

Discussion of
Consumer Bankruptcy Audits
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MFA, March 2025

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Road Map of the Paper:

- ① Use a matched sample of non-audited cases.
- ② Explore dismissal rates. (audits have big effects on Chapter 7 cases, not on Chapter 13s)
- ③ Back of the envelope calculations of increasing audit rate (direct and indirect deterrent)
- ④ Merged with credit records to look at long term effects.

Two Pushes & Proposals

- Matching
- External Validity/Data
- Proposals
- Small, dumb thoughts

Matching

- Do I understand the matching?
 - Find audited and non-audited pairs in FJC, and then pull the PACER data for these cases. Is that right?
- Is that important?
 - Do the unmatched sample regressions (using all of FJC) return the same estimates as the matched sample (Table 5 vs Table 7)?
 - Chapter 7 dismissal rates as a function of audit: 0.011*** vs 0.019, Chapter 13: -0.016* vs -0.008.
 - Why these differences? Matched sample allows for expenses to differ by \$500 (20%ish of the average expenses). :(

Data Questions

- External validity: (5.17% of Chapter 7s get dismissed vs 2.7% for LN and 1.7% for FJC)
- Income-Expense is close for Chapter 7, very low for Chapter 13.
- How to explain Chapter 13 Table 7 effects?
- Fraction of dismissals that convert from 7 to 13 and vice versa?

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- Can we get audit reports for all of the audits (15,062 audited cases)?
 - I'd love to see more about the magnitude of the misstatement.
 - Odd that the misstatements are so similar between ch 7 and 13.
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- Given the selection structure, I would expect very little geographic variation in audits.

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UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF VIRGINIA

In re:)
)
Randall and Suzanna Mathena) Case No. 15-71535
) Chapter 7
)
)
Debtors.)

REPORT OF DEBTOR AUDIT

Pursuant to 28 U.S.C. § 586 (f)(1), the United States Trustee contracted for an audit to be performed of the above-captioned debtors' petition, schedules and other information filed by the debtors in this case. In accordance with the Debtor Audit Standards established pursuant to Section 603 (a) of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, McBride, Lock & Associates performed the procedures enumerated in the contract between ourselves and the United States Trustee Program to determine whether certain items in the bankruptcy petition, schedules, and statements as originally filed by Randall and Suzanna Mathena in Bankruptcy Case No 15-71535 contain material misstatements concerning the debtors' income, expenditures, or assets.

The auditor finds:	
No material misstatement	√
One or more material misstatements	
The material misstatements are listed on the attached List of Material Misstatements.	

The debtors were responsible for the preparation of the bankruptcy petition, schedules, and statements in this case. The United States Trustee Program is responsible for the sufficiency of the procedures developed to determine the accuracy, veracity, and completeness of the petitions, schedules and other information that the debtors are required to provide under 11 U.S.C. §§ 521 and 1322. McBride, Lock & Associates make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

The analysis and findings contained in this report are intended solely for the information and of the United States Trustee Program and parties-in-interest in the subject civil bankruptcy proceeding and are not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited. The Report is not a legal determination, and the legal effect of the auditor's findings of material misstatement is a question for the Court. Further, the findings contained in the report neither require the United States Trustee Program or other related

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parties in interest to take, nor preclude these parties from taking, legal action in or relating to this case, including with respect to matters not discussed in this report.

Respectfully submitted,



McBride, Lock & Associates, LLC
Certified Public Accountants
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Kansas City, Missouri 64105
(816) 221-4559

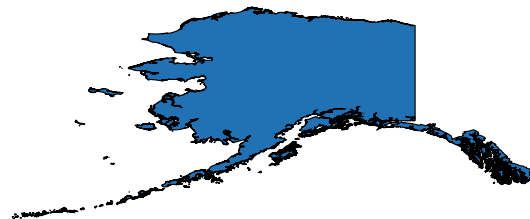
Dated this 16th day of February, 2016.

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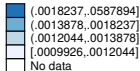
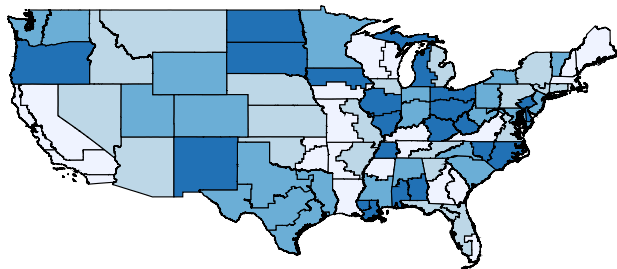
List of Material Misstatements

Material Misstatement	Amount Reported in Schedules and Statements	As Found in Audit
Underreported Total Combined Monthly Income on Schedule I.	\$6,795.00	\$8,044.80
Understatement on Schedule B of the Fair Market Value of a single item of personal property.	\$0.00	\$12,665.00

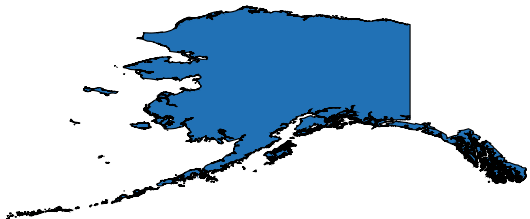
Audit Variation - Chapter 7



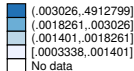
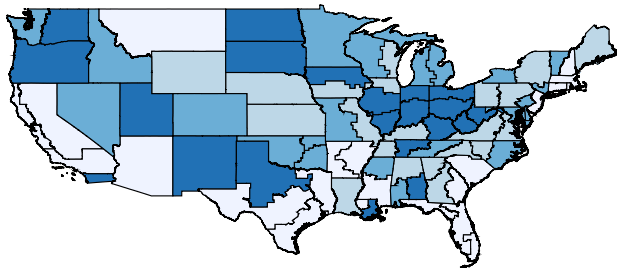
- Why is the audit rate so low? ($\frac{1}{250} = 0.004$).
- Chapter 7 audit rate = $\frac{19,016}{9,246,025} = 0.00205$.



Audit Variation - Chapter 13



- Why is the audit rate so high? ($\frac{1}{250} = 0.004$).
- Chapter 13 audit rate = $\frac{22,878}{3,999,768} = 0.0057$.
- Even across both chapters, the audit rate is 0.0031.



Smaller Thoughts

- Put all of the back of the envelope calculations in an Appendix (too rough to stand on).
- Cluster by district.
- odd that mean income for chapter 13 misstatements is exactly \$8,000.

Conclusion

- I think consumer bankruptcy is a super important space and audits play an important role in shaping the equilibrium.
- I'm not particularly fond of the matching exercise, and I don't know that it's necessary to deliver big, policy-relevant findings.
- I think there's more in the data that could be exploited (2020 audit suspension, deviant expenses boundary, etc.) within the FJC data.