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# James R. Ramsey's School for Scandal

Misappropriated Funds, Dual Relationships, and other Unethical Leadership  
Practices at the University of Louisville

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NPA 601: NONPROFIT ETHICAL LEADERSHIP

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# Introduction

Our case study will examine the dangerous pitfalls of conflicts of interest in unethical leadership practices, by exploring one such instance at the University of Louisville.

We'll take a look at the details of the case, what went wrong, who the responsible parties were, and what lessons we can draw from this case. We will end with some questions for you to think about and as well as some helpful resources.

*"Ethics is knowing the difference between what you have the right to do and what is right to do"*

*-Potter Stewart, Criminal and Civil Rights Activist and Former Supreme Court*



*"Real leadership doesn't require a choice between doing your job and honoring the human beings you serve: you can do both."*

*-Robyn R. Jackson, Author and Educator*



# A Brief Overview



## In the Beginning

In 2002, esteemed economics professor James R. Ramsey became the President of the University of Louisville. His tenure was met with initial praise. Under his leadership, the school's endowment increased by \$200 million, which allowed for more federal research funding, the school saw an increase of the average ACT score for newly accepted students, there were improvements in student retention, and enrollment expanded from regions outside the Louisville area.

## A Scandal Emerges

However, by 2016, Ramsey was under a cloud of suspicion amidst numerous nefarious activities, including an escort sex scandal involving basketball player recruits and a racially offensive ill-conceived Halloween costume at a university event.

Most egregious was his dual role as both President of the University and President of the U of L's Charitable Foundation, a \$1.1 billion nonprofit fundraising entity, which allowed him to effectively redirect millions of dollars into his own business ventures, significantly depleting the school's endowment while padding his own pockets.

## The Fall from Grace

In 2016, Kentucky Governor Matt Bevin announced that Ramsey would be stepping down as president and that the school's board of trustees would be disbanded and replaced. Ramsey later stepped down from the U of L Foundation as well. The University then faced an audit into the misappropriated funds as questions swarmed around Ramsey's years of unethical and potentially illegal actions.

In 2018, the university announced they were suing the former president and several of his former staffers.



# The Facts: A Timeline

Staunch supporter of UofL Dean of Education Dean Roberto F. prior to an indictment of financial fraud

U of L pays 3 officials closest to Ramsey to take early retirement in order to not “disparage, demean or impugn the university of its senior leadership

U of L agrees to pay twice her annual salary to its top lawyer, Angela Koshewa, in exchange for her leaving and not suing the university. In questioning some expenditures and proposals backed by Ramsey

A majority of both the faculty of the U of L College of Arts and Sciences and the Brandeis School of Law say they don't support Ramsey

The University of Louisville Foundation accepted the resignation of James Ramsey as its president.

New questions surfaced about the University of Louisville and its separate fundraising arm, the U of L Foundation, that could affect the university's accreditation.

Oct 2008

Jul 2013

Mar 2014

Apr 2014

Apr 2014

May 2015

Mar 2016

June 2016

Sept 2016

Dec 2016

Feb 2017

Jun 2017

Assistant Dean of Law School promises \$2.4 million in scholarships the university doesn't have to offer

Former executive director of the Department of Family and Geriatric Medicine, is charged with stealing \$2.8 million in patient payments and other funds

Ramsey, who received \$1.68 million in compensation last year from the university and its foundation — was paid 2 ½ times more than the average of the Atlantic Coast Conference's other 14 presidents and chancellors

Gov. Matt Bevin announces he is dismantling the U of L board, creating a new one and that Ramsey has agreed to submit his resignation to the new board once it is established

University of Louisville Foundation exceeded its authority in paying former university President James Ramsey more than what was approved in 2014 by the school's board of trustees.

A long-awaited forensic audit of the University of Louisville Foundation said it wasted money on worthless real estate investments and startups as well as football tickets and bowl games.

# WLKY Reports: A Leader Resigns



<https://www.youtube.com/watch?v=Ag4Y01ju3z8>

# Legal and Compliance Issues

## Local Government

In 2016, Governor Matt Bevin took executive action when he stepped in to request Ramsey's resignation and to disband the entire board of trustees.

*"The intent is to give a fresh start, to improve the economies, the efficiencies and the administrative abilities of this board to govern the University of Louisville, because its health and its vibrancy is a critical part of the commonwealth."*

## State Audit

In that same year, Kentucky State Auditor Mike Harmon launched an audit of the university to examine the oversight structure between the university and the U of L Foundation. The audit specifically sought to take a close look at the accountability and transparency of foundation spending in relation to university activity.

## Lawsuit

In 2018, the university and the U of L Foundation filed a lawsuit against Ramsey and his former chief of staff, alleging a breach of fiduciary duty, fraudulent activity, and improper use of funds for personal gain. The suit claimed that Ramsey and others conspired to divert millions of dollars from the endowment into unauthorized business ventures, putting the foundation at risk and substantially depleting its funds.

# WLKY Reports: A Closer Look at Compliance



<https://www.youtube.com/watch?v=JxF0uFt8X9I>

# The Aftermath: An Overview of Outcomes and Casualties

## Financial Consequences

- Because of Ramsey's actions, the school suffered significant financial harm. More than \$42 million of the university's endowment was misused.
- The endowment was intended to support the educational mission of the school; the loss of so many funds may have resulted in compromising future university developments.

## Overhaul of Leadership Personnel

- The case resulted in the dismissal of nearly all members of U of L's board of trustees.
- With the loss of the president and the board, the school also lost most of its institutional knowledge at the top.
- Uncertainty, legal questions, and opposing views emerged over how leadership should be restructured.

## Loss of Faith in School Leadership/Reputation

- Under Ramsey's leadership the school saw an initial period of improvements, many of which became overshadowed by the controversies.
- Pending lawsuit and division among the future of school leadership created an overall loss of morale internally as well as an external PR crisis.
- Potential lasting impact on the school's future fundraising campaigns, due to doubts about how money will be used.



# Individual Responsibility

Bypassing standard operating procedures, Ramsey made decisions that he had not previously submitted for approval from the board.

The individual behaviors of a leader, such as James Ramsey, can have profound and lasting impacts on the communities they serve.

“Research has also shown that leaders’ self-identities can shape followers’ self-identities and schemas...”\*

A leadership’s culture has a trickle-down effect in how an organization interacts both internally and externally amongst stakeholders and shareholders.

“As moral leaders increase the moral identity of the group, they will also increase their prototypicality within that group, thereby further reinforcing both their own and other moral actors’ emergence...”\*

By manipulating and controlling his board of trustees, Ramsey set the standard for an unethical nature through which board members felt comfortable operating.

\*William L. Gardner, B. J. Avolio, & Fred O. Walumbwa. (2005). Authentic Leadership Theory and Practice : Origins, Effects and Development: Vol. 1st ed. JAI Press Inc. Read Chapter 2: Moral Leadership

# Organizational Responsibility

## University of Louisville School Administration

- In appointing a leader of an organization as the leader of that organization's foundation, they took a dangerous ethical risk
- Knew of earlier dissatisfaction with Ramsey within the university but did not take immediate action
- Compromised proper oversight of school leadership

## University of Louisville Board of Trustees

- Some turned a blind eye, others were active accomplices in the financial misappropriations of the university as well as the U of L Foundation
- The governor's decision to call for the removal of the entire board shows that the board as a whole failed to uphold their own ethical obligations and failed to raise the alarm early on, despite obvious evidence of wrongdoing
- Alternatively, board members could have also stepped aside when potential conflicts of interest arose with the president of the board

## U of L Foundation

- As with the university board, the members of the foundation similarly missed critical opportunities to vocalize concerns
- In allowing endowment funds to be misused, the foundation failed to uphold its mission and compromised the purpose of the funds
- By not taking action, their passivity was, in effect, complicity

# Systemic Responsibility

## Public Institutions of Higher Learning

-Calls into question the role of academia as a whole: what are public universities responsibilities in holding school leadership accountable?

-Lack of clear guiding principles around dual roles: why was someone allowed to be elected as both board president and foundation president?

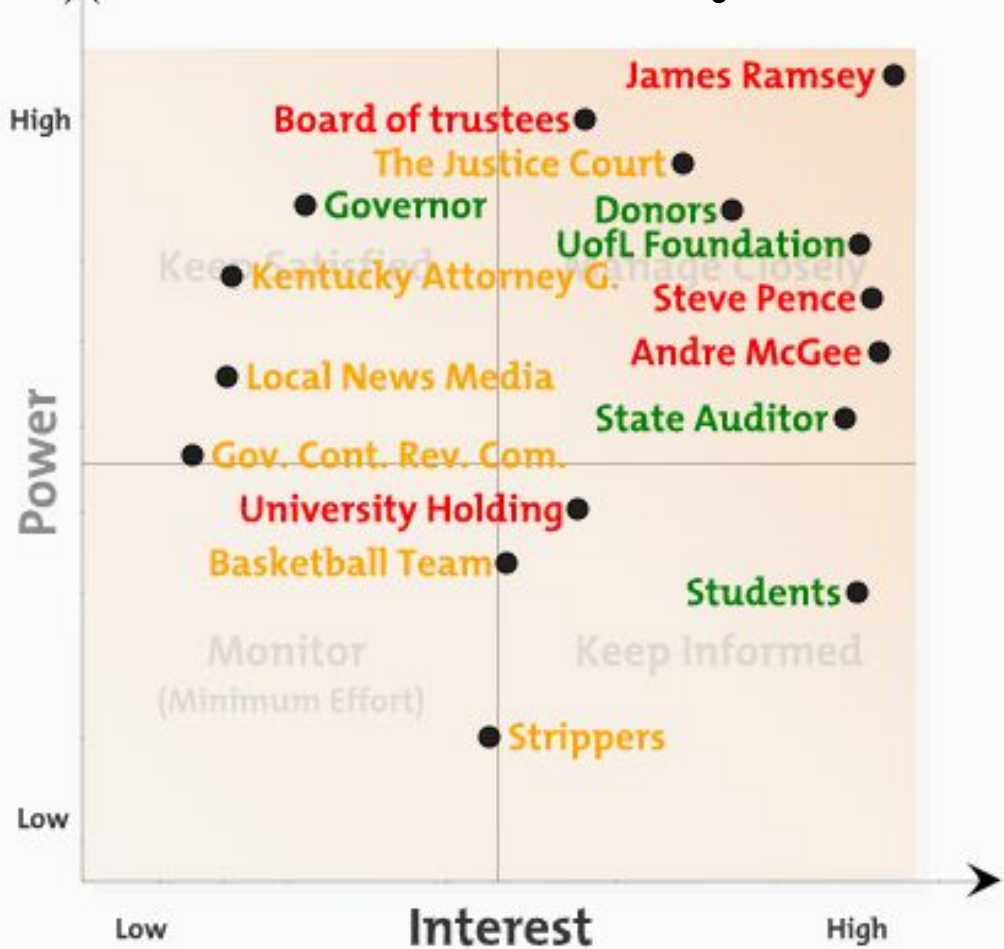
## State and Federal Government

-Did the IRS have a responsibility to monitor the process through which money was exchanged between the university and its endowment? The 2016 audit came after more than 6 years of financial mismanagement of foundation funds.

-By the time state government stepped in to assume control of the board and call for Ramsey's resignation, Ramsey had already been the subject of tremendous scrutiny and suspected corruption for nearly a decade. Earlier intervention might have saved the university millions of dollars and avoided a public scandal.



# Stakeholder Analysis



# Alternate Solutions and Key Takeaways

## Remedies

- The university should have had (and subsequently did create) a clear whistleblower policy
- Documented standard operating procedures, including clearly defined rules around dual roles, need to be in place
- There must be checks and balances for individual actions which are not in line with the values of the organization. A leader should not have the ability to operate in a silo. Ramsey made unilateral decisions about how to appropriate funds, often without approval from the board.
- Public perception can have a critical effect on the success or failure of an organization: it is vital that an organization maintain a board that promotes ethical conduct. All board members should always take into consideration what is legal or just, and apply it to each decision made in order to preserve the organization's integrity.

## Lessons Learned

- This case highlights the importance of why leaders must act in absence of their own egos to fully embrace their responsibility to the greater good
- This case also serves as a reminder of the extent to which good governance of organizations must be based on diligent attention to ethical issues by the board chair, the governance and ethics committee, and all board members.

# Some Questions to Consider

1. What, if any, effective processes exist to objectively measure a person's integrity?
2. If you were a member of the University Board, how would you address the risk of being viewed as someone in league with James Ramsey?
3. Other than upholding written policies and law, how else might an organization make efforts to ensure that organization-wide ethical practices and values are being honored within the agency's culture and standard operating procedures?
4. How do we control the harmful effects to the overall culture of an organization because of the unethical actions of individual staff and leaders?
5. Federal law and the IRS require nonprofit organizations to have documented conflict of interest policies; but how does the sector reinforce the effectiveness of these policies in practice?
6. As current and future ethical leaders, how do you think you might work to address this kind of situation, when public trust in your organization has been compromised?

# References/Additional Resources

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