

SAMPLE FRAUD EXAMINATION REPORT

TO: [NAME] HAL B. MARLOW
[TITLE] CHIEF EXECUTIVE OFFICER

FROM: [NAME] LOREN D. BRIDGES
[TITLE] CERTIFIED FRAUD EXAMINER

RE: [SUBJECT LINE] EXAMINATION OF POTENTIAL ASSET
MISAPPROPRIATION

DATE: [REPORT DATE] MAY 23, 2009

I. Background

[The background section should generally be about two paragraphs. It should state very succinctly why the fraud examination was conducted (e.g., an anonymous tip was received, an anomaly was discovered during an audit, money or property was missing).

You may also state who called for the examination and who assembled the examination team.]

On January 28, 2009, the fraud examination unit at Bailey Books received an anonymous telephone call on its fraud hotline from an unidentified man who claimed that he was a former supplier to Bailey. The caller alleged certain improprieties in the bidding and procurement process.

Based upon this initial predication, a fraud examination was conducted, which included reviews of relevant records and interviews of appropriate personnel.

II. Executive Summary

[For a simple fraud examination, the executive summary should be no more than four or five paragraphs. For a more complex case, the summary may reach a page in length.

In this section, you should also summarize what actions you performed during the fraud examination, such as reviewing documents, interviewing witnesses, conducting analyses or tests, etc. It provides the reader with an overview of what you did during the examination process.

At the end of this section, you should summarize the outcome of the examination. For example, “\$50,000 in checks was deposited into an account owned by Bob Wilson. When confronted with this information, Wilson stated that he had only borrowed the money and meant to pay it back.”]

The fraud examination commenced when Loren D. Bridges, CFE, received a telephone call from an unidentified man who said that he had been a long-term supplier to Bailey for sundry office supplies and paper. The caller said that ever since Linda Reed Collins had taken over as Purchasing Manager, he had been gradually “squeezed out” from doing business with Bailey.

Linda Reed Collins has been employed in the purchasing department of Bailey Books since June 1, 2004. She was promoted to Purchasing Manager effective November 8, 2006.

The Fraud Examination Team reviewed selected purchases from 2006 to 2007 and conducted interviews of key participants and Bailey employees who we believed may have information regarding the misappropriation of assets. The Team reviewed purchasing guidelines, personnel files of interviewees, and various financial documents relating to both Bailey Books and Linda Reed Collins.

After obtaining sufficient documentation, the Team interviewed Linda Reed Collins, who gave a full signed confession to her misdeeds.

III. Scope

[This section should consist of just one paragraph explaining what the scope of the fraud examination was. For example, “Determine whether or not inventory was misappropriated from the warehouse,” or “Determine why money is missing from the bank account.”]

The objective of the Fraud Examination Team was as follows:

- Determine the existence of a possible misappropriation of assets of Bailey Books, Incorporated. The examination is predicated upon an anonymous telephone call alleging improprieties on the part of Linda Reed Collins, Bailey’s purchasing manager.

IV. Approach

[This section gives a brief description of the following items:

- Fraud examination team members
- Procedures (generally what documents were reviewed or what tests were conducted)
- Individuals interviewed

It provides a handy reference as to who was involved in the fraud examination, what the team reviewed, what tests or analyses were conducted, and what individuals the team interviewed.]

Fraud Examination Team Members

Loren D. Bridges, CFE, Bailey Books; Tonya Vincent, CFE, Bailey Books

Procedures

As part of the examination of this matter, the Team took the following actions:

- Obtained, reviewed, and analyzed memoranda pertaining to the anonymous call described previously.
- Obtained, reviewed, and analyzed Bailey Books' financial documentation, including purchase records, invoices, and canceled checks.
- Obtained, reviewed, and analyzed records from the St. Augustine County Courthouse regarding civil actions in which Edward J. Collins and Linda Reed Collins were named; records from the Florida Secretary of State's Office regarding Collins Marine Corporation; records of chattel mortgages held by Linda Reed Collins and Edward J. Collins; financial records from Dun & Bradstreet regarding Collins Marine Corporation; and public records regarding the financial condition of Linda Reed Collins and Edward J. Collins.
- Conducted surveillance activity in order to determine whether the two key individuals in the matter were involved in an illicit relationship.

Individuals Interviewed: The following individuals were interviewed in person by members of the Fraud Examination Team:

- Mark W. Steinberg, CPA (Chief Financial Officer, Bailey Books)
- Roger Donald McGuire (Purchasing Agent, Bailey Books)
- Mary Rodriguez De La Garza (Purchasing Agent, Bailey Books)
- Sara Louise Dawson (Former Employee, Bailey Books)
- Thomas C. Green (Attorney, Sharp, Green and Langfrom, P.A.)
- Lincoln S. Wyzokowski (General Counsel, Bailey Books)

- Becky Robinson (Accounts Payable Clerk, Bailey Books)
- Ernie Quincy (Warehouse Manager, Bailey Books)
- David Levey (Director of Sales, Jerrico International Paper Company)
- James R. Nagel (Sales Representative, Orion Corporation)
- Owen Stetford (Chief Financial Officer, Orion Corporation)
- Linda Reed Collins (Purchasing Manager, Bailey Books)

V. Findings

[This section contains the details of the fraud examination. It will generally consist of several pages. In this section you should describe what tasks you performed and what you found. Provide enough detail so that the reader understands what occurred, but not so much detail that the reader begins to lose interest or becomes bogged down in the details. The reader wants to know how many invoices were forged, who was involved, how did they do it, what proof do you have, etc.]

If the findings section is long, you may wish to use subheadings for particular topics or individuals to make it easier for the reader to stay organized.

The information can be presented either chronologically or by topic — whatever makes it easier for the reader to follow.]

Based on the documents reviewed, information collected, and interviews conducted during the course of the fraud examination, the Team finds as follows:

- Did the Fraud Examination Team determine the existence of a possible misappropriation of assets of Bailey Books Incorporated?

Yes. The documents and information reviewed and interviews conducted by the Fraud Examination Team during the course of the examination indicate that Linda Reed Collins, together with James R. Nagel, did knowingly embezzle approximately \$197,773 from Bailey Books over four years. During the fraud examination, the Team analyzed financial documents and conducted interviews to corroborate the statements of an anonymous caller. The following is a summary of the evidence and information supporting the Fraud Examination Team's findings:

On January 28, 2009, an anonymous call was received by the fraud hotline at Bailey Books, Incorporated, from a former supplier to Bailey Books. The caller alleged that after Linda Reed Collins took over as Purchasing Manager in 2006, she eliminated him as a supplier. A subsequent

review of purchases made by Bailey Books from 2006 to 2008 showed that a continuously increasing share of the company's paper business was being given to Orion Corp., even though Orion submitted written bids in only 63 percent of the cases.

On February 1, 2009, Mark W. Steinberg, CFO of Bailey Books, Inc., was interviewed. The purpose of the interview was to inform him of the proposed fraud examination, obtain his approval, and secure information from him regarding the purchasing process at Bailey Books. In addition to summarizing his responsibilities regarding purchasing at Bailey Books, Mr. Steinberg stated that in December 2006 he sent a memo to all the division heads at Bailey Books informing them that all purchases over \$50,000 would from then on require at least three written bids.

We next examined the personnel records. A review of Linda Reed Collins's file showed only that she had been consistently rated "exceptional" by her supervisors in annual reviews.

On February 4, 2009, an interview was conducted with Roger Donald McGuire, Purchasing Agent at Bailey Books. After summarizing the purchasing process at Bailey Books, he stated that he had no knowledge of any improprieties committed by Ms. Collins.

The next interview conducted was with Mary Rodriguez De La Garza, a coworker of Ms. Collins's in the Purchasing Department at Bailey Books. During the interview Ms. De La Garza stated that, regarding the purchasing process, it is sometimes not practical to obtain bids, such as in emergency situations or when they are short on time. She went on to reveal that she had suspected Ms. Collins was having an affair with James R. Nagel, the salesman for Orion Corp. In addition, Ms. De La Garza said she believed that Ms. Collins and her husband were having marital and financial problems. She also mentioned that Sara Louise Dawson, a former employee under Ms. Collins, had left on bad terms.

The next interview was with Sara Louise Dawson, who wanted to consult with her attorney before making an official statement. Ms. Dawson's attorney, Thomas C. Green, later contacted the Fraud Examination Team to let them know that Ms. Dawson was interested in making a statement, but only in exchange for an indemnity against all claims arising out of her cooperation. After meeting with Mark Steinberg and Lincoln S. Wyzokowski, General Counsel at Bailey Books, Ms. Dawson's and Mr. Green's proposal was accepted.

On March 3, 2009, Ms. Dawson made her statement, which included the following:

- After Ms. Collins was promoted to Purchasing Manager, she began favoring Orion Corp. for paper purchases.
- On two occasions in 2008, Ms. Collins authorized prepayment on substantial purchases from Orion, even though Ms. Dawson had complained about Orion's poor quality and service. Later Ms. Dawson found out that the orders were never received.
- Other vendors had complained of being squeezed out of business with Bailey Books after Ms. Collins became manager.

Ms. Dawson referred the Team to Becky Robinson in Accounts Payable for further information about the orders. Ms. Robinson was interviewed and provided copies of the two prepaid invoices to Orion Corp., the amounts of which were \$102,136 and \$95,637. In addition, Ms. Robinson said that Ernie Quincy in Receiving would be able to verify if the two shipments had ever been received.

On April 8, 2009, Ernie Quincy, the Warehouse Manager at Bailey Books, was interviewed and verified that the two shipments in question were never received. The next day, copies of the two checks given to Orion Corp. for payment of the goods that were never received were examined.

An interview with David Levey from Jerrico International Paper Company yielded the following information:

- At the time Levey began at Jerrico, Bailey Books was a major customer of theirs, but since then their sales to Bailey had dwindled.
- Levey attempted to revive business with Bailey Books, but by then rumors were circulating about an inappropriate relationship between Mr. Nagel of Orion Corp. and Ms. Collins.
- According to Levey, Mr. Nagel had a "bad reputation" in the industry.

Ms. De La Garza phoned the Team on April 13, 2009, to let them know that Ms. Collins had plans to meet Mr. Nagel at the bar at the Hotel Atlantic that afternoon. The Team set up surveillance of their meeting and reported that Ms. Collins and Mr. Nagel met at 5:55 p.m. and ordered drinks. They held hands under the table, kissed, and left the bar at 7:02 p.m. to go to room 652.

A review of St. Augustine County records showed that Edward J. Collins (Ms. Collins's husband) was a defendant in three civil actions. The circumstances of the actions indicated that the Collinses were having financial troubles.

A review of the Florida Secretary of State's records showed that the Collinses were the incorporators of Collins Marine Corporation.

A review of UCC filings showed that the Collinses had three liens in their name.

A net-worth analysis was performed on the Collinses based on information assembled from public records. It showed unexplained income of \$31,632.

In an April 19, 2009 interview, Mr. Nagel stated that his relationship with Ms. Collins was purely professional and denied any improprieties regarding Orion's business with Bailey Books. Mr. Nagel also refused to provide any of Orion's financial information pertaining to the two invoices in question.

On April 21, 2009, Owen Stetford, the CFO of Orion Corp., was interviewed and stated he was unable to provide any copies of actual financial information, but that Orion had no record of any receipt of payment for the invoices in question, nor any record that such orders had been placed or shipped. In addition, Mr. Stetford said that Orion had no corporate accounts at Florida Marine National Bank, the bank at which the checks from Bailey Books were deposited. Mr. Stetford also stated that the correct corporate name is Orion Corporation, not Orion Paper Company, as the endorsements indicated.

On May 1, 2009, Mr. Nagel was again interviewed. After being confronted with questions and evidence regarding the two payments and the bank account to which they were deposited, Mr. Nagel voluntarily gave a statement attesting to his involvement with Ms. Collins in the embezzlement of funds from Bailey Books. He attested to the following:

- In 2008, Ms. Collins told Mr. Nagel that she would approve the payment of invoices to Orion Corp. for product that would not be delivered. Ms. Collins authorized the payment of two invoices in the amounts of \$102,136 and \$95,637, but no product was shipped on the invoices. Ms. Collins and Mr. Nagel established a bank account in the name of Orion Paper Company at Florida Marine National Bank and divided the proceeds of the invoices equally.

On May 1, 2009, Ms. Collins voluntarily gave a statement, which included the following:

- Ms. Collins stated that, starting in 2007, she accepted money from Mr. Nagel to ensure that Orion Corp. received preferential treatment in supplying Bailey Books with stationery and paper products. On those occasions, she was aware that Bailey Books was not obtaining the

best product at the lowest possible price from Orion; in other words, the price charged was substantially higher than market value.

- Ms. Collins stated that on two occasions in 2008, she authorized the payment of invoices for \$102,136 and \$95,637 without any receipt of merchandise.
- Ms. Collins estimated that she had received in excess of \$150,000 in connection with Mr. Nagel.

VI. Summary

[This section should be one or two paragraphs and should succinctly summarize the results of the fraud examination. It should be similar to the outcome stated at the end of the Executive Summary section.]

This report reflects that Linda Reed Collins, a purchasing agent for Bailey Books, Inc., furnished a signed statement on May 1, 2009, indicating she had accepted at least \$197,773 in commercial bribes and other illicit income in a conspiracy with James R. Nagel, an account representative for Orion Corporation, St. Augustine, Florida.

The statements made by Collins are corroborated by the documentary evidence and the interviews of other witnesses as described herein.

VII. Impact to Bailey Books

[This section should be one or two paragraphs and should succinctly summarize the results of the fraud examination. It should be similar to the outcome stated at the end of the Executive Summary section.]

Over the course of four years, Linda Reed Collins, in partnership with James R. Nagel, misappropriated an estimated \$197,773 from Bailey Books, Incorporated.

Additional amounts were lost due to Bailey's overpaying for merchandise sold to it by Nagel. Those amounts have not been calculated.

VIII. Recommendations

[This section is optional. There may be instances where you wish to discuss remedial measures or specific recommendations in a separate document. If you do wish to include this section, you should state what follow-up action is necessary or recommended, including remedial measures such as a review of internal controls, introduction of a hotline, increased security, etc.]

It is the policy of Bailey Books to report such matters to the appropriate authorities and to assist in criminal prosecution. A full review of internal controls should be conducted to determine how such incidents can be detected in the future.

End of Report