

No Easy Road to Recovery

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Background

On a pleasant Saturday afternoon, John Martin, the chief financial officer of the city of Oakdale, was cleaning out the gutters on his house. He waved at the city police car that drove by his house even though he could not tell which officer was in the car. As he took the wheelbarrow full of leaves and debris to the disposal bin near the curb, he was surprised to see the police car parked at the end of the block and even more surprised to see two unmarked cars parked there too. Before he had time to wonder what was going on, a man in a dark suit approached him and asked if he was John Martin. When he replied in the affirmative, the gentleman identified himself as an FBI field investigator and proceeded to arrest John Martin on federal charges of embezzlement.

Meanwhile, down at Oakdale city hall, City Manager Reva Reed, City Attorney Tad Walsh, and Chief of Police Derek LaBelle were putting the finishing touches on the press release that they would issue momentarily. A short while later the city manager and police chief made official statements on behalf of the city, but they refused to answer any questions posed by a local reporter, Erica Fenmore, beyond the content of their prepared statement. It did not take Fenmore long to start contacting local elected officials by telephone. Despite warnings from the city attorney and the FBI to the mayor and council, speculative statements were made to the media by council members as to whether other employees were involved in wrongdoing. The risk of jeopardizing the case against the CFO was ignored by everyone except the mayor.

On Monday morning, the atmosphere at city hall was dismal. City Manager Reed called a meeting with all employees, but under advice of counsel she could not openly share any meaningful details. She assured them that the city would survive this terrible blow and advised them to go about their normal routines in the professional manner she knew they were capable of demonstrating. Despite the encouraging words of the city manager, the morale of city employees was at an all-time low. Everyone felt hurt and betrayed by the CFO's arrest and thought that citizens would no longer respect or trust city employees. Some could not believe that their good friend John Martin could be guilty of any wrongdoing. Many employees could point to times when John had stepped in to help them with both professional and personal problems. Although not admitting any wrongdoing initially, the accused CFO stated publicly that his actions should not be a reflection on the elected leadership of the city or the city manager. Unfortunately, this did little to help the situation at city hall or the morale of city employees.

In the weeks that followed, intense media scrutiny of Oakdale city hall continued as the case against the CFO unfolded.

The Case

City Manager Reva Reed and Mayor Chandler Dixon had a good working relationship. Reed had held her position with the city of Oakdale for the past ten years. She had also served as city manager in two other midsize cities in the region and had come to this position with a stellar reputation. In total, she had served for more than twenty-five years in local government management positions. Although new to politics, the mayor came from a local family with a long history of public service in the community. The other council members had served longer in their respective positions, and disagreements often ran deep but were seldom acrimonious.

The city manager's relationship with the CFO, John Martin, was no different from her relationships with other department heads. Martin was organized and professional and had good working relationships with his staff members. After many years in the private sector, he had started working for the city about five years before Reed was hired. Until she learned of the suspected embezzlement, Reed had no reason to doubt Martin's professionalism, honesty, ethics, or integrity.

The embezzlement had been brought to light by a new finance department employee who noticed an accounting discrepancy in one of the municipality's special revenue accounts and called the bank to inquire about it. The bank provided a copy of the canceled check to the finance department employee, who quickly noticed a much bigger problem involving the endorsement on the check. The bank, after a few more days of looking into questionable deposit transactions, called City Manager Reed, and she in turn called Police Chief LaBelle. Reed's next call was to Mayor Dixon.

Chief LaBelle almost immediately brought the FBI into the investigation process. However, the city manager and mayor were advised to carry on as usual while the FBI investigated Martin so that the CFO would not be tipped off. Two days before the arrest was made, the full city council was informed of the charges that would be made against the CFO, and they were told by the FBI that it did not appear anyone else was involved. Again, the FBI requested that nothing be done or said to alarm Martin.

However, once the arrest was made, it became apparent there would be no business as usual. The council wanted answers and assurances that nothing similar could occur in the future.irate citizens monopolized every public meeting, impeding the resolution of even routine agenda items. The mayor and council were bombarded at home with calls from citizens demanding a change in top management.

As the investigation evolved, it was revealed that the CFO had been embezzling from the city for more than twelve years—nearly since the time he was hired—by simply bypassing the accounting system. Even though all city accounting and bank records did not date back that far, the investigators were able to assemble enough information to substantiate the length of time of this abuse. The amount of money that had been embezzled was harder to pinpoint.

Essentially, the CFO used his position to misappropriate payments made to the city: he diverted incoming checks to a special bank account that he had set up under the name of an existing city entity. The account was set up at a bank that was not the main bank for city accounts, although it did handle some of the city's business. The checks were never entered into the city's financial accounting system. Bank statements were sent to the CFO at a post office box under the name of a property controlled by the entity. The diverted checks were for a tax that businesses paid quarterly to the city. The revenue fluctuated from year to year; there-

fore, no red flags were raised for the city or its auditors when that particular fund showed fluctuating revenues. The CFO diverted checks randomly: some checks were for very small amounts, others for more substantial amounts—again, a pattern that did not raise red flags for the bank. This fact made it difficult to discover how much money had been taken. However, it was soon evident that even a conservative figure topped several million dollars.

In the weeks following the arrest, staff members introduced procedural changes that would prevent mishandling and misappropriation of funds in the future. Council members pledged to work tirelessly to prevent future abuses of the system. There was also a call to rewrite and strengthen the city's code of ethics. Additionally, there was strong criticism of the city manager, Reva Reed, and her lack of knowledge that such problems existed. Although the council initially had not taken a formal position on the public criticism of the city manager, as time went on it became evident that the council was split on whether to ask for her removal. Two members placed an item to discuss this issue on the agenda. Mayor Chandler Dixon was outraged and thought that such an unfounded action would only harm the city's already compromised reputation.

As the next council meeting approached, City Manager Reed found herself facing vocal pressure from the council to resign or retire or to risk being fired. In considering her situation, she also considered the problems the city faced—finding her replacement, replacing the ousted CFO, securing changes to the handling of revenues, and rebuilding employee morale.

The Decision Problem

With the discussion of her leadership on the agenda for the council meeting to be held in two days, the city manager had 48 hours to decide how to proceed. Should she force the council to fire her—or resign? If she gave into the demands of the council to leave, what message would her resignation or “retirement” send to the citizens, to the honest people who worked for the city, to the mayor and council members who supported her, to other cities within the region, and to state officials? Conversely, what message would her dismissal send? If she decided to leave, what should her next step be? Could she leave her job with the assurance that the city employees and the public would be involved in selecting her replacement in a way that would help to restore public confidence and raise the morale of the employees? How could she lead the city, the council, and the citizens through this difficult time if she decided to leave?

As Reed thought through her alternatives, her first instinct was to stay put and force the council to decide whether to fire her. However, she knew that if faced with being forced out, she would much rather resign or retire on her own terms. She then would be able to make some suggestions to the mayor that might ease the transition. For example, she could ask the mayor to name an interim city manager, perhaps by drawing on the expertise of an ICMA Range Rider or suggesting a promotion of someone from within to the position of interim city manager. Additionally, she could suggest the hiring of an outside consulting firm to help with the selection process of a new city manager.

Reed was too wise not to realize that she was replaceable. Her reluctance to leave was grounded partly in the knowledge that this problem had occurred on her watch and partly on her desire not to abandon the city. Whether or not this was a rational assessment of the situation, she felt an overwhelming sense of responsibility to fix the myriad problems that had surfaced as a result of the arrest of the CFO. The clock was ticking. What should she do? What would she do?