

ISSUES IN ACCOUNTING EDUCATION
Vol. 20, No. 1
February 2005
pp. 81-97

Compliance with Title IX at Kingston State University: A Case Study on Cost Allocation and Ethical Decision Making

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ABSTRACT: We present a case that focuses on the allocation of costs between men's and women's sports. At issue is whether large portions of indirect costs can or should be allocated to women's sports to keep a university in compliance with Title IX, the federal law promoting gender equity in collegiate athletics. Students are instructed to use an ethical decision-making model when addressing the cost allocation issue and deciding whether it is ethical for accountants to "play" with numbers to achieve certain objectives. The cost allocation alternatives generated by students are appropriate for managerial accounting courses at both the undergraduate and graduate levels. The case also helps students to develop a systematic approach when solving ethical dilemmas. Students are required to identify potential stakeholders of the decision to reallocate costs and to assess the interests of the different stakeholders. After developing potential alternatives and determining how each decision could affect the stakeholders, students must make a cost allocation decision that is consistent with the fundamental qualities of the accounting profession—honesty, competence, objectivity, and integrity. In addition to gaining exposure to cost allocation methods and ethical decision making, students are exposed to several core educational competencies identified in the AICPA Core Competency Framework (AICPA 1999).

INTRODUCTION

In this case, a hypothetical university, Kingston State, is trying to meet federal guidelines with respect to gender equity, notably compliance with Title IX. Title IX is a comprehensive federal law that states, "No person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity receiving Federal financial assistance" (United States Code 1972, 20 U.S.C. § 1681). The law covers all educational institutions, including primary and secondary schools, as well as colleges and universities. Although commonly associated with athletics, Title IX applies to all aspects of education, including admissions, access to vocational programs, financial assistance, and employment. The law protects all individuals from gender discrimination, but a primary goal of the law is the elimination of barriers commonly faced by women, the gender more often facing obstacles in educational environments. In this case study, we limit our discussion to a single Title IX issue, gender equity in collegiate athletics.

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We acknowledge the helpful suggestions of the reviewers, David Bean, Richard Fern, Julia Higgs, Jim Kohlmeier, Dennis O'Reilly, and participants at the Seventh Symposium on Ethics in Accounting and 2002 Southeast Regional Meeting.

TITLE IX CONTROVERSY

Without a doubt, Title IX is controversial. Advocates argue that Title IX is a great success and has been the impetus for significant social changes in the United States, although they argue full compliance with Title IX is still years away (Suggs 2002). They cite statistics that show the number of female high school athletes has increased from 294,000 in 1972 to 2.8 million in the 2000–2001 academic year, an increase of over 850 percent. Likewise, female collegiate athletes increased nearly 600 percent during the same period (Rosen 2002). In addition, women were offered an average of 5.6 teams per college in 1971, but by 1996, that figure had increased to 9.8 teams per university (Suggs 2002; Wulf 1997). Proponents of Title IX attribute this phenomenal growth to mandates set to enforce compliance, which has significantly shifted resources from men's to women's programs.

Opponents of Title IX argue that while the intention of the law is good, enforcement of the guidelines used to ensure compliance frequently results in reverse discrimination. Since Title IX was implemented, for every female added to athletic rosters nationally, four males have been dropped, representing approximately a 10 percent (or 20,000) net reduction in male participation in collegiate athletics (Kocher 1998). In addition, opponents of Title IX argue that equity in sports is based on faulty criteria. First, given that men have a much greater interest in sports than women makes equity in athletics an abstruse concept (McBride et al. 1999). While 20 percent of men can be described as sports enthusiasts, less than 5 percent of women can be similarly described, and male viewership of major sports telecasts outnumbers female viewership by 2 to 1 (Gavora 2002). Second, only two collegiate sports traditionally produce net revenue: football and men's basketball (Weistart 1998).¹ Title IX supports increased expenditures on nonrevenue sports, particularly women's sports, which necessitates a realignment of resources away from the "revenue sports." Opponents of the law view this reallocation of athletic funding as economic suicide (Weistart 1998).

Despite its controversy, Title IX remains a key law in collegiate athletics. Compliance with Title IX is vital for institutions receiving federal financial support. Thus, many universities have adopted policies that require Title IX compliance or a plan to become compliant if they do not adhere to the requirements of Title IX.²

THE CASE

Assume you are an accountant at Kingston State University (KSU) and work in the athletic department. KSU, home of the Fighting Cobras, is a large state institution that competes in Division I-A sports along with the nation's largest programs such as Notre Dame and UCLA. Sam Waters, the athletic director, has given you a special assignment to help him document KSU's compliance with Title IX. Sam expects you to prepare a case analysis to determine how to best illustrate Kingston State's compliance with Title IX using information you have gathered from a recent meeting. The meeting featured a presentation by the University's internal auditing department regarding an assessment of KSU's athletic department. The discussion focused on whether KSU is in compliance with Title IX and how compliance with the law is measured. Compliance with Title IX is a necessity for KSU since it relies heavily on the significant funding it receives from the federal government.

Before starting your analysis, you contemplate on what you know about Kingston State's allocation of resources between men's and women's athletic teams and how the question of KSU's compliance

¹ At a small number of Division I-A institutions, women's basketball is considered a revenue sport (i.e., revenues exceed cost). Football and men's basketball at most non-Division I-A institutions do not generate large revenues.

² Until the mid-1990s, enforcement of Title IX was not a priority within the Department of Education (Suggs 2002). However, recent pressure from women's sports advocates, including the filing of lawsuits against academic institutions, has brought a sense of urgency with respect to Title IX compliance. In addition, a number of proposed changes to Title IX that would have allowed a loosening of the compliance requirements were not adopted by the Department of Education (Brady 2002; Archibald 2003). The controversial ruling, which came in July 2003, is largely viewed as a "win" for proponents of Title IX, but opponents of the manner in which Title IX is administered vow to fight for change (Rhoads 2004).

with Title IX has become a burning issue for Sam Waters. You begin by reflecting on the issue of KSU's control self-assessment.

Control Self-Assessment at Kingston State University

In August 2003, Kingston State hired a new director of internal audit, Jane Davis. Jane is both a Certified Internal Auditor and Certified Management Accountant. One area that Jane wanted to focus on during her first year at KSU was control self-assessment (CSA). CSA can be defined as a formal, documented process in which an organization judges the effectiveness and efficiency of its existing practices and procedures to determine whether the entity's objectives and goals are being achieved. By examining and assessing the existing policies and procedures at KSU, Jane was confident the internal audit department could add real value to the University. In essence, she believed that if the internal auditors could identify and correct actual or potential problem areas within the University, future and perhaps larger problems could be prevented. Jane explained to the internal audit staff that CSA was really preventative maintenance.

In February 2004, the internal audit department began its CSA of Kingston State's athletic department. While there had not been any major internal audit findings in the past, Jane still believed improvements in operations could be found within athletics, a department with a large operating budget. Jane directed the internal audit staff to focus on the controls on the athletic department's expenditures as well as compliance with applicable intercollegiate rules and regulations, including those of the National Collegiate Athletic Association (NCAA) and Title IX.

Actual costs incurred by Kingston State's athletic department for the most recent fiscal year is provided in Table 1. Like many universities, KSU does not allocate the cost of physical facilities, such as the football stadium, to the athletic department. Accordingly, depreciation expense is not included in the costs of the athletic department. Only two of KSU's sports teams are considered revenue sports in which the revenues generated exceed the costs of those teams. KSU's revenue teams are football and men's basketball. The remainder of KSU's teams are deemed nonrevenue teams, meaning that although they earn revenue via ticket sales and other means, their revenues do not cover the teams' costs.

During the control self-assessment, KSU's internal audit department reported a few minor findings with respect to athletic expenditures, but its primary finding was related to Kingston State's compliance with Title IX. The Office for Civil Rights (OCR), part of the Department of Education, is responsible for enforcing Title IX. The OCR has three rules that must be met for compliance with Title IX with respect to intercollegiate athletics: (1) effective accommodation of athletic interests and abilities of men and women necessary for providing equal athletics opportunities; (2) provide athletic scholarship dollars proportionally to the participation of male and female student-athletes; and (3) comply with 11 other program areas, including equality among genders for equipment, scheduling of events, and housing and dining facilities. As with most institutions, Kingston State's apparent problem in meeting Title IX compliance is associated with the first rule; no problems were noted in complying with the second and third rules. The preliminary findings of the internal auditors questioned whether KSU is indeed equitable in its accommodation of female student-athletes.

After the internal audit department conducted its control assessment of the athletic department, Jane Davis wanted to meet with KSU's athletic director and selected other members of the department before she issued her report. It is customary for internal auditors to discuss preliminary findings with auditees (in this case, the athletic department) prior to issuance of final reports. Meetings conducted for this purpose provide auditees with an opportunity to explain and/or counter the audit findings, which sometimes results in audit findings being expunged from the auditor's draft report.

TABLE 1
Actual Expenditures for Fiscal Year Ended June 30, 2003

<u>Direct Costs</u>	<u>Men</u>	<u>Women</u>	<u>Total</u>
Baseball	\$423,450		\$423,450
Basketball	895,180	\$738,190	1,633,370
Football	3,352,977		3,352,977
Golf	102,960	108,555	211,515
Soccer	234,725	226,715	461,440
Softball		381,580	381,580
Swimming	180,515	259,410	439,925
Tennis	122,895	135,315	258,210
Track	236,025	320,890	556,915
Volleyball		209,630	209,630
Wrestling	150,450		150,450
Total Direct Costs	<u>\$5,699,177</u>	<u>\$2,380,285</u>	<u>\$8,079,462</u>
Indirect Costs Pools			
Administration	\$2,375,028		
Athletic Ticket Office	415,442		
Athletic Video	157,500		
Repair and Replacements	1,288,984		
Sports Conditioning and Medicine	717,062		
Sports Promotions	1,951,358		
Student Development	566,840		
Miscellaneous	406,284		
Total Indirect Costs	<u>\$7,878,498</u>		

Meeting with Members of the Athletic Department

Jane set up a meeting with members of KSU's athletic department for May 3, 2004 to discuss the preliminary findings of the internal audit department. In addition to Jane Davis, director of internal audit, five members of the athletic department were present: Sam Waters, athletic director; Moose McDermott, head football coach; Laura Shaw, women's soccer coach; Karen Compton, NCAA compliance officer; and, you, the athletic department's accountant. A transcript of the meeting follows.

"Hi, Sam. Good morning, everyone," said Jane Davis as she entered the conference room across from Sam Waters' office in the Cobra Athletic Center at Kingston State University.

"Good morning, Jane. Will I still have a job after your report is issued?" Sam said with a smile. Although he didn't express it, Sam was a bit concerned for his job after hearing rumors about Title IX compliance audits at other schools.

"I'm sure you will," said Jane, "but KSU is on the brink of a nightmare if we don't soon address what looks like the University's noncompliance with Title IX. As some of you may know, I initiated the Title IX audit as part of the University's self-assessment program. I believe that if there are problems in the University, including the athletic department, we should find and correct them now before they become big issues. Plus, the last thing we need is bad publicity in the middle of KSU's capital campaign."

Sam nodded in agreement. "So, what did you find?"

Jane answered, "The problem area appears to be in our ability to meet the OCR's rule of equal accommodation of the athletic interests, abilities, and opportunities of male and female student athletes. To be in compliance with this aspect of Title IX, a university must meet *one* of the following three criteria: (1) the percentage of male/female athletes must be substantially proportionate to the percentage of the male/female undergraduate student body; (2) fully and effectively accommodate the interests and abilities of the underrepresented gender; or (3) demonstrate continuing progress in the expansion of programs for the underrepresented gender. In the case of KSU, as in the vast majority of cases, the underrepresented gender is female."³

Jane continued. "Right now, KSU does not meet the first criterion, proportionality. KSU's undergraduate student population is right at 53 percent female. As you can see on my chart [see Table 2], the percentage of varsity female athletes is only about 40 percent. In my opinion, as I'll explain later, KSU hasn't shown that it meets the second criterion of accommodating the interests of female athletes. That leaves the third criterion, continued expansion in women's athletics programs. Because KSU hasn't added a women's athletic team in several years, our school fails to meet the criterion for continued expansion."

Sam responded, "Remember, these are preliminary conclusions, and our goal today is to get a feel for where we are with respect to Title IX compliance and to contemplate what we can do to ensure compliance, both now and in the near future. By being proactive, we can decide how to allocate our resources rather than having the allocation dictated to us by the University's administration. We all know that KSU is facing severe pressure from the state to trim its budget and University President Westwood has already sharpened his ax."

"Now then, Jane, where do we stand, and more importantly to the athletic department, how can we make sure we are in compliance with Title IX or get into compliance?" asked Sam.

Jane answered, "Sam, to comply with Title IX under the first criteria, our ratio of female-to-total athletes must increase. Getting the ratio up is straightforward—reduce the number of male athletes, increase the number of female athletes, or both."

Sam responded, "I know other schools are playing the ratio game and reducing men's programs, but is it fair to cut a program like men's wrestling where those guys work their hearts out every single day? And as far as cutbacks in our existing men's programs—we're already on a shoestring budget. We've been forced to take cuts from football's operating budget over the last several years."

"You've got that right," said Moose McDermott, the Cobra's head football coach. "If we have more cuts in football, we simply won't be able to compete. To be blunt, we might as well shut down our entire athletics program if we continue to hack away at the football program. We simply can't afford a cut in football. Isn't it ironic that our football program generates the revenue needed to implement gender equity, and you're suggesting that we cut it back?"

"Not necessarily, Moose," said Sam. "I don't want to cut existing men's sports, but we must consider it a viable option. But reducing the number of men competing in KSU's sports just to reach

³ As stated previously, the OCR has three rules that must be met for compliance with Title IX. To be complaint with the first rule (effective accommodation of equal athletics opportunities), a so-called three-pronged approach is used, referred to in the case as the three criteria. An institution needs to meet only one criterion. We intentionally limit the case to the first rule and its three criteria because most of the press dealing with Title IX focuses exclusively on the three-pronged criteria and ignores the other rules.

TABLE 2
Summary Information by Sport

Panel A: Number of Student-Athletes

Sport	2002–2003			2001–2002			2000–2001		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Baseball	34		34	32		32	35		35
Basketball	14	16	30	14	16	30	14	15	29
Football	95		95	90		90	97		97
Golf	12	10	22	11	11	22	13	11	24
Soccer	36	34	70	34	34	68	34	32	66
Softball		25	25		27	27		24	24
Swimming	22	30	52	23	32	55	25	31	56
Tennis	12	15	27	12	14	26	13	13	26
Track	38	46	84	35	48	83	37	45	82
Volleyball		15	15		16	16		15	15
Wrestling	20		20	18		18	19		19
Total	283	191	474	269	198	467	287	186	473
(% by Gender)	(59.7)	(40.3)		(57.6)	(42.4)		(60.7)	(39.3)	

Panel B: Number of Sporting Events (2002–2003)

Sport	Men	Women
Baseball	60	
Basketball	28	28
Football	12	
Golf	11	11
Soccer	20	22
Softball		74
Swimming	13	13
Tennis	21	20
Track	18	18
Volleyball		30
Wrestling	20	
Total	203	216

a certain ratio seems contradictory to the essence of Title IX. We could literally cut positions on men's teams and be in compliance proportionally. But rather than helping women, the ultimate goal of Title IX, we would only be hurting men."

"I don't follow," said Karen Compton, the University's NCAA compliance officer. "How can cutting men's sports hurt women? As harsh as it sounds, those lost resources can provide an equal opportunity for the advancement of women in collegiate athletics. It's what the law is all about."

Sam responded, "Suppose we did cut the men's programs so that 53 percent of the athletes at KSU would be female. What advantage would our women have then? There would be no growth in women's sport programs, no added opportunities for them. Plus, the 'savings' would be used to offset the University's budget crunch, not to increase expenditures in the existing women's programs. Thus, we could be in compliance with Title IX, but void of its goal—*enhancing* women's sports."

"I can see your point," said Karen. "If we aren't keen to curtail men's sports, can't we increase our offerings of women's sports to meet the proportionality test?"

"Increasing women's teams raises at least two issues," said Sam. "First, can we simply assume that there is a demand for another team? There may well be adequate demand, but second, even if the demand is there, where are we going to get the funds for new women's teams? We are all aware of the severe budget crunch at KSU. And don't forget about KSU's Centennial Capital Campaign. The University is committed to raising over \$200 million for a plethora of projects and our central administration has explicitly directed the Cobra Club [KSU's athletic booster club] and Alumni Relations not to solicit funds for anything other than membership. Funds will be allocated to us in a few years once the Capital Campaign is completed. In all likelihood we won't see any new funding for at least a few years."

Sam continued. "If I recall correctly, the second criterion for compliance with Title IX deals with KSU's ability to accommodate the interests of women," said Sam. "Jane, didn't you say that we are not in compliance with this criterion? I'm pretty certain that we are."

"I agree with Sam on this," said Karen. "As KSU's compliance officer, I believe we meet this criterion. The rule is very vague and compliance really depends on how you measure interests and abilities. Each year, all of our incoming students, both freshmen and transfer students, are asked to complete an athletics survey that asks questions about their interests and abilities. Based on the survey results, we don't have a problem."

"That's where I differ with you on this, Karen," said Jane. "I don't think the survey is adequate for compliance with Title IX. Brown University, in its defense against allegations of noncompliance with Title IX, argued that it met this criterion of accommodating students' needs. Brown surveyed its current students and established a general lack of interest in sports among women. However, in 1996, a federal court of appeals ruled that Brown's survey did little more than measure the effects of prior discrimination against women; that is, since these women were not afforded equal opportunities in athletics prior to entering the University, their lack of interest was nonbinding. The court implied that determining whether women truly want more athletic opportunities is a slow, nurturing process and cannot be measured by the current student body.⁴ While another court could rule differently, I wouldn't bet on it. Thus, in my professional opinion, our survey doesn't adequately document compliance with Title IX. Just what is a good measure of 'interests and abilities'? That I don't know. But as of now, we can't say we are in compliance. As the director of internal audit, I don't want any guessing that we might be in compliance. Without solid proof that we are, I've concluded that we are not in compliance with Title IX with respect to this criterion. And, if we do conduct future surveys, it will take time and resources. It is not something we can do overnight to be in compliance. From talking to other schools, it is a drawn-out process. I understand that it takes several years to collect the data. In addition to surveying current students, universities must also survey prospective students, including kids in grade school, as well as various civic organizations in the surrounding communities. It's a big undertaking."

Sam addressed those gathered at the conference table by saying, "I'm not happy with Jane's conclusion, but I respect her opinion and the work she is doing to make this department the best it can be. If we can't meet the first two criteria for Title IX, maybe we can do something to meet the third. We have to get into compliance with Title IX. Period."

"Well," said Jane, "as I noted earlier, the third criteria for Title IX compliance is continued expansion of programs for women, the underrepresented gender at Kingston State. Based on the discussion we had earlier about not funding new programs for women, I don't know what to say except that we have to do something. My calculations [see Table 3] indicate KSU currently spends \$36,760 for every male student athlete and only \$29,084 per female student athlete. I determined

⁴ See Marshall (1997) for information on the actual Brown lawsuit

TABLE 3
Internal Audit's Calculation of Cost per Student Athlete for the Fiscal Year Ended June 30, 2003

	<u>Men</u>	<u>Women</u>	<u>Total</u>
Direct Costs (from Table 1)	\$5,699,177	\$2,380,285	\$8,079,462
+ Indirect Costs (see detail below)	4,703,829	3,174,669	7,878,498
Total Costs	<u>\$10,403,006</u>	<u>\$5,554,954</u>	<u>\$15,957,960</u>
+ Number of Student Athletes (from table 2)	283	191	
Total Cost per Athlete	<u>\$36,760</u>	<u>\$29,084</u>	

Detail of Indirect Costs Used Above

Allocation for Men

Total Indirect Cost × (Number of Male Athletes/Total Number of Athletes)
 (from Table 1) (from Table 2)

$$\$7,878,498 \times (283/474) = \$4,703,829$$

Allocation for Women

Total Indirect Cost × (Number of Female Athletes/Total Number of Athletes)
 (from Table 1) (from Table 2)

$$\$7,878,498 \times (191/474) = \$3,174,669$$

these costs by allocating the indirect costs, those that not directly traceable to each sport, based on the ratio of male-to-female student athletes. Obviously gender equality, at least based on my choice of allocation methods, does not exist at Kingston State University."

"Before we move on, can we look at the third criterion again?" said Sam. "Doesn't the rule say 'continued expansion'? I don't think that necessarily implies the addition of new sports programs, as you interpret it. Rather, as long as we continue to allocate more funds toward existing women's sports then we're in compliance, are we not?"

Jane responded, "Technically, I suppose that if there is an expansion of women's programs, then we would be in compliance. Although it isn't explicitly mentioned, I believe the law was intended to expand opportunities for new sports, not to simply allocate more dollars to existing ones."

"I'm in agreement with Jane," said Laura Shaw, coach of the women's soccer team. "In the long run, KSU simply needs to add new programs and there's no reason why we can't do it now. If we can't get new funding from the state, then we have other options. Private fundraising is always a possibility. If you look at the costs of adding a women's team, the cost would be relatively small in relation to the entire budget of the athletics department, based on the direct costs of the existing women's teams."

Sam then said, "Regardless of what we decide to do to get into compliance with Title IX, we want to make any decisions ethically, adequately addressing issues of fairness and equity to all current and prospective student-athletes. I doubt that any decision we make will be fully embraced by everyone in the athletics department. But, we need to comply with the law while maintaining fiscal responsibility, meaning without allocating resources we don't have at this time. Don't forget that we've been directed not to solicit funds for new projects. If new resources come into the KSU athletic department, then we can change our course of action. Until that time, however, we have to do what we can with the current set of resources."

There was complete silence in the room. Everyone appeared to be in deep thought. After a few minutes with no helpful input, Sam thanked everyone for attending the meeting. He knew it was his responsibility to make sure the Kingston State athletics department was in compliance with Title IX. He also knew he had to act quickly and ethically. Jane agreed to meet with Sam in one week before she filed her final report to President Westwood.

Decision Time

After lunch, Sam looked at the financial and statistical data (Tables 1 to 4) that had been gathered for KSU's athletics department. As he studied the data, Sam tried hard to find a way to be in compliance with Title IX without resorting to actions he considered drastic—reducing the number of existing male student-athletes and incurring additional costs to start new women's programs; although to be fair, he felt he needed to look at all options. However, based on the discussions from the meeting earlier in the day, Sam wanted to concentrate particularly hard on the third criteria for complying with Title IX, the continuing practice of program expansion in women's teams. Sam was aware that the allocation of indirect costs, because indirect costs are not directly traceable to any particular team, contains a degree of arbitrariness and the reallocation of indirect costs might be beneficial to the university in terms of compliance with Title IX.

Shortly thereafter, Sam gave you the assignment of preparing an analysis to show that Kingston State is in compliance with Title IX. Sam specifically asked you to write up your analysis in a report that includes the following major sections:

1. Identify the three criteria KSU can use in determining whether the University is in compliance with Title IX's requirement of equal accommodation of athletic interests, abilities, and opportunities of male and female student athletes.
2. A critique of Kingston State's current allocation of indirect costs (as prepared by the internal audit department).

TABLE 4
Cost Descriptions

Direct Costs

Coaches' salaries, team travel, recruiting, athletic scholarships

Indirect Cost Pools

Administration: administrative salaries (e.g., athletic director and staff), student workers, leases on vehicles, university maintenance contracts

Athletic Ticket Office: salaries, printing of tickets, bank card charges

Athletic Video: salaries of technicians, and video and graphics equipment

Repairs and Replacements: grounds maintenance, University operating fee (labor charges), salaries, and repair and replacement costs of athletic facilities (e.g., elevator maintenance, painting facilities, replacing plumbing in locker room)

Sports Conditioning and Medicine: salaries, equipment

Sports Promotions: conference dues and revenue sharing, marching band, cheerleaders, Cobra sports network, coaches' TV shows, sports information

Student Development: salaries and wages for advising and tutoring, books for student athletes

Miscellaneous: primary costs of special events

3. Identify possible methods for ensuring compliance with Title IX, at least two of which involve reallocation of indirect costs. Sam has directed you to determine a reallocation of indirect cost that indicates more money is being spent on women's sports than under the existing method of overhead allocation. Include schedules of supporting calculations, details of any assumptions you made in performing your calculations, and comments on your choice of alternative methods of indirect cost allocation.
4. Identify which method of documenting compliance with Title IX you would prefer to see implemented. Use the ethical decision model, discussed in the Appendix, as a basis for your recommendation.

CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Learning Objectives

In this case, a hypothetical university, Kingston State, is trying to meet federal guidelines with respect to gender equity, notably compliance with Title IX. Title IX is a comprehensive federal law that mandates gender equity for any education program or activity receiving Federal financial assistance. Although the law covers many aspects of education, we limit our discussion in this case to a single Title IX issue: gender equity in collegiate athletics.

The Kingston State case was written with three objectives in mind: (1) to enable students to apply basic managerial accounting concepts (cost behavior and allocation) in a semi-structured scenario, (2) to provide a context in which students make ethical decisions, and (3) to promote student development by utilizing some of the core educational competencies identified by the AICPA Core Competency Framework (AICPA 1999).

The first objective is met by having students analyze the current manner in which KSU allocates its indirect costs and identify other ways of reallocating KSU's indirect costs. In developing new cost allocation methods, students must contemplate logical links between the costs and various activities of teams participating in KSU's athletics department. The case not only provides a different perspective from many traditional managerial settings that focus on manufacturers and service industries, it also illustrates the need for every organization (and subunits within the entity) to develop an appropriate cost system. In addition, the students' reallocations of costs illustrate that the allocation of indirect costs contains a certain degree of arbitrariness.

In the act of reallocating costs, students can see that accounting has enough plasticity to enable individuals to mold "facts." A fundamental question that arises is whether KSU can massage the data to comply with Title IX without making substantive changes to its athletic department. This leads to our second objective of stimulating a discussion of ethical issues. We believe the reallocation of indirect costs is an ethical issue, which is the reason we incorporate the ethical decision-making model into the case. We expect students to develop different alternatives for ensuring compliance with Title IX and assess the potential consequences that result from each of their alternatives.

The case is designed, in part, to meet a plethora of calls advocating the inclusion of ethics in accounting education (e.g., AAA 1986; AACSB 1988; AECC 1990; Armstrong et al. 2003). Similar to Mintz (1997) and Awasthi et al. (1998), we take a directive approach to teaching ethics by explicitly referring students to a framework for analyzing ethical situations that employs three commonly used ethical theories: Utilitarian Theory, Theory of Justice, and Theory of Rights. Armstrong et al. (2003, 5–6) note that "understanding these theories [utilitarianism, rights, and justice] can be beneficial to students because they encounter the theories in their business courses without necessarily realizing it." However, the authors note that "The danger of teaching these classical ethical theories is that students may be left with the impression that they are equally appropriate or always morally justifiable. Worse, students may adopt an air of theoretical agnosticism and conclude that each theory is as irrelevant as the next. If instructors nonetheless teach these theories to students, the instructors should explain the strengths and weaknesses of each" (Armstrong et al. 2003, 6).

We are cognizant of the concerns expressed by Armstrong et al. (2003) and in the KSU case, both advocates and proponents of Title IX can employ these theories to help justify their positions. We do not believe in ignoring the ethical theories because of an assumption that students will simply latch onto one particular theory or conclude that the theories are irrelevant. We believe that students should be exposed to these theories and the strengths and weaknesses of each theory should be emphasized in the case discussion. After obtaining an understanding of the theories and their strengths and weaknesses, we believe students can make informed ethical decisions. Thus, while the case is not intended to be a primary tool for teaching ethics and ethical theory, it provides students an opportunity to contemplate ethical issues and apply the ethical decision-making model.

The ethical decision in this case is not whether KSU should be in compliance with Title IX, but *how* it can become compliant according to the law (KSU has to get into compliance to receive the federal funding upon which it relies). A former Virginia Supreme Court Justice stated that “a person’s standards of action should be based on what is right and not merely what is technically legal” (Clark 2003). We believe our case provides fertile ground for discussing this very important concept because defining what is “right” can be vastly different between the proponents and opponents of Title IX.

One of the key determinants of the case is the impact of the allocation decision on stakeholders. As part of the ethical decision-making model, students must identify potential stakeholders and assess how a cost allocation decision made by the University could affect these stakeholders. A wrestler, for example, might recognize that if the University does not add a women’s gymnastics team, it could be harmful to potential female gymnasts. However, if the wrestling team (a “nonrevenue” sports team) is on the so-called chopping block to get the University more in line with the Title IX requirement of proportionality, the wrestler might well believe that wrestlers (who are currently representing the University at sporting events) have more at stake than potential female gymnasts who have never competed for the University. From the wrestler’s perspective, allocating more indirect costs to existing women’s teams to make it appear that the dollars spent per female athlete increase is a viable alternative (perhaps the “right” thing) since it protects all of the athletes on the wrestling team. In addition, the wrestler might further justify this reallocation of indirect costs because he believes that “forced equality” in sports does not make sense because men are more inclined to enjoy and partake in athletics. Thus, this wrestler wants to comply with the technicalities of Title IX without making any “real” changes because he believes that he is protecting a very important group of stakeholders, the wrestling team at KSU.

Another student, one who fully supports the proportionality criterion of Title IX, might argue that the only “right” way the University can become compliant with Title IX is to add women’s teams (e.g., women’s gymnastics) to level the playing field so that there is equality in collegiate athletics at Kingston State, as the spirit of the law was intended. This student may believe that current and potential female athletes are the most important stakeholders in the decision to comply with Title IX. The student may want proportionality, despite the fact the student knows it is potentially detrimental to another group of stakeholders (e.g., the wrestling team that might be eliminated to reach proportionality).

As the discussion above indicates, we believe that two individuals can make “good” ethical decisions on the same topic, yet reach very different conclusions (another heated example of this is the issue of abortion where the “right or wrong” decision to abort a fetus is often viewed on the basis of what stakeholder is deemed more important—the legal rights of the mother or the life of the unborn baby).

Completion of the case also requires students to utilize several functional competencies identified by the AICPA. Functional competencies met include identifying problems and potential solutions (strengths, weaknesses, opportunities, and threats) of the case scenario. Personal competencies involve demonstrating objectivity, integrity, and ethical behavior. These competencies are met by the students’ use of the ethical decision model that requires them to evaluate evidence and facts, thoroughly think through the case information, develop alternatives, and analyze the impact of potential actions. In addition, the personal competency of effective communication is met by requiring students to report their information (in this case, to the athletic director) clearly and concisely. The broad business perspective competency identified by the AICPA is met by having students understand the economic and business risks, as well as the regulatory environment, of university athletics and the need to comply with Title IX.

Implementation Guidance

The cost allocation aspects of the case make it an appropriate pedagogical tool for managerial/cost accounting courses at both the undergraduate and graduate levels. In addition, the case can be used in a business ethics course provided the students are familiar with the fundamental aspects of indirect cost allocations.

Background Knowledge

For the case to be used effectively in a course, students need to understand cost behavior, cost classifications, and the allocation of indirect costs. All of these concepts tend to be covered early in courses regardless of whether the courses are managerial or cost accounting classes.

At the beginning of the case, a brief background concerning the issue of Title IX is presented. This discussion should provide sufficient background for the students to complete the case or provide the impetus for students to explore the controversy further through additional outside articles that they can locate.

The ethical component of this case can be handled in one of two ways, depending on the students' backgrounds in ethical theory. If students already have an understanding of ethical decision-making, either by taking an appropriate ethics course or by having the instructor provide a set of prior readings, then students should need little guidance when completing the case. However, if students have little background in ethical theory, then a directive approach to teaching ethics is warranted. Using a directive approach, the instructor goes over the ethical decision model with the students and helps students understand different theories commonly used in analyzing ethical situations. Three commonly used ethical theories are the Utilitarian Theory, Theory of Justice, and Theory of Rights.⁵ A brief explanation of the theories is provided below.

Utilitarians consider the interests of all parties affected by a decision and select the alternative that yields the greatest good to the greatest number of people. The utilitarian theory recognizes that trade-offs may need to be made; in essence, a cost-benefit analysis is made in reaching a decision. Just exactly what is meant by "good" and the determination of the number of people affected is not always easily tractable. Application of the utilitarian theory can also lead to social injustices when the viewpoints of the minority are ignored or dismissed when reaching a decision for the majority.

The theory of justice emphasizes the need to select an alternative that yields fair, impartial, and equitable benefits to all parties affected by a decision. As Mintz (1997, 33) notes, in business contexts, the theory of justice stipulates that decisions should lead to "a fair and equitable allocation of resources among stakeholders." Defining "fair and equitable" is a matter of debate, which can make the application of the theory difficult.

The third ethical theory that is often included as part of a framework for analyzing ethical dilemmas is the theory of rights. Under this theory, the rights of all parties affected by an ethical situation are considered, and an alternative that does not violate anyone's legitimate rights should be chosen. Application of the theory can be difficult in practice because being able to balance conflicting rights is often nearly impossible to accomplish.

Teaching Methods

This case has been used as an outside-of-class assignment at a large, public university by four different instructors. The classes that used the case include three managerial accounting sections, four cost accounting sections, and four M.B.A. fundamentals of accounting sections. The case was completed in groups of three to five students in all classes, except two managerial sections in which the case was assigned on an individual basis. Students were given from one to three weeks to complete the case. The case comprised between 5 and 10 percent of the students' final grade.

The amount of guidance given to students regarding cost allocations varied depending on the class. Minimal guidance was given to cost accounting students because each student had already

⁵ Mintz (1997) provides a good framework for understanding ethical philosophies for individuals who desire background reading.

completed at least three semester hours in managerial accounting, indicating a basic understanding of cost terms and allocation. Students in managerial accounting, and often in the M.B.A. fundamentals of accounting class, had little or no background knowledge on cost allocation. As a result, about 15 to 20 minutes of class time were spent discussing the case at least a week prior to its due date to ensure students understood the assignment. Much of this guidance focused on the meaning of cost pools, cost drivers, and the allocation of overhead. Additional time outside of class time was required of the instructor to answer specific questions raised by students, such as whether their methods for reallocated costs seemed appropriate.

The discussion of the ethical component of the case differed among the various classes. In two of the managerial accounting classes, a discussion of the ethical theories was conducted prior to the distribution of the case. This approach enabled the instructor to discuss the strengths and weaknesses of the theories before students generated lists of stakeholders, developed alternative approaches to become Title IX compliant, and assessed the consequences of those alternatives. In other classes, the ethical theories were discussed the day the case was due.

Instructors have used from 30 to 90 minutes discussing the case on the due day. This discussion includes the pros and cons of Title IX, possible alternative solutions, and a discussion of the ethical component of the case. Much of the variance in time spent discussing the case depends on how much the instructor wants to spend on the ethical theory component of the case, and whether the ethical theories were previously discussed in class. If the instructor breaks down the discussion of ethics by different theories, then the discussion time is much longer than if the instructor simply asks students for their solutions.

In the classes that have used the case, ethics is woven into the structure of the class. The instructors often discuss unethical behavior in the news, whether it be in public accounting, the corporate world, or cheating at universities. The instructors conclude the KSU case with one or two other examples of possible ethical dilemmas that students may face after they leave their university, such as the temptation to underreport time on auditing engagements. The objective of explaining these examples is to make the students aware of everyday pressures that they may face in an accounting position.

Classroom Assessment

Survey data from 52 students in two sections of cost accounting were collected to provide a means of assessing the effectiveness of the case as a pedagogical tool. Students worked in groups and presented written papers containing solutions to the case requirements that were approximately four to seven pages in length plus supporting tables.

Exhibit 1 summarizes the results of a pre- and post-test instrument completed by the students before distribution and after completion of the case, respectively. The exhibit includes ten response items, the first five of which capture the managerial accounting aspect of the case while the last five items measure the ethical component of the case. A seven-point Likert-type scale was used to record the students' responses. The first five items measured the students' degree of knowledge about various aspects of managerial accounting using scale endpoints of 1 = unknowledgeable and 7 = knowledgeable. Items six through ten contained statements concerning students' decision-making using scale endpoints of 1 = strongly disagree and 7 = strongly agree.

The results demonstrate that the students thought their knowledge of managerial/cost accounting was improved by the case. In four of the five questions (response items one to five on Exhibit 1) regarding managerial accounting topics, there were significant ($p < .0001$) increases in the students' reported understanding of the concepts from the pre- and post-tests. Of the five questions concerning ethical decision-making issues (responses items six to ten on Exhibit 1), two items' responses were significantly different ($p < .05$) from the pre- and post-tests. These items were questions six and seven. Question six asks students if they develop multiple alternatives before a decision is reached, while question seven asks students if they contemplate how their decisions may impact other individuals, even those they do not know. Our findings suggest that instructors, while using this case as a

EXHIBIT 1
Classroom Assessment Data
Comparison of Pre- and Post-Test Scores
(n = 52)

Response Item	Test Scores ^a		Mean Diff.	p-value ^b
	Pre-Test Mean (Std. Dev.)	Post-Test Mean (Std. Dev.)		
1. Rate your knowledge of cost allocation bases.	3.83 (1.2)	5.44 (0.96)	1.62	0.000
2. Rate your knowledge of indirect versus direct costs.	5.06 (1.23)	6.12 (0.86)	1.06	0.000
3. Rate your knowledge of single versus multiple drivers.	3.87 (1.28)	5.06 (1.06)	1.19	0.000
4. Rate your knowledge of cost objects.	4.19 (1.25)	4.88 (0.94)	0.69	0.000
5. Rate your knowledge of distinguishing between variable and fixed costs.	6.31 (0.76)	6.42 (0.72)	0.12	0.243
6. I try to develop multiple alternatives before making a decision.	5.4 (1.43)	6.04 (0.89)	0.63	0.000
7. I contemplate how decisions I make will impact other people, including individuals I do not personally know.	5.35 (1.39)	5.79 (1.16)	0.44	0.023
8. I am most concerned about my individual well being when making decisions.	4.00 (1.46)	4.17 (1.70)	0.17	0.472
9. I assess the consequences of various alternatives when making decisions	5.63 (1.19)	5.85 (1.00)	0.21	0.140
10. In general, most ethical issues involve a clearly right or wrong solution.	3.53 (1.87)	3.17 (1.72)	-0.36	0.129

^a A seven-point Likert scale was used. For items one to five, the following endpoints were used: 1 = unknowledgeable, 7 = knowledgeable. For items six to ten, the following endpoints were used: 1 = strongly disagree, 7 = strongly agree.

^b Statistical significance based on paired t-tests. Because of potential violations of assumptions for the parametric t-tests used, we also applied nonparametric tests, which yielded very similar results.

pedagogical tool, have the ability to get students to develop multiple decision alternatives and contemplate how their decisions may impact various stakeholders. However, most students seem to be inherently more concerned with their own well being over others' well being, and as the case illustrates, students correctly believe that most ethical situations do not involve a clearly right or wrong decision. These findings are not surprising and merely reflect students' existing values.

In addition to the results of the comparisons between the pre-and post-test items, we find that the case was well received by students, as evidenced by their responses to items added to the post-test instrument only. Using a seven-point Likert-type scale with endpoints being the most negative response (e.g., useless, disagree, unclear, boring, and unrealistic) and the most positive response (e.g., useful, agree, clear, interesting, and realistic), students responded to five items used to capture their assessment of several important issues. Students believed that the case improved their understanding of cost allocation (mean = 5.88) and thought the case improved their understanding of ethical dilemmas (mean = 5.52). Students also found the case to be clearly written (mean = 5.90), interesting (mean = 5.60), and realistic (mean = 6.15). Based on these students' responses, as well as informal feedback from students obtained in other courses in which the case was administered, we believe the case adds value to the classroom.

APPENDIX

ETHICAL DECISION-MAKING MODEL

Langenderfer and Rockness (1989) suggest that students need to develop a systematic approach for solving ethical dilemmas. We utilize a five-step decision-making model for evaluating ethical situations adopted from May (1990) and Mintz (1997) to address the ethical issues of the Kingston University case.⁶ A discussion of each step follows.

Step 1: Determine the Facts

The first step in the ethical decision-making model requires an individual to contemplate what is known (or needs to be known) that helps to define the problem at hand. Determining the relevant facts, including differences of opinion and other conflicts, requires an identification of the “who, what, when, where, and how” of the situation.

Step 2: Identify Stakeholders and Ethical Issues

The ethical decision-making model focuses on competing interests. Thus, users of the model must consider the different interests of all significant stakeholders (parties clearly affected by the decision made, or not made) in the case. In this step, individuals using the model need to stretch beyond accounting issues and consider the diverse interests of the stakeholders. The stakeholders’ interests can be defined quite broadly and include, among other things, personal integrity, the rights of the different parties, risks and potential harm or damages that might be incurred, self-interest, obligations and duties, equality, justice, and responsibility. Included in this step is the internalization of the key professional duties of an accountant—competence, objectivity, and integrity.

Step 3: Specify the Alternatives

Developing a list of major alternative courses of action is the third step of the ethical decision-making model. Alternatives should include a range of action, from not doing anything to challenging the parameters of the scenario (in this case, the constraints poised by the athletic director, Sam Waters). For each alternative, decision makers should determine whether the alternative is legal, right, fair, beneficial, consistent with professional accounting standards, consistent with the organization’s mission, and consistent with virtue considerations.

Step 4: Compare Alternatives and Assess the Consequences

The fourth step involves assessing the alternative courses of action and determining whether there is a compelling alternative. An essential component of this step is the assessment of the potential consequences that may affect each of the interested stakeholders identified in the second step. The consequences identified should include both a long- and short-run focus, as well as positive and negative outcomes.

Step 5: Make Your Decision

The final step in the ethical decision-making model is the selection of the alternative that best balances the consequences of an action against the decision-maker’s primary principles or values. The goal is to eliminate unethical options and select the best ethical alternative. Before reaching a final conclusion, the decision maker should be confident and comfortable when answering the following two questions: (1) How would I feel if my decision was printed in the local newspaper? (2) How would I feel if my family was to find out about my decision? You must select an alternative and your decision must be definitive; that is, you cannot “straddle the fence” and argue that it could be viewed multiple ways.

⁶ May (1990) uses a seven-step ethical decision-making model. We combine his second and third steps into our second step because of the large overlap that we believe exists in May’s (1990) steps. Likewise, we combine May’s fifth and sixth steps into our fourth step for the same reason.

TEACHING NOTES

Teaching Notes are available only to full-member subscribers to the *Issues in Accounting Education* through the American Accounting Association's electronic publications system at <http://aaahq.org/ic/browse.htm>. Full-member subscribers should use their personalized usernames and passwords for entry into the system where the Teaching Notes can be reviewed and printed.

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