Comptroller, horse lady and crook, Part 1 of 2

How one woman (allegedly) embezzled $53 million
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As the comptroller for the small town of Dixon, Ill., since 1983, Rita Crundwell managed all financial aspects of the city funds, including transferring money between accounts, writing checks and authorizing payments. Her salary was $80,000 per year, but she enjoyed a lavish lifestyle and was a nationally known horse breeder. After a city clerk found a problem in the city's accounts, the mayor contacted the FBI. Six months later, agents arrested Crundwell. She has pleaded not guilty to misappropriating more than $53 million in city funds.

Rita Humphrey was 17 when she began working for the Dixon, Ill., city hall in 1970 as part of a work program for high school students. She was an honor roll student, a homecoming attendant and had participated in 4-H activities. After graduating, she had planned to attend a community college, but she stayed at city hall and became a clerk. In 1971, she won second place in a halter horse category at the county fair and her passion for equines grew. Her family once showed and bred horses, and she wanted to revive the family's name.

On Oct. 12, 1974, Rita married Jerry Crundwell. The marriage lasted nearly 12 years, but she filed for divorce in April of 1986, citing mental abuse and alleging that the couple engaged in frequent arguments. A judge granted the divorce two months later.

RITA THE COMPTROLLER

In 1983, Rita Crundwell became Dixon's comptroller when the previous comptroller retired. Walter Lohse, the city's finance commissioner and council member, recommended Rita for the position. She had told Lohse that she thought she'd be a good candidate because of her years of city hall experience.

Dixon, a city of 15,000, 100 miles southwest of Chicago, had an annual budget of less than $9 million a year in 1983. Crundwell now managed the finance and accounting departments and supervised two clerks. In the next few years, the city endured several financial shortfalls, but Crundwell would always say they were caused because the state often owed the city funds. City officials believed her after each annual financial audit. Through the years, her knowledge of accounting and the maintenance of city accounts increased. She knew more about city financial matters than any of the council members. They trusted her and believed her explanations.

In December 1990, Rita opened an account at the Fifth Third Bank of Ohio in the name of the City of Dixon and RSCDA, c/o Rita Crundwell, known as the RSCDA account. The city normally maintained these accounts: corporate fund, sales tax fund, capital project fund, motor fuel fund, money market and capital development fund.

Between December 1990 and April 2012, investigators say Crundwell used her position as comptroller to transfer funds from the Dixon's money market account to various other city bank accounts. Crundwell allegedly repeatedly transferred city funds into her RSCDA account and used the money to pay for her own personal and private business expenses, including horse-farming operations, personal credit card payments, real estate and vehicles.
THE CREATION OF AN EMPIRE

Throughout the 1980s and early 1990s, Crundwell appeared to live modestly and within her salary. During the day, she often would travel back and forth between her job and her modest farm to help with chores. In 1978, Rita began showing quarter horses at the regional level. In 1985 she won both the Indiana State Quarter Horse Championship and the National Texas Classic State Hunter Under Saddle Championship. In 1989, Crundwell purchased three horses.

In the late 1990s she moved onto the national level in the quarter-horse industry and began construction projects on her properties to develop her dream of building a first-class, horse-farming business.

She made massive changes on a 6.9-acre, single-family home property she inherited from her mother's death. In 1997, she built horse stables on the property, and in 2000 she completely overhauled the house. She more than doubled the living space to 3,484 square feet. She also added an in-ground pool.

Crundwell then bought, in installments, the 87.8-acre RC Quarter Horses (later known as Rita's Ranch), in Dixon, from a family member, Richard A. Humphrey, for $540,000. She paid the first installment in 2002 and the second final installment in 2011.

In 2006, she built on the property a 19,584-square-foot horse barn that included an arena, an office, stalls and storage space.

Then in 2007, she bought another 43 acres. She removed the existing house on the property and built a new two-story house. Crundwell also bought 81 acres of farmland and a 7.5-acre ranch in Beloit, Wisc.

Crundwell had built an empire for breeding and showing championship horses. She used her company, RC Quarter Horses LLC, to initiate and authorize her business transactions.

A CHAMPION DEVELOPS IN THE QUARTER-HORSE WORLD

Crundwell now was one of the nation's top breeders of quarter horses. (Quarter horses are so named because they can run short straightaways — a quarter of a mile — very fast. The best of the quarter horses can typically run 440 yards in about 21 seconds or less.) Her program produced 52 world champions in exhibitions run by the American Quarter Horse Association (AQHA).

The AQHA is the world's-largest equine breed registry and membership organization. Crundwell was the leading champion at AQHA World Show exhibitions in Amarillo, Texas, for the past eight years.

Crundwell would typically compete in the halter class category, in which she would display her horse's beauty and gait by leading it by hand around the arena. The prize amounts were only from $2,500 to $5,000, but the publicity for Crundwell's business was priceless. And that's how she became the top breeder in the nation.

A FRAUD DETECTED

Crundwell had four weeks of yearly paid vacation time with her city job. However, in the fall of 2011, she took 12 weeks of approved unpaid leave in addition to her paid leave. A city employee replaced her during her leave. During that time, a bank statement came in the mail for a Fifth Third Bank account ending in 9530.

Crundwell's interim replacement determined that the transactions in that account had nothing to do with City of Dixon business. She notified Dixon's mayor, James G. Burke; he didn't know the account even existed.
Burke notified the FBI, which then got involved because the account was established in Ohio, and the transfers of funds crossed state lines. Analysis of the September 2011 statement showed three deposits: $225,000 on Sept. 6, $210,000 on Sept. 13 and $350,000 on Sept. 27.

The statement also revealed that 40 withdrawals were made from the account, totaling $266,605.70, and 84 checks had been written from the account, totaling $360,493.13. The City of Dixon was listed as the primary account holder with a joint holder listed as RSCDA. Investigators examined the checks written from the 9530 account and found the joint account holder was listed as RSCDA, c/o Rita Crundwell.

Investigators clarified the scheme after they researched all the accounts the city maintained during September 2011 and March 2012. The city had a US Bank money market account (ending in 1128) in which $2,783,912 in tax funds was electronically deposited from September 2011 to February 2012. The distributions came from The Illinois Funds, a local government investment pool that deposits cities' shares of distributions made by the State of Illinois.

The $2,783,912 represented Dixon's share for municipal 1 percent sales tax, local income tax, non-home rule sales tax, personal property replacement tax, motor fuel tax, local state use tax and simplified municipal telecommunications tax.

Crundwell allegedly used four city accounts to move money into the 9530 account. The accounts she allegedly used were the corporate fund (ending in 2563), the sales tax fund (ending in 8373), the motor fuel fund (ending in 3675) and the capital development fund (ending in 7503). The motor fuel fund account was a Midland States Bank account, and the other three were Fifth Third Bank accounts. She wired $3,039,000 from the money market account and distributed it among the four accounts listed above.

Between September 2011 and January 2012, Crundwell wrote checks and deposited them into the capital development fund (7503 account). She wrote these checks from the corporate fund (2563 account), the sales tax fund (8373 account) and the capital project fund (0066 account). The amount transferred during this time period totaled $1,244,253.

Crundwell then wrote 19 checks from the capital development fund (7503 account) between September 2011 and March 2012. She deposited the checks into the 9530 account she had created; they totaled $3,558,000 and were made payable to "Treasurer." During this same time period, a total of $3,311,860.25 was withdrawn from the 7503 account. A total of $74,274.27 was used to pay for Dixon operations. The remaining funds were used to pay Crundwell's personal credit card charges ($600,000), purchase vehicles ($67,000) and pay for expenses relating to her horse-farming business ($450,000).

Investigators expanded their search back to July 2006. They concluded that throughout this time period, Rita moved $29,421,310 from the capital development account to the 9530 account. She had also written checks totaling $794,977.43 from various other accounts and deposited them into the 9530 account. The 9530 account accrued $20,216.08 in interest throughout this time period.

Altogether, Crundwell deposited $30,236,503.51 into the 9530 account and withdrew $30,173,009.02 through online payments, withdrawals and checks. She wrote six checks totaling $153,745.93 from the 7503 account that corresponded to City of Dixon operations. These were paid to the sewage fund and the corporate fund. Crundwell used the remaining funds to pay for expenses relating to her horse business and to purchase a motor home, a tractor truck, a freightliner truck, a pickup truck and a horse trailer. She also paid $2.5 million to American Express from the 9530 account for charges she had racked up over this time period, including $339,000 in jewelry purchases.

ANALYSIS OF THE FINANCIALS
Members of the spring 2012 semester forensic accounting class at Otterbein University ("the team") obtained and analyzed City of Dixon audited basic financial statements for the fiscal year ended April 30, 2011. The city received an unqualified opinion on its financial statements; no control weaknesses were included in the audit report. However, the team noticed deficit spending within the city's general fund and how other funds had been loaning the general fund money to cover expenses for at least two years.

The team also noticed in the audit report that the City of Dixon didn't include the Management's Discussion and Analysis section, which had been required under GASB 34 for at least six years. In this section, the city's management would discuss the city's financial situation and if it was improving or declining. It's unclear why the city chose not to include this section.

Dixon maintained multiple bank accounts at Fifth Third, Midland States and US Bank. Records indicate the city maintained the following accounts between September 2011 and March 2012:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Account Details</th>
<th>Last Four Digit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fifth Third</td>
<td>corporate fund account</td>
<td>2563</td>
</tr>
<tr>
<td>Fifth Third</td>
<td>sales tax fund account</td>
<td>8373</td>
</tr>
<tr>
<td>Midland States</td>
<td>capital project fund account</td>
<td>0066</td>
</tr>
<tr>
<td>Midland States</td>
<td>motor fuel fund account</td>
<td>3675</td>
</tr>
<tr>
<td>US Bank</td>
<td>money market</td>
<td>1128</td>
</tr>
<tr>
<td>Fifth Third Bank</td>
<td>capital development fund account</td>
<td>7503</td>
</tr>
</tbody>
</table>

Between September 2011 and February 2012, Rita wired $3,039,000 out of the 1128 account and into other city accounts:

<table>
<thead>
<tr>
<th>Amount</th>
<th>To Account</th>
<th>Fund Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,788,000</td>
<td>7503 account</td>
<td>capital development fund</td>
</tr>
<tr>
<td>$796,000</td>
<td>2563 account</td>
<td>corporate fund</td>
</tr>
<tr>
<td>$255,000</td>
<td>8373 account</td>
<td>sales tax fund</td>
</tr>
<tr>
<td>$200,000</td>
<td>3675 account</td>
<td>motor fuel fund</td>
</tr>
</tbody>
</table>

Between September 2011 and January 2012, Rita issued checks payable to "Capital Development Fund" and had them deposited into the 7503 account:

<table>
<thead>
<tr>
<th>Amount</th>
<th>From Account</th>
<th>Fund Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>$950,000</td>
<td>2563 account</td>
<td>corporate fund</td>
</tr>
<tr>
<td>$120,000</td>
<td>8373 account</td>
<td>sales tax fund</td>
</tr>
<tr>
<td>$174,253</td>
<td>0066 account</td>
<td>capital project fund</td>
</tr>
</tbody>
</table>

In total, $2,522,253 in wires and checks were deposited into the 7503 account during this time frame.
The city's basic financial statements and operating statement for the year ended April 30, 2011 shows that the capital development fund generated $60,036 in revenue for the year but incurred $6,319,444 in expenditures. Even after transfers of $5,308,000 from other funds, the city showed a year-end deficit balance in that fund of $1,759,292. This is an additional $272,408 deficit added onto the prior year.

The inter-fund transfers/balances footnote (Figure 1 below) shows the magnitude of transfers that occurred among the city's funds to cover various deficits. These transfers totaled $14,049,418 during the year ended April 30, 2011. The city's general fund alone owed various funds $6,455,658. As of April 30, 2011, the city's general fund had a negative balance of $5,701,736. When you combine this with the $6,455,658 it owed other funds, it created a $12,157,394 deficit.

The capital asset note (Figure 2 below) shows additions of $7,968,180 — $6,450,053 of which is related to infrastructure. The capital outlay expenditures in the capital development fund on the operating statement were $5,376,412. When this is rolled into the full accrual statement of activities, cemetery expenses dropped to $256,459.
The city's high capital asset value ($91,983,964 entity wide, net of accumulated depreciation) allowed them to have a healthy net asset balance.

Figure 2

In the November/December issue: The horses take a nasty fall.

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Members of the Forensic Accounting Class, Spring Semester 2012, Otterbein University:

**Vincent Alger** is a junior working toward a Bachelor's of Arts in Accounting.

**Kevin Genter** graduated in May with a Bachelor's of Arts in Accounting.

**Nichole Lawhorn** is working toward a Master's of Business Administration in Business major and is enrolled in the Fraud Concentration. She's an associate member of the ACFE.

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