



California Lawyers Association

*presents*

DIY Client Trust Accounting - A Hands-On Session!

1.25 Hours MCLE; 1.25 Legal Ethics; Legal Specialization in Legal Malpractice

Saturday, September 23, 2023

3:00 PM - 4:15 PM

Speakers:

**Jennifer Stalvey**

**Hellen Hong**

Conference Reference Materials

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# DIY Client Trust Accounting – A Hands-On Session

Jennifer Stalvey, CPA and Hellen Hong, Esq.

SAN DIEGO / SEPTEMBER 21- 23

# ANNUAL MEETING

BREAKING BARRIERS

CALIFORNIA  
LAWYERS  
ASSOCIATION

#CLAAnnual

## Agenda

- Introductions
- Rules and Terms
- DIY 3-way Reconciliation
- Supervision Guidance
- Tips and Additional Resources

## Hellen Hong, Esq.



- CEO, Cal Bar Affinity, Inc. (which operates CalBar Connect)
- Former Director of the Office of Access & Inclusion at the State Bar of California
- Former Executive Director of small firm legal services organization with more than ten full-time attorneys
- Seasoned Executive for entities between \$1M - \$30M annual budgets.

## Jennifer Stalvey, CPA



- Principal Program Analyst for Client Trust Account Protection Program (CTAPP), State Bar of California
- State Bar of California's first in-house Forensic Accountant
- Certified Public Accountant in California and Tennessee
- Recognized Expert Witness in Tennessee and North Carolina
- Former Director of Captive Insurance for the State of Tennessee.

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InfoTrack	E-Court Filing	10% Off
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Carr Workspaces	Office Solutions	\$50 Credit
Kenect	Software Solutions	15% lifetime discount

## Rules and Terms

- **California Rules of Professional Conduct**
  - Rule 1.15 Safekeeping Funds and Property of Clients and Other Persons – outlines which records attorneys are required to keep, along with specific information within those records
  - Rule 1.4 Communication with Clients – outlines the timeframe for client communications, including requests for important documents
  - Rule 5.3 Responsibilities Regarding Nonlawyer Assistants – outlines attorneys' supervisory responsibilities; **nondelegable** ethical duty to safekeep your clients' funds.

## Rules and Terms

- **Attorney Client Trust Account** – A client trust account is an account maintained at a financial institution for the purpose of holding client funds. Clients trust accounts may be IOLTA (multiple clients) or non-IOLTA (one client).
- **Account Journal** – An account journal is a detailed transaction list that records every transaction in your trust account in chronological order.
- **Client Ledger** – An individual client ledger is maintained for each client that records every transaction related to that client.
- **Reconciliation Date** – The 'as of' date we perform the monthly reconciliation, which is the last day of the Bank Statement period (generally, the last day of the month).

## Client - Trust - Accounting



## Types of Bank Accounts

Operating Account – NOT reported to the Bar	IOLTA Trust Account (mixed) – Reported to the Bar	Non-IOLTA Trust Account – Reported to Bar
<ul style="list-style-type: none"> <li>• Normally your business checking account</li> <li>• Your firm’s operating money flows through this account (rent, utilities, payroll, etc.)</li> <li>• In the name of your firm</li> <li>• Often balanced with QuickBooks</li> </ul>	<ul style="list-style-type: none"> <li>• Common Client Trust Bank Account</li> <li>• One Trust Account that is holding short-term funds for multiple clients</li> <li>• Typically for nominal amounts or short term</li> <li>• Interest goes to the State Bar to fund legal services for indigent B&amp;P §§ 6211-6213.</li> </ul>	<ul style="list-style-type: none"> <li>• For a specific Client or common interest group (so, one non-IOLTA for each client or group)</li> <li>• Interest goes to the client or group</li> <li>• Funds are usually sizable in amount and held for longer periods, so that interest earned exceeds bank fees</li> </ul>

## Interest on Lawyers' Trust Account (IOLTA)



When a client gives you a “nominal” amount of money or the money you hold is for too short of a period of time to earn income in excess of the costs to hold for a specific client



Account is set up so that the bank automatically pays the interest on the account to the State Bar



By Law, the State Bar distributes this money for legal services to the indigent.

# Account Journal

- A written journal for *each* trust bank account.
- Keeps track of all money going in and out of the account for the life of the account.
- Transactions for recorded in chronological order.
- Every transaction in your account journal will have one matching transaction in an individual ledger.

# Sample Trust Account Journal

## TRUST ACCOUNT JOURNAL

Standard (1)(b) of Rule of Professional Conduct 1.15 (d)(3)

\*required by Standard (1)(b) of Rule of Professional Conduct 1.15 (d)(3)

*Date	Payor or Payee	Purpose	*Deposit	*Disbursement	*Running Balance	*Client	Notes	Reconciled to Individual Ledgers?	Reconciled to Bank Statement?
01/03/24	Our Law Firm Business Account	Firm funds for bank fees	200.00		200.00	Law Firm Bank Charges	Account open deposit		
01/03/24	Friendly Bank	Fee for ordering checks		25.00	175.00	Law Firm Bank Charges	Bank Fee		
01/08/24	R&W Development	Advanced Fee Payment	25,000.00		25,175.00	R&W Development	Check memo 'Retainer'		
01/31/24	Our Law Firm Business Account	Firm Fee for R&W - Jan 2024		3,800.00	21,375.00	R&W Development			
			<u>25,200.00</u>	<u>3,825.00</u>					

When, Who, Why, How Much, Balance, And Client



## Client Ledger

- An individual ledger for **each client** that details every monetary transaction on behalf of that client or other person.
- Required for every IOLTA.
- Every transaction in each individual ledger will match one transaction in the Account Journal.

## Sample Client Ledger

### CLIENT LEDGER

Standard (1)(a) of Rule of Professional Conduct 1.15 (d)(3)

\*required by Standard (1)(a) of Rule of Professional Conduct 1.15 (d)(3)

*Date	*Payor or Payee	*Purpose	*Deposit	*Disbursement	*Running Balance
01/08/24	R&W Development	Advanced Fee Payment	25,000.00		25,000.00
01/31/24	Our Law Firm Business Account	Firm Fee - Jan 2024		3,800.00	21,200.00
			<u>25,000.00</u>	<u>3,800.00</u>	

When, Who, Why, How Much, and Balance

# Bank Charges Ledger

- An individual ledger for nominal bank fees that are the responsibility of the attorney.
- Will only apply to IOLTAs.
  - Non-IOLTA bank fees will be paid by the client.
- We account for these nonchargeable bank fees in a separate ledger to account for every penny in the Account Journal.

## Sample Bank Charges Ledger

### BANK CHARGES LEDGER

Standard (1)(a) of Rule of Professional Conduct 1.15 (d)(3)

\*required by Standard (1)(a) of Rule of Professional Conduct 1.15 (d)(3)

*Date	*Payor or Payee	Transaction Method	Check #	*Purpose	*Deposit	*Disbursement	*Running Balance
01/03/24	Our Law Firm Business Account	Check	3889	Firm funds for bank fees	200.00		200.00
01/03/24	Friendly Bank	Electronic Transfer		Fee for ordering checks		25.00	175.00
					<u>200.00</u>	<u>25.00</u>	

When, Who, Payment Method, How Much, and Balance

## Bank Statements + Canceled Checks

- You must keep all bank statements and cancelled checks or check imaging for each client trust bank account, individual or common.
- These records show that the entries in your client ledger and account journal are accurate.

**FRIENDLY BANK**  
 123 Main Street  
 Your town, California 90001

### Your Statement

<b>Account Number</b>	123456789
<b>Statement Period</b>	Jan 1, 2024 – Jan 31, 2024
<b>Ending Balance</b>	\$25,175.00

Our Law Firm IOLTA  
 Attorney Client Trust Account California IOLTA  
 789 West Coast Avenue  
 Anytown, California 90001

### IOLTA Account

#### Account Summary

<u>Date</u>	<u>Description</u>	<u>Amount</u>
01/03/24	<b>Beginning Balance</b>	<b>\$0.00</b>
	Deposits & Credits	\$25,200.85
	Debits & Withdrawals	\$25.85
01/31/24	<b>Ending Balance</b>	<b>\$25,175.00</b>

#### Interest

Interest Paid this Year \$0.85

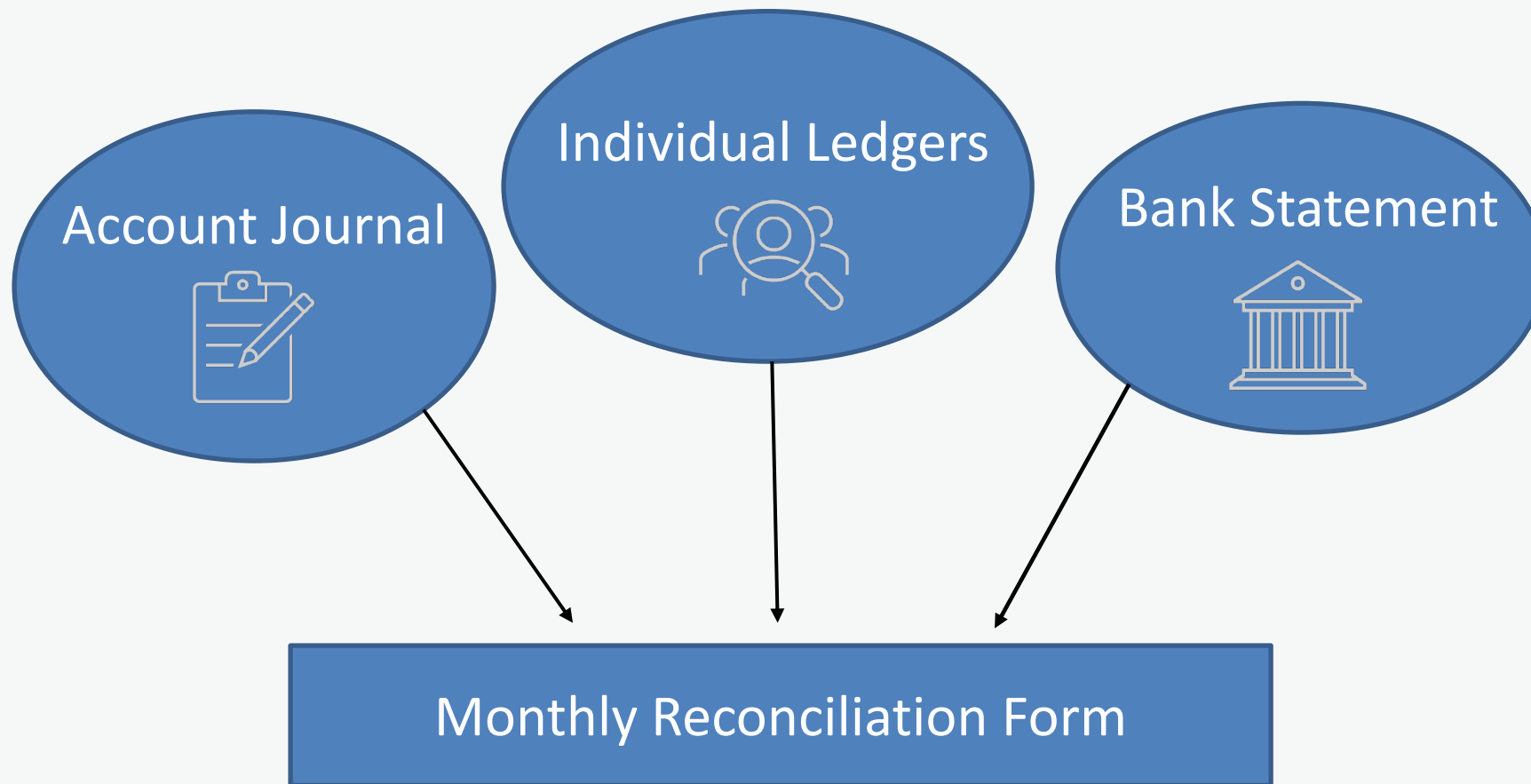
#### Detail Transactions

<u>Date</u>	<u>Transaction</u>	<u>Credit</u>	<u>Debit</u>	<u>Balance</u>
01/03/24	OPENING BALANCE			\$0.00
01/03/24	Deposit Check 3889	200.00		\$200.00
01/03/24	Bank Checks Order		25.00	\$175.00
01/08/24	Deposit Check 6101	25,000.00		\$25,175.00
01/31/24	Interest Earned	.85		\$25,175.85
01/31/24	Interest transfer to IOLTA Program		.85	\$25,175.00

#### Daily Balances

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
01/03/24	175.00	01/08/24	25,175.00	01/31/24	25,175.00

## 3-Way Reconciliation



# Reconciliation

- You must keep a written record showing that every month you “reconciled” or balanced the account journals you keep for each **client trust bank account** against the **individual ledgers** you keep for each person and the cancelled checks and **bank statements** for those accounts.
- Three-way reconciliation involves reconciling:
  1. the trust account journal
  2. the individual client ledgers, and
  3. the bank statement.
- It ensures that the total balance of individual client ledgers matches the balance of the trust account ledger, which in turn matches the bank statement balance.

## Action!

This is the hands-on part of our course! You can perform our monthly reconciliation with us in one of two ways:

1. In Excel, by downloading the CLA course workbook

**<https://shorturl.at/mpQST>**

2. On the printed handouts provided to you.

**Ready?**



# Let's Reconcile!

**Step 1** – Gather the three documents we are going to reconcile.

**Step 2** – Reconcile each Account Journal entry to each Individual Ledger entry.

**Step 3** – Reconcile each Account Journal entry to each Bank Statement entry.

**Step 4** – Complete the Sample Monthly Reconciliation form.

**Step 5** – Review, sign, and date.

Monthly Trust Account Reconciliation and Review Certification			
Standard (1)(c) of Rule of Professional Conduct 1.15 (d)(3)			
Firm Name	Our Law Firm	Month and Year	January 2024
Bank Name	Friendly Bank	Account Open Date	01/03/24
Account Name	Our Law Firm IOLTA	Account Close Date	Enter close date
Account Number	123456789	Date of Reconciliation	

**INSTRUCTIONS**  
For each account, use the following documents to complete the form and attach a copy: (1) trust account journal; (2) individual ledgers; (3) bank statement with check copies; (4) client ledger summary with balances; (5) list of outstanding deposits; and (6) list of outstanding checks.

**FIRM RECORDS - ACCOUNT BALANCES**

**1. TRUST ACCOUNT JOURNAL BALANCE** .....   
Does each entry contain the information required by Standard (1)(b), adopted pursuant to rule 1.15(e)? (client name, date, amount, payor/payee, current balance) (Y/N)

**2. TOTAL OF ALL INDIVIDUAL LEDGER BALANCES**

**A. Total Individual Client Ledger Balances, including all undisbursed funds pursuant to rule 1.15(c)(2)** .....   
Do any client ledgers have a negative balance? (Y/N)   
— If yes, attach an explanation, including any corrective action taken.

**B. Total Firm Funds in Trust Account** ..... +   
In compliance with rule 1.15(c)(1), are the firm funds in the account no more than reasonably sufficient to pay bank charges? (Y/N)

**TOTAL 2. INDIVIDUAL LEDGERS (A+B) (automatically calculated)** ..... = \$

**BANK ACCOUNT RECONCILIATION**

**3. RECONCILED BANK BALANCE**

**A. Bank Account Ending Balance** .....   
**B. Add Outstanding Deposits** (total deposits made to the account through the end of bank statement period, but not reflected on bank statement) ..... +   
**C. Less Outstanding Disbursements** (checks and other disbursements made through the end of the bank statement period, but not reflected in bank statement) ..... -

**TOTAL 3. (A+B-C) RECONCILED BANK BALANCE (automatically calculated)** ..... = \$

**DO TOTAL BALANCE OF 1, 2 and 3 AGREE?** (Y/N)   
— If no, your account is not reconciled. Identify the error(s) and re-reconcile the account.

**RECONCILIATION PREPARED BY**

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Preparer Name	Position	Signature	Date

**ATTORNEY CERTIFICATION**  
I certify that I personally reviewed the above trust account reconciliation report, the firm's trust account journal, all client ledgers, the monthly bank statement and cleared checks, and understand this reconciliation is not deemed complete until all discrepancies are resolved and balances agree.

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Attorney Name	Bar Number	Signature	Date

## Supervision is Mandatory

Attorneys have a **nondelegable** duty to safekeep client funds.

CA Rule of Professional Conduct 5.3 - Attorneys have a duty to supervise employees, contractors, or any other person performing work for them or their firm.

Case Law (one of many) – California Supreme Court noted "where fiduciary violations occur as the result of serious and inexcusable lapses in office procedure, they may be deemed 'willful' for disciplinary purposes, even if there was no deliberate wrongdoing. . . [W]e have repeatedly held that trust account deficiencies are attributable to attorneys - not to their employees." Palomo v. State Bar (1984) 36 Cal.3d 785, 795-796 [205 Cal. Rptr. 834]

## Supervisory Guidance – Reflective Questions

### Review the Account Journal:

- Are there any transactions or amounts that seem unusual?
- Are there any transactions you expected to see but don't?

### Review the Client Ledgers:

- Are there any client names or accounts you don't recognize?
- Are there a client or account you expected to see but don't?
- Are there any transactions that seem unusual or unexpected?

**Get answers to any questions you have!**

## Supervisory Guidance – Reflective Questions

### Review the Bank Statement:

- Do the beginning and ending balances seem reasonable?
- Are there any transactions you don't understand or recognize?
- Did the preparer provide check copies or other documents to provide details about the bank transactions?
- Are there any unusual or unexpected checks or other disbursements from the trust account?

**Get answers to any questions you have!**

## Benefits to Timely Recordkeeping

- **Excellent Communication with Clients** – You can easily send your clients a copy of their ledger at a moment's notice.
- **Accuracy & Trust** – Ensures that all important information is captured accurately and completely, avoiding errors that can have serious consequences for clients.
- **Compliance** – Ensures all legal and regulatory requirements are met, avoiding potential legal and ethical issues that can arise from non-compliance.
- **Efficiency** – Work more efficiently by providing easy access to information when requested. This can save time and money and increase productivity.
- **Risk management** – Helps attorneys to manage risk by providing a complete and accurate record of all activities and transactions, minimizing the risk of disputes and other problems that can arise from incomplete or inaccurate records.

## Resources

Consider software solutions\*  
that may help such as:

- Trustbooks
- CLIO
- Smokeball
- MyCase

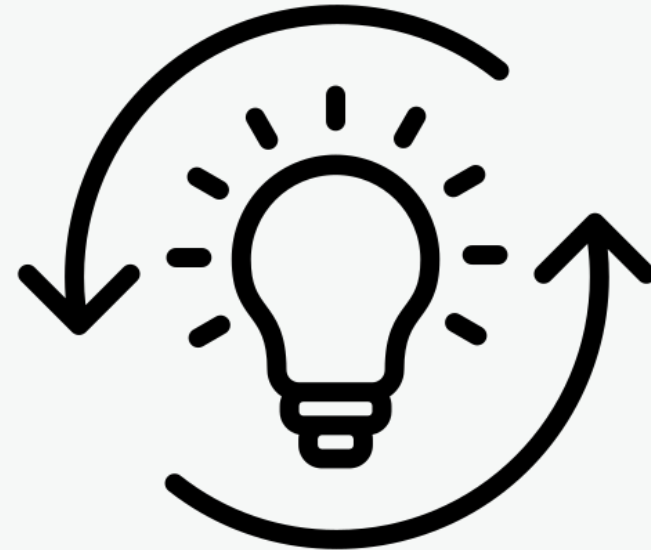
\*Remember you may be eligible for  
discounts with CalBar Connect!

Consider hiring  
Bookkeeping/ Accounting  
services for attorneys.

You search for CPAs at:  
<https://findcpa.calcpa.org/>

## Considerations

- Ensure your data is compliant with cybersecurity needs (including cloud and back up data)
- Ensure your staff/talent has expertise in law firm accounting and three-way reconciliations
- Ensure segregation of duties in financial management



Images: by Ida Desi Mariana - Flaticon

## Want More Hands-On Training?

The State Bar will be offering an in-depth two-month reconciliation course, available online this fall, and will include:

- Multiple clients' funds in the trust account (IOLTA)
- More diverse transaction types and how to record them
- What forms of payment are acceptable in a trust account
- How to correct errors once you identify them

For more information: [www.calbar.ca.gov/ctapp](http://www.calbar.ca.gov/ctapp)