



*United States Attorney
Southern District of New York*

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CONTACT: U.S. ATTORNEY'S OFFICE
YUSILL SCRIBNER,
REBEKAH CARMICHAEL,
JANICE OH
PUBLIC INFORMATION OFFICE
(212) 637-2600

IRS
JOSEPH FOY
PUBLIC INFORMATION OFFICE
(212) 436-1032

**FORMER KPMG PARTNER SENTENCED IN MANHATTAN FEDERAL
COURT TO 57 MONTHS IN PRISON IN SCHEME TO
DEFRAUD IRS, SAIPAN TAXING AUTHORITIES,
AND SAIPAN COMPANY**

PREET BHARARA, the United States Attorney for the Southern District of New York, and PATRICIA J. HAYNES, Special Agent-in-Charge of the New York Field Office of the Internal Revenue Service, Criminal Investigation Division ("IRS"), announced today that former KPMG partner ROBERT PFAFF was sentenced today to 57 months in prison by United States District Judge RICHARD M. BERMAN for participating in a conspiracy to defraud the IRS. PFAFF previously pleaded guilty in September 2009 to concealing millions of dollars of fee income received from tax shelter transactions from the IRS and the Saipan taxing authorities, and for conspiring to defraud a company located in Saipan by sharing tax shelter fee income with officers of that company who in turn failed to disclose those secret payments to the Saipan company's Board of Directors.

According to the Court records and statements made during PFAFF's guilty plea and sentencing proceeding:

Between 1993 and 2002, PFAFF and his co-conspirators arranged for various entities and individuals -- including co-conspirators in the Philippines and Norway, and senior officers of the Saipan company, known as the United Micronesia Development Association ("UMDA") -- to participate with the United States and Saipan taxpayers in certain tax shelter transactions. The tax shelter transactions, including those involving UMDA as a corporate taxpayer, generated millions of dollars of fee income, which was divided between PFAFF and the

other designers, marketers, and implementers of the tax shelter transactions. Between 1993 and 2000, PFAFF received more than \$3,750,000 in fee income from those tax shelter transactions, and thereafter, used the fee income for various personal purposes.

PFAFF and his co-conspirators employed various fraudulent means in order to conceal the receipt of tax shelter fee income from the IRS and the Saipan taxing authorities, including sending millions of dollars of tax shelter fee income from bank accounts in the United States and Saipan to bank accounts in Manila, Philippines (the "Philippines bank accounts") -- accounts that were nominally controlled by a Philippines co-conspirator and others. PFAFF and his co-conspirators controlled the accounts and paid the Philippines co-conspirator to disburse the tax shelter fee income from the Philippines bank accounts in accordance with their instructions.

PFAFF and his co-conspirators also created false and fictitious documentation to make it appear that the fee income PFAFF received from the Philippines co-conspirator was part of a series of loans rather than income to PFAFF. PFAFF also provided false testimony to the IRS regarding his receipt of fee income stemming from the tax shelter transactions. Further, PFAFF and his co-conspirators caused the payment of the tax shelter fees to PFAFF to be concealed from KPMG, in violation of KPMG's partnership bylaws and/or rules and procedures, and caused the payment of the tax shelter fees to the Saipan co-conspirators to be concealed from UMDA.

Through a parallel civil forfeiture case, the United States forfeited funds in the amount of \$1,837,605. According to the forfeiture complaint, those funds -- representing a portion of the proceeds of the scheme involving PFAFF's fraud on the IRS, the Saipan tax authorities, and UMDA -- were transferred by PFAFF during the conspiracy to a co-conspirator located in the Philippines, who turned over the funds following the filing of the forfeiture complaint.

Three co-conspirators -- CHANDLER S. MOISEN, MICHAEL GRANDINETTI, and DOMENICK DEGIORGIO -- have previously pleaded guilty in connection with the conspiracy to which PFAFF pleaded guilty. They are all awaiting sentencing.

PFAFF, 59, is also serving a 97-month sentence as a result of his conviction at trial in United States v. Jeffrey Stein (05 Cr. 888). Judge BERMAN ordered that 54 months of today's 57-month sentence run concurrently with the 97-month sentence; the remaining three months will run consecutively to

the 97-month sentence. Judge BERMAN also ordered PFAFF to pay \$1,052,000 million in restitution to the IRS.

Mr. BHARARA praised the investigative work of the IRS.

This prosecution is being handled by the Office's Complex Fraud Unit. Assistant United States Attorneys STANLEY J. OKULA and DANIEL LEVY are in charge of the prosecution.

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