Confirmation.com’s Role Uncovering the PFGBest Fraud
Brian Fox, CPA, MBA

- 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.
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.

<table>
<thead>
<tr>
<th>Account Summary</th>
<th></th>
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<tbody>
<tr>
<td>Beginning Balance on 03/01/11</td>
<td>$218,182,954.80</td>
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<tr>
<td>Deposits and Other Additions</td>
<td>$520,266.16</td>
</tr>
<tr>
<td>Check Activity</td>
<td>$0.00</td>
</tr>
<tr>
<td>Other Deductions and Withdrawals</td>
<td>$12,715.00</td>
</tr>
<tr>
<td>Ending Balance on 03/31/11</td>
<td>$218,660,650.08</td>
</tr>
</tbody>
</table>

Average Daily Balance......
Number of Days In Statement...
Names on the account:
Peregrine Financial Group Inc.
Customer Segregated ACCT

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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

Bank Statement

Some banks promise great service. U.S. Bank guarantees...
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=lFzBeAf-5Ok&feature=youtu.be
How the Prevent Fraud from Going Undetected
Electronic Confirmations Decision Tree

Level 1

Confirmation Service

Questions
Is it Secure?

Level 2

CPA Firm

Responding Entity

Is it legitimate?

Level 3

Staff

Clerk

Are they authorized?
Confirmation.com

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Thank You!

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