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Subject: Audit, TIR and TFR Findings
Date: Wednesday, March 29, 2017 12:47:00 PM
Attachments: [Primary Uniform Transaction Code List.pdf](#)
[Primary UTC Reference Guide.pdf](#)

Dear Trustees:

In an effort to reduce the number of audit, Trustee Interim Report (“TIR”), and Trustee Final Report (“TFR”) findings, I have listed below common findings we have been seeing. I would encourage you to review your cases and procedures to ensure you are in compliance with these areas.

Procedures

- The same person must perform each of the following duties: (1) open mail; (2) restrictively endorse checks; (3) record checks in the receipts log. [Handbook, Chapter 5, Section D(2)(a), page 5-4]
- The trustee is required to maintain evidence to substantiate he/she periodically traces receipts from the receipts log to the bank statements. [Handbook, Chapter 5, Section B(1), page 5-2]
- If the bank statement and Form 2 balances do not correspond, a detailed reconciliation must be prepared. The preparer and trustee must initial and date the reconciliation. The reconciliation must be maintained in the respective estate banking file. [Handbook, Chapter 5, Section B(5), page 5-2; Handbook, Chapter 5, Section E(5), page 5-10; Chapter 7 Trustee Bank Account Review And Reconciliation Procedures in the Handbook Supplementary Materials]
- Domestic Support Obligation (“DSO”) notices sent to the State child support enforcement agencies must include the debtor’s full Social Security number, except where prohibited by State law or regulation. DSO notices sent to the DSO claim holder should not include the debtor’s full Social Security number. Evidence that the notices have been sent should be maintained in the estate file. [Handbook, Chapter 4, Section K, page 4-35]
- The trustee is required to maintain a receivables ledger or other tracking mechanism to track installment receipts. If the trustee uses a third party to collect receivables, the initial demand letter must be sent by the trustee. [Handbook, Chapter 5, Section G(1) (a) and (b), page 5-13]
- The trustee is required to demonstrate (i.e. preserved signed and dated records) that he/she reviews the progress of cases on at least a quarterly basis. A monthly review is recommended. [Handbook, Chapter 4, Section C(13), page 4-25]
- Cases should be closed “as expeditiously as is compatible with the best interests of the estate.” [Handbook, Chapter 4, Section C(13), page 4-25] Unless the Form 1 “Major Activities Affecting Case Closing” section provides an adequate explanation, no recent deposit of funds per the Form 2, along with no recent docket activity, suggests a possible languishing case.

- Our office maintains a listing of authorized auctioneers, who are bonded for a minimum of \$50,000. Prior to working with an auctioneer, the trustee is required to ensure that the auctioneer is bonded in an amount sufficient to cover all receipts collected from a sale. Additionally, the trustee is required to verify that the auctioneer maintains insurance for lost or stolen property. In the event you initiate a claim for lost or stolen property, please notify your local Assistant U.S. Trustee. [Handbook, Chapter 4, Section C(10)(g), pages 4-22 through 4-24]

Form 1

- For scheduled assets, the Form 1, column 2 values must correspond to the values reported on the bankruptcy schedules (original or amended, as applicable). [Handbook Supplementary Materials]
- Assets are considered unscheduled if they are not included in the original bankruptcy schedules or statements. [Handbook Supplementary Materials]
- For scheduled assets that are subsequently removed from the schedules via an amendment, the Form 1, column 1 asset description should state “Void,” with the following additional description: “Per debtor amendments, asset not considered estate property.” [Handbook Supplementary Materials]
- In a case converted from another chapter, Form 1 should include assets reported on the Rule 1019 report or in any schedules filed post-conversion. If there is no 1019 report or post-conversion schedules filed, Form 1 should report the assets remaining to be administered. The trustee should maintain a record of this determination. One suggestion is to annotate the original schedules to indicate the remaining assets at the time of conversion. [Handbook, Supplementary Materials]
- The Form 1, column 3 value (i.e. estimated net value) may be reported as “unknown” for up to one year. As soon as the trustee determines a value, an amount should be reported on the Form 1, column 3. Thereafter, the amount should not change. [Handbook, Supplementary Materials]
- The Form 1, column 6 value should either be “FA,” “Unknown” or an amount greater than zero. If an asset has been fully administered, whether by abandonment, sale, liquidation or as a fully exempt asset, “FA” is used. “Unknown” is only used when the Form 1, column 3 value is unknown. The column 6 value has a different definition than the column 3 value. Thus, the two values are rarely the same. The column 6 value may change as the trustee’s best estimate of the gross remaining value changes. [Handbook, Supplementary Materials]
- For the sale of an asset, the Form 1, column 5 value should reflect the gross proceeds from the sale. [Handbook, Supplementary Materials]
- The “Major Activities Affecting Case Closing” should provide a detailed status report, including reference to each asset not designated as “FA” (i.e. fully administered) in column 6. [Handbook Supplementary Materials]

Form 2

- For the sale of an asset where the gross proceeds differ from the net proceeds received by the estate, Form 2, column 4 should provide a detailed reconciliation. [Handbook Supplementary Materials]
- Chapter 5, Section D(3) and (4) of the Handbook provide guidance on handling earnest funds and settlement proceeds pending court approval. If the situation does not fall within Chapter 5, Section D(3)(a) or (b), the funds must be deposited in the estate account, in a segregated escrow account or in a trust account established specifically for this purpose. Until the sale or settlement is approved by the court, no Form 1 asset

reference number is assigned. After court approval, the Form 2 should reference the applicable Form 1 asset reference number. Earnest money refunds should be recorded on the Form 2 with the description, "return of earnest monies received in connection with the sale of x asset." [Handbook, Chapter 5, Section D(3) and (4), pages 5-5 through 5-7]

- Form 2, column 4 must include a complete transaction description. [Handbook, Supplementary Materials]
- The correct Uniform Transaction Code (UTC) should be assigned to each Form 2 transaction as it is recorded. Please refer to the attached Primary Uniform Transaction Code List and Primary Uniform Transaction Code Reference Guide for further guidance. If you need assistance, please call/e-mail David Quinn or Amy Gaudrault.

Thank you.

Amy

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