

What were the red flags of fraud in Dixon?

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DIXON – Rita Crundwell may not be the only one to have their day court.

The Dixon City Council likely will vote Monday on whether to hire a legal firm to look into any negligence or wrongdoing related to the arrest last month of the city's top financial officer.

Officials and residents alike wonder how \$53 million over two decades could be misappropriated without raising any red flags.

Sauk Valley Media provided two fraud experts with documents related to the case and discussed with them whether there was anything in this particular case that should have raised suspicion from the auditors or the bank.

Tom Golden is retired from PricewaterhouseCoopers, where he was the partner-in-charge of Midwest investigations and forensic auditing services. He often provided expert testimony in criminal and civil cases.

Dave Sinason, also associated with PricewaterhouseCoopers, is an accounting professor at Northern Illinois University and a certified fraud examiner.

Both qualified their thoughts on the Crundwell case because they don't have access to all of the documentation.

"Auditors are actually auditing the underlying information to this," Sinason said. "We don't have that. We don't have either the government accounts or either the auditor's papers."

But there are things every auditor should do, he added.

"There are certain things they should have done that if they did, they didn't do them right because they obviously missed things they should have seen," Sinason said.

Weak internal control

First, Sinason said, an auditor looking at Dixon's books should have made it clear to the City Council that there were internal control problems, the main one being that same person, Crundwell, was the comptroller and the treasurer.

In government, the comptroller is the record keeper and the treasurer authorizes transactions.

"This was a very basic, fundamental control that any junior at a university such as ours would recognize," Sinason said.

That doesn't mean, Sinason and Golden said, that the city needs to rush to hire two people – a comptroller and a treasurer – but it does mean that compensating controls should be put in place.

Compensating controls include having a non-financial person pick up the mail, having extra requirements for transactions above a certain dollar amount, or having one of the elected officials reconcile the accounts if they have the proper qualifications.

But, Golden added, good controls cannot prevent collusion.

"No control can prevent collusion," he said. "So just to say you have great controls does not mean you're fraud proof, and so many people believe they are."

The commission form of government is a control weakness, especially in terms of monitoring, Golden said.

In a commission, departments are divided among the four commissioners and the mayor. Crundwell as the comptroller, for example, reported to the finance commissioner.

Dixon does not have a city manager or a city administrator, one person to oversee department heads.

"That's a recipe for disaster if I've ever seen one," Golden said.

"It's common sense. How can they properly evaluate what they're being told if they don't have the experience to say, 'Wait a minute, Rita, what you just told me, that just doesn't make any sense, and I'll tell you why.' I can give an intelligent push back, but the people who don't have the experience are just going to sit there and basically take notes."

In December 1990, when prosecutors say Crundwell opened a bank account in the city's name to funnel money for her own use, the auditor was Clifton Gunderson, one of the largest accounting firms in the country.

The firm continued to do the audits until 2007, when, the mayor said, it recommended that Samuel S. Card, a Sterling CPA, take over. Clifton Gunderson, now CliftonLarsonAllen, continued to prepare the financial statements.

In the past three audits, Card submitted a 2-page report on internal controls, but it clearly lays out that he is not commenting on the quality of the controls, just that he used the controls in designing the auditing procedures.

In the reports going back 6 years, Sinason said he could not find anything beyond those reports.

Sauk Valley Media requested letters to management that can, but are not required to, accompany the reports. These letters tend to lay out issues beyond the scope of the audit. The city of Dixon said it did not have such letters. Card has not returned multiple calls for comment, and so could not confirm whether there are any other letters or communication that discuss the city's controls.

The secret account

The reason Mayor Jim Burke ended up going to the FBI was that City Clerk Kathe Swanson came to him with a bank statement from an account both said they didn't know existed.

But Sinason said the auditor should have come across it long before October.

A standard part of the auditing process, he said, is sending out bank confirmation letters, asking to see a list of accounts. But beyond that, Sinason said, the auditor also should ask if there are any other banking relationships with the entity.

"If they had said, 'Send us all banking relationships,' they would have found this account earlier," Sinason said. "Or they did say that, they got this account and they didn't do anything with it. Again, without looking at the confirmations, I don't know."

Confirmations are part of the auditor's working papers, which are not public documents.

While Golden said he sends letters like that while doing audits – he'll even send them to every bank in town – they're not required.

"The great thing about auditing is they have standards to follow, generally accepted auditing standards, and if they're following those standards, then they really do and should absolve themselves of liability," he said.

The secret account, which prosecutors say was jointly held with "R.S.C.D.A., C/O Rita Crundwell," should have been more of a red flag for the bank, Golden said.

"City officials can't do anything about her opening a bank account. Right? They don't know. Anybody can open a bank account, but the bank knows. I'm kind of curious as to why the bank didn't say something, why that wasn't a red flag for the bank," Golden said.

At the time the account was opened, in 1990, the bank was First Bank South, according to the indictment. A series of banks followed, ending with the current owner, Fifth Third Bank.

Checks made out to 'Treasurer'

Over the 6 months the FBI was investigating Crundwell, 19 checks were written, amounting to nearly \$3.6 million. According to the criminal complaint, they were made out to 'Treasurer.'

"This is a huge red flag in an audit, that somebody's writing checks to themselves," Sinason said. "These checks should have been scrutinized very heavily, and they should have been traced to where they were going. If they were traced to where they were going and they were going to this secret account, this secret account should have come up."

"But who's seeing that?" Golden countered. "Sounds like she's the only one seeing that. Can't be a red flag if you don't see it, which goes back to the other control issue is, Why does she do everything without appropriate monitoring?"

If anything, he said, that should have been a red flag for the bank.

The auditor was shown falsified invoices from the state to account for the missing money, according to the indictment.

Her 'lavish lifestyle'

Among the items seized following Crundwell's arrest April 17 were a \$2.1 million motor home, a 2000 20-foot Playbuoy Pontoon Pleasure Boat, a 1967 Chevrolet Corvette Roadster and jewelry.

Prosecutors say Crundwell used city funds to buy these items and fund her "lavish lifestyle," including operating a horse ranch.

This should have been a clue for the Dixon City Council that something wasn't right, Sinason said.

"All they had do was speak to anybody else in the horse business," he said. "The horse business is a terrible business to be in. It's a money pit."

But Golden pushed back.

"When you're talking about a woman who has operated for a couple of decades or longer, it was in 1990 that people ... should have become suspicious," he said.

"It probably was reasonable to suspect that, 'Well, I've only known Rita for 4 years, but I know she's been in this horse breeding for a long time. She's one of the top people in the country. Clearly, she makes all her money that way.'"

And that's what city officials have said, that they just thought she was independently wealthy. Crundwell made between \$53,000 and \$70,000 a year between 2001 and 2010, depending on how much unpaid vacation she took.

But for Sinason, this was just one more thing the council didn't question Crundwell on.

"Somebody puts you in government, in a position of authority, in a position to watch out for the government, you can't just say, 'Oh, OK,'" he said. "This person – everybody just believed and trusted what she said to them without anybody questioning what she said."