

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

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12:28 pm, Aug 26, 2013

In the Matter of:)
)
)

Jeannie Veraja-Snelling)
d/b/a Veraja-Snelling & Company,)

Respondent.)
)
)

CFTC Docket No. 13-29

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO
SECTIONS 6(c) AND 6(d) OF THE COMMODITY EXCHANGE ACT, AS AMENDED,
MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS**

I.

The Commodity Futures Trading Commission (“Commission”) has reason to believe that Jeannie Veraja-Snelling, d/b/a Veraja-Snelling and Company, (“Respondent” or “Veraja-Snelling”) violated Commission Regulation (“Regulation”) 1.16(d)(1), 17 C.F.R. § 1.16(d)(1)(2012). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

II.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, Respondent consents to the entry of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act, as Amended, Making Findings and Imposing Remedial Sanctions (“Order”) and acknowledge service of this Order.¹

¹ Respondent consents to the entry of this Order and to the use of these findings in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party; provided, however, that Respondent does not consent to the use of the Offer, or the findings or conclusions in this Order consented to in the Offer, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order. Nor does Respondent consent to the use of the Offer or this Order, or the findings or conclusions in this Order consented to in the Offer, by any other party in any other proceeding.

III.

The Commission finds the following:

A. SUMMARY

Jeannie Veraja-Snelling is a certified public accountant who served as the auditor for Peregrine Financial Group, Inc. (“Peregrine”), the nation’s second largest non-bank, non-clearing Futures Commission Merchant (“FCM”). Veraja-Snelling audited Peregrine’s financial statements for the years ending December 31, 2001 – December 31, 2011 (collectively, “Peregrine Audits”) and issued unqualified opinions stating that Peregrine’s financial statements were free from material misstatement. Veraja-Snelling also issued reports on Peregrine’s internal accounting controls each year stating that she did not identify any material inadequacies and that Peregrine had adequate practices and procedures for safeguarding customer funds.

Peregrine filed for bankruptcy on July 9, 2012, upon discovery that its sole owner and Chief Executive Officer (“CEO”), Russell Wasendorf, Sr. (“Wasendorf”), had misappropriated more than \$215 million in customer funds. The Commission filed an action against Peregrine and Wasendorf on July 10, 2012, for failing to segregate customer funds, misappropriating customer funds, and making false statements to the Commission.

Wasendorf was able to perpetrate and conceal his fraud, in part, because Peregrine lacked proper internal accounting controls and was not subject to independent audits performed in accordance with Regulation 1.16(d), 17 C.F.R. 1.16(d) (2012). In particular, Veraja-Snelling’s audits of Peregrine’s financial statements did not comply with Regulation 1.16(d) because they: (i) were not performed in accordance with generally accepted auditing standards (“GAAS”), and (ii) did not include appropriate review and tests of internal accounting controls and procedures for safeguarding customer assets.

B. RESPONDENT

Jeannie Veraja-Snelling is a certified public accountant licensed in Illinois. She is a sole practitioner and was doing business as Veraja-Snelling & Company in Glendale Heights, Illinois. She audited Peregrine’s financial statements for more than ten years, including the year ended December 31, 2011.

C. FACTS

According to its financial filings with the Commission, Peregrine reported and was required to maintain segregated funds of approximately \$400 million at the time of its filing for bankruptcy protection on July 9, 2012.

1. FCM Financial Reports and Audit Requirements

Commission Regulation 1.10(b), 17 C.F.R. § 1.10(b) (2012), requires each FCM to file financial statements with the Commission as of the close of its fiscal year that are certified by an independent public accountant in accordance with Commission Regulation 1.16, 17 C.F.R.

§ 1.16. As set forth in Regulation 1.16, among other things, the audit must be made in accordance with GAAS and must include a review and appropriate tests of the FCM's accounting system, its internal accounting controls, and its procedures for safeguarding customer and firm assets. The audit must include all procedures necessary under the circumstances to enable the auditor to express an opinion on the FCM's financial statements and schedules. The scope of the audit and review must be sufficient to provide reasonable assurance that any material inadequacies existing as of the date of the audit will be discovered.

2. Peregrine's CEO Misappropriated Customer Segregated Funds

Peregrine regularly accepted customer funds to margin customers' futures and options trades in its capacity as an FCM. As such, Peregrine was required to segregate and separately account for customer funds pursuant to Regulation 1.20, 17 C.F.R. § 1.20 (2012).

a. Peregrine's Financial Statements Were Materially Misstated

Peregrine's 2011 certified financial statements reported that Peregrine was holding more than \$548 million in segregated and secured assets belonging to customers. However, that figure was overstated by more than \$200 million because Peregrine's CEO had misappropriated customer-segregated funds from an account held at U.S. Bank, XXX XXXX 1845 (the "1845 Account"). Wasendorf deceived Veraja-Snelling and others for at least ten years by falsifying bank statements to indicate that the 1845 Account held hundreds of millions of dollars in customer-segregated funds when, as of December 31, 2011, it had an actual balance of approximately six million dollars. The falsified bank statements listed the address for U.S. Bank as a post office box in Cedar Falls, Iowa, which was surreptitiously controlled by Wasendorf. During her audits, Veraja-Snelling sent requests for account confirmations to that address, which allowed Wasendorf to intercept the requests, forge signatures of U.S. Bank employees, and send the false confirmations back to Veraja-Snelling.

b. Peregrine Lacked Sufficient Internal Controls

Wasendorf accomplished the fraud by tightly controlling and limiting access to information concerning the largest account holding customer-segregated funds on Peregrine's books – the 1845 Account. Wasendorf was a signatory on the account and the only person he permitted to have direct contact with U.S. Bank. He personally received account statements from U.S. Bank and altered them before providing them to Peregrine's accounting department. He did not permit anyone to access the 1845 Account online, and he instructed Peregrine employees and officers to refer all matters concerning the 1845 Account to him. Peregrine's accounting department prepared daily segregation reports and daily reconciliations using current balances directly from banks holding other customer-segregated funds, but they were not able to do the same for the 1845 Account. Peregrine prepared daily segregation reports for the 1845 Account using the balance reflected in Peregrine's general ledger or by contacting Wasendorf directly for the current balance in the 1845 Account. In addition, Wasendorf periodically provided Peregrine's accounting department with fictitious deposit tickets purportedly reflecting deposits from Wasendorf's personal bank account into the 1845 Account, thereby increasing the balance of the 1845 Account in Peregrine's records.

Wasendorf's exclusive control over the 1845 Account and its financial reporting was a material inadequacy, as defined by Regulation 1.16(d)(2), in Peregrine's internal controls that facilitated Wasendorf's theft and led to material misstatements in Peregrine's financial statements for more than ten years.

3. Veraja-Snelling's 2011 Audit of Peregrine

Peregrine reported assets of more than \$660 million in 2011 and retained its long-time auditor, Veraja-Snelling, to audit its financial statements for the year ended December 31, 2011 (the "2011 Audit"). Veraja-Snelling conducted more than ten audits of Peregrine's financial statements, and the 2011 Audit is representative of her previous audits.

Veraja-Snelling completed most of the 2011 Audit herself with occasional assistance from a non-CPA accountant. She planned and performed the 2011 Audit using generic auditing software that was not customized or otherwise tailored to a FCM or business holding customer-segregated funds. In her risk assessment, Veraja-Snelling failed to appreciate the high risk of material misstatement associated with customer-segregated cash, the largest asset on Peregrine's balance sheet, and therefore failed to establish audit procedures that adequately addressed the true risk. In auditing Peregrine's cash balances, Veraja-Snelling collected bank statements and reconciliations for Peregrine's customer-segregated accounts. Bank statements for the 1845 Account (the largest customer-segregated account in Peregrine's records) showed little activity and indicated that Peregrine was not earning any interest on a balance of more than \$221 million. The 1845 Account did not have any reconciling items at the end of 2011. In addition, Wasendorf appeared to be making large, periodic deposits from his personal bank accounts into the 1845 Account, which was designated for customer-segregated funds.

Veraja-Snelling attempted to confirm the balance of the 1845 Account, among other accounts, during the 2011 Audit. Veraja-Snelling relied on Peregrine's accounting staff to prepare the confirmation request, identify the proper recipient, and obtain Wasendorf's authorization. Peregrine's accounting staff provided the confirmation request and envelope to Veraja-Snelling for mailing. She sent the confirmation request to the post office box controlled by Wasendorf without making efforts to ensure that the confirmation request was directed to the proper recipient. Wasendorf responded to the request by forging the signature of a U.S. Bank employee and confirming false balance amounts.

Veraja Snelling issued an Independent Auditor's Report on March 21, 2012, stating that the 2011 Audit was performed in accordance with GAAS and that Peregrine's financial statements "present fairly, in all material respects" the financial condition of Peregrine as of December 31, 2011. Veraja-Snelling also provided the Commission with a report on Peregrine's internal accounting controls, as required by Regulation 1.16, which stated that she "made a study of [Peregrine's] practices and procedures" and noted "no matters involving the internal control structure" that she considered to be a material inadequacy.

Veraja-Snelling was not paid for the 2011 Audit before Peregrine filed for bankruptcy on July 9, 2012. She submitted an invoice for \$72,925 to Peregrine's bankruptcy trustee for fees related to the 2011 Audit.

4. Veraja-Snelling's Departures From GAAS

Veraja-Snelling failed to conduct her audits of Peregrine in accordance with GAAS, and thereby violated Commission Regulation 1.16(d)(1). Specifically, she lacked the required technical proficiency, failed to adequately plan and staff the audit, failed to exercise due professional care, and did not properly confirm account balances.

Independent auditors are required to plan, conduct, and report the results of their audits in accordance with GAAS. GAAS provide a set of systematic guidelines used by auditors when conducting audits to ensure the accuracy, consistency and verifiability of an auditor's actions and reports. GAAS consist of ten standards, categorized into general, field work, and reporting standards as well as the Statements on Auditing Standards that interpret those standards.²

a. *Technical Training and Proficiency*

The First General Standard in GAAS requires an auditor to have adequate technical training and proficiency to perform an audit. (AU § 150.02) In addition, Commission regulations require audits of FCMs to include audit objectives that require specialized industry knowledge, such as procedures for periodic computations of minimum financial requirements and daily computations of segregation amounts. *See* 17 C.F.R. § 1.16(d)(1). Therefore, an auditor must have sufficient training and experience in these requirements to adequately audit an FCM.

Although Veraja-Snelling is a CPA and had several years of auditing experience, she lacked sufficient knowledge of the futures industry and the risks associated with an FCM to competently perform the audits. She was not trained in performing audits of FCMs and did not retain an industry specialist to assist her, who might have recognized unusual activity related to Peregrine's customer-segregated accounts, Peregrine's procedures for computing customer-segregated balances, or Wasendorf's personal deposits into a customer-segregated account.

b. *Planning and Staffing the Peregrine Audit*

The First Standard of Field Work in GAAS states that the auditor must adequately plan the work and properly supervise any assistants. This requires an auditor to obtain an understanding of the entity and its environment, including its internal controls, as an essential part of planning and performing an audit in accordance with GAAS. (AU § 311.03) It also requires that the auditor plan the audit "to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud." (AU § 110.02)

Despite the size and complexity of Peregrine's business, Veraja-Snelling only staffed herself with occasional help from a non-CPA accountant to audit Peregrine and its related entities. Veraja-Snelling lacked sufficient understanding of Peregrine's business model to properly plan the Peregrine Audits. For example, she did not understand that interest on customer deposits is typically a significant source of revenue for an FCM – especially on an

² The Statement on Auditing Standards are codified in "AU" sections and cited as such herein.

account with a balance purportedly greater than \$200 million – and did not appreciate the typical relationship between an FCM’s customer deposits and its revenues. She also lacked sufficient understanding of Peregrine’s internal control environment and, therefore, could not properly plan the Peregrine Audits. To prepare the audit plans, she used generic auditing software that was not customized or otherwise tailored to an FCM’s business. She failed to properly assess the risks associated with customer-segregated funds at the planning stage and, therefore, was unable to design proper procedures to address the true risks. As such, Veraja-Snelling failed to adequately staff and plan the Peregrine Audits.

c. Due Professional Care

The Third General Standard requires that the auditor exercise due professional care in performance of the audit and preparation of the report. (AU § 230.01) While exercising due professional care, the auditor must plan and perform the audit to obtain sufficient audit evidence so that audit risk will be reduced to a low level that is, in his or her professional judgment, is appropriate for expressing an opinion on the financial statements. (AU § 230.10)

“[D]ue professional care requires the auditor to exercise professional skepticism,” which is “an attitude that includes a questioning mind and a critical assessment of audit evidence.” (AU § 230.07) “[I]n exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.” (AU § 230.09)

Although Veraja-Snelling dutifully reviewed and compared various reports, statements and schedules, the Peregrine Audits lacked the critical assessment of evidence needed to conduct the audit with due professional care. Veraja-Snelling failed to exercise proper scrutiny and skepticism of facts that came to her attention during the Peregrine Audits and should have prompted further inquiry and additional procedures, such as Wasendorf’s large deposits into a customer-segregated account or the accounting department’s inability to access the 1845 Account balance needed for preparing daily segregation reports.

d. Confirmation Process

An auditor should direct the confirmation request “to a third party who the auditor believes is knowledgeable about the information to be confirmed.” (AU § 330.26) While performing confirmation procedures, the auditor should “maintain control over the requests and responses,” which means “establishing direct communication between the intended recipient and the auditor to minimize the possibility that the results will be biased because of interception....” (AU § 330.28) In addition, “the auditor should exercise an appropriate level of professional skepticism throughout the confirmation process.” (AU § 330.15)

Veraja-Snelling attempted to confirm account balances with U.S. Bank during at least six Peregrine Audits, but she did not establish direct contact with U.S. Bank. Peregrine personnel prepared the confirmation requests using contact information from Peregrine’s records and provided each request to the CEO for authorization. After Wasendorf signed the confirmation requests, Peregrine personnel provided the requests and envelopes to Veraja-Snelling. Veraja-Snelling mailed the pre-addressed confirmation requests, but she did not take any steps to ensure that the confirmation requests were directed to the proper recipients at the proper locations. As a

result, Veraja-Snelling violated GAAS because she lacked sufficient basis for believing that the confirmation requests were directed to a third party who was knowledgeable about the information to be confirmed and failed to exercise an appropriate level of professional skepticism during the confirmation process.

D. Veraja-Snelling's Inadequate Review and Tests of Peregrine's Internal Controls

Veraja-Snelling's review and tests of Peregrine's internal controls for the years ended December 31, 2001 through December 31, 2011 did not identify that Wasendorf had exclusive control over the 1845 Account and its reporting (monthly statements and online access), which reflected a material inadequacy in Peregrine's internal controls. Rather, Veraja-Snelling concluded in the 2011 Audit work papers that Peregrine had "strong internal controls" with little supporting evidence. In fact, during the 2011 Audit, Veraja Snelling was informed by one or more Peregrine employees of facts that suggested possible inadequacies in Peregrine's internal controls. Peregrine also provided Veraja-Snelling with its procedures for calculating the amount of customer-segregated cash and preparing segregation reports for all accounts except for the one that appeared to be holding the largest amount of customer-segregated cash, the 1845 Account. Yet, none of this information prompted Veraja-Snelling to undertake additional review or make additional inquiries concerning Peregrine's internal controls.

IV.

LEGAL DISCUSSION

A. Veraja-Snelling Violated Commission Regulation 1.16(d)(1) By Failing to Conduct the Peregrine Audits in Accordance with GAAS

Commission Regulation 1.16(d)(1) requires that audits of Commission registrants be conducted in accordance with GAAS. Auditors who fail to perform audits in accordance with GAAS violate Commission Regulation 1.16(d)(1). 17 C.F.R. § 1.16(d)(1).

Veraja-Snelling failed to conduct the Peregrine Audits in accordance with GAAS because she lacked technical proficiency, failed to adequately staff and plan the 2011 Audit, failed to exercise due care, and did not properly confirm account balances. Because the audits did not conform to GAAS, Veraja-Snelling violated Regulation 1.16(d)(1).

B. Veraja-Snelling Violated Commission Regulation 1.16(d)(1) By Failing to Adequately Review and Test Internal Controls

Regulation 1.16 requires, in addition to GAAS, that audits of FCMs include appropriate review and tests of the FCM's (i) accounting system, (ii) internal accounting controls, and (iii) procedures for safeguarding customer and firm assets. This review must be sufficient to provide reasonable assurance that material inadequacies existing in these three areas as of the examination date will be discovered. 17 C.F.R. § 1.16(d).

Veraja-Snelling concluded that Peregrine had "strong internal controls" with little supporting evidence. In the 2011 Audit and all prior audits, she failed to make necessary inquiries to review the manner in which Peregrine was handling customer-segregated accounts

and assess whether there were appropriate procedures in place to safeguard customer assets. As such, the Peregrine Audits did not identify several material inadequacies in Peregrine's internal controls, including Wasendorf's exclusive control over Peregrine's largest customer-segregated account and its financial reporting, namely its bank statements and online access.

C. Veraja-Snelling Engaged in Improper, Unprofessional Conduct Under Commission Regulation 14.8(c)

Commission Regulation 14.8(c) provides that the Commission may, after notice and opportunity for hearing in the matter, deny temporarily or permanently, the privilege of appearing or practicing before it to any person who is found by the Commission by a preponderance of the evidence to have engaged in improper, unprofessional conduct either in the course of an adjudicatory, investigative, rulemaking or other proceeding before the Commission or otherwise. 17 C.F.R. § 14.8 (2012). Violations of GAAS constitute unprofessional conduct which may result in a permanent or temporary bar to appearing before the Commission. *See, e.g., G. Victor Johnson, McGladrey and Pullen and Altschuler, Melvoin & Glasser*, CFTC Docket No. 11-01, *CFTC Press Release* PR5916-10 (Oct. 4, 2010).

Veraja-Snelling engaged in improper, unprofessional conduct as provided in Commission Regulation 14.8(c) by failing to conduct the Peregrine Audits in accordance with GAAS and failing to conduct sufficient reviews and tests of Peregrine's internal controls in violation of Regulation 1.16(d)(1).

V.

FINDINGS OF VIOLATION

Based on the foregoing, the Commission finds that Jeannie Veraja-Snelling violated Regulation 1.16(d)(1), 17 C.F.R. § 1.16(d)(1) (2012).

VI.

OFFER OF SETTLEMENT

Veraja-Snelling has submitted the Offer in which she, without admitting or denying the findings and conclusions herein:

- A. Acknowledges receipt of service of this Order;
- B. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- C. Waives:
 - 1. the filing and service of a complaint and notice of hearing;
 - 2. a hearing;

3. all post-hearing procedures;
 4. judicial review by any court;
 5. any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
 6. any and all claims that she may possess under the Equal Access to Justice Act, 5 U.S.C. § 504 (2006) and 28 U.S.C. § 2412 (2006), and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Commission's Regulations, 17 C.F.R. §§ 148.1-30 (2012), relating to, or arising from, this proceeding;
 7. any and all claims that she may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, §§ 201-253, 110 Stat. 847, 857-868 (1996), as amended by Pub. L. No. 110-28, § 8302, 121 Stat. 112, 204-205 (2007), relating to, or arising from, this proceeding; and
 8. any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief;
- D. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer;
- E. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:
1. makes findings by the Commission that Respondent violated Regulation 1.16(d)(1), 17 C.F.R. § 1.16(d)(1) (2012);
 2. orders Respondent to cease and desist from violating Regulation 1.16(d)(1), 17 C.F.R. § 1.16(d)(1) (2012);
 3. orders that Respondent be permanently denied the privilege of appearing or practicing before the Commission; and
 4. orders Respondent to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VII of this Order.

Upon consideration, the Commission has determined to accept the Offer.

VII.

ORDER

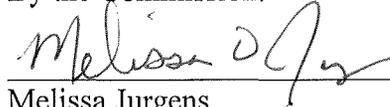
Accordingly, IT IS HEREBY ORDERED THAT:

- A. Respondent shall cease and desist from violating Regulation 1.16(d)(1), 17 C.F.R. § 1.16(d)(1) (2012).

- B. Commencing on the date of the entry of this Order, Respondent is permanently denied the privilege of appearing or practicing before the Commission.
- C. Respondent shall comply with the following conditions and undertakings set forth in the Offer:
1. Public Statements: Respondent agrees that neither she nor any of her agents or employees under her authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondent's: (i) testimonial obligations; or (ii) right to take legal positions in other proceedings to which the Commission is not a party. Respondent shall undertake all steps necessary to ensure that all of her agents and/or employees under her authority or control understand and comply with this agreement.
 2. Relinquish Any Right to Receive Payment from Peregrine: Respondent agrees to relinquish any and all rights to receive payment for services associated with her audit of Peregrine's 2011 financial statements.
 3. Cooperation with the Commission: Respondent shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, and any other governmental agency in this action, and in any investigation, civil litigation, or administrative matter related to the subject matter of this action or any current or future Commission investigation related thereto.

The provisions of this Order shall be effective as of this date.

By the Commission.



Melissa Jurgens
Secretary of the Commission
Commodity Futures Trading Commission

Dated: August 26, 2013