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Nonprofit Ethics Case

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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

Summary

“There are six areas in particular where ethical issues arise in the nonprofit sector: compensation; conflicts of interest; publications and solicitation; financial integrity; investment policies; and accountability and strategic management” (Rhode & Packel, 2009). This case study will examine the dangerous pitfalls of conflicts of interest in leadership practices, by exploring one such instance at the University of Louisville. We will look at the case of James R. Ramsey, a once highly regarded educator and administrator, who served from 2002-2016 as President of the University of Louisville as well as CEO of the school's \$1 billion charitable foundation. During his tenure, he faced scrutiny over a multitude of scandals, most notably steering millions of dollars from the University of Louisville Foundation into private business ventures and his own pocket. His actions went largely unchecked because of his dual roles as the head of the school and the endowment fund, a lack of administrative oversight, and the negligence of his board of trustees and other school leadership. Ramsey was ultimately forced to resign after the state governor took executive action, dissolving the board and launching an investigation into the university's operating procedures in an effort to do public damage control and establish new guidelines to avoid future fraudulent activity at the school.

Applications

The following are some subject areas of specific relevance to this case:

Unethical leadership and its effect on organizational operations

The governing principles of ethical leaders, which include values such as integrity, impartiality, respect, competence and loyalty, are designed to protect and honor the public interest. A person in a position of power, such as a member of a board of trustees, has the authority to use his or her own judgment in making important choices and decisions, with the assumption that he or she is employing those aforementioned values. Ramsey failed to responsibly uphold his role as a leader by making decisions motivated solely by his own self-interest. Furthermore, he circumvented standard procedures, such as gaining board approval for financial decisions, because those procedures would have highlighted the absence of honesty and integrity that his role required of him.

The importance of sound governance and board member responsibilities

The Kentucky state governor's ultimate decision to call for the removal of the entire board indicates that the board as a whole failed to uphold their duties and failed to raise the alarm despite clear evidence of wrongdoing. Whether through deliberate actions or a lack thereof, the board and other university leadership were complicit in Ramsey's egregious actions and financial misappropriations. Additionally, the fact that the university did not have a whistleblower policy in place during this time perhaps clouded the judgment of board members, who might have otherwise stepped aside when they began to see signs of conflict of interest and other unethical behavior.

Organizational integrity and the effect of nonprofit scandals on public trust

Public perception can have a critical effect on the success or failure of an organization. In all decision-making processes, board members should always take into consideration what is legal and ethical, in part to preserve an organization's integrity and good faith in the community at large. Ramsey's actions resulted in the loss of current (and potential future) donors, causing significant harm to the university's endowment. The university's public reputation and previously well-honed advertising image suffered as well.

Outcomes

One of the central learning outcomes from this case is to understand the importance of why leaders must act in absence of their own egos to fully embrace their responsibility to the greater good. One individual's actions can severely impact the behavior of their associates, setting an unethical operating standard and creating a damaging impact on the people they serve. This case also highlights 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. It is vital that an organization maintain a board that promotes ethical conduct.

Additionally, this case illustrates why organizations need systems of institutional checks and balances in place to oversee leadership actions, especially when those actions are not in line with the values of the organization as a whole. A leader should not have the ability to operate in a unilateral fashion, without procedural standards and oversight. Documented standard operating procedures, including whistleblower policies and clearly defined rules around dual roles, are critical to the success of an organization in executing its mission.

Videos

<https://www.youtube.com/watch?v=Ag4Y01ju3z8> (Addressing Ramsey's resignation)
<https://www.youtube.com/watch?v=JxF0uFt8X9I> (Addressing the Kentucky state audit)
<https://www.youtube.com/watch?v=gD1tH-6GVik> (Addressing litigation funding)

Description

In 2002, James R. Ramsey, a former Kentucky state budget director and esteemed economics professor, was appointed President of the University of Louisville. His initial tenure was met with considerable praise. Under his leadership, the school's endowment increased by \$200 million, which allowed for more federal research funding and improvements across multiple academic departments. During his first few years as president, the school saw an increase in the average SAT/ACT scores for newly accepted students, an expansion of the regional diversity of the student body, and an improvement in student retention. Ramsey also launched a school beautification campaign, which included redeveloping parts of the campus and surrounding neighborhoods. Through these efforts, Ramsey and his staff worked diligently to bolster the university's public image on a local, state, and even national scale.

However, by 2016, Ramsey was under a cloud of suspicion amidst numerous nefarious activities. In 2014, the NCAA initiated an investigation into the 2010-2014 seasons of the University of Louisville basketball program, after a former escort came forward alleging that an ex-coach paid for strippers and sex for players and recruits. This led to a postseason playing ban during the 2015-2016 season. In a later deposition, U of L board of trustees chairman David Grissom shared that "he (Ramsey) told me that one of his board members was the cash source for paying off the strippers in the stripper incident..." (Otts, 2019).

In 2015, Ramsey was forced to issue a public apology after photographs surfaced of Ramsey and some of his staff at a university Halloween luncheon party wearing "stereotypical Mexican costumes" that many found to be offensive and in poor taste for a public official (Courier-Journal, 2015).

Most egregious was his dual role as both President of the University and President of the U of L's Charitable Foundation, which allowed him to effectively assume control of nearly \$1 billion in endowment funds; the very funds that paid his salary. Although not illegal or in violation of any existing university operating procedures, the appointing of Ramsey as the president of the foundation demonstrated at minimum a lapse in judgement and a significant ethical landmine. In his position, Ramsey was able to redirect millions of dollars from the foundation into his own business ventures, significantly depleting the school's endowment while padding his own pockets.

In 2015, Kentucky state auditor Adam Edelen (and later auditor Mark Harmon) uncovered that Ramsey was paid \$12.4 million by the university and the foundation from 2010 through 2016, including \$7.2 million in deferred compensation. The report also showed that Ramsey and several other employees collected \$21.8 million in deferred compensation, without (required) foundation board approval. The audit also indicated that the foundation, under Ramsey's leadership, raided the university's almost \$1 billion endowment to fund at least \$42 million in unbudgeted or excessive expenses, and that it spent as much as 15% of the endowment annually, an amount that was twice what was authorized by the board and three times the financially prudent recommended amount (George, 2016). The audit said that overspending

continued throughout Ramsey's tenure despite clear indications that the level of expenditures was not sustainable. The state's audit also found that the governance of the foundation and the university itself appeared indistinguishable from one another, which led to "questionable commingling of cash" (George, 2016).

With questions swelling around Ramsey's years of unethical and potentially illegal actions, university and state officials finally began to call for his resignation. 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 subsequently stepped down from the U of L Foundation as well.

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 (Larson, 2020).

The impact of Ramsey's actions has had, and will continue to have, lasting and far-reaching effects. Subsequent university presidents have been held under much higher scrutiny, leadership roles have been more clearly defined and separated, benefits and salary packages have been decreased, and the school's policy of deferred payments has been dissolved. The school lost many donors and saw a decline in their once promising reputation. The misappropriation of funds has likely had an effect on subsequent fundraising campaigns, due to lingering doubts about how the money might be used. The endowment that was intended to support the educational mission of the school suffered tremendous losses; potentially compromising future university developments and enhancements. From state leadership to the student body, all parties involved have been deeply impacted by Ramsey's actions.

Discussion Questions

- What, if any, effective processes exist to objectively measure a person's integrity?
- 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?
- 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?
- How do we control the harmful effects to the overall culture of an organization because of the unethical actions of individual staff and leaders?
- 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?
- 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?

Resources and Endnotes

Otts, C. (2019). Grissom: Ramsey said U of L trustee was ‘cash source of payments in stripper scandal. *WDRB News*. Retrieved from: https://www.wdrb.com/in-depth/grissom-ramsey-said-u-of-l-trustee-was-cash-source-of-payments-in-stripper-scandal/article_600281a2-bd12-11e9-942c-5be5a0629176.html

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Disclaimer: The case study here analyzed is made for educational purposes only and it is based on publicly available documents. The case is publicly shared to advance the collective consciousness of the nonprofit social sector and to develop nonprofit ethical leadership practices. The case does not reflect an official position of the university toward the interested parties. Although formulated with sound academic and critical analyses methods, the case does not claim to represent the full realities of the organizations and people involved, especially in their most recent developments or internal remedies. For questions and concerns please contact the USF Office of General Counsel generalcounsel@usfca.edu or Dr. Marco Tavanti mtavanti@usfca.edu