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Debtor Audits by the U.S. Trustee Program Fiscal Year 2024



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Executive Office for U.S. Trustees

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	1
I. CASE DESIGNATION PROCESS AND TERMINOLOGY	2
II. OUTCOMES	4
Aggregate Audit Outcomes	4
Outcomes by Judicial District	6
CONCLUSION	9

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 (FY) 2024, the USTP designated 588 cases for audit. This report discusses the case designation process and lists data describing audit outcomes.

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 89 field offices nationwide and an Executive Office in Washington, D.C. Each field office is responsible for carrying out numerous administrative, regulatory, and litigation and enforcement 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 the debtor is required to provide under sections 521 and 1322 of the Bankruptcy Code. The audits are designed to provide baseline data to gauge the magnitude of fraud, abuse, and error in the

^{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).

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

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 one out of every 250 individual chapter 7 and chapter 13 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 where the case was filed. During FY 2024, the USTP designated about one in 1,330 individual chapter 7 and chapter 13 cases for random audit.

I. CASE DESIGNATION PROCESS AND TERMINOLOGY

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

Audit firms request documents and other information from selected debtors to determine the accuracy, veracity, and completeness of the debtors' petitions, schedules, and other bankruptcy paperwork. 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.

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

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

After an audit has been completed, the audit firm identifies material misstatements in a Report of Audit. The audit firm files the report with the court and transmits a copy to the United States Trustee. Before 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 U.S. 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, material misstatements in general 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 U.S. Trustee determines what action is appropriate based on the material misstatement 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 U.S. Attorney.^{5/} In most instances, the U.S. Trustee takes no formal action on a material misstatement identified in a Report of Audit. Declinations are 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 U.S. Trustee. The U.S. Trustee may take appropriate enforcement action when a Report of No Audit is

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

filed, including seeking revocation of discharge, if the debtor fails to satisfactorily explain the failure to provide the documentation requested for the audit.^{6/}

II. OUTCOMES

Outcomes are presented in this report both as aggregate national numbers from all judicial districts within the jurisdiction of the USTP and 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 before 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 designated for audit, the table shows the distribution between random audits and exception audits.

In FY 2024, the USTP designated 588 cases for audit. Of the cases designated for audit, 14 were dismissed before the case was assigned to an audit firm. Of the remaining 574 cases, 331 were random audits and 243 were exception audits. Reports of Audit were filed in 539 of the completed audits, and at least one material misstatement was reported in 110 cases (20 percent). Fifty-seven exception audits (25 percent) identified at least one material misstatement, compared with 53 random audits (17 percent). There were 35 Reports of No Audit.

Table 1: USTP Debtor Audits for FY 2024 (Nationwide Aggregate)				
	Total	Random	Exception	% of Cases Designated*
Cases Designated for Audit	588	343	245	
Cases with No Report	14	12	2	2%
Cases with Report	574	331	243	98%

^{6/} See 11 U.S.C. § 727(d)(4)(B).

Report of Audit Filed	539	308	231	92%
No Material Misstatements	429	255	174	
% of Reports of Audit	80%	83%	75%	
At Least One Material Misstatement	110	53	57	
% of Reports of Audit	20%	17%	25%	
Report of No Audit Filed	35	23	12	6%

** Subtotal percentages may not add up to aggregate percentages due to rounding.*

More than one material misstatement may be reported in a single case. For FY 2024, income-related material misstatements were reported in 66 percent of the cases with material misstatements, and 43 percent of the cases with material misstatements had asset-related or transfer-related material misstatements.

The USTP took 14 formal enforcement actions, made 71 informal (out-of-court) inquiries, and made four criminal referrals in cases selected for audit in FY 2024.⁷

^{7/} Enforcement totals include actions taken following audit initiation, though not all actions are necessarily directly attributable to the audit.

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. Because of 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 4 percent to 33 percent.

Table 2: Outcomes by Judicial District for FY 2024				
District	Reports of No Audit	Reports of Audit	At Least One Material Misstatement	
			# of Cases	% of Reports of Audit
Alaska	0	0	0	N/A
Arizona	0	13	3	23%
Arkansas Eastern	1	4	0	0%
Arkansas Western	1	3	2	67%
California Central	2	20	5	25%
California Eastern	1	11	2	18%
California Northern	0	6	1	17%
California Southern	0	7	3	43%
Colorado	0	9	1	11%
Connecticut	0	4	0	0%
District of Columbia	0	1	1	100%
Delaware	0	2	1	50%
Florida Middle	0	23	1	4%
Florida Northern	0	2	0	0%
Florida Southern	1	14	2	14%
Georgia Middle	1	9	0	0%
Georgia Northern	2	26	6	23%
Georgia Southern	0	5	1	20%
Guam	0	0	0	N/A
Hawaii	0	1	0	0%

Table 2 (continued): Outcomes by Judicial District for FY 2024				
District	Reports of No Audit	Reports of Audit	At Least One Material Misstatement	
			# of Cases	% of Reports of Audit
Idaho	0	2	0	0%
Illinois Central	0	1	0	0%
Illinois Northern	2	24	4	17%
Illinois Southern	0	1	0	0%
Indiana Northern	1	5	0	0%
Indiana Southern	0	12	1	8%
Iowa Northern	0	2	0	0%
Iowa Southern	0	4	1	25%
Kansas	2	5	0	0%
Kentucky Eastern	1	8	2	25%
Kentucky Western	0	6	2	33%
Louisiana Eastern	0	5	2	40%
Louisiana Middle	0	0	0	N/A
Louisiana Western	1	6	1	17%
Maine	0	1	0	0%
Maryland	2	15	5	33%
Massachusetts	1	4	2	50%
Michigan Eastern	0	15	1	7%
Michigan Western	0	5	0	0%
Minnesota	0	11	1	9%
Mississippi Northern	0	5	0	0%
Mississippi Southern	0	6	2	33%
Missouri Eastern	0	9	2	22%
Missouri Western	2	1	0	0%
Montana	0	1	0	0%
Nebraska	0	2	1	50%
Nevada	0	9	2	22%
New Hampshire	0	2	1	50%
New Jersey	2	15	5	33%
New Mexico	0	1	0	0%
New York Eastern	0	9	5	56%
New York Northern	1	8	3	38%
New York Southern	0	5	1	20%
New York Western	0	3	0	0%
North Dakota	0	0	0	N/A

Table 2 (continued): Outcomes by Judicial District for FY 2024				
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	18	5	28%
Ohio Southern	0	14	2	14%
Oklahoma Eastern	0	1	1	100%
Oklahoma Northern	0	3	1	33%
Oklahoma Western	0	3	0	0%
Oregon	1	5	3	60%
Pennsylvania Eastern	0	5	1	20%
Pennsylvania Middle	0	3	0	0%
Pennsylvania Western	0	5	1	20%
Puerto Rico	0	9	0	0%
Rhode Island	0	2	0	0%
South Carolina	1	3	2	67%
South Dakota	0	2	0	0%
Tennessee Eastern	1	4	1	25%
Tennessee Middle	0	8	3	38%
Tennessee Western	1	4	2	50%
Texas Eastern	1	5	1	20%
Texas Northern	1	10	3	30%
Texas Southern	0	9	1	11%
Texas Western	0	7	1	14%
Utah	0	7	1	14%
Vermont	0	0	0	N/A
Virgin Islands	0	0	0	N/A
Virginia Eastern	1	13	1	8%
Virginia Western	0	5	0	0%
Washington Eastern	0	2	0	0%
Washington Western	1	9	2	22%
West Virginia Northern	0	1	0	0%
West Virginia Southern	0	2	2	100%
Wisconsin Eastern	1	9	2	22%
Wisconsin Western	0	3	1	33%
Wyoming	0	0	0	N/A
TOTAL	35	539	110	20%

CONCLUSION

In FY 2024, the U.S. Trustee Program continued to administer audits of individual chapter 7 and chapter 13 bankruptcy cases. Out of 539 Reports of Audit, a material misstatement was reported in 53 of the random audits (17 percent) and 57 of the exception audits (25 percent). In total, 110 cases (20 percent) had material misstatements.