auditing Standards (GAGAS) require auditors to maintain independence of mind and independence of appearance in all governmental auditing work. Independence of mind is fairly self-explanatory: the auditor must be able to conduct her work without compromising her professional judgment due to personal ties, retaliation concerns, or other influences. Similarly, independence of appearance is secured if a reasonable third party could conclude that the auditors in question were not unduly influenced or biased in the performance of their work. If independence cannot be guaranteed, the auditor should either recuse herself from the audit, or develop an appropriate safeguard in consultation with her supervisor.<sup>118</sup>

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<sup>117</sup> “National Government Ethics Survey,” 32.

<sup>118</sup> Comptroller General of the United States, “Government Auditing Standards: 2011 Revision (Supersedes GAO-07-731G)” (United States Government Accountability Office, December 2011), 27, 32, <http://www.gao.gov/products/GAO-12-331G>.

Although auditors make up only a small fraction of local government employees, one can use the logic of independence to demonstrate why reporting issues to supervisors can create opportunities for further ethical misconduct. Supervisors often do not have independence of mind when it comes to allegations of ethical misconduct within their workgroup. For one, the supervisor may have already condoned the misconduct, and thus cannot report or investigate the allegation without compromising himself. Even if the supervisor is not directly involved, he may experience an incentive to cover up the misconduct in order to avoid attracting negative attention to his workgroup.

Independence of appearance is an even greater concern. Many outside groups, including the public, may be highly skeptical that a supervisor can adequately and neutrally address ethical violations within his workgroup. Indeed, during the 5/29/2014 Audit and Finance Committee meeting that addressed the EMS salary overpayment issue, councilmembers suggested that senior city executives deliberately did not notify Council of the salary error in order to avoid possible repercussions.<sup>119</sup> The Mayor Pro Tem also pointed out that, regardless of intention, the public perceived the executives' actions as a cover-up attempt.<sup>120</sup> Once again, one can see evidence that potential public perception – and resulting levels of trust – must be considered with extreme care in determining appropriate courses of action.

Certainly, it is implausible and impractical to prohibit employees from reporting ethical concerns to their supervisors. Indeed, many issues may be administrative in nature

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<sup>119</sup> Such suspicions would not be without precedent; City Manager Marc Ott was accused of suppressing a damning external report on the city's ethical environment in 2013, while in 2015 the city was accused of suppressing a blistering external evaluation of its Planning and Development Report. "Controversial Zucker Report Released on Austin's Planning....," accessed March 19, 2015, <http://www.mystatesman.com/news/news/local/controversial-zucker-report-released-on-austins-pl/nkQPZ/>; "Did Ott Hide Ethics Study From Council?," accessed February 16, 2015, <http://www.austinchronicle.com/news/2013-05-17/did-ott-hide-ethics-study-from-council/>.

<sup>120</sup> City of Austin, Texas, *May 28, 2014 Audit and Finance Committee*.

or negligible in content, and are consequently best dealt with at the supervisor's level. However, local governments should also institute reporting requirements and mechanisms that ensure issues of sufficient scale or sensitivity are reported to appropriate public officials and executive management. In doing so, senior management can intervene if potential independence concerns are raised, while simultaneously developing an accurate database of ethical issues throughout the city.

***Suppression of Ethical Violations Hampers Organizational Integrity and Responsiveness***

Failure to transparently communicate ethical violations and their associated outcomes not only impacts public perception, but also damages employees' perception of the local government's values. Additionally, without accurate knowledge of rates of ethical misconduct, the local government will be unable to efficiently identify and respond to areas of vulnerability.

If employees report ethical misconduct to supervisors, and the misconduct is not handled in a way that reflects the ethical principles of the organization, the employees may lose faith in the local government's commitment to ethics. Negative reactions may derive from a variety of causes. If the supervisor retaliates against the employee, the employee receives a very clear message that misconduct is not only tolerated, but that attempts to create change are met with punishment. If the supervisor ignores the misconduct, or fails to communicate the disposition of the issue to the reportee, the employee may believe that the organization is failing to uphold its own stated values. As discussed throughout this report, if an employee perceives organizational ethics and values to be weak, she is less likely to incorporate these criteria when making her own ethical decisions. At the very least, she may be less likely to report issues when they occur, or to mentor new employees in the values of the organization. Thus, repressing reports of ethical misconduct such that

employees, executive management, and the public are not made aware of the violations – or their outcomes – damages the ethical environment by causing employees to reject the organization’s credibility.

Stifling reports of ethical violations has a second, equally important consequence: if city executives are not aware of relevant violations, any organizational trend analysis is incomplete, at best.

The ethics office of a given local government should attempt to gather as many data points relating to ethical misconduct within the organization as possible. Relevant data would include:

- The frequency of substantiated misconduct, by type
- The rate of allegation to substantiated violation, by type
- Information regarding disposition, by type

The ethics office or other appropriate body could use this information to develop an in-depth understanding of the living ethical environment within the city. Perhaps the Public Works department experiences an unusual number of violations regarding misuse of city resources, or the Planning and Development Department has the highest number of reported abuses of position. Meanwhile, the Parks and Recreation Department is a model of ethical virtue, with low rates of every type of misconduct.

Such knowledge could be used to deliver targeted trainings, assess risk more accurately, and to provide the public with a transparent accounting of the city’s ethical state. In doing so, local governments can reaffirm their commitment to the public trust while conducting on-going, efficient internal examinations of its ethical environment.

## **Recommendations**

*Require city employees to report ethical issues that meet certain criteria to a pre-determined body, such as the City Council or ethics office, and specify this criteria in a written policy or city code.*

Many cities have requirements that purchases above a certain amount, such as \$50,000, must be sent to the City Manager or City Council for approval. Similarly, local governments can establish triggers that would require ethical violations to be reported to the appropriate body. Some local governments may prefer that all ethics issues are automatically reported to the ethics office, whereas others may establish certain quantitative thresholds. For example, administrators may decide that allegations that someone is checking personal social media on city computers are not worth referring the ethics office, unless the employee in question is exceeding a certain number of hours. However, the same administrators may decide that any allegation regarding abuse of position or conflict of interest should be reported to the central body. Such decisions ultimately depend on the values and priorities of the local government in question.

Whatever the organization's choice, the reporting criteria should be specified in a written policy, so as to ensure consistent understanding throughout the organization. Furthermore, this policy should be published and made available to the public, so that citizens can understand and provide feedback on the reporting policy.

Setting reporting criteria limits management discretion, which is both advantageous and disadvantageous. Local governments may be more confident that it is aware of the universe of ethical violations and trends, but morale may suffer under the assumption that managers are not trusted to resolve ethical issues. Local governments may wish to be adopt a flexible attitude towards reporting criteria in the initial stages in order to establish an appropriate blend of discretion and transparency.

***Establish an anonymous reporting avenue to reduce concerns of retaliation and centralize reporting.***

Employees may not wish to report issues to their supervisors for fear of retaliation. Conversely, employees may be dissatisfied with the way that their department is handling a particular ethics violation, and may want to blow the whistle to an ethics office or the equivalent. Establishing an anonymous hotline or online reporting form allows employees and citizens alike to make reports without formally associating themselves with the complaint – although informants should always be given the option of including identifying information.

Anonymous hotlines have the benefit of achieving higher rates of reported issues. However, some individuals may take advantage of the anonymity to make untruthful reports. Local governments can minimize the impact of vindictive reports by adopting a confidential approach to investigations of ethical misconduct. Investigations, and alleged wrong-doers, should not be made public unless there is a preponderance of evidence supporting the allegation of misconduct.

***Publish statistics regarding reports of ethical misconduct, findings, and dispositions on a regular basis.***

In the interests of transparency and demonstrating its commitment to the public trust, the local government should compile statistics from the reporting mechanisms on a regular basis and release them to the public. Doing so ensures that employees and the public are aware of ethical trends within the organization. Additionally, public reports may provide added incentive for the entire organization to hold itself accountable regarding the ethical environment. While the organization may receive negative feedback from the public when incidents of misconduct are publicized, the effort at transparency may also garner public trust.

## CONCLUSION

The range of topics covered in this professional report provide a framework to help local governments create and sustain an ethical environment. The initial section discussed the importance of ethics from an efficiency perspective, and argued that financial resources and the public trust are best secured through a strong ethical environment. The remainder of the first half of the report developed an operational framework that local governments can use to support their ethical environment, using an array of theories regarding ethics, values, and ethical decision-making responsibilities. Finally, the second half of the paper analyzed evidence and case studies to identify ethical vulnerabilities common to local government, and identified policy recommendations that can help local governments reinforce their ethical culture for the long-term.

Although this report has referenced a variety of specific theories and recommendations, it has stopped short of issuing a universal prescription for ethics in local government. Each entity must shape and refine its own ethical environment based on that entity's unique risks, resources, and stakeholder requirements. However, a review of each theory and recommendation mentioned in this report reveals five best practices that summarize the major analytic points of the report, and that can be tailored to the specific needs of any local government. Consequently, the below themes would form an excellent basis of a local government's approach to creating, and sustaining, its ethical environment.

- *Respect the public trust at an organizational level.*
  - Without respect for the public trust, and respect for the unique responsibility of government towards its constituents, any attempt at developing or sustaining an ethical environment is destined for failure. The primary duty of the government, at any level, is to serve

citizens: without acknowledgement of this duty, the ethical environment cannot help the organization to achieve its primary mission. If the organization as a whole does not commit itself to the public trust, it cannot assume its employees will do so.

- Relevant Sections:
  - The Value of Ethics
  - Ethics, Values, and Wicked Problems
- *Develop an organizational culture with a defined set of ethical principles, and empower employees with the responsibility to make the right decision.*
  - Organizational culture and principles prevent local government from dissolving into the chaos of individual values. However, employees should be trained and supported in making their own ethical decisions, using organizational values as a guiding force. Doing so amplifies the power of the organizational culture, allowing employees the flexibility to solve complex issues while still protecting the ethical environment.
  - Relevant Sections:
    - Balancing Organizational Principles and Employee Judgment
    - Leaders, Followers, and the Responsibility for Ethical Decision-Making
- *Defend the environment by removing opportunities for temptation.*
  - Local governments can reduce opportunities for ethical misconduct to occur by conducting regular risk assessments and implementing appropriate control and monitoring activities.

- Relevant Sections:
  - Case #1: Weak Controls May Raise Rates of Misconduct
- *Recognize the power of public perception.*
  - Intentions mean little in the face of public wrath. Local governments should design policies, procedures, and trainings with an eye towards how actions may be potentially misinterpreted by the public.
  - Relevant Sections:
    - Case #2: Conflicts of Interest May Emerge From Confusion, Lack of Concern for Public Perception
- *Remain transparent when things go wrong.*
  - No organization is perfect. By encouraging employees to report ethical issues, and by publishing statistics regarding the organization's ethical environment, the local government will demonstrate to employees and the public that it is committed to constant improvement of its ethical environment.
  - Relevant Sections:
    - Case #3: Broad Managerial Discretion May Limit Organizational Awareness of and Response to Ethical Issues

In conclusion, this report argues that sustaining an ethical environment is essential for local governments that are dedicated to providing optimal public service. Public service is a commitment not only to meeting the material needs of citizens, but also to honoring the faith that citizens have placed in government. The practice of ethics is admirable in their own right and can protect already scarce resources, but their primary function is the

protection of the public trust. Local governments have a uniquely immediate relationship to their constituents, both through the nature of their services and the accessibility of citizen participation. If local governments act in an unethical manner, citizens take note, and the public trust is diminished. Violation of the public trust is a violation of the fundamental social contract between government and citizen, and should be avoided at all costs. By incorporating the policy recommendations and best practices identified in this report, local governments can build a more sustainable ethical environment and ensure they are able to protect the public trust to the best of their ability.

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## **Vita**

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In her (infrequent) spare time, Mary enjoys anthropomorphizing her two cats and attempting to garden. She also derives great joy from tormenting her husband, who happens to be an economist, with debates regarding the differences between policy theory and practice.

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This report was typed by the author (Mary Dory).