



Confirmation.com's Role Uncovering the PFGBest Fraud

Brian Fox, CPA, MBA



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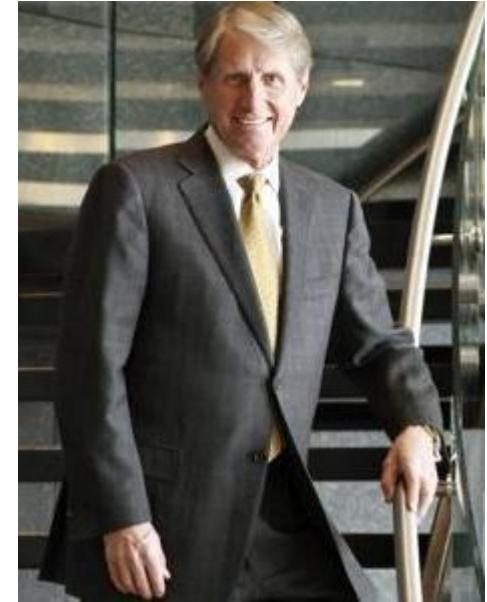
- Founder and Chief Marketing Officer, Capital Confirmation
- Professor at Vanderbilt University
- Multiple “Top 40 CPA Under 40” in the U.S. awards
- Received the first two patents on Electronic Audit Confirmations
- Co-authored **Guide to Electronic Confirmations**
- Often seen on or written about in:
 - Fox Business News**
 - Forbes**
 - Fortune**
 - New York Times**
 - The CPA Journal**
- Speaker at professional conferences and business schools

On Monday, July 9, 2012...

**Regulators discovered
nearly \$215 million missing
in customer funds from
PFGBest accounts.**

On Monday, July 9, 2012...

Russell Wasendorf, Sr., attempted suicide leaving behind a signed statement that begins to explain the \$215 million shortfall in customer accounts.



Russell Wasendorf, Sr.
CEO of Peregrine
Financial Group

Peregrine Financial Group Fraud

- Fraud uncovered in July 2012 and took place over a **20-year period**.
- **\$215 million shortfall** in PFGBest customer money.
- CEO Russell Wasendorf Sr. was arrested July 13 on charges of lying to federal regulators.
- October 3, Wasendorf Sr. entered a **guilty plea** to charges including lying to regulators, embezzlement and mail fraud.
- Former clients are still unable to access more than 60% of the funds frozen since PFG's bankruptcy.

Russell Wasendorf wrote in part:

“ I have committed fraud. For this I feel constant and intense guilt. I am very remorseful that my greatest transgressions have been to my fellow man. Through a scheme of using **false bank statements** I have been able to embezzle millions of dollars from customer accounts at Peregrine Financial Group, Inc. The forgeries started nearly **twenty years ago** and have gone undetected until now. The Bank statements were always delivered directly to me when they arrived in the mail. I made **counterfeit statements** within a few hours of receiving the actual statements and gave the forgeries to the accounting department. ”

On Friday, July 13, 2012...

Russell Wasendorf was arrested for making false statements to regulators.



Russell Wasendorf, Sr.
CEO of Peregrine
Financial Group

Events Leading Up to the Fraud's Discovery

PFG No Stranger to Rule Violations

- December 1996: The NFA accuses PFG of failing to supervise its brokers, who the NFA says made misleading statements and disseminated misleading promotional materials, while the company itself “failed to correctly calculate segregated funds computations, maintain adequate segregated funds, and report to the NFA that the firm was under-segregated.”

Result: PFG settled for \$75,000

PFG No Stranger to Rule Violations

- June 2004: The NFA accuses PFG of failing to audit an IB run by a convicted cocaine dealer Dominick Concillio.

Result: PFG paid \$5,000 fine and agreed to audit Concillio properly.

- **December 2008:** The NFA issues a Warning Letter to PFG for failing to report its interactions with Concillio again

PFG No Stranger to Rule Violations

- February 2012: The NFA issues a disciplinary complaint against PFG, President Russell Wasendorf, Jr. and Compliance Director Susan O'Meara, charging them with failing to supervise four of Peregrine's guaranteed IBs, and also failed to implement anti-money-laundering procedures in its forex operations.

Result: PFG paid \$700,000 fine and agreed to beef up its accounting procedures.

More Complaints

- In 2004: The NFA and CFTC received a letter from a client expressing concern over PFGBest's misuse of its customers' money.
- In 2009: The NFA received an anonymous tip asking them to review PFGBest's bank account information for accuracy.



NFA Makes Some Changes



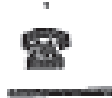
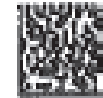
- In the wake of the MF Global collapse, the NFA switched to Confirmation.com's online confirmation system.
- Notified all of their Futures Commission Merchants (FCM) that they were:
 - Transitioning to Confirmation.com
 - Requiring it on all future audits

How Wasendorf Hid the Fraud

For Years PFG Looked Financially Sound

Bank Statement

Some banks promise great service. U.S. Bank guarantees it!



000038636 1 AV 0.335 108481020372347 P
 PEREGRINE FINANCIAL GROUP INC
 CUSTOMER SEGREGATED ACCT
 1 PEREGRINE WAY
 CEDAR FALLS IA 50613-4707

Seg1.xls, SEG FUNDS, C11.

COMMERCIAL BANKING		[REDACTED]	
Account Summary	Beginning Balance on 03/01/11.....	\$216,182,854.80	Average Daily Balance.....
	Deposits and Other Additions.....\$620,288.18	Number of Days in Statement.....
	Check Activity.....\$0.00	Names on the account:
	Other Deductions and Withdrawals.....\$0.00	PEREGRINE FINANCIAL (
	Ending Balance on 03/31/11.....	\$216,660,650.68	CUSTOMER SEGREGATE

How Wasendorf Hid the Fraud

- **Falsified bank statements** and **forged official letters** and correspondence from the bank, as well as all transaction confirmation statements.
- Ordered that all US Bank statements were to be **delivered directly to him**.
- Used Photoshop, Excel, scanners, laser and ink jet printers to **create bogus bank statements** and forgeries of nearly every document that came from the bank.
- **Rented a P.O. Box** to intercept bank confirmation requests and forged the documents to conceal missing money.

Bogus US Bank Mailing Address



U.S. Bank National Association
PO Box 706
Cedar Falls, Iowa 50613-0030
4217 TRM 4850

U.S. Bank National Association
PO Box 706
Cedar Falls, Iowa 50613-0030

Bank Statement

Some banks promise great service. U.S. Bank guarantees



000038838 1 AV 0.335 108481020372347 P
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This Manual Process Worked So Well...

that the external auditors and the NFA auditors never suspected that Wasendorf had been skimming customer accounts for 20 years.

How the Fraud was Discovered

How the Fraud was Discovered

- National Futures Association, the regulator for PFGBest, **began using Confirmation.com.**
- NFA regulators began requesting that Wasendorf give their auditor's permission to confirm PFGBest customer account information using Confirmation.com.
- For months Wasendorf adamantly **resisted authorization** in using Confirmation.com to confirm the company's bank balances.
- On Sunday, July 8, he relented.

How the Fraud was Discovered

Within 24 hours, the NFA began receiving confirmations through Confirmation.com confirming:

The US Bank account had a balance of approximately **\$6 million** as of December 31, 2011 instead of approximately **\$220 million** that was reported on their US Bank statement as of December 31, 2011.

Peregrine Financial Group

Fox Business News Interview:

<http://www.youtube.com/watch?v=IFzBeAf-5Ok&feature=youtu.be>

How to Prevent Fraud from Going Undetected

Electronic Confirmations Decision Tree

Level 1



Questions

Is it Secure?

Level 2



Is it legitimate?

Level 3



Are they authorized?

Confirmation.com

Helping Auditors Save Time and Control the Process

- New: Site Redesign for auditors
- New: Print Fulfillment service
- New: AR/AP Upload feature
- Quicker responses
- Validated responders
- Confirm all accounts
 - AR, AP, Bank, Investments, Line of Credit, and 30 more



Confirmation.com

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- 2010 Reader's Choice Award *The CPA Technology Advisor*
- 60,000+ Auditors, 1,000's of Responders



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Preferred Provider of Online Audit Confirmations for
AICPA Trusted Business AdvisorSM Solutions

Questions?

Thank You!

To learn more visit www.confirmation.com