

**Substantive Changes to the
Handbook for Chapter 7 Trustees
Questions and Answers – Set #3**

Internal Controls – Check Stock

- 35) **The *Handbook* at page 9-8 states that blank computer checks should contain a control number and that the trustee should maintain a log of these control numbers and account for every check used. At page 9-3, the *Handbook* states that if the trustee uses an automated system to print and issue checks, adequate precautions must be instituted and maintained to ensure that all check stock, including voided checks, is accounted for and that every check in each case is consecutively numbered.**

A vendor currently provides trustees with check stock that is completely blank (“blank check printing paper”). Everything, including the bank logo and the MICR bank account information, is printed on the paper at the time the check is printed by the trustee. The bank’s internal auditing department concurs that there is no risk from someone taking the blank check printing paper.

- a. Does the new *Handbook* require vendors to add control numbers to check stock that is completely blank?**

No. The *Handbook* requirements on pages 9-3 and 9-8 were intended to address blank check stock that was pre-printed with the bank’s logo, MICR bank account information, and, possibly, other information. Typically, these checks had a numerical control number, other than the check number, and would be used by a trustee for multiple estates. The control number and log helped the trustee keep track of the sequence of checks assigned to each estate. By reviewing the log each time checks were run, the trustee could determine if any check stock was missing.

With the type of check stock described by the vendor, many of these control features are unnecessary. Check stock that is completely blank does not need a control number. However, the trustee should keep it in a locked or secure area, because the special paper can be used to create fraudulent checks.

The trustee is still responsible for monitoring and verifying the numerical sequence of estate checks, in order to detect if unauthorized checks were printed. For example, let’s say that the last check number authorized by the trustee was 105. Unbeknownst to the trustee, someone gains access to the blank check stock and computer system, and prints checks 106 and 107. A few days later the trustee prints more checks for authorized disbursements and discovers that the next check number is 108. If the trustee is tracking the numerical sequence of checks used, the trustee will immediately know that there has been a possible defalcation. As

stated on *Handbook* page 9-8, the computer system should contain a tamper-proof feature that consecutively numbers checks, so that the perpetrator cannot reset the check number to 106.

- b. **Does the Program distinguish between blank check stock (i.e., checks pre-printed with some bank information) and blank check printing paper (i.e., completely blank paper)?**

Yes. See the answer above. However, note, in particular, that both types of check stock should be kept in limited access, secure areas.

- c. **Both blank check stock and blank check printing paper may come with multiple checks per page. If the trustee only needs to print one check, the rest of the page is discarded. What should the trustee do with the leftover check stock?**

If the trustee is using blank check stock with a pre-printed control number, then the trustee must void and retain any checks that are damaged or rendered useless by the check printing process. These checks are tracked in the control log described on *Handbook* pages 9-3 and 9-8.

If the trustee is using blank check printing paper with no pre-printed control number or other bank information, then the trustee may tear up the useless paper and throw it away.

Internal Controls – Use of Concentration Accounts

- 36) **A bank uses a concentration account, or “bond recovery account,” to expedite the payment of bond premiums for its trustee customers. As we understand it, the procedure operates as follows: The field office advises the trustee of the bond premium amount. Using a special feature in the computer program, the trustee runs a blanket bond disbursement report which shows a preliminary allocation of the premium among the trustee’s estate accounts. The trustee reviews the report and deletes certain estates that should not be used (especially estates where TFRs have been filed). Once the trustee is satisfied with the bond premium allocation, the bank is authorized to make the disbursement. The bank debits each estate account and consolidates the funds in the bond recovery account. The bank then issues a cashier’s check to the bonding company. The bank provides a complete paper trail to the trustee as support for the transaction. Funds are not left to accumulate in the bond recovery account.**

This procedure appears to contradict several Handbook tenets, such as: funds from different estates should not be commingled, cashier’s checks should not be used without UST approval, and estate disbursements should be paid by estate checks. Is this procedure acceptable?

Yes. For the unique purpose of paying chapter 7 trustee bond premiums, it is permissible for the trustee to use the procedure described above, so long as the transaction is well-documented by the trustee and pre-authorized in writing by the United States Trustee. In addition, the concentration account should be reported to the United States Trustee on the bank's monthly bank report. Furthermore, the trustee must ensure that no balance accumulates in the account.

Internal Controls – Deletion of Transactions

37) A vendor asked for clarification regarding the following Substantive Q and A (#24, issued on January 7, 1999):

A trustee discovers that a transaction was posted to the Form 2 for the wrong estate. Can the transaction be deleted?

No. The transaction may not be deleted by the trustee, the trustee's administrator, or the software vendor. The trustee must enter a correcting entry to provide the appropriate audit trail. The trustee's software should not contain a feature that allows anyone to delete a transaction after it has been entered.

Can a trustee change a transaction description or a reference number without voiding and re-entering the transaction?

Yes. On Form 1, for example, it would be permissible for the trustee to revise an asset description. The trustee also should be able to split up assets that were originally recorded as a group. The first asset in the group could use the original asset number and the other assets would be listed starting with the next available asset number. (See Forms Q and A #76 for related information concerning Form 1.) On Form 2, it would be permissible for a trustee to change a transaction description, reference number, or transaction code (some software programs utilize codes to generate TFRs and other reports). **These changes should be explained in a footnote on the Form.**

It is not permissible for a trustee to be able to change the date, check number, payer/payee, or amount of a transaction, or to delete the transaction as though it never appeared on Form 2. If the trustee needs to change the date, check number, payer/payee, or amount, reversing and correcting entries must be made.