

Monthly Management Reports: The Most Effective Oversight Tool for Standing Trustees

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Management Reports

Historically, chapter 13 trustees decided what types of management reports to run and how often to run them. In 2002, after several embezzlements in chapter 13 operations, the Program and the NACTT together developed four management reports that trustees were required to run. Those reports (also known as “red flag” reports) highlighted unusual case and financial activity, which may indicate embezzlement activity or other significant case administration issues. Since 2002, additional management reports that can be used to identify other types of case administration issues or unusual activity have been developed and shared with trustees.

Recently, the Program revised the *Handbook for Chapter 13 Standing Trustees* to incorporate the requirement that trustees run eight management reports on a monthly basis. These reports replace the four monthly reports developed in 2002 and, we hope, provide trustees with a meaningful set of oversight tools. The effective date for implementation of these management reports has been deferred until September 2010, so trustees have time to familiarize themselves with the new requirements and case administration software vendors have time to update their software as needed.

This article provides additional information regarding the various reports and offers suggestions on how to run and review the reports each month.

Required Reports

The purpose of management reports is to help the standing trustee identify mistakes, irregularities and potential fraud. The following is a brief description of each of the eight management reports that trustees will be required to run monthly.

Creditor name change error report. This report is designed to detect when the check payee has been altered and does not match the correct creditor name or address. For most trustees this will be the largest, most time-consuming report to review because every change to a creditor address or name will be reflected on the report. Although it is intended that the trustee run and review this report, there may be situations where the trustee cannot do so. In that case, the trustee may allow a staff member to perform the initial analysis but the trustee should still review the final product.

Balances over \$100,000. Current handbook policy requires a trustee to notify his or her bank in the event the trustee has more than a \$100,000 balance on hand in a single case. The \$100,000 cutoff for notification was established to coincide with the maximum limit of FDIC

insurance available for individual accounts. Although the FDIC has temporarily increased the insurance limit to \$250,000, trustees should continue to report balances above \$100,000 to their regional Standing Trustee Coordinators. Such a case may require further review to determine if there is an appropriate reason for the large amount of funds on hand in the case.

Activity in closed cases. This report identifies any activity in cases where the final report has been issued. The trustee should review the report to determine whether any closed cases have funds on hand or whether any other activity has occurred after the case was closed. This report is particularly important if the trustee allows funds to be posted to closed cases rather than to the suspense fund.

No disbursement over 90 days for confirmed cases with funds on hand. This report identifies cases with a hold on disbursements. In most cases there will be a legitimate reason for the hold. However, since the lack of disbursements may be caused by an error, the report provides the trustee with another tool for identifying weaknesses or problems in case administration.

Out of balance reports. This report identifies cases where the fund balance per the internal trust system does not equal receipts minus disbursements. This should be a very rare occurrence and any cases identified on the report will require further research.

Negative balance reports. This report identifies cases that have disbursed more funds than were available. This may occur when a personal check is returned for non-sufficient funds after the trustee has disbursed the funds or when a check is posted to the wrong case and the error is discovered after the disbursement has been made.

Suspense account reconciliation report. This report identifies total receipts and disbursements from the suspense account. It should be reviewed in conjunction with a reconciliation of each transaction in the account; it is not enough to make sure the totals match. While the reconciliation may be done by an appropriate employee, the trustee should personally review it.

Large check report. This report identifies all disbursement checks over an amount specified by the trustee. It is designed to detect checks to improper creditors. Once the trustee identifies the large checks, the trustee should verify that each check ties back to a claim in the particular case. Although it is intended that the trustee run and review this report, there may be situations where the trustee cannot do so. In that case, the trustee may allow a staff member to perform the initial analysis but the trustee should still review the final product.

Strategies for Reviewing Reports

Trustees have expressed the concern that the sheer size of some of the reports – in particular, the creditor name change error report – makes it physically impossible for the trustee to review each transaction personally. The Program recommends that, if the trustee is unable to perform the initial analysis, the trustee have in place a procedure that identifies which reports will be reviewed by staff, which staff member will review the report and how the trustee will

verify that review. If the trustee assigns staff to review a report, the trustee should not assign as a reviewer someone who is involved in the particular process. For example, the person with access to the claims portion of the data base should not review the creditor name change error report and the person who posts receipts should not review the activity in closed cases report.

Even with the assistance of staff, trustees may feel they lack the time to run and review these reports on a monthly basis. To ensure monthly review, some trustees run the reports at the same time each month – perhaps right after the monthly disbursement or on a specific day of the month – and then set aside a specific time to review the reports. Trustees who use this method report that the scheduled review time becomes part of their routine. Other trustees may have other methods of scheduling their review of management reports. We encourage you to consult with one another to find the process that works best for you.

Management reports are important oversight tools for the trustee. Running and reviewing the required reports on a monthly basis will provide the trustee the opportunity to assess the strengths and weaknesses of the trust operation and will reduce the potential for fraud and error.