

**SAMPLE FRAUD EXAMINATION REPORT  
[LONG FORM]**

**Bailey Books, Incorporated**  
6200 Bayshore Drive  
St. Augustine, FL 32082

Personal and Confidential

May 23, 20XX

Lt. Jason Fishbeck  
St. Augustine Police Department  
382 Harbor View Circle  
St. Augustine, FL 32084

Re: Linda Reed Collins (File 08-4422)

Dear Lt. Fishbeck:

Attached is my report of a fraud examination dated May 23, 20XX, with respect to the above captioned matter.

The report reflects that Collins, a purchasing agent for Bailey Books, Inc., furnished a signed statement on May 1, 20XX, 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. Orion is a supplier of paper and related products to Bailey Books.

If proved in judicial proceedings, Collins and Nagel could be in violation of Title 7, Section 323A of the Florida Criminal Code (Commercial Bribery).

It is the policy of Bailey Books to report such matters to the appropriate authorities, and to assist in criminal prosecution. Accordingly, we would be willing to supply assistance, documentation, and expertise to your department in the resolution of this case.

If I might be of assistance, please do not hesitate to call.

Sincerely,

Loren D. Bridges  
Certified Fraud Examiner

**Bailey Books, Incorporated**  
6200 Bayshore Drive  
St. Augustine, FL 32082

Personal and Confidential

May 23, 20XX

Mr. Hal B. Marlow  
Chief Executive Officer  
Bailey Books Incorporated  
6200 Bayshore Drive  
St. Augustine, FL 32082

Re: Linda Reed Collins

Dear Mr. Marlow:

We have conducted a fraud examination concerning a possible misappropriation of assets of Bailey Books, Incorporated. This examination was predicated upon an anonymous telephone call alleging improprieties on the part of Linda Reed Collins, Bailey's purchasing manager.

Our examination was conducted in accordance with lawful fraud examination techniques, which include—but are not limited to—examination of books and records, voluntary interviews with appropriate personnel, and other such evidence-gathering procedures as necessary under the circumstances.

During the pendency of this examination, Ms. Collins and her confederate, James R. Nagel of Orion Corporation, voluntarily furnished signed statements indicating that they misappropriated at least \$197,773 to their personal benefit.

Based upon the results of our examination and the confessions of Ms. Collins and Mr. Nagel, these actions, if proved in a court of law, could constitute a violation of criminal and/or civil law.

Very truly yours,

Loren D. Bridges  
Certified Fraud Examiner

# Bailey Books, Incorporated

## EXECUTIVE SUMMARY

### CONFIDENTIAL

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Linda Reed Collins has been employed in the purchasing department of Bailey Books since June 1, 2006. She was promoted to Purchasing Manager effective November 8, 2008.

On January 28, 20XX, the fraud examination unit at Bailey Books received an anonymous telephone call 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. The fraud examination revealed multiple purchases by Bailey Books from Orion Corporation, the amount of which has increased significantly from 2008 to the present.

Interviews of Bailey personnel indicated that Ms. Collins might have a personal relationship with Mr. Nagel, an account representative of Orion Corporation. On May 1, 20XX, Nagel and Collins were interviewed. Both furnished voluntary signed statements indicating that they had appropriated at least \$197,773 from Bailey by establishing a fictitious vendor to which Bailey's checks were directed. The checks purported to be for supplies purchased by Bailey when in fact no supplies or other items were purchased for this amount. Nagel and Collins used the proceeds for their personal benefit.

As reflected by the attached letter dated May 23, 20XX, based on all the evidence, Collins and Nagel could be in violation of Florida criminal and/or civil laws.

Loren D. Bridges  
Certified Fraud Examiner

# Bailey Books, Incorporated

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# Bailey Books, Incorporated

## MEMO OF PREDICATION

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: ANONYMOUS TELEPHONE CALL  
DATE: JANUARY 28, 20XX

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On January 28, 20XX, at approximately 10:12 a.m., I 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—who refused to reveal his identity—said that ever since Linda Reed Collins had taken over as Purchasing Manager, he had been gradually “squeezed out” from doing business with Bailey. The caller declined to furnish additional information.

Based on the predication supplied above, a fraud examination is being commenced.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF SELECTED PURCHASES FROM 20XX to 20XX  
DATE: JANUARY 30, 20XX

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Attached is a schedule of purchases prepared from individual vendor files. The purchases reflect that Orion Corp. has received an increasing share of the paper business from Bailey over the last several years, but has submitted written bids in only 63 percent of the cases over that period.

# Bailey Books, Incorporated

## Selected Purchases 20X1–20X3

<u>Vendor</u>	<u>Items Purchased</u>	<u>Purchaser</u>	<u>20X1</u>	<u>20X2</u>	<u>20X3</u>	<u>Date of Last Bid</u>	<u>% Increase (Decrease) Previous Yr. 20X2–20X3</u>	<u>% Increase (Decrease) Previous Yr. 20X1–20X2</u>	<u>% Increase (Decrease) Prev 2 Yrs. 20X1–20X3</u>
Armour	Books	MRD	\$683,409	\$702,929	\$810,100	12/01/X1	15.2%	2.9%	18.5%
Burdick	Sundries	LRC	62,443	70,959	76,722	N/A	8.1%	13.6%	22.9%
Canon	Magazines	MRD	1,404,360	1,957,601	2,361,149	11/03/X1	20.6%	39.4%	68.1%
DeBois, Inc.	Paper	LRC	321,644	218,404	121,986	06/08/X1	(44.1%)	(32.1%)	(62.1%)
Elton Books	Books	RDM	874,893	781,602	649,188	07/21/X1	(16.9%)	(10.7%)	(25.8%)
Ferguson	Books	RDM	921,666	1,021,440	1,567,811	09/08/X1	53.5%	10.8%	70.1%
Guyford	Magazines	MRD	2,377,821	2,868,988	3,262,490	10/08/X1	13.7%	20.7%	37.2%
Hyman, Inc.	Supplies	LRC	31,640	40,022	46,911	10/22/X1	17.2%	26.5%	48.3%
Intertec	Books	RDM	821,904	898,683	959,604	11/18/X1	6.8%	9.3%	16.8%
Jerrico	Paper	LRC	486,401	111,923	93,499	08/04/X1	(16.5%)	(77.0%)	(80.8%)
Julian-Borg	Magazines	MRD	431,470	589,182	371,920	02/07/X1	(36.9%)	36.6%	(13.8%)
King Features	Magazines	MRD	436,820	492,687	504,360	11/18/X1	2.4%	12.8%	15.5%
Lycorp	Sundries	LRC	16,280	17,404	21,410	N/A	23.0%	6.9%	31.5%
Medallian	Books	RDM	---	61,227	410,163	12/15/X1	569.9%	---	---
Northwood	Books	RDM	861,382	992,121	---	12/07/XX	---	15.2%	(100.0%)
Orion Corp.	Paper	LRC	86,904	416,777	803,493	11/02/XX	92.8%	379.6%	824.6%
Peterson	Supplies	LRC	114,623	---	---	N/A	---	---	---
Quick	Supplies	LRC	---	96,732	110,441	11/03/X1	14.2%	---	---
Robertson	Books	RDM	2,361,912	3,040,319	3,516,811	12/01/X1	15.7%	28.7%	48.9%
Steele	Magazines	MRD	621,490	823,707	482,082	11/03/X1	(41.5%)	32.5%	(22.4%)
Telecom	Sundries	LRC	81,406	101,193	146,316	N/A	44.6%	24.3%	79.7%
Union Bay	Books	RDM	4,322,639	4,971,682	5,368,114	12/03/X1	8.0%	15.0%	24.2%
Victory	Magazines	MRD	123,844	141,909	143,286	06/09/X1	1.0%	14.6%	15.7%
Williams	Sundries	LRC	31,629	35,111	42,686	N/A	21.6%	11.0%	35.0%

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF MARK W. STEINBERG, CPA  
CHIEF FINANCIAL OFFICER  
DATE: FEBRUARY 1, 20XX

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Mark W. Steinberg, CPA, Chief Financial Officer of Bailey Books, was interviewed in his office, Room 836, 6200 Bayshore, St. Augustine, FL. The purpose of the meeting was to advise Mr. Steinberg of the proposed fraud examination, to obtain his approval of the proposed plan, and to secure basic information from him on the purchasing function.

Mr. Steinberg was advised of the nature of the anonymous allegations and the result of our initial vendor review. He also was informed of our plan to review personnel files and other internal company documents and to discreetly interview selected company personnel. He agreed to the above, asking that we conduct our examination quickly and in the least disruptive manner possible. He agreed that Ms. Collins and the purchasing department would not be notified of the examination until decided otherwise.

Mr. Steinberg has been with Bailey Books, Incorporated since 1995. Previously, he was Assistant Vice President for Financial Affairs from 1995 to 2003. He reports directly to Mr. Hal B. Marlow, President and CEO of the company.

As CFO, all operating divisions, including purchasing, report to him. It is his responsibility to establish and supervise the monitoring of internal controls within the operating divisions. In general, Bailey follows the policy of obtaining bids on as many purchases as possible. He pointed out that the competitive nature of the retail book industry requires constantly obtaining the maximum product for the minimum cost. He has reiterated to managers on many occasions the necessity of cutting costs.

Guidelines for purchasing procedures are set forth in Mr. Steinberg's memorandum to all division heads and supervisors dated December 12, 20XX. The memo calls for purchasers to obtain bids on all purchases of more than \$50,000. However, purchases of more than \$10,000 generally are expected to be bid unless a justifiable reason not to exists. A copy of the memo was provided by Mr. Steinberg, and is attached. The copy provided has been initialed and dated and is maintained in the evidence file, Room 874, Bailey Books.



# Bailey Books, Incorporated

## MEMORANDUM

TO: LINDA REED COLLINS, PURCHASING MANAGER  
FROM: MARK W. STEINBERG, CHIEF FINANCIAL OFFICER  
SUBJECT: PURCHASING GUIDELINES  
DATE: DECEMBER 12, 20XX

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The purpose of this memo is to establish guidelines for major purchases.

Effective at once, purchasing will obtain at least three written bids for items of more than \$50,000, in all cases. Bids also should be obtained for purchase amounts starting at \$10,000, where practical.

These bids should be maintained in the file for documentation purposes.

If the lowest bid is not selected, a memo of justification should be prepared and approved by me before any purchase is made. You are to be especially concerned with miscellaneous and sundry items, because these items are not price competitive.

Any deviations from the above-stated policy must be approved by me.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF PERSONNEL FILES  
DATE: FEBRUARY 4, 20XX

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Francis Morris, Personnel Manager, provided the personnel files of Linda Reed Collins, Mary Rodriguez De La Garza, and Roger McGuire for review. Pertinent data included:

### **Mary Rodriguez De La Garza:**

Sept. 15, 20XX Mary Rodriguez De La Garza hired as administrative assistant at annual salary of \$20,000  
Sept. 14, 20XX Merit salary increase to \$22,000 annual  
Sept. 17, 20XX Merit salary increase to \$24,500 annual  
Aug. 2, 20XX Transferred and promoted to purchasing agent at salary of \$27,000  
Aug. 4, 20XX Merit salary increase to \$30,000 annual

### **Roger McGuire:**

Feb. 20, 20XX Roger Donald McGuire hired as purchasing agent at salary of \$28,000  
Feb. 22, 20XX Merit salary increase to \$31,000 annual

### **Linda Reed Collins:**

June 1, 20XX Linda Reed Collins hired as purchasing agent at salary of \$28,500  
June 3, 20XX Merit salary increase to \$31,250 plus participation in incentive plan  
Nov. 8, 20XX Promoted to Purchasing Manager, salary increase to \$36,000 annual, plus incentives  
Nov. 10, 20XX Merit salary to \$39,500 annual plus incentives  
Nov. 11, 20XX Merit salary to \$43,000 annual plus incentives

The personnel file reflected that Ms. Collins was consistently rated as "exceptional" by her supervisors in annual reviews. She has executed annual Conflict of Interest Questionnaires for 20XX through 20XX indicating that she and her spouse, Edward Collins, had no outside employment, investments, or interests with companies doing business with Bailey Books.

The file did contain a copy of IRS form 668-W, Notice of Levy on Wages, Salary, and Other Income, dated June 2, 20XX, indicating that Ms. Collins and her spouse owed federal taxes of \$53,219.09. An IRS Release of Levy, indicating that the amount due had been paid in full, was filed December 18, 20XX.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF ROGER DONALD MCGUIRE  
DATE: FEBRUARY 4, 20XX

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Roger Donald McGuire, Purchasing Agent, Bailey Books, was interviewed at his office, Room 537, 6200 Bayshore, St. Augustine, Florida. After being advised of the identity of the interviewer and the nature of the inquiry, McGuire voluntarily provided the following information.

He has been employed by Bailey Books since 20XX. He is a purchasing agent whose function is to purchase the book inventory. Purchasing policy guidelines require him to obtain bids for all purchases over \$50,000. He said that bids are submitted in substantially all of his purchases of books, and that he estimates somewhere between 80 and 90 percent of his purchases are preceded by bids.

Whenever he deviates from selecting the low bidder for a product, he writes a memo of justification to the file with approval from his manager. This does not happen on many occasions. The reasons for not obtaining bids for products include (1) emergency purchases; (2) sole-source purchases; and (3) time pressures. McGuire is aware that the other purchases, made by Mary Rodriguez De La Garza and Linda Reed Collins, are made under the same guidelines.

He is not aware of favoritism regarding vendors. McGuire has received pressure from various vendors from time to time. Examples include "the hard sell" that many vendors try with purchasing agents; and occasional efforts by the vendors to get paid early so they can earn and collect their commissions. Every now and then, a vendor will attempt to give him a gratuity, such as a free case of liquor or a small gift. However, McGuire says he avoids any ties to the vendor, as such are prohibited by Bailey's employee guidelines.

He is unaware of any other purchasing employees making any exceptions to purchasing policy. McGuire thinks a great deal of his coworkers Mary Rodriguez De La Garza and Linda Reed Collins. He does not know whether they have accepted gifts or gratuities from vendors. McGuire thinks it is somewhat unusual that Ms. Collins reserves purchasing functions for herself, since hers is primarily a management function. He cannot explain why she has reserved this duty. He once volunteered to take over her accounts, but she said she would prefer to handle some of the purchasing function herself, to "keep her hand in the business."

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF MARY RODRIGUEZ DE LA GARZA  
DATE: FEBRUARY 5, 20XX

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Ms. De La Garza was interviewed at her office in Room, 436, Bailey Building, 6200 Bayshore, St. Augustine, Florida. After being advised of the identity of the interviewer and the nature of the inquiry, Ms. De La Garza voluntarily provided the following information.

She has been employed at Bailey Books since 2006. In 20XX, she was promoted and transferred to the purchasing department. Ms. De La Garza's function is to oversee the purchase of magazines and periodicals. She reports directly to Linda Reed Collins, the purchasing manager. The other employee in the department is Roger Donald McGuire.

Ms. De La Garza said that she is familiar with operating guidelines of the purchasing function. She is required to get bids for all purchases of more than \$50,000, and, whenever possible, for purchases for less than that amount. As a rule, the purchases are bid for all items \$10,000 and more.

In some instances, it is not practical or possible to obtain bids; this is especially the case with sundry purchases. In addition, whenever shortages of merchandise occur and time is of the essence, bids are not sought. For approximately the last year, she has observed that Orion Corporation, a supplier of paper to Bailey Books, has received most, if not all, of the paper business. The salesman for Orion, Jim Nagel, seems to be very persuasive in dealing with Linda Reed Collins, Ms. De La Garza's boss.

When asked if there were any vendors who received preferential treatment, Ms. De La Garza hesitated. She finally said that something was bothering her, and she did not know how to discuss it.

When asked to explain, Ms. De La Garza said that she was concerned that any information she would offer might get back to Ms. Collins, and that she did not want to bring up false accusations. She said that there were several things that do not seem right.

First, she said that Ms. Collins and her husband, Edward, had not been getting along for the past year or two. Edward has a charter boat business that has experienced serious financial problems, and she knew that Ms. Collins and he had been arguing over money.

She has seen Ms. Collins come to work several mornings in the last few months with red eyes, and it appeared that she had been crying. On one or two occasions, when Ms. Collins has arrived upset, she had telephoned Nagel, and Ms. De La Garza thinks Nagel comforted her.

Ms. De La Garza isn't sure about the relationship between Nagel and Ms. Collins, but she does know that they are good friends. She is fairly certain that they have had lunch together on numerous occasions. Their friendship has been the subject of gossip and speculation; the office thinks that they are having an affair.

Ms. De La Garza knows that Nagel has received favored treatment as a vendor. Several months ago (exact date not recalled), she heard Ms. Collins call accounts payable and chew someone out who did not want to hand-cut a check for Nagel. She does not remember the exact circumstances, but she said that during the time she has worked at Bailey, Ms. Collins has never hurried up a payment for a vendor, with the exception of Nagel.

Ms. De La Garza does not believe Ms. Collins is doing anything illegal; she thinks, however, that Ms. Collins' judgment might be clouded by Mr. Nagel, whom she describes as a very good-looking and charming man.

When asked if anyone else had any knowledge of the business or personal relationship between Ms. Collins and Mr. Nagel, Ms. De La Garza replied that Sara Louise Dawson had worked on the Orion account before she left Bailey Books, within the last several months. She believes Ms. Dawson had a falling out with Ms. Collins, which prompted her to quit.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF SARA LOUISE DAWSON  
DATE: FEBRUARY 5, 20XX

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Sara Louise Dawson was interviewed at her residence, 2051 Wisconsin Ave., Apt. 16, St. Augustine, Florida, on a confidential basis. After being advised of the identity of the interviewer and the nature of the inquiry, she voluntarily provided the following information.

Ms. Dawson advised that she did not wish to answer any questions. She said that her employment at Bailey Books was a “closed chapter” in her life, which she did not wish to reopen. She described her relationship with Linda Reed Collins as “strained.” She said that she wished she could be of assistance because “certain things at Bailey just weren’t right,” but she had “to get on with her life.”

After further discussion with Ms. Dawson, in which the importance of her cooperation was emphasized, she agreed to speak to her brother-in-law, an attorney, about whether she should provide any information. She insisted that any communication with her, including this interview, be kept strictly confidential.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: TELEPHONE CONVERSATION WITH THOMAS C. GREEN,  
ATTORNEY  
DATE: FEBRUARY 6, 20XX

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Thomas C. Green, an attorney with the law firm of Sharp, Green and Langfrom, P.A., 6600 Bayshore Parkway, St. Augustine, called me at my office at 10:00 a.m. on the above date.

Mr. Green said he had been contacted by Sara Louise Dawson, who had been referred by another attorney, regarding our request for an interview.

Mr. Green said he had interviewed Ms. Dawson and that her information would be “most helpful” to our inquiry. Mr. Green said he would not permit us to interview Ms. Dawson unless the company provided her with an indemnity against all claims arising out of her cooperation, and agreed to pay his attorney fees to attend the interviews.

Mr. Green would not provide any details about the nature of Ms. Dawson’s information. He reiterated that we “would not be disappointed.”

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: MEETING WITH MARK W. STEINBERG, CFO, AND  
LINCOLN S. WYZOKOWSKI, GENERAL COUNSEL  
DATE: FEBRUARY 6, 20XX

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After discussing the facts, Mr. Steinberg and Mr. Wyzokowski agreed to provide an indemnity agreement to Sara Louise Dawson for her cooperation in the fraud examination regarding the purchasing function of Bailey Books, Incorporated. Wyzokowski agreed to prepare the indemnity agreement and to set up the interview of Ms. Dawson through her attorney.



# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
TONYA VINCENT, CFE  
SUBJECT: INTERVIEW OF SARA L. DAWSON  
DATE: MARCH 3, 20XX

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Sara Louise Dawson was interviewed at the office of her attorney, Thomas C. Green, at Suite 400, 6600 Bayshore Parkway, St. Augustine. Mr. Green was present for the entire interview. After preliminary discussions about the nature of the inquiry, Ms. Dawson voluntarily provided the following information.

Ms. Dawson was employed at Bailey Books Incorporated in the Purchasing Department from February 20XX through January 20XX. Her duties included the purchase of magazines and periodicals as well as sundries and paper products. In that capacity she worked for Linda Reed Collins from November 2008 until Ms. Dawson left the company.

After Ms. Collins's promotion, she began to favor Orion in paper purchases. Orion's prices were high and the quality of service was marginal. Deliveries often were late or incomplete, requiring Ms. Dawson to expend considerable time and effort in follow-up calls and correspondence.

On two occasions near the end of 20XX, Ms. Collins directed her to make substantial purchases from Orion and to authorize prepayment. The orders were not bid, and prices quoted were higher than available from other, more reliable suppliers. Bailey Books also had a policy against prepayment of orders.

Ms. Dawson complained to Ms. Collins about Orion's past performance and suggested that other vendors be allowed to bid. Ms. Collins responded that the paper was needed now, that there was no time for bids, and that the price differential was insignificant. Ms. Collins also said that prepayment was necessary so that Orion could rush the order.

Ms. Dawson said that, in fact, there was no urgent need for the paper, but that, based on past experience with Ms. Collins, she believed it was fruitless to resist, and she complied with her instructions.

Shortly thereafter she checked with the receiving department and learned that the order had not been received. She advised Ms. Collins, who seemed unconcerned. Ms. Dawson then prepared a letter for Ms. Collins's signature requesting immediate shipment of the order. Ms. Collins declined to send the letter, saying it was not necessary, as Orion had assured her the shipment would be received shortly.

A few weeks later, Ms. Collins stopped by Ms. Dawson's office and closed the door. Ms. Collins told her that, because of Orion's "excellent service" and "loyalty" to Bailey Books, she wanted future purchases from them to be on a no-bid basis. Ms. Collins also instructed Ms. Dawson to prepay another order, in excess of \$100,000 from Orion.

Ms. Dawson does not remember the exact dates or amounts, but suggested Becky Robinson in Accounts Payable might be able to provide more information.

Ms. Dawson knew that the previous Orion order had not yet been shipped and informed Ms. Collins. Ms. Collins became "nervous and jittery" and insisted she was mistaken. She again instructed Ms. Dawson to place the order; Ms. Dawson said she would need approval from higher up and an argument ensued. She did not place the order or talk to Ms. Collins again. At that time Ms. Dawson said she decided to look for new employment because her job had become too stressful.

Ms. Dawson also advised that other vendors, including Jerrico, had complained about being "squeezed" out by Bailey Books. Ms. Dawson thought that Jerrico's prices and service were superior to Orion's, but Ms. Collins would not take their product. Ms. Dawson, through Mr. Green, agreed to further interviews, as necessary.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF BECKY ROBINSON  
DATE: APRIL 8, 20XX

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Becky Robinson, Accounts Payable Clerk, Bailey Books, Incorporated, was interviewed at her office, Room 513, Bailey Building, 6200 Bayshore, St. Augustine, Florida. After being advised of the identity of the interviewer and the nature of the inquiry, she voluntarily provided the following information.

She has been employed by Bailey Books, Incorporated, since January 20XX, and has always worked in the Accounts Payable department. Her job is to review invoices for processing before payment. She checks the invoice mathematics and extensions, sees whether merchandise has been received, and verifies that the invoice has been approved for payment by the department head.

Ms. Robinson maintains the invoices. Canceled checks are maintained by Treasury (she thinks in Ms. Deborah Roth's office). She provided copies of two invoices paid to Orion Corporation. The documents provided by her were initialed, dated, and secured in the evidence file maintained in Room 874, Bailey Books Corporation. Copies of the above-referenced documents are attached hereto.

A review of the invoices provided reflect a notation on invoices dated November 16, 20XX, and December 5, 20XX—in the amounts of \$102,136, and \$95,637, respectively—that payment was made before the merchandise was received. Ms. Robinson recalls that Ms. Collins called her on two occasions and said that Orion was experiencing cash flow problems, and to keep them as a vendor, it would be necessary to give them the money up front.

When Ms. Robinson told Linda Reed Collins that she was not supposed to approve payment before the merchandise had been received, Ms. Collins got agitated and told Ms. Robinson, "I am the senior purchasing official, and I am telling you to do what I say." Ms. Robinson did as she was instructed, but did not follow up to see if the paper had been received. Ms. Robinson did not report these incidents.

Ms. Robinson said that Ernie Quincy in Receiving would be able to tell whether the two shipments above had been received.

# *ORION*

Orion Corporation  
2600 Industrial Drive  
St. Augustine, Florida 32086

November 16, 20XX

## INVOICE

Bailey Books Incorporated  
6200 Bayshore Drive  
St. Augustine, FL 32082

1,075 packages of 80 lb. standard white paper @ 95/m.....	\$102,136
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TERMS: NET 30 DAYS

# *ORION*

Orion Corporation  
2600 Industrial Drive  
St. Augustine, Florida 32086

December 5, 20XX

## INVOICE

Bailey Books Incorporated  
6200 Bayshore Drive  
St. Augustine, FL 32082

1006 packages of 80 lb. standard white paper @ 95/m.....	\$95,637
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TERMS: NET 30 DAYS

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF ERNIE QUINCY  
DATE: APRIL 8, 20XX

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Mr. Ernie Quincy, Warehouse Manager of Bailey Books, was interviewed at his office, Room 114, Bailey Building, 6200 Bayshore, St. Augustine. After being advised of the identity of the interviewer and the nature of the inquiry, Mr. Quincy voluntarily furnished the following information.

A review of his outstanding invoices shows that two Orion invoices—dated November 16 and December 5, 20XX—have not been received in the warehouse. He remembers that shortly after receiving the invoices in 20XX, he called Ms. Robinson, who referred him to Linda Reed Collins. Mr. Quincy then called Ms. Collins about not having received the paper, and she told him not to worry about it; that they had an understanding with the supplier that the paper would be delivered later.

Mr. Quincy thought that this situation was unusual, since no other shipments had been paid for in advance. He has been Bailey Books' Warehouse Manager for 12 years.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: CHECKS PAYABLE TO ORION PAPER COMPANY  
DATE: APRIL 9, 20XX

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Margaret O'Boyle, Treasurer's Office, Bailey Books, Incorporated, provided copies of the checks described below. A review of Bailey Books, Incorporated, canceled checks, numbered 10106 and 10107, reflected the following:

Check No. 10106

Date: December 12, 20XX

Amount: \$102,136

Payment for: Orion invoice dated November 16, 20XX

Endorsement: For Deposit to the Account of Orion Paper Company,  
Account No. 025269999 (stamped)

Bank to which deposited: Florida Marine National Bank, St. Augustine

Date deposited: December 14, 20XX

Check No. 10107

Date: December 12, 20XX

Amount: \$95,637

Payment for: Orion invoice dated December 5, 20XX

Endorsement: For Deposit to the Account of Orion Paper Company,  
Account No. 025269999 (stamped)

Bank to which deposited: Florida Marine National Bank, St. Augustine

Date deposited: December 14, 20XX

Copies of the fronts and backs are attached, and they have been initialed and dated.

Bailey Book Corporation  
6200 Bayshore Drive  
St. Augustine, FL 32085

Dec 12 20 XX

10106

35-099  
489

Pay to the Order of Orion \$ 102,136.00

One hundred two thousand one hundred thirty six and no/100 Dollars

First National Bank  
1001 Main Street  
St. Augustine, FL 32080

For Orion Invoice, 11/16/XX

Margaret O'Boyle

|:001355|: 114902722

10106 8967|:

FOR DEPOSIT ONLY  
Orion Paper Company

Acct. No. 025269999

FLORIDA MARINE NATIONAL BANK  
ST. AUGUSTINE

DEC 14 20XX



Bailey Book Corporation  
6200 Bayshore Drive  
St. Augustine, FL 32085

10107

Dec 12 20 XX

35-099  
489

Pay to the Order of Orion \$ 95,637.00  
Ninety five thousand six hundred thirty seven and no/100 Dollars

First National Bank  
1001 Main Street  
St. Augustine, FL 32080

For Orion Invoice, 12/5/XX

Margaret O' Boyle

|:001355|: 114902722

10107 8967|:

FOR DEPOSIT ONLY  
Orion Paper Company

Acct. No. 025269999

FLORIDA MARINE NATIONAL BANK  
ST. AUGUSTINE

DEC 14 20XX

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF DAVID LEVEY,  
JERRICO INTERNATIONAL PAPER COMPANY  
DATE: APRIL 9, 20XX

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David Levey, Director of Sales, Jerrico International Paper Company, 2901 Island Ave., Philadelphia, PA 19530 was interviewed by telephone at his office. After being advised of the identity of the interviewer, he provided the following information on a voluntary basis.

Mr. Levey assumed his present position in 20XX. At that time Bailey Books, Incorporated, was a major customer, with sales in excess of \$500,000 annually. Since then the volume has consistently dwindled.

In January 20XX, Mr. Levey met with Carl Sanderson, the owner of Jerrico, and discussed how to revive the Bailey Books account. Both Mr. Levey and Mr. Sanderson had heard "rumors" in the industry that Jim Nagel of Orion Corporation was "taking care of" Linda Reed Collins, Bailey's Purchasing Manager. Nagel has a very poor reputation in the industry and was caught "paying off" on another account several years ago. Mr. Levey declined to provide any further details or to identify the source of his information.

As a result of their meeting, Mr. Sanderson and Mr. Levey "decided to test the waters" at Bailey Books by submitting a bid at cost for a substantial quantity of Deluxe Bond and Standard White to see "if we could open the doors." The offer was made at the end of January 20XX, and was not accepted. Since then Jerrico does not even bother to bid and expects no further significant sales to Bailey Books.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: INTERVIEW OF MARY RODRIGUEZ DE LA GARZA  
DATE: APRIL 13, 20XX

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Ms. Mary Rodriguez De La Garza phoned and said that she had overheard a telephone conversation between Ms. Collins and Mr. Nagel. She heard Ms. Collins arrange to meet Mr. Nagel for drinks this afternoon after work. Collins is supposed to meet Nagel at the bar at the Hotel Atlantic in St. Augustine. Accordingly, a physical surveillance was established, as set forth in the following log.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: SURVEILLANCE LOG  
DATE: APRIL 13, 20XX

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On April 13, 20XX, commencing at 4:50 p.m., surveillance was established at the Hotel Atlantic, 6583 Bayshore, St. Augustine, Florida. The results of the surveillance are as follows.

<u>Time</u>	<u>Event</u>
4:50 p.m.	Established surveillance in lounge.
5:55 p.m.	Linda Reed Collins and white male arrive at lounge and order drinks. Collins and unidentified male hold hands at table.
6:20 p.m.	Collins and unidentified male order another drink.
6:27 p.m.	Unidentified male and Collins kiss at the table.
6:40 p.m.	Break—surveillance terminated.
6:44 p.m.	Surveillance reinstated. Twosome still at bar.
7:02 p.m.	Observed white male paying for drinks in cash. Twosome leaves, holding hands, and proceeds to Room 652 at Hotel Atlantic. Both enter.
9:32 p.m.	Collins and male leave Room 652. Male gets into a late model Chevrolet, silver in color, Florida license MNX-782, and departs. Collins gets into a Nissan Z, license NRC-130, and departs.
9:35 p.m.	Surveillance terminated.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: ANONYMOUS TELEPHONE CALL  
DATE: APRIL 16, 20XX

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A telephone call was received advising that Edward J. Collins and his wife, Linda Reed Collins, had the following debts with the below- establishments as of March 14, 20XX.

<u>Account</u>	<u>Total Balance</u>	<u>Monthly Payments</u>
St. Augustine Bank	\$46,482	\$2,361
Sears	\$2,378	\$281
Marine Savings	\$110,232	\$1,377
Bailey Credit Union	\$14,826	\$787
MasterCard	\$10,041	\$397
American Express	\$5,990	Balance
Norwood Corporation	\$3,892	\$461
Bally Fashions	\$1,436	<u>\$124</u>
	Total Fixed Payments	\$5,788

The caller advised that Edward J. and Linda Reed Collins had held a joint checking account since 20XX at Sunshine Federal Bank. The account had an average balance of less than \$1,000, and was frequently overdrawn. No other accounts were located.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF RECORDS  
ST. AUGUSTINE COUNTY COURTHOUSE  
DATE: APRIL 17, 20XX

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Records of the St. Augustine County Courthouse reflected the following information regarding Edward J. Collins and Linda Reed Collins as of April 11, 20XX.

1. Edward J. Collins is a defendant in three civil actions as follows:
  - a. *Bertram Yachts, Incorporated vs. Edward J. Collins and Collins Marine Corporation*, Case Number 00-4435. Bertram sued Collins individually and the corporation for nonpayment of \$13,874 plus interest and attorney fees. The suit was filed April 23, 20XX, and alleges that Collins took delivery of a marine winch on March 4, 20XX, and that the amount is unpaid. The suit is still pending. Attorney for the plaintiff is Sherry T. Marshall, Cummins and Marshall, Vero Beach, Florida.
  - b. *Bradford L. Jenkins vs. Edward J. Collins et al*, Case Number 01-0964. This suit alleges that on June 27, 20XX, Jenkins paid a deposit for Collins's charter boat, the *Mistress*, and canceled within the period provided by the contract. Collins's check refunding the \$3,500 was returned for insufficient funds. Collins did not make the check good.
  - c. *Bayview Bank vs. Edward J. Collins and Collins Marine Corporation*, Case Number 01-5412. Collins was sued on April 21, 20XX, for nonpayment of a working capital note with a current balance off \$31,423. The note is unpaid.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF RECORDS  
SECRETARY OF STATE  
DATE: APRIL 17, 20XX

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The Secretary of State's Office, Tallahassee, Florida, records reflects the following information about Collins Marine Corporation.

The Corporation was formed on July 23, 20XX. Listed as incorporators are Edward J. Collins, James B. Vickers, and Linda Reed Collins. Officers are the same. Registered Agent is Frank R. Bledsoe, Attorney at Law, 764 Front Street, St. Augustine, Florida.

The Corporation's charter was suspended on February 15, 20XX, for failure to pay \$324 in franchise taxes to the state.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF RECORDS  
CHATTEL MORTGAGES  
DATE: APRIL 17, 20XX

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A review of Chattel Mortgages in St. Augustine County, Florida, reflects the following records concerning Linda Reed Collins and Edward Collins as of December 31, 20XX:

<u>Date Filed</u>	<u>Lien Holder</u>	<u>Property</u>	<u>Original Amount of Lien</u>
3/12/X1	St. Augustine Bank	2007 Mercedes 350SL	\$65,000
6/12/X2	Bailey Credit Union	2008 Nissan Z	\$21,505
7/17/X3	Norwood Corporation	Stereo Equipment	\$8,500



# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF RECORDS  
DUN & BRADSTREET  
DATE: APRIL 17, 20XX

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Records of Dun & Bradstreet reflect the following information about Collins Marine Corporation as of December 31, 20XX:

	<u>20X1</u>	<u>20X2</u>	<u>20X3</u>
Sales	302,000	257,000	193,000
Total assets	157,000	146,000	118,000
Total liabilities	104,000	161,000	183,000
Net income	41,000	-13,000	-63,000

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
SUBJECT: REVIEW OF FINANCIAL CONDITION OF LINDA REED  
COLLINS AND EDWARD J. COLLINS FROM PUBLIC  
RECORDS  
DATE: APRIL 18, 20XX

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A review of the financial condition of Linda Reed Collins and Edward Collins, assembled from public records, reflects the following for the year of 20XX:

Income (net):

Linda Reed Collins	\$35,400	
Edward J. Collins	<u>          </u>	
Total income:		\$35,400

Expenses:

House payments	16,524	
Automobile payments		
'06 Mercedes	28,332	
'07 Nissan	9,444	
Stereo equipment	5,532	
Food (estimated)	4,800	
Utilities (estimated)	<u>2,400</u>	
Total expenses:		<u>67,032</u>
Unexplained income:		<u>\$31,632</u>

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
TONYA VINCENT, CFE  
SUBJECT: INTERVIEW OF JAMES R. NAGEL  
DATE: APRIL 19, 20XX

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James R. Nagel, Sales Representative, Orion Corporation, was interviewed at his office, Room 5214, 2600 Industrial Drive, St. Augustine, Florida. After being advised of the identity of the interviewers and of the nature of the inquiry, Mr. Nagel voluntarily provided the following information.

He has been a salesman for Orion since October 20XX. He sells stationery and paper stock to a variety of business enterprises, including Bailey Books, Incorporated. Bailey is not his largest account.

Mr. Nagel acknowledges that he knows Linda Reed Collins. He says their relationship is purely professional, and he has never socialized with her. He emphatically denies any improprieties of any kind, and says he has never offered any gratuities or kickbacks to Collins.

Mr. Nagel claims the prices he charges Bailey are competitive, and that if Bailey is paying higher prices, it is because they are getting better products. He was presented with two invoices, dated 11/16/XX and 12/5/XX, which reflect the payments for products that were not received. Nagel claims he does not know anything about any missing products, and that Bailey's records were in error. He denies asking for payment in advance to help the cash flow of Orion Corporation.

Mr. Nagel denied our request to review Orion's books and records pertaining to the 11/16/XX and 12/5/XX invoices, saying the information was "none of your business" and "proprietary." He refused to answer any further questions without his attorney being present.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
TONYA VINCENT, CFE  
SUBJECT: INTERVIEW OF OWEN STETFORD  
DATE: APRIL 21, 20XX

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Owen Stetford, Chief Financial Officer, Orion Corporation, was interviewed in his office at 2600 Industrial Drive, St. Augustine, Florida. Clifford Karchmer, Orion's General Counsel, also attended the meeting.

We advised Mr. Stetford and Mr. Karchmer of the nature of our inquiry and requested their cooperation. We had earlier asked Mr. Stetford to produce copies of Orion's records pertaining to sales to Bailey Books when we telephoned to set up the interview.

Mr. Stetford said that Orion Corporation was formed in 1971 by his grandfather and that the company is closely held. Mr. Stetford further stated that Orion is committed to the highest level of business integrity, that Bailey Books is a valued customer, and that he is anxious to cooperate as far as permitted by company counsel.

Regarding our request to review Orion's records pertaining to sales to Bailey Books, and in particular the invoices dated November 16 and December 5, 20XX, Mr. Stetford said that he would be unable to provide us with access to the original records on the advice of counsel. However, he said he personally reviewed the records and told us that Orion had no record of any receipt of payment for the above invoices, nor any record that such an order had been placed or shipped.

Mr. Stetford further advised, after reviewing our copies of the canceled Bailey Books checks payable to Orion for the above invoices, that Orion does not maintain any corporate accounts at Florida Marine National Bank. Furthermore, the correct corporate name is Orion Corporation, not Orion Paper Company, as the endorsements indicate.

Mr. Stetford emphatically stated that neither he nor any other corporate officer was aware of or condoned any improper activities regarding their sales. He said that he would direct Mr. Nagel to answer any questions regarding sales to Bailey Books Incorporated.

In this regard, we again asked for permission to examine Orion's records, particularly the account receivable records for the period November 20XX through March 20XX. Mr. Karchmer said that he would take our request under advisement.

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
TONYA VINCENT, CFE  
SUBJECT: INTERVIEW OF JAMES R. NAGEL  
DATE: MAY 1, 20XX

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James R. Nagel was interviewed at the office of his attorney, Conrad Vance, of the law firm Vance, Selig and Reisman, Suite 1000, 1601 Harbor Drive, St. Augustine. Mr. Nagel was presented with copies of the checks endorsed "Orion Paper Company," and asked about the bank account to which they were deposited. After hesitating for several moments, he quietly admitted to conspiring with Linda Reed Collins to have Bailey Books pay the fake invoices. At the conclusion of the interview Mr. Nagel voluntarily executed the attached statement. The original of this statement has been witnessed by Bridges and Vincent, and is maintained in the evidence file, Room 874, Bailey Books Corporation, 6200 Bayshore, St. Augustine, Florida 32082.

St. Augustine, Florida  
May 1, 20XX

I, James R. Nagel, furnish the following free and voluntary statement to Loren D. Bridges and Tonya Vincent of Bailey Books, Incorporated. No threats or promises of any kind have been used to induce this statement.

Since 2000, I have been a sales representative employed by Orion Corporation. Since 20XX, I have been responsible for paper sales to Bailey Books, Incorporated.

In about January 20XX, Linda Reed Collins, Manager of Purchasing, told me that she would require a "commission" on all sales to Bailey Books by Orion. I advised my boss, Donald L. Marsh, Sales Manager, of Ms. Collins's demand. Mr. Marsh and I reluctantly agreed to make the payments because we believed that it would otherwise be impossible to make any sales to Bailey Books. No other person at Orion was informed of Ms. Collins's demand.

The payments to Ms. Collins began about February 20XX. Ms. Collins told me that she would inflate the prices paid to Orion in order to cover the kickbacks. Thereafter, approximately \$51,000 was paid to Ms. Collins by Orion Corporation checks, payable to Market Research, Inc. Ms. Collins told me that Market Research, Inc., was a company she had established. The checks were recorded on Orion's books as consulting fees, and were approved by Mr. Marsh and me.

In about October 20XX, Ms. Collins told me that she would approve the payment of invoices to Orion for product that would not have to be delivered. Ms. Collins thereafter authorized the payment of two invoices in the amounts of \$102,136 and \$95,637, which were paid by Bailey Books, Incorporated, in December 20XX. No product was shipped on these invoices. Ms. Collins and I established a bank account in the name of Orion Paper Company at Florida Marine National Bank and equally divided the proceeds of the above-mentioned invoices. Ms. Collins prepared my checks, which were then deposited to my personal checking account at Flagler National Bank in St. Augustine. I spent the proceeds on bills. Neither Mr. Marsh nor any other person at Orion was aware of the above activity.

I make this statement in order to express my regret for having engaged in the aforementioned conduct, and promise to make restitution to the extent possible. I knew my conduct was wrong, but I felt it was justifiable at the time. I will try to pay any losses that have occurred as a result of my activities.

I have read this statement, consisting of this page. I now sign my name below in the presence of the undersigned witnesses because the statement is true and correct to the best of my knowledge.

Witnesses:

Loren D. Bridges

James R. Nagel  
Signature

Tonya Vincent

# Bailey Books, Incorporated

## MEMORANDUM

TO: FILE (11-4422)  
FROM: LOREN D. BRIDGES, CFE  
TONYA VINCENT, CFE  
SUBJECT: INTERVIEW OF LINDA REED COLLINS  
DATE: MAY 1, 20XX

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Ms. Linda Reed Collins was interviewed on May 1, 20XX, by Loren D. Bridges and Tonya Vincent. She voluntarily provided the attached signed statement. The original of this statement has been witnessed by Bridges and Vincent, and is maintained in the evidence file, Room 874, Bailey Books Corporation, 6200 Bayshore, St. Augustine, Florida 32082.

St. Augustine, Florida  
May 1, 20XX

I, Linda Reed Collins, furnish the following free and voluntary statement to Loren D. Bridges and Tonya Vincent of Bailey Books, Incorporated. No threats or promises of any kind have been used to induce this statement.

I am Senior Purchasing Agent for Bailey Books, Incorporated, and have been employed by Bailey Books since 20XX. My job is to oversee the purchase of merchandise and other supplies for Bailey Books, Incorporated. As part of my job, I am to ensure that Bailey Books, Incorporated, receives the highest quality products at the lowest possible cost.

Commencing in approximately February 20XX, and continuing through the current time, I have accepted money from James Nagel, Sales Representative for Orion Corporation, St. Augustine, Florida. Nagel offered me money to ensure that his company received preferential treatment in supplying Bailey Books with stationery and paper products.

On those occasions that I accepted money, I was aware that Bailey Books, Incorporated, was not obtaining the best product at the lowest possible price. The price charged for products delivered during the time I accepted money was substantially higher than market value.

In November and December 20XX, I authorized the payment of invoices of \$102,136 and \$95,637, respectively. These invoices were paid without the receipt of any merchandise. Nagel and I subsequently split the proceeds of these invoices equally between us.

I estimate that I have received in excess of \$150,000 in connection with Mr. Nagel. I am not sure that anyone at Orion Corporation knew of our arrangement. No one at Bailey Books had knowledge of, or participated in, my scheme.

I am aware that my conduct is illegal, and violated Bailey Books' policies. I participated in this scheme because my husband and I were having severe financial problems due to his business. We used the proceeds of my conduct to pay off several personal and business-related debts that were past due. I am truly sorry for my conduct, and I promise to repay any resulting damages.

I have read this statement consisting of this page. I now sign my name below because this statement is true and correct to the best of my knowledge.

Witnesses:

Loren D. Bridges

Linda Reed Collins

Signature

Tonya Vincent