The Bankruptcy Reform Act and Bankruptcy Fraud: Implications and Opportunities for CPAs

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The Executive Office for U.S. Trustees estimates that nearly ten percent of all bankruptcies contain elements of fraud (U.S. Department of Justice, Criminal Division, Fraud Section, *Activities Report Fiscal Years 2000 and 2001*). Recent audits conducted by independent audit firms under the authorization of the United States Trustee Program show evidence that this estimate should be significantly increased (White and Kearns, 2007). Not only does bankruptcy fraud diminish the integrity of the bankruptcy system, it also reduces the dollar amount received by creditors and increases the costs of honest debtors and creditors. A sobering fact to consider is that bankruptcy professionals, including lawyers and bankruptcy trustees, have been found liable for bankruptcy fraud in collusion with bankruptcy clients (United States Trustee Program, U.S. Department of Justice, 2002; U.S. Department of Justice, (October 18, 2006), “Five Chicago Area Bankruptcy Attorneys among a Dozen Defendants Charged in Separate Federal Bankruptcy Fraud Cases”).

In this time of economic downturn more personal and business bankruptcies are expected to be filed through at least 2009. CPAs who understand how the bankruptcy law has changed and the basic elements and types of bankruptcy fraud schemes being perpetrated have an

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advantage in being able to guide clients through the bankruptcy process, to help them steer clear of common pitfalls, and to avoid being made a party to any fraudulent activities themselves.

This paper initially presents a brief overview of the federal bankruptcy system and the most recent changes to bankruptcy law. Then we review the categorization by the Federal Bureau of Investigation (FBI) of common bankruptcy fraud elements, and continue on to cover other well-known bankruptcy fraud schemes. Information concerning the newly created Debtor Audit Program is discussed, which should be of particular interest to auditors. This program represents the government’s first attempt to audit bankruptcy filings and also creates an interesting new specialization for CPAs. Next, we provide statistics showing how the bankruptcy law has affected the number of Chapter 7, 11 and 13 filings. Lastly, we present recommendations for CPAs including warnings signs of the most common fraud schemes.

The first bankruptcy audit report released by the U.S. Trustee Program shows higher-than-expected rates of fraud and financial misrepresentation in bankruptcy filings selected for audit (United States Trustee Program, U.S. Department of Justice, 2002). The increasing incidence of bankruptcy fraud and the many changes made to the federal bankruptcy laws make this the right time for CPA practices to expand their knowledge of important legislation affecting their clients. In the process of providing better customer service, CPAs have an opportunity to expand their practice base.

**Bankruptcy System Relief**

There are two basic types of bankruptcy: liquidation and rehabilitation. Liquidation under Chapter 7 of the Bankruptcy Code (11 U.S.C.S. §§ 101 – 1330 (2000)) allows individuals to keep certain exempt property while all non-exempt assets are sold. After liquidating the assets, the bankruptcy trustee then distributes the proceeds to the creditors who receive payment
according to the order in which they are secured. Liquidation is generally the most familiar type of bankruptcy proceeding.

Reorganization under Chapter 11 of the Bankruptcy Code (11 U.S.C.S. §§ 101 – 1330 (2000)) allows the debtor and creditor to create a plan of repayment while allowing a business to continue operations. The debtor usually pays with future earnings and it is not necessary to liquidate assets as in liquidation cases. Chapter 13 of the Bankruptcy Code (11 U.S.C.S. §§ 101 – 1330 (2000)) provides for individuals to file repayment plans. If the court agrees with the plan and the debtor completes payments, the debts will be discharged. Chapters 11 and 13 are known as “rehabilitation” chapters.

Recent Federal Bankruptcy Legislation

The Bankruptcy Code was amended in 2005 when President Bush signed into law the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (hereafter, the “Bankruptcy Reform Act”) (Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, 119 Stat. 23). The Bankruptcy Reform Act became effective 180 days after being signed by President Bush on April 20, 2005. As such, most of the new bankruptcy law provisions took effect on October 17, 2005.

The Bankruptcy Reform Act greatly impacted consumers and businesses wishing to file for bankruptcy. Many of the bill’s provisions are explicitly designed to make it more difficult and costly for individuals to file for bankruptcy, especially Chapter 7. For example, the Bankruptcy Reform Act eliminates the presumption that a debtor is entitled to having the slate wiped clean under Chapter 7 (CCH Bankruptcy Reform Act Briefing: Bankruptcy Abuse Prevention and Consumer Protection Act of 2005).

Debtor Audit Program and Opportunities for CPAs and CPA Firms
An important part of Bankruptcy Reform Act was the establishment of the Debtor Audit Program under the authorization and control of the United States Trustee Program (USTP). Beginning October 26, 2006, at least one out of every 250 individual chapter 7 and 13 cases are subject to audit, plus other “exception” cases showing income or expenses that deviated from statistical norms.

The audits are performed by audit firm’s independent of, and under contract with, the USTP (White and Kearns, 2007). Audit standards have been established by the Department of Justice and bear many similarities to generally accepted auditing standards. Debtor Audit Standard No. 1 states that engagements are to “be performed by individuals having adequate technical training and proficiency for performing attest engagements” (Federal Register (October 2, 2006)). Auditors also must have adequate knowledge of “bankruptcy petitions, schedules, and statements; the Bankruptcy Code; and the Federal Rules of Bankruptcy Procedure” (Federal Register (October 2, 2006)). The report issued by the auditor must state the auditor’s conclusion as to whether any material misstatements exist in the bankruptcy case.

If an individual is selected for an audit, the audit firm will verify that the income, expenses, and assets set forth on the bankruptcy filings are accurate and complete. Debtors are required, by statute, to cooperate with the audit firm and promptly provide additional information and records requested by the audit firm. In addition, the audit firm conducts independent research to verify market values and to look for unreported assets (United States Trustee Program, “Annual Report of Significant Accomplishments,” Fiscal Year 2007). There are no additional fees charged to the debtor selected for an audit; however, the debtor may incur minor copying costs for documentation requested by the audit firm (United States Trustee Program, “Information on Debtor Audits” (February 2009)).
The Department of Justice issued a report on debtor audits performed under the USTP for fiscal year 2007. As of the end of the 2007, there were 3,949 completed audits with reports. Of these audits, 3,016 were random audits and 933 were exception audits. The results of the audits were particularly interesting in light of the previous estimate that at least 10 percent of all bankruptcies contain elements of fraud (U.S. Department of Justice, Criminal Division, Fraud Section, Activities Report Fiscal Years 2000 and 2001). Of the randomly selected audits 27 percent contained at least one material misstatement, while 38 percent of the exception audits contained at least one material misstatement (U.S. Department of Justice (April 2008)). A material misstatement is not defined by the Bankruptcy Code but generally is “an inaccuracy or omission that compromises the integrity and reliability of the bankruptcy documents filed” (White and Kearns, 2007).

In January 2008, the USTP temporarily suspended the Debtor Audit program for budgetary reasons. However, the program was resumed in May 2008 with a budgetary-driven change: the number of randomly selected bankruptcy cases is now 1 out of every 1,000 cases (Weiss, May 13, 2008). For the CPA interested in the Debtor Audit program, the services are awarded after a competitive bidding process. For more information on soliciting a bid for debtor audit services, contact Michael Leamon at (202) 616-1023.

A CPA’s Guide to Identifying Fraud and Abuse in Bankruptcy Filings

Bankruptcy fraud is viewed by the FBI as perhaps only the “tip of the criminal iceberg,” and involves other serious crimes including identity theft, mortgage fraud, money laundering, and public corruption. The FBI has identified four general types of bankruptcy fraud (Federal Bureau of Investigation, “White-Collar Crime Operation Targets Bankruptcy Fraud”). They include debtors concealing assets to avoid forfeiture to creditors; individuals and businesses
filing false or incomplete bankruptcy forms; repetitive, or serial, bankruptcy filers; and crimes by bankruptcy professional, including the bribing of court-appointed trustees. These bankruptcy frauds often occur simultaneously and are described further in the next paragraphs.

The most common types of bankruptcy frauds involve concealment of assets and false or incomplete statements provided by debtor. According to the FBI, 70% of all bankruptcy crimes involve both of these schemes and are hard to separate since concealment of assets automatically assumes false or incomplete statements. Individuals filing bankruptcy inherently do not want to surrender all of their assets. It is common for individuals to omit jewelry, pieces of art, real estate, and stock (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”). Another common concealment of assets is the debtor’s omission on bankruptcy filings of foreign bank accounts or interest received from foreign bank accounts. In April 2009, a 60-year old woman pled guilty in a Florida federal court to, among other counts, one count of bankruptcy fraud for falsely testifying that she used only certain storage units when, actually, she rented at least one other storage facility. In the storage unit she failed to disclose, she kept artwork, furniture, and other valuables. She also admitted to paying for the unit in cash. As part of her plea agreement, she has agreed to pay $343,966 as restitution to the Internal Revenue Service. Her sentencing is scheduled for July 8, 2009 (“Former Palm Beacher Pleads Guilty to Criminal Bankruptcy, Mortgage and Tax Fraud Charges,” The United State Attorney’s Office for the Southern District, April 3, 2009). As this case illustrates, debtors must disclose all assets of value to the court. The debtor who fails to disclose assets may face criminal sanctions under the criminal bankruptcy statute.

Other fraudulent methods used include transferring assets prior to or after bankruptcy filings. Transferring assets prior to the bankruptcy petition is typically done by selling assets,
such as an expensive automobile, to a related third party for little or no consideration. After the bankruptcy process is completed, the third party returns the assets to the debtor. Straw purchasers are often used to conceal real property from the bankruptcy estate. Fictitious entities, family members, or friends are often used to hide real property ownership. A bankruptcy fraud scheme occurs when a debtor transfers concealed bankruptcy assets into an account of the straw purchaser who then presents the cash at closing and takes title to the real property. In addition, once the bankruptcy petition has been filed with the court, a debtor needs court approval to transfer assets. Fraud can occur if the debtor sells assets without court approval or, if granted court approval, sells the assets below market value to a related party (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”).

The serial filer is another bankruptcy fraudster targeted by the FBI. This type of fraud can involve an individual who files numerous bankruptcy petitions to take advantage of the automatic stay provision to prevent eviction, foreclosure, and collection of other debts. As previously mentioned, the automatic stay provision can prevent foreclosure. The automatic stay can also stall utility shut-offs, repossession, and wage garnishments. Low-income individuals attempt to use this provision to their advantage and have no intention of paying their bills (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”). While the Bankruptcy Reform Act has improved the automatic stay provisions, there remain opportunities for misuse.

Although we have federal bankruptcy laws, it is important for the CPA to remember that these laws are interpreted differently in each state. The creative serial filer knows that there is little reciprocity between states and uses this to advantage by filing bankruptcy in several states. These debtors do not disclose prior bankruptcy cases in an attempt to circumvent filing rules, and
may file many cases within a short period of time. Recently reported bankruptcy schemes involve serial filers that include husbands and wives who have used their children’s social security numbers and many cases involving the use of false names and identities (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”). A debtor who filed bankruptcy in the Bankruptcy Court for the Central District of California had her case dismissed when it was discovered she had used another person’s social security number to obtain car loans, credit cards, and employment. The false social security number was discovered when the pay stubs she attached to her petition listed a social security number not assigned to her. She later admitted that she purchased the social security number for $10. The investigation by the U.S. Trustee’s office in Santa Ana, California, found that the social security number belonged to an individual living in New York (United States Trustee Program, “Annual Report of Significant Accomplishments,” Fiscal Year 2007).

The fourth and most troubling bankruptcy fraud identified by the FBI involves crimes by bankruptcy professionals. Unfortunately, it is not uncommon for a bankruptcy attorney to embezzle funds from a client in rehabilitation proceedings or to assist a client in concealing assets from the court (United States Trustee Program, 2002, U.S. Department of Justice). It is most disturbing to uncover bankruptcy fraud involving a court-appointed trustee who conspires with the debtor “to deceive the court by not disclosing assets or by manipulating the process to receive kickbacks or bribes” (FBI, “White-Collar Crime; Bankruptcy Fraud: Types of Schemes”). If a CPA becomes aware of such a fraudulent situation it is important that the CPA not unwittingly become a party to such a scheme and that the AICPA Professional Rules of Conduct are consulted in addition to legal counsel.
There are other common bankruptcy schemes for the CPA to watch for. These schemes are planned prior to bankruptcy and usually involve professional fraudsters who look for situations that can be exploited. The schemes described herein are “bustouts” and rent and/or equity skimming.

A “bustout” is a fairly common bankruptcy fraud scheme. It is a planned bankruptcy scheme and often occurs when a company is actually set up to fail. The business first establishes a good credit history by paying bills promptly. Having established a good credit rating, the business then obtains excessive amounts of merchandise on credit with no intention of paying creditors. The business quickly sells the merchandise and the owner pockets the cash. The business then files for bankruptcy relief and the creditors are unable to locate any assets.

Although many bustout schemes involve a start-up company, these schemes can also involve an existing, reputable firm with good credit. Fraudsters use the existing firm’s good reputation and credit history to obtain excessive amounts of inventory. The fraudsters then renege on the payments to the suppliers and sell merchandise to other illegitimate businesses. The end result is a bankruptcy with no assets.

Bankruptcy courts attempt to pierce through the fraudster’s deception, but it is not easy. In some cases, it is very difficult to identify a true business failure from a bustout scheme. Bankruptcy trustees are in a good position to suspect that fraud may exist, but their main focus is the administration of the bankruptcy. If fraud is suspected there are opportunities for forensic CPAs and other fraud professionals to assist the bankruptcy trustees and courts.

The CPA should also be aware of rent or equity skimming fraud that manipulates the bankruptcy system. This type of fraud uses the bankruptcy system to stall foreclosures so the debtor can continue the fraud. The scheme involves acquiring and mortgaging multiple
properties with no intention of paying the legitimate (and innocent) mortgage company. Once the debtor has collected the proceeds from the property, a bankruptcy action is filed to delay the foreclosure process (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”).

Another example of rent/equity skimming is when the debtor rents the properties to unsuspecting tenants. The debtor collects the rent on the property, but rather than pay the mortgage, the debtor pockets the cash. When the lender does not receive the mortgage payments, the lender attempts to foreclose on the property. The foreclosure process requires a notice period which varies state by state. Once the debtor receives notification of the foreclosure action, the debtor seeks bankruptcy protection. At the time bankruptcy is filed, the lender can no longer attempt to collect on outstanding debt, thereby stalling the foreclosure process. When bankruptcy is filed the automatic stay provision protects the estate of the debtor by preventing an action by creditors to “obtain possession of” or “exercise control over” property of the bankruptcy estate (11 U.S.C. § 362(a)(3)). Prior to the Bankruptcy Reform Act, courts typically held that the automatic stay delayed a landlord’s attempt to evict the bankrupt tenant (Keith-Bolden, 2007). Moreover, because the bankruptcy process could take several years to complete, the debtor could accumulate a significant amount of rental income.

True equity skimming involves fraudsters who locate property owners in various stages of foreclosure. They play on the emotions of owners under financial duress, and convince them that they will save them from foreclosure by paying off the mortgage if the homeowner will “sign over” their home to the fraudster temporarily. Of course instead of helping the homeowners, the fraudsters do not make mortgage payments. As the new property owner of
Bankruptcy fraud schemes have grown and evolved over the years. New methods have emerged and, as the economy worsens, fraudsters will no doubt continue find opportunities to exploit the system, and honest, but financially desperate debtors will be tempted to commit bankruptcy fraud. It is important for all accountants to be aware of these methods and schemes. Many accountants will likely uncover a bankruptcy fraud in practice, and it is important that the accountant be able to identify common schemes so as not to become a party to them.

**Impact of the Bankruptcy Reform Act**

The Bankruptcy Reform Act has affected the number of bankruptcy filings and has most likely helped to reduce the number of fraudulent filings. Bankruptcy filings surged to 1.75 million in 2005 as debtors attempted to file before the official start of the Bankruptcy Reform Act in October 2005. Then, in 2006, bankruptcy filings in the United States dropped to approximately 600,000; the lowest level since 1988. According to the American Bankruptcy Institute, filings for 2006 dropped 70 percent from 2005, with consumer bankruptcies experiencing the sharpest decline. The 2006 consumer filings also revealed a noticeable shift in the type of bankruptcies being filed by consumers. This was largely due to the stricter requirements under the Bankruptcy Reform Act. In 2006, Chapter 13 cases represented 41 percent of the overall consumer filings while Chapter 7 cases represented 58 percent. This was a substantially different pattern from 2005 when Chapter 7 bankruptcy cases represented 80 percent of total consumer filings, while the remaining 20 percent filed under Chapter 13. Despite the remarkably low bankruptcy filings in 2006, the household sector remains highly burdened with debt. By the end of 2007, bankruptcy commencements increased 38% to over
800,000, but it is clear that the Bankruptcy Reform Act has restricted the flow of bankruptcy filings (U.S. Bankruptcy Courts, “Bankruptcy Statistics”).

WSJ.com reported on July 16, 2008 that bankruptcy departments in law firms “are busier than they have been in several years,” and that large firms are increasing the number of professionals versed in the new bankruptcy law in anticipation of higher-than-usual bankruptcy filings at end of 2008 and continuing into 2009. On May 28, 2009, the U.S. Bankruptcy Court in the Tampa-Fort Myers district logged the 11,000th bankruptcy case filed. At this rate, this U.S. Bankruptcy Court could see 27,128 bankruptcies filed in 2009, which is about 500 more than the highest level ever recorded in a normal year. In 2005, the U.S. Bankruptcy Court in the Tampa-Fort Myers district recorded 30,048 fillings, but this is considered to an abnormality due to the rush to file before the Bankruptcy Reform Act took effect (“Going Bust at a Near-Record Pace,” St. Petersburg Times, May 30, 2009). Accountants and lawyers frequently work with the same client experiencing going concern problems. CPAs who are familiar with the bankruptcy law changes can use this knowledge to their advantage since many smaller law firms may not have sufficient resources to keep current on new legislation.
Recommendations for CPAs: Protecting Clients and Ensuring the Integrity of the Bankruptcy System

As the United States economy continues to experience hard times, personal and business bankruptcies will rise. Fluctuating gas prices, falling real estate values, bank failures, and increasing mortgage foreclosures are just a few of the factors giving rise to individuals and businesses who will seek relief from burdensome debt through bankruptcy. Even in years when the economy was thriving personal bankruptcies reached historic levels. Congress enacted the Bankruptcy Reform Act to prevent abuses taking place in the bankruptcy process. While the Bankruptcy Reform Act addressed many of the inadequacies in the Bankruptcy Code, there are still loopholes and areas for manipulation.

The CPA with a client contemplating bankruptcy or currently in bankruptcy can help ensure the integrity of the bankruptcy system and protect the client who may be selected for audit through the Debtor Audit Program from potential prosecution due to concealment of assets. The CPA may learn that assets are being intentionally hidden from the court and that false or incomplete statements may be filed with the court. There are various warnings signs for the accountant when the aforementioned acts are contemplated. Large business thefts or gambling losses prior to bankruptcy warrant further investigation and should be regarded as suspicious (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”). Often a debtor transfers or sells assets to related parties prior to the bankruptcy petition. The debtor may be unable to account for property listed on insurance policies or personal financial statements (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”). Placing property in trusts created by an accountant or attorney may also raise a red flag for the accountant. For the accountant concerned that assets are intentionally being hidden,
it may be wise to enlist the services of an asset search service. These are companies that the accountant can hire online to search public records. In applicable, the accountant can review balance statements of the debtor’s business to verify that the assets and liabilities are truly those of the business and not personal. For example, the accountant may want to verify the debts of the business by examining receipts. Additional resources for determining if assets are being hidden include searching Uniform Commercial Code filings with the state, the local property appraiser’s records for property ownership, and the state’s department of motor vehicles for automobile and boat ownership. Concealment frauds do not require a bankruptcy fraud expert to commit; often, temptation leads honorable citizens experiencing financial hardship to hide their assets or bend the truth on official statements.

Any CPA engagement which involves a bankruptcy filing should always verify social security numbers and names used in the bankruptcy petitions. This is important since debtors can use fraudulent social security numbers to their advantage. There are online companies that provide verification of social security numbers for a small fee. Two well-known and reputable services are Accurint ([http://www.accurint.com](http://www.accurint.com)) and ChoicePoint, now owned by LexisNexis ([http://www.choicepoint.com](http://www.choicepoint.com)). Stay away from “free” services or any online information verification companies that require you to provide your social security number online. These companies could easily compromise your own social security information. Also, cross-checking names and social security numbers in various state databases often leads to discovery of additional bankruptcy cases. Some states (e.g., Illinois, Florida) are verifying Social Security Numbers with the Social Security Administration before issuing new and renewal driver’s licenses or identification cards. Florida verifies the Social Security Number when a driver license number is entered online ([https://www6.hsmv.state.fl.us/DLCheck/mail.jsp](https://www6.hsmv.state.fl.us/DLCheck/mail.jsp)).
accountant should make a copy of the debtor driver’s license for his/her file and verify the Social Security Number through the state’s motor vehicle department or the Social Security Administration. CPAs should always be professionally skeptical if they learn that a client has employed the services of multiple attorneys since this may be an indication that the client intends to file bankruptcy petitions in more than one jurisdiction.

Bustout schemes involve both newly organized entities and existing entities, and accountants with merchandising clients need to be aware of warning signs. Bustouts are present in many different industries, but typically involve merchandise that sells quickly and easily. Bustout businesses likely will pay cash up front for rent and have warehouses stocked full of merchandise. The financial statements for the business will show very high liabilities to assets if the statements are, in fact, not fraudulent. From the summer of 1999 through the spring of 2000, Patricia Aboud, the owner of Micro Business Technology ("MBT") defrauded more than fifty creditors (ePlus Technology v. Aboud, 313 F.3d 166, C.A.4 (Va.) 2002). All in all, MBT accrued approximately $10,000,000 in debt to buy computer components, but had no assets when it filed for bankruptcy in 2000. When MBT’s bankruptcy trustee took control of the business, he found no money, no equipment, and no records. The district court concluded, “once the conspirators had extracted all the money from MBT, they caused the enterprise to declare bankruptcy, leaving plaintiff and the other vendor-victims to pick over MBT's meatless carcass.”

The bustout scheme may also involve, but is not limited to, the following characteristics: no receivables listed on accounting schedules, leased equipment, unpaid taxes, rent paid up front in cash, false credit references, lack of company bank accounts, and the use of fraudulent social security numbers to obtain additional credit (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program”). The CPA should also be suspicious of the
client who requests the formation of multiple business entities or complicated and complex business structures.

Finally, CPAs should be aware of rent and equity skimming fraud. Common characteristics of this type of fraud include failure to make mortgage payments, use of quit-claim deeds transferring interests in the property, numerous fictitious name ("doing business as") designations in the chain of title, and a post office box designation as a company address (United States Trustee Manual, Volume 5: “Bankruptcy Fraud & Abuse Enforcement Program,”). In addition, the debtor may have taken out multiple mortgages in a relatively short period of time. Another warning sign is if the debtor files for bankruptcy immediately after or just before the foreclosure notice. A check of the county public records can let the accountant know of a foreclosure action. To be very safe, the accountant should contact an attorney or title company for a title search.

Business failures and personal financial misfortunes affect both businesses and individuals. The bankruptcy law was designed to provide businesses and individual’s relief from overly burdensome debt. For clients who may be creditors or investors of businesses where there are going concern issues it is important for CPAs to help evaluate a company’s liquidity on a regular basis. This gives creditors or investors an idea of what the potential loss may be if the debtor seeks relief under federal bankruptcy law. Having this knowledge before a bankruptcy is filed can be an important advantage in structuring an appropriate business strategy.

Before accepting audit clients CPAs are trained to evaluate the integrity of the client and inherent business risks. The devastation of a bankruptcy proceeding can provide powerful incentive for even the most honest and trustworthy client to commit fraud. CPAs need to be aware of the changes made by the Bankruptcy Reform Act, possible bankruptcy fraud activities,
and the opportunities available to guide a client through a difficult time. Additionally, the bankruptcy law changes provide opportunities for CPAs to become bankruptcy “experts” and in doing so to provide the best possible services for a variety of clients.
EXHIBIT 1

Warning Signs of Bankruptcy Fraud

- Large business thefts or gambling losses.
- Concealment of assets.
- Transfer of property to family members, friends, or insiders.
- Serial bankruptcy cases.
- Failing to keep proper books and records.
- Incomplete books and records.
- Establishing a business entity just prior to the bankruptcy filing.
- Frequent transactions in cash.
- Lack of receivables listed on accounting schedules.
- Leased equipment.
- Unpaid taxes.
- Rent paid up front in cash.
- False credit references.
- Lack of company bank accounts.
- Inconsistent statements of debtor’s financial affairs.
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