



**United States Department of Justice
Executive Office for United States Trustees**

Public Report:

**Debtor Audits by the
United States Trustee Program
Fiscal Year 2018**

*(As required by Section 603(a)(2)(D) of the Bankruptcy Abuse
Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8)*

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EXECUTIVE SUMMARY

The United States Trustee Program (USTP) is authorized to audit individual chapter 7 and chapter 13 bankruptcy cases under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, 119 Stat. 23 (2005) (BAPCPA). Section 603(a)(2)(D) of the BAPCPA states that the Attorney General must:^{1/}

(D) Establish procedures for providing, not less frequently than annually, public information concerning the aggregate results of such audits including the percentage of cases, by district, in which a material misstatement of income or expenditures is reported.

In Fiscal Year 2018, the USTP designated 2,070 cases for audit. Of the cases designated for audit, 56 were dismissed before the case was assigned to an audit firm. Of the remaining 2,014 cases, 1,153 were random audits and 861 were exception audits (audits of cases with income or expenditures above a statistical norm). Reports of Audit were filed in 1,891 of the completed audits, and at least one material misstatement was reported in 23 percent of these cases. There were 123 Reports of No Audit filed. A Report of No Audit is filed when a case selected for audit is closed without completion either because the debtor failed to provide sufficient information to complete the audit or the case was dismissed while the audit was in process.

INTRODUCTION

The United States Trustee Program is the component of the Department of Justice whose mission is to promote the integrity and efficiency of the bankruptcy system for the benefit of all stakeholders – debtors, creditors, and the public. The USTP consists of 21 regions with 90 field office locations nationwide and an Executive Office in Washington, DC. Each field office is

^{1/} Authority to implement provisions of the BAPCPA was delegated from the Attorney General to the Director of the Executive Office for United States Trustees (Attorney General Order No. 2785-2005 dated October 14, 2005).

responsible for carrying out numerous administrative, regulatory, and litigation responsibilities under title 11 (the Bankruptcy Code) and title 28 of the United States Code.^{2/}

The USTP is authorized to contract with independent firms to perform audits of individual chapter 7 and chapter 13 cases designated by the USTP. The purpose of the audit is to determine the accuracy, veracity, and completeness of petitions, schedules, and other information required to be provided by the debtor under sections 521 and 1322 of title 11. The audits are designed to provide baseline data to gauge the magnitude of fraud, abuse, and error in the bankruptcy system; to assist the USTP in identifying cases of fraud, abuse, and error; and to enhance deterrence.

The USTP selects independent audit firms through a competitive procurement process to perform the audits using certified public accountants or independent licensed public accountants.^{3/} The debtor audits are conducted in accordance with audit standards promulgated by the USTP and published in the *Federal Register*.^{4/}

The USTP is authorized to randomly designate for audit 1 out of every 250 consumer bankruptcy cases per federal judicial district and to designate cases for exception audit in which the income or expenditures of a debtor deviate from the statistical norm of the district in which the case was filed. The USTP designated cases for random audit at the rate of approximately one out of every 580 consumer cases filed during Fiscal Year 2018.

I. CASE DESIGNATION PROCESS AND TERMINOLOGY

Random audits are selected randomly from all consumer bankruptcy cases within a federal judicial district. In contrast, cases designated for exception audit must meet specific criteria established by the USTP. These criteria are based on income or expenditures greater

^{2/} The USTP has jurisdiction in all federal judicial districts except those in Alabama and North Carolina.

^{3/} BAPCPA Section 603(a)(2).

^{4/} BAPCPA Section 603(a)(1); *Federal Register*, Vol. 71, No. 190 (October 2, 2006).

than a statistical norm for the district where the case was filed, as specified under uncodified section 603(a)(2)(C) of the BAPCPA.

An audit consists of a comparison between selected items on a debtor's originally filed bankruptcy papers and documents produced by the debtor at the request of the audit firm. Audit firms also conduct at least two searches using commercially and publicly available database services to look for unreported assets and to verify the market value of assets.

After an audit has been completed, the audit firm files a Report of Audit with the court and transmits a copy to the United States Trustee. The Report of Audit identifies any material misstatement that is reported by the audit firm. The report is not a legal determination and the legal effect of the audit firm's finding of a material misstatement, if any, is a question for the court. Prior to filing a Report of Audit with the court noting a material misstatement, the audit firm contacts the debtor, through counsel if represented, to provide the debtor an opportunity to offer an explanation or supply additional information that may negate the finding. A material misstatement indicates the audit produced information that challenged the accuracy, veracity, or completeness of a debtor's petition, schedules, or other filed bankruptcy documentation. Inaccurate or incomplete information deprives the court, the United States Trustee, the private trustee, and creditors of adequate information to decide whether to conduct further investigation, recover assets, or seek relief against the debtor.

While specific criteria for reporting a material misstatement are not released to the public to preserve the integrity of the audit process, in general, material misstatements relate to the understatement or omission of the debtor's assets, income, or a pre-petition transfer of property. If a material misstatement is identified in a Report of Audit, the bankruptcy court gives notice to all creditors in the case. In addition, the United States Trustee determines what action is appropriate based on the material misstatement(s) and may pursue a variety of actions depending on the circumstances of the case, including seeking denial or revocation of discharge, or reporting the material misstatement to the United States Attorney.^{5/} In many instances, the United States Trustee may take no action on a material misstatement identified in a Report of

^{5/} See 11 U.S.C. §§ 707, 727(a), 727(d)(4)(A); 28 U.S.C. § 586(f)(2)(B).

Audit based on a number of factors, including whether the debtor corrected the error (e.g., filed amended schedules) or whether the material misstatement was intentional.

If the audit firm cannot complete the audit because the debtor did not produce documents requested in connection with the audit or because the case was dismissed while the audit was in process, the audit firm files a Report of No Audit with the court and transmits a copy to the United States Trustee. The United States Trustee may take appropriate enforcement action when a Report of No Audit is filed, including seeking revocation of discharge, if the debtor fails to satisfactorily explain the failure to make available the documentation requested for the audit.^{6/}

In one case in which a Report of Audit was filed identifying at least one material misstatement, the United States Trustee filed a complaint seeking revocation of the debtor's discharge. The audit revealed that the debtor had failed to disclose all of his and his non-filing spouse's income, resulting in an under-reporting of income of more than \$23,000 for the six-month period prior to filing bankruptcy. The audit also uncovered the debtor's failure to disclose sales of stock and the disposition of nearly \$20,000 of proceeds from those sales. The debtor failed to respond to the United States Trustee's complaint and the court revoked his discharge.

II. OUTCOMES

Outcomes are presented in this report both as aggregate national numbers from all judicial districts within the jurisdiction of the USTP, as well as separately by judicial district.

Aggregate Audit Outcomes

Table 1 shows the total number of cases designated for audit, broken down between cases with no report (i.e., cases that were dismissed prior to assignment to an audit firm) and cases where either a Report of Audit or a Report of No Audit was filed with the court. For Reports of Audit filed with the court, the table also identifies the number of cases with at least one material misstatement and the number of cases with no material misstatements. Further, for all cases

^{6/} See 11 U.S.C. § 727(d)(4)(B).

designated for audit, the table shows the distribution between random audits and exception audits.

In Fiscal Year 2018, the USTP designated 2,070 cases for audit. Of the cases designated for audit, 56 were dismissed before the case was assigned to an audit firm. Of the remaining 2,014 cases, 1,153 were random audits and 861 were exception audits. Reports of Audit were filed in 1,891 of the completed audits, and at least one material misstatement was reported in 23 percent of these cases. Thirty-two percent of exception audits identified at least one material misstatement, compared to 17 percent of random audits. There were 123 Reports of No Audit filed.

Table 1: USTP Debtor Audits for Fiscal Year 2018 (Nationwide Aggregate)				
	Total	Random	Exception	% of Cases Designated
Cases Designated for Audit	2,070	1,207	863	
Cases with No Report	56	54	2	3%
Cases with Report	2,014	1,153	861	97%
Report of Audit Filed	1,891	1,084	807	91%
No Material Misstatements	1,449	902	547	
% of Reports of Audit	77%	83%	68%	
At Least One Material Misstatement	442	182	260	
% of Reports of Audit	23%	17%	32%	
Report of No Audit Filed	123	69	54	6%

* Percentages are rounded.

More than one material misstatement may be reported in a single case. For Fiscal Year 2018, income related material misstatements were reported in more than 70 percent of the cases with material misstatements, while around 40 percent of the cases with material misstatements had asset or transfer related material misstatements.

Outcomes by Judicial District

Table 2 shows the distribution of cases by judicial district in which either a Report of Audit or a Report of No Audit was filed. For cases with a Report of Audit, a breakdown of the number and percentage of cases with at least one material misstatement is provided. This table combines information from both random and exception audits. Due to differences in the number of case filings per judicial district, there is wide variation among districts in the number of Reports of Audit; districts with fewer filings will have fewer reports. For districts with 10 or more Reports of Audit, the percentage of audits with material misstatements ranged from 0 percent to 44 percent.

Table 2: Outcomes by Judicial District for Fiscal Year 2018				
District	Reports of No Audit	Reports of Audit	At Least One Material Misstatement	
			# of Cases	% of Reports of Audit
Alaska	0	2	0	0%
Arizona	2	41	13	32%
Arkansas Eastern	0	18	5	28%
Arkansas Western	0	10	3	30%
California Central	7	91	18	20%
California Eastern	1	38	11	29%
California Northern	2	20	2	10%
California Southern	0	24	5	21%
Colorado	7	27	12	44%
Connecticut	0	16	1	6%
DC	1	1	0	0%
Delaware	1	6	0	0%
Florida Middle	2	58	9	16%
Florida Northern	0	7	0	0%
Florida Southern	1	37	10	27%
Georgia Middle	1	24	6	25%
Georgia Northern	16	75	13	17%
Georgia Southern	1	17	2	12%
Guam	0	0	0	N/A
Hawaii	0	5	1	20%

* Percentages are rounded.

Table 2 (continued): Outcomes by Judicial District for Fiscal Year 2018				
District	Reports of No Audit	Reports of Audit	At Least One Material Misstatement	
			# of Cases	% of Reports of Audit
Idaho	0	12	4	33%
Illinois Central	0	15	5	33%
Illinois Northern	13	104	22	21%
Illinois Southern	0	10	1	10%
Indiana Northern	0	24	5	21%
Indiana Southern	0	39	9	23%
Iowa Northern	0	5	1	20%
Iowa Southern	0	9	4	44%
Kansas	1	19	4	21%
Kentucky Eastern	0	22	2	9%
Kentucky Western	0	20	5	25%
Louisiana Eastern	0	9	2	22%
Louisiana Middle	0	3	2	67%
Louisiana Western	1	23	4	17%
Maine	0	5	1	20%
Maryland	4	46	18	39%
Massachusetts	1	22	5	23%
Michigan Eastern	3	65	20	31%
Michigan Western	0	17	5	29%
Minnesota	0	29	6	21%
Mississippi Northern	0	14	1	7%
Mississippi Southern	0	20	0	0%
Missouri Eastern	0	28	12	43%
Missouri Western	1	21	5	24%
Montana	1	3	0	0%
Nebraska	0	12	2	17%
Nevada	0	24	4	17%
New Hampshire	0	5	0	0%
New Jersey	9	66	20	30%
New Mexico	0	10	4	40%
New York Eastern	10	32	11	34%
New York Northern	0	18	1	6%
New York Southern	2	16	5	31%
New York Western	1	7	1	14%
North Dakota	0	2	1	50%

Table 2 (continued): Outcomes by Judicial District for Fiscal Year 2018				
District	Reports of No Audit	Reports of Audit	At Least One Material Misstatement	
			# of Cases	% of Reports of Audit
Northern Mariana Islands	0	0	0	N/A
Ohio Northern	2	60	15	25%
Ohio Southern	3	48	11	23%
Oklahoma Eastern	0	5	1	20%
Oklahoma Northern	1	7	1	14%
Oklahoma Western	0	16	5	31%
Oregon	0	26	5	19%
Pennsylvania Eastern	0	22	7	32%
Pennsylvania Middle	0	16	5	31%
Pennsylvania Western	2	20	2	10%
Puerto Rico	0	0	0	N/A
Rhode Island	0	7	2	29%
South Carolina	1	18	3	17%
South Dakota	0	3	0	0%
Tennessee Eastern	0	34	12	35%
Tennessee Middle	1	22	6	27%
Tennessee Western	9	30	6	20%
Texas Eastern	0	14	1	7%
Texas Northern	3	30	8	27%
Texas Southern	1	19	2	11%
Texas Western	2	19	2	11%
Utah	7	20	6	30%
Vermont	0	2	2	100%
Virgin Islands	0	0	0	N/A
Virginia Eastern	0	52	15	29%
Virginia Western	0	16	1	6%
Washington Eastern	0	9	0	0%
Washington Western	0	27	8	30%
West Virginia Northern	0	3	0	0%
West Virginia Southern	0	5	3	60%
Wisconsin Eastern	2	32	6	19%
Wisconsin Western	0	13	4	31%
Wyoming	0	3	0	0%
TOTAL	123	1,891	442	23%

CONCLUSION

In Fiscal Year 2018, the United States Trustee Program continued to administer audits of individual chapter 7 and chapter 13 bankruptcy cases. Out of 1,891 Reports of Audit, a material misstatement was reported in 17 percent of the random audits and in 32 percent of the exception audits. This resulted in an overall material misstatement rate of 23 percent.