MU braces for looming $12 million deficit

By Janese Heavin

Friday, April 30, 2010

Savings over the past two years and increases in tuition and enrollment would be enough to plug the lion’s share of a projected $12 million hole in the University of Missouri’s budget this coming year. It’s more likely, though, that schools and departments will be asked to reduce expenses again next year.

MU Budget Director Tim Rooney shared various budget scenarios yesterday with faculty members during an annual spring meeting.

MU is bracing for a $10 million cut in state funds in fiscal year 2011, which starts July 1. Add on top of that an additional $9.6 million in utility rate increases and other fixed costs next year, plus $2.8 million required for new scholarships and financial aid.

Offsetting some of the deficit will be an increase in enrollment. Numbers are preliminary, but Rooney’s budget reflects an increase of 538 students, which translates to $3.9 million in new funding. Hikes in tuition for graduate and nonresident students will bring in another $5.2 million, and MU is expecting $1.2 million in new grant-related revenues.

The university has been able to save $11.3 million in annual expenses over the past couple of years. That amount includes $4 million expected to be saved by a change in endowment procedures that takes 1 percent off the top to fund development efforts.

Breaking the entire piggy bank to offset the deficit wouldn’t be wise, Rooney warned, because a budget hammer is expected to drop in 2012 when federal stimulus funding runs out. One option, he said, would be to use $5 million of the savings, leaving the rest in reserve. Doing so would require a 1.5 percent across-the-board cut in school and department budgets.

While the university is bracing for public funding shortfalls in 2012, that’s also when administrators expect to ask donors for help. MU is gearing up to launch a major fundraising campaign with hopes of generating $1.5 billion in private money over an eight- to 10-year period, said David Housh, vice chancellor for development and alumni relations.

The campaign’s focal point will be Mizzou Advantage, a new interdisciplinary initiative that links five of MU’s strongest academic areas. Already, Mizzou Advantage is “really igniting interest among major donors,” Chancellor Brady Deaton said.
During yesterday’s meeting, Faculty Council Chairwoman Leona Rubin also gave a wrap-up of council activities this year, including passage of a resolution asking the UM System to implement domestic partner benefits. The UM Board of Curators hasn’t discussed that change, which would come with additional costs.

In the meantime, Rubin suggested MU look at adopting campus-specific benefits. Doing so would extend perks already given to employee spouses — such as MU library access or special golf course rates — to same-sex partners.

Reach Janese Heavin at 573-815-1705 or e-mail jheavin@columbiatribune.com.
Nurturing Invention

Despite the economy UM System research blossoms.

By Janese Heavin

Sunday, May 2, 2010

Those on the University of Missouri System’s Rolla campus are putting away the golf clubs and getting down to business.

Ground broke last month on the site of a new research park at the Missouri University of Science and Technology. The innovation park is being constructed atop what was once the campus’s 60-acre golf course, a move that irked local golfers but demonstrated UM System President Gary Forsee’s commitment to research and development in tough economic times.

UM-sponsored research parks and business incubators are popping up across Missouri at a dizzying speed, albeit not as quickly as research discoveries happening across the four-campus system driving the need for those spaces.

Licensing activity is at an all-time high, Michael Nichols, vice president of research and economic development, told the UM Board of Curators in January. And that flurry of activity could be the ticket out of rough economic waters.

“We create jobs by doing research, by doing intellectual property commercialization and by running research parks,” Nichols said.

The economy has taken its toll on the university system, with lagging state funding and flat tuition revenues forcing administrators to keep vacant positions unfilled and salaries frozen.

In the midst of the storm, though, Forsee has touted the notion that the university can provide solutions. Not only does commercialization of university-based discoveries mean more licensing revenue for UM; it also could help turn Missouri’s economy around so the state can fulfill its duty to fund education.

Forsee has put money behind the rhetoric. Last year he restructured the system’s budget to eliminate 22 positions while creating two new spots in the general counsel’s office to assist with business transactions and intellectual property issues. Earlier this year, he announced the creation of a three-year, $5 million investment program to help startup companies interested in partnering with the university.
“We couldn’t ask for a better person in that position at this economic time,” Nichols said. “He knows how to leverage resources. … When the market comes back, we can point to the university and say, ‘They were leaders. They led us out of this.’ That’s the important message.”

**TRANSFERFING IDEAS**

Nichols has been trying to improve the tech transfer process since he took over the system’s Research and Economic Development office in 2007. He has overseen the development of software tools to make the process less cumbersome and created an electronic database that lets faculty members file disclosure forms more easily and keep them in the loop as the transaction progresses.

Nichols hasn’t exactly won over one of UM’s most vocal critics, but Galen Suppes acknowledged there have been improvements. Namely, he said, it’s easier to persuade the tech transfer staff to file for patents.

“They have significantly upstaffed their group, so it’s easier to get attention,” said Suppes, a chemical engineering professor at MU. “I honestly believe that is because of the high scrutiny that’s been put on them because of the lawsuit filed against me.”

The university filed suit against Suppes in early 2009 for filing patent applications without disclosing them to the university. Suppes — who discovered a way to transform glycerin, a byproduct of biodiesel, into antifreeze — argues the university sat on his ideas, forcing him to proceed. For years, he said, the university held potential commercialization hostage by failing to file patents but also failing to release the invention back to the researcher.

Had the university not done so, and had the new processes been in place when he was going through the process, “I don’t think I’d have any differences with them today,” Suppes said. “They have changed, mostly at my expense.”

Suppes is still skeptical, though, mainly because he thinks the university demands too much from faculty members who want to commercialize their own discoveries.

Experiences vary. Kevin Keegan, a professor of veterinary medicine and surgery, developed his idea several years ago without much university assistance. When MU denied his request for research dollars, Keegan secured small business incentive research funds. But doing so came with an unintended consequence: Keegan was forced to take a sabbatical as the key operator of the startup company.

Keegan’s business is Equinosis, which offers a system that helps veterinarians diagnose lameness in horses. He has returned to his professor position and operates the company out of the year-old Life Science Business Incubator in Columbia. Keegan said he has been pleased with the support he has received at the incubator and is hopeful the university is improving the development process.
"I think they recognize in these bad economic times that it's important to do that," he said. "I wish they had had some of that stuff in place when we started. There are probably hundreds of potential commercial products sitting around on somebody's desk at the university."

Indeed, new, potentially marketable discoveries are coming out of university labs at a steady pace.

In the past year alone, MU researchers developed a nuclear battery the size of a penny, found a compound that can prevent HIV in a topical form, created a soy substitute that not only tastes but also feels like real chicken and developed a tiny sensor to test bodily fluids for disease.

Not all discoveries will become marketable products, but to help faculty members analyze potential, MU's Office of Research has created the Club Innovation for Missouri Business, or CLIMB.

The brainchild of Vice Chancellor for Research Rob Duncan, the group aims to link researchers with students interested in seeing products commercialized. Ideally, student teams would analyze the viability of marketing an idea, then possibly help transition those discoveries into products that meet immediate demands.

Although MU is the system's flagship campus and seeing the bulk of research activity, discoveries are happening across the four-campus system. In Rolla, researchers are trying to determine if sapphire could be used in coal plants to make coal a cleaner fuel source. On the Kansas City campus, a professor of pharmacy is working to improve eye drops. And a St. Louis team has developed a new dot test that can detect eye impairments much earlier than current methods.

System-wide, Nichols' office last year received a record-high 161 invention disclosures and filed 110 patents, nearly twice as many as were filed five years earlier. Licensing income returned to the university also peaked last year at $10.4 million.

The focus on economic development of university research is not unique to the Missouri system. A study released last month by the Rockefeller Institute of Government found that higher education institutes are driving economic development efforts across the country. Those successful in economic efforts, the study found, combine innovation with business assistance.

While many institutions are going through a learning process, the report said, those most active have "the leadership to make economic revitalization a priority, the culture to mesh that objective with their academic mission, the legal flexibility to mix and match assets and the brainpower with the private sector, and the resources to make it all work."

MARKETING DISCOVERIES

When a research observation becomes an innovation, resources are needed to move those ideas to the marketplace. That's where research parks and incubators assist potential commercial endeavors, and on that front, Forsee has helped move the needle.
Take the Rolla research park, for example. The concept of that project had been on the planning table for a decade by the time Forsee arrived on the scene.

Curators had approved using the golf course for a research park in 2007, months before Forsee was hired, but the project stalled again in 2008 because of a soured economy.

Forsee, who graduated from what was known as UMR in 1972, didn’t want to wait for conditions to change before getting the project off the ground. Last summer, he successfully pitched the idea to curators of funding it with a $3.25 million bond issue. Construction has begun, and the first single-story office building is expected to open this fall.

Forsee “really reaches out and makes things happen,” Sen. Kit Bond said in Mexico, Mo., last week, praising the university president for helping make the plant research center there a reality.

Bond joined UM System administrators in Audrain County to celebrate groundbreaking on the Missouri Plant Science Center, a joint venture between the UM System and the city of Mexico.

Located on a donated 10-acre site, the center is expected to provide both laboratories and office space, allowing researchers to team up with startup companies to market discoveries.

The 25,000-square-foot facility, expected to open next year, has secured its first tenant, a soybean research company relocating from Fairfield, Calif. Soy Labs is expected to initially provide 20 high-paying jobs.

Those jobs, though, have the potential to create hundreds, even thousands, more.

Companies incubated in research parks are typically high-tech, research-stage companies that hire scientists. But if and when those companies develop a food supplement, new device or other marketable product, more jobs follow.

“Once they break through — and not all of them will — but when one of these companies is successful, they’ll be hiring the full spectrum from administrative to sales and manufacturing,” said Jake Halliday, president and CEO of the Missouri Innovation Center, which operates the MU Life Science Business Incubator in Columbia. “If they’re successful, and the national experience is several will be, we’ve got jobs of every type.”

An economic impact study of university research operations conducted by The Hanover Research Council last year said the incubator project is expected to create more than 1,700 jobs by 2015.

That’s just one facility. The university also expects thousands of jobs to come out of the development of Discovery Ridge, a 550-acre research park in Columbia that now houses ABC Labs and the university’s Research Animal Diagnostic Laboratory.
Elsewhere in the state, the system is working with Fort Leonard Wood to expand the research park there by another 42 acres. The currently developed 12-acre site is the only research park located on a military base, and the current facilities are at capacity.

The Missouri Research Park in St. Charles County is one of the system's oldest developments and, perhaps, an example of long-term success. The research park houses 17 tenants that support some 4,450 jobs.

There's also a multiplying effect, Nichols said. In the St. Charles community surrounding the research park, shopping centers, homes and restaurants have popped up, creating about 15,000 additional jobs.

Although most university parks are under the umbrella of the UM System, the MU campus also has become active on the economic development front, leasing space in the Heartland Building in Blue Springs for research offices.

**ECONOMIC DIVIDENDS**

According to the university's 2010 Fact Book, MU alone spent $320 million on research and related expenses in fiscal year 2009. So the emphasis on development makes sense, Halliday said.

"Once you're already investing" millions of dollars "in research and innovation, and some of those innovations are going to be of great benefit to society, it makes all the sense in the world to invest in a delivery apparatus that takes an invention from a university lab all the way to the marketplace," he said. "These investments in business incubators and research parks, these are relatively small compared to investment in research itself. It wouldn't make a lot of sense to research but then spend nothing on converting that research for the public good."

The UM Board of Curators adopted economic development as a fourth leg of its mission before Forsee's tenure, but economic development activities have come "light years" since his arrival, said Warren Erdman, vice chairman of the Board of Curators.

"I think it was really when Gary became president that a coordinated and disciplined effort was brought to the mission," Erdman, of Kansas City, said. "The economic development mission has improved substantially in the time I've been on the board, going on four years. We have a very orderly and organized economic development mission ... It's important we fulfill that mission especially at a time when the economy is down and we are badly in need of new jobs and economic growth."

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People often ask me why I wanted to return to the Missouri House of Representatives, especially as a minority member. Sometimes the question is hard to answer. Sometimes we in the General Assembly fall below the reasonable expectations of our voters. Sometimes the politics and the challenges are frustrating in the extreme. But Monday was one of those days when the answer was bright and clear: We did the people's work.

On Monday, House Bill 2016 came to the House floor. The bill contains the appropriation for the new Ellis Fischel Cancer Hospital at the University of Missouri Health Center. House Budget Chairman Allen Icet, R-St Louis County, added the funds for Ellis Fischel — $31 million — to the bill. Icet and I had worked together much of the session to find the money, and I was delighted he chose to be its champion. After four years of frustrating defeat, Ellis Fischel was back on the table.

An amendment offered on the floor would have again removed the funding for Ellis Fischel. I felt like a mother tiger with a threatened cub — I was defensive, frantic and just plain scared. Then I watched an amazing display of bipartisan good government. Stephen Webber immediately rose to the floor to defend the hospital. At the same time, Mary Still was convincing reluctant colleagues from St. Louis. Both Minority Leader Paul LeVota and Majority Leader Steve Tilley supported the hospital. On the Republican side, our Mid-Missouri colleagues Mark Bruns and Bill Deeken from Jefferson City and Jeannie Riddle from Callaway pitched in. Steve Hobbs from Mexico was not immediately on the floor, and his absence worried me. Hobbs came in the door, and we exchanged nothing more than a nod. He went to work both turning some Republicans in our favor and then following Webber to the floor. It was like watching a big forward on your team take an offensive rebound and jam it back in the basket. Seeing our friends work together with such single-minded dedication was a joy to behold. I knew we were going to be OK.

Perhaps most important to me personally was the floor defense offered by Paul Quinn, who represents northern Boone County. Paul lost his wife to cancer and articulated why the hospital is so important. Ellis Fischel is not some local pork project. It is the construction of a modern medical facility dedicated to research into the causes and cures of cancer and the detection and treatment of Missouri’s No. 2 killer. Paul seldom speaks on the floor, but on Monday he spoke and it mattered.
We have a long way to go with Ellis Fischel. It still must pass the Senate. That body’s Appropriations Committee on Thursday removed the money, but I have confidence that Sens. Kurt Schaefer and Rob Mayer, both champions of the university, will work to restore it. The university community still faces a difficult challenge persuading Gov. Jay Nixon to support Ellis Fischel, but between the administration, the curators, the medical faculty, the Alumni Association and the Flagship Council, I hope the governor can be brought to understand its long-term benefit.

If that were not enough to make Monday a success, those of us on the various Budget Conference Committees convened as soon as the House and Senate adjourned. One of the most important unresolved issues was Sen. Schaefer’s plan to fund smoking cessation as a Medicaid-eligible item. Schaefer’s idea has been a long time coming and has large financial benefits to the state as well as its self-evident medical advantages. The group most significantly affected is pregnant women who smoke. In states where the program is in use, there is a significant decrease in the number of babies born with birth defects. I watched Democratic House members of the Conference Committee support a GOP senator’s successful effort to save money and improve the health of our state.

On Monday, my colleagues in the House and Senate provided an eloquent answer to the question of why I returned to the legislature. We worked hard, and we worked smart on some really important public policy issues. I was proud to again be a member of the Missouri House of Representatives.

Chris Kelly represents the 24th District.

This article was published on page D3 of the Sunday
Beware sisters bearing grudges: Why those childhood fights can fester for years

By Sasha and Lydia Slater  Last updated at 10:12 AM on 3rd May 2010

A study says trivial childhood arguments between sisters can fester for years. Just ask these two...

Sasha Slater, 37, is married with two children aged three and two. She says:

Some arguments I have had with Lydia over the decades still leave me boiling with anger and a sense of hurt; others make me feel ashamed.

According to new research, this is only to be expected, since some seemingly trivial disagreements can inflict lasting damage on sibling relationships for years after the event.

At the University of Missouri, researchers identified arguments that focus on 'personal space' as the damaging ones. Well, I remember one 'personal space' problem that I had great trouble forgiving Lydia for at the time and for some years afterwards: Christmas Eve, circa 1987.

I am wearing my first really sophisticated, smart, little black number - a velvet off-the-shoulder mini-dress. We are at a party with friends in Kent and all the parents have gone out for the evening to allow the young to have a 'grown-up' dinner party.

Some local boys have been invited, among whom is a ridiculously handsome young farmer's son called, if I remember correctly, Robin. To my delight, I am seated next to him and, for the first time ever, seem to be eclipsing my glamorous older sister at a social function.

Throughout dinner, she shoots me venomous glances and I flash back triumphant ones. After supper, we all adjourn to the roaring fire in the sitting room. I sink down onto a two-seater sofa and Robin joins me there.

Suddenly, Lydia staggers towards me: 'I'm feeling really ill,' she whispers. 'You have to help me.'

'Oh no!' I cry, and leap up ready to see her to bed. Whereupon, she slithers sideways into my seat and, to my speechless rage, monopolises Robin for the rest of the evening. It wasn't a happy Christmas.

I assume that physical fights count as invasions of personal space and we've had our share of those, too.
Often, the reason for the argument is forgotten, and what I remember is the flash of fear or a flood of rage, depending on whether I was the aggressor or the victim. I am more ashamed of the times when I have lashed out.

Once, aged about 25, in Highbury Fields, a London park, I smacked Lydia in the face for no reason at all that I can remember. I just did it to see what would happen.

Lydia, who was there with a friend, was deeply humiliated and burst into tears, and we all went home.

Friends seem to be a catalyst for our worst behaviour to each other. The last time I was really frightened of Lydia was when she charged at me in the kitchen of our French holiday home only a few summers ago, clutching a fistful of keys like a knuckleduster, because I had asked her to help with the washing up.

The friend who was with me at the time still remembers the event and says she was terrified, too, so I know it isn't my imagination.

According to the University of Missouri, annoying a sibling when they have friends to visit can cause lasting resentments.

They don't make any mention of risk of scarring.

It may sound strange, given our violent rages with one another, but about three weeks ago, Lydia and I cooked up a plan to sell our houses and move our families in with each other and all live together in some 21st century version of the Good Life.

Deep down, we love spending time together, and I would rather live with her and her family than not.

We got very excited about the idea and spent hours poring over floorplans, divvying up bedrooms and working out the best position of airing cupboards, until our parents nixed the idea by refusing to sell the house they have lived in for 45 years to move into a granny annexe in our commune.

Perhaps they remember the screams that used to ring round our north London home on a regular basis.

Where I disagree with the University of Missouri research is when it says 'moral arguments' about fairness, such as whose turn it is to do the washing up, have little or no long-term negative effect on sibling relationships.

For us, those are precisely the arguments that have run the longest.

If we're in the same house for any length of time, I tend to do more of the cooking and washing up than Lydia and then start ordering her to help me, which is her cue to snatch up the nearest knuckleduster.

**Lydia Slater, 39, is married with two children aged five and four. She says:**

There's no doubt the stormy relationship Sasha and I shared when we were five and seven respectively continues three decades and the birth of four children later.

Friends always seem a little nervous when we are together in case a row goes nuclear.

But, at first, the research made no sense to me. Sasha and I have always had a fluid concept of personal space. We shared everything, including a bedroom, until I was 12 and she was ten.

When my parents decided it was time we had our own rooms and partitioned the bedroom, I was devastated.

I never felt comfortable, hived off in a sterile little bedroom alone and longed to go back to the bunkbeds and midnight gossiping.

**STORY CONTINUES........**
‘Voices from the Past’ call to MKT visitors

By KRIS HILGEDICK Jefferson City News Tribune

Sunday, May 2, 2010

The idea arrived the way many ideas do: Clyde Bentley, a professor of journalism at the University of Missouri, was taking an outdoor stroll through a Columbia park.

“It had just snowed on this remote bench when I noted someone had left a fresh flower and a note saying, ‘I miss you,’ ” he recalled. “How can you not be taken aback by that?” The moment helped Bentley understand something about the little plaques on the park’s benches. “These aren’t just signs; they are people,” he realized.

Congenitally curious by nature, Bentley soon wondered: Who left the flower? Why? Who was the person on the plaque? What did they do with their lives? What happened to them?

The moment sparked an idea for a new research project into new uses for mobile phone technology. Called “Voices from the Past,” the project allows users of Columbia’s MKT Trail to explore the stories behind the names on the many memorial benches that line the trail.

Hikers and cyclists can use their cell phones to call a special number (which they see on the bench) to hear stories that often include interviews with loved ones. The system also allows users to leave comments or submit their own memories of the memorialized person.

To date, MU journalism students have recorded stories about eight individuals. At first, the students were hesitant to contact the families of the people memorialized. And some families members were uncertain about the idea of talking with the students.

“We were so nervous that three of us went to the first interview together,” said Ryan Huber, a convergence broadcast student.

Sitting in the office of a local pediatrician, Huber said it was gratifying to see the doctor relax when asked, “What did your father mean to you?”

“He wanted to talk to us,” Huber realized. “The transformation took place in front of us.”

Aside from telling good stories, the project also is an exercise to see whether people’s interest could be piqued. Would trail visitors stop and make a call? Or would they just walk by?
So far, Bentley is pleased the project has seen some interest. In the first 10 days, more than 77 calls from 55 people came in, which is about six people a day, reported Bentley. "For us, it's an experiment. The project has proven people will turn to the sign and turn to their phone. We know the technology works," Bentley said.

One would think convergence broadcast researchers at the Reynolds Journalism Institute would be more interested in exploring new uses for the latest technological breakthroughs, such as the Apple iPad or the iPhone.

So why focus on new uses for mobile phones?

Because mobile phones are the most popular communications technology out there, explained Bentley. "Ninety percent of Americans carry a mobile or cell phone," he noted.

For Bentley, another puzzle piece fell into place when his wife told him about her trip to a museum in Columbus, Ohio.

Instead of being handed a headset, the museum’s curators asked visitors to use their own cell phones to listen to a recorded message about the museum’s exhibits.

After hearing about his wife’s experience, Bentley — who thought the technology could be used for a plethora of purposes — contacted the museum and reached a company called "Guide by Cell."

"They were in the museum business," explained Bentley. But soon both parties realized it might be possible to expand the use of the technology.

The technology permits people to satisfy their curiosity when they are out and about, rather than waiting to head home for an answer in a newspaper or online.

It holds the capacity to turn the whole world into a museum. "We'll provide information to people who want it, when and where they want it," Bentley noted. "It's radio on demand."

For now, Bentley and his students are hopeful people will drop by the MKT Trail with their cell phones and listen to the students’ work. "These are good stories," he noted. "And the people on these plaques are great people who deserve to be remembered."

Several of the plaques are located near the MKT Plaza trailhead along Providence Road in Columbia, just south of Rollins Street.
U.TOWN BLOG: Journalism school restrictions briefly prompt plans for sit-in

By Paul Mossine
April 30, 2010 | 8:05 p.m. CDT

Brian Brooks, an associate dean at the Missouri School of Journalism, stirred up controversy with journalism students today when he sent out a mass e-mail decrying students staying late in School of Journalism buildings and propping open locked doors in the evening.

Brooks said MU Police would begin patrolling the building and remove students who don’t have authorized access to the building after hours.

The move resulted in a mostly online backlash from students questioning Brooks’ judgment. Some students joined a Facebook group that advocated a "study-in" in the journalism school to protest the policy.

Some concerns students shared were:

- That many students work long hours, especially during finals week, and a police presence would add to stress.
- That students pay tuition to use facilities that would be closed off to them after-hours.
- That many assignments are time sensitive, and regulating access to technology would interfere with deadlines.

I talked to Brooks today, who seemed annoyed by the accusations that his actions were not reasonable.

He said that any journalism student can obtain access to the facilities, and was irritated that professors were not passing along the information to students that would ensure
their access. He said that any student could get their name on a list through their professor and could get their student ID card activated easily, which would allow them to open locked doors and avoid problems with police.

He said he is concerned for the safety of students because homeless people have been entering Reynolds Journalism Institute after hours through propped open doors. He also made clear that the rules to be enforced by police have been in effect for the past two years.

Brooks sent out a follow-up e-mail close to 7 p.m. to clarify his earlier statements. He explained the process to obtain access to the buildings, as mentioned above, and said that policing the buildings would probably not go into effect until summer session.

The "study-in" was called off because its creator found Brooks' second e-mail satisfactory.
COLUMBIA MISSOURIAN

Madoff fraud investigator shares experience in MU lecture

By Paul Mossine
April 30, 2010 | 6:25 p.m. CDT

COLUMBIA — A whistle-blower that helped uncover the biggest financial scam in U.S. history said in a lecture at MU on Friday that it only took him five minutes to realize what was going on.

Harry Markopolos, a certified fraud examiner and financial analyst, told a nearly full auditorium in Cornell Hall that he noticed investment numbers reported by Bernard Madoff’s Wall Street investment firm were too good to be true, and that he noticed the inconsistencies nearly a decade ago.

Madoff, previously a chairman of Nasdaq, pleaded guilty in March 2009 to numerous counts of fraud that cost investors an estimated $65 billion.

Markopolos said he was alerted to the fraud when he realized that its profit margins were too perfect compared to that of legitimate firms.

He said Madoff began running an enormous Ponzi scheme in the early 1990s, fooling both individual and institutional investors.

A Ponzi scheme uses individual investors’ own money to promise big returns for subsequent investors. The scheme does not make actual profit but rather recycles money as the promoter skims personal profit off the top.

Although Markopolos said he alerted the U.S. Securities and Exchange Commission of his suspicions, little was done to investigate his claims.

“Nobody saw the obvious, nobody asked any questions,” he said. "Nobody had professional skepticism. And that’s how this thing was allowed to go on for decades.”
Markopolos said fraud examiners at the commission had little experience and were either fooled by Madoff’s privacy provisions or overlooked several glaring inconsistencies.

Over several years, Markopolos investigated the firm through its investors at home and abroad. He said that at one point, he realized his knowledge of the deceit, which included investments made by organized crime rings, could put him in danger.

“I began carrying a gun and checking for bombs,” he said.

The commission and FBI eventually began investigating the firm, and after Madoff’s sons reported him to the authorities at the end of 2008, Madoff was arrested and charged with fraud. He was convicted and sentenced to a maximum sentence of 150 years in prison.

“Many thousands of direct victims who went from riches to rags literally overnight,” Markopolos said. “Research programs at teaching hospitals closed down; doctors, P.h.Ds, research assistants. All because the money had come from charities that had invested everything in Madoff.”

Markopolos said the ordeal was not just horrible for investors but for the reputation of the U.S. in general, which was known for credible capital markets internationally.


Business student Aaron Flader, who attended the lecture, said he was concerned about the implications of the fraud for the U.S. government.

“The fact that he said something about it and no one decided to do anything is kind of scary,” he said. “Going in to the workplace, I have to be concerned about it. It teaches us what goes on the business and how to catch certain fraud and how to prevent it.”

The lecture was part of the Richard M. Orin Ethics Symposium, sponsored by the MU School of Accountancy.
A ‘Russian roulette’ of risk results after data breaches

MU MENTION PAGE 2

By SCOTT CANON

Even after an investigation by federal agents, the mystery lingers over how crooks stole credit card numbers from Llywelyn’s Pub.

But the damage is more obvious.

The Overland Park restaurant and watering hole got hit by cunning software that intercepted the numbers last fall, discovered only when owner Eric Pritchett, his relatives and patrons noticed suspicious charges to their cards from stores in Southern states.

In the end, the legitimate cardholders were protected against the thefts. But Pritchett is out $30,000-and-counting to clean up the virtual mess and rebuild his digital defenses.

“We’ve had to go through a lot of pain,” he said. “We’re not done with it yet.”

He’s hardly alone.

The wizardly wiring of the modern world has brought much convenience and commerce. It fosters science and socializing, while making transactions move at light speed.

All that sharing, though, carries risk. A list of database breaches compiled by the Privacy Rights Clearinghouse finds that since January 2005, the number of leaked records across the country holding sensitive personal information tops 353 million. Several of those came in Kansas and Missouri; an untold number of others escaped public detection.

The Open Security Foundation, which tracks data breaches, recently reported slightly fewer incidents in 2009 than in 2008. But the organization noted that the incidents varied widely in seriousness and scale, and that a case last year involving Heartland Payment Systems of Princeton, N.J., dwarfed the previous year in the number of people made vulnerable and the resulting loss of money.
Llywelyn’s represents the harm that can follow when critical digits get robbed. Far more commonly, the episodes represent more an exposure than a theft, raising a panic even though no particular harm follows.

In some cases the exposure is no more than portions of Social Security numbers accidentally peeking through envelopes’ windows — as happened with potentially thousands of tax forms mailed in January by the University of Missouri system. Sometimes it is a theft of a laptop carrying personal records in which the thief is unlikely to know the information is there or to have the tech savvy to do anything with it.

In more troubling cases, the security failures lead to the stealing of credit card numbers, such as at Llywelyn’s, or the escape of medical records or hacking that gives foreign crime syndicates a way to carry out identity theft.

“It’s a little like Russian roulette when your information is lost in one of these things,” said Evan Hendricks, the editor and publisher of Privacy Times. “Chances are nothing’s going to happen to you. But sometimes there’s a bullet in that chamber. If you get hit, it’s really going to hurt.”

Heartland Payment Systems agreed to pay $60 million to cover losses after hackers in January 2009 captured an estimated 130 million credit card accounts. Three men were charged with illegally tapping into financial data caches at Heartland and a handful of large retailers.

The cost to businesses is growing. A report released in late April suggested that the cost to a U.S. firm when its databases are compromised averages $204 for each escaped record. The Ponemon Institute report said a significant portion of the cost came in legal requirements that insist companies notify someone that their information might have been stolen.

Ponemon argues that American laws put too much of a notification burden on business, often forcing firms to spend large sums to alert people when the breach is not serious. Consumer advocates insist the opposite, that institutions should more often — and more quickly — be forced to spread the word about problems.

Kansas State University twice lost information about students in recent years — once in 2008 when an instructor’s backpack possessing a printout that included 86 Social Security numbers was stolen, and in 2009 when it was discovered that grades and Social Security numbers for 45 agriculture economics students had accidentally been posted on a website.

In both instances, the school told all the students what had happened and received no reports that the mishaps led to identity theft or other misuse, said Harvard Townsend, K-State’s chief of information security. Since then the university, like most schools across the country, stopped using Social Security numbers to identify students.

The Kansas City Art Institute in February suffered the theft of a desktop computer from its human resources office. It held Social Security numbers, dates of birth and other personal information of 145 faculty and staff. Spokeswoman Anne Canfield said physical security and
other changes, such as more encryption of sensitive data, have been added on the campus. There has been no evidence, she said, that the thief has made use of the data.

In March 2009, Sprint Nextel Corp. of Overland Park warned several thousand customers that a former employee “sold or otherwise provided their account data without permission.” The company would not say if that account information was ultimately misused by someone outside the company.

“We take this very, very seriously,” said Jason Gertzen, a Sprint spokesman. “We have a systemic process that if these incidents occur, (the customers) will know.”

The company also takes measures — such as avoiding Social Security numbers to identify accounts and using a billing platform with layers of authentication — to protect customers against breaches, he said.

Any person’s danger from the compromise of a database is slight, experts say.

A study in 2007 by ID Analytics looked at dozens of security failures that exposed the personal information of potentially millions of people. The majority of the breaches resulted in no harm to anyone. Even in those cases in which the information was used for fraud, the portion of the people in a single database who were hurt ranged from 1 in 200 to 1 in 10,000.

If sensitive information about you was stored on a stolen laptop, said Thomas Oscherwitz, ID Analytics chief privacy officer, there is no need to panic.

“They were probably after the hardware,” he said. “Targeted breaches” — hackers breaking into a network, for instance — “are scarier. That means somebody was going after the information because they wanted to do something with it.”

Credit card fraud isn’t a great threat, he said. By law, consumers are protected against no more than $50 in fraudulent charges. Oscherwitz said identity theft was far more troubling because it could destroy your credit rating, lead to a stranger opening credit cards in your name, and end up with bill collectors at your door.

The best defense, he said, is to keep a keen eye on financial records.

Your diligence, though, may not be enough.

“Most people don’t know how they became a victim,” said Paul Stephens, director of policy and advocacy at the Privacy Rights Clearinghouse. “And for most of them, there’s nothing they could have done. It was a mistake by an institution.”

Privacy consultant Robert Gellman said consumers could be defenseless against many types of frauds, particularly when a company insider starts peddling data illegally. He is particularly concerned about theft of medical identities — acts that could tap out your lifetime coverage limits or lead a doctor to make a potentially fatal assumption about your blood type.
Across the gamut, he said, data theft is a matter of risk that people must calculate. You could be pointlessly shredding documents, piling up complicated passwords and checking in with credit bureaus to gird against an extremely remote threat, he said.

Chuck Green investigates a wide range of digital theft and fraud as the special agent in charge of the Kansas City office of the Secret Service. If he goes to a new restaurant and the waiter walks out of view with his credit card, Green gets up to follow. He says his wife thinks he’s crazy, but the possibility of credit card fraud “makes me nervous.”

His office investigated the credit card theft at Llywelyn’s, a place he said was equipped with the sort of security that was typical or better than most restaurants. The tavern’s computer server was in a locked room, its cash registers and point-of-sale credit card readers were standard, and there was software installed to protect against thieves.

It is still not clear how the pub got hacked, Green said. His best guess — Llywelyn’s computers became infected with a “keylogger” that keeps tabs of whatever is typed into the system and uses that information to unlock its data.

Pritchett’s ongoing expenses, and the possibility that he could lose the ability to accept credit cards, puts him on the edge, he said.

“I may survive this,” he said. “I may not.”