

InfoPak on Client Trust Accounts

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Handling Your Clients' Money

I. **Important changes to Rule 1.15 of the D.C. Rules of Professional Conduct, effective January 1, 2000**

A rule change by the District of Columbia Court of Appeals has fundamentally changed the way a D.C. lawyer should handle fee advances from clients. Fee advances are no longer automatically considered the property of the lawyer, which formerly permitted a lawyer to take immediate possession of a fee advance. The fee advance must now be placed in the lawyer's trust account, unless the client agrees otherwise. The change in the rule is as follows:

Rule 1.15(d):

(d) Advances of unearned fees and unincurred costs shall be treated as property of the client pursuant to paragraph (a) until earned or incurred unless the client gives informed consent to a different arrangement. Regardless of whether such consent is provided, Rule 1.16(d) applies to require the return to the client of any unearned portion of advanced legal fees and unincurred costs at the termination of the lawyer's services in accordance with Rule 1.16(d).

Rule 1.15(d), Comment [2]

[2] Paragraph (d) of Rule 1.15 permits advances against unearned fees and unincurred costs to be treated as either the property of the client or the property of the lawyer, but absent informed consent by the client to a different arrangement, the Rule's default position is that such advances be treated as the property of the client, subject to the restrictions provided in paragraph (a). In any case, at the termination of an engagement, advances against fees that have not been incurred

must be returned to the client as provided in Rule 1.16(d). For the definition of “informed consent” see Rule 1.0(e).

II. **So what does this REALLY mean?**

- A. Fee advances will now go to your client trust account instead of your operating account, UNLESS the client agrees that it can go in your operating account. This agreement is not required to be in writing, but it would be prudent to do so.
- B. Even though the new rule allows the client to agree that fee advances can go into your operating account, it may be best to avoid this arrangement. The safe and prudent course to take with client money is to deposit all fee advances into your client trust account.
- C. Before your client can truly agree that the fee advance may go into your operating account, the client should be informed of the differences between your operating and trust accounts. In addition, it may be prudent to give examples of these differences, and what might happen to money in either account. It may also be prudent to include language in your written fee agreement that tracks the wording of the rule. A good rule of thumb to follow here is the less sophisticated the client, the more disclosure is needed.
- D. Tracking client funds in your trust account just became more important and a bit more time-consuming. Make sure you are using both an account journal (general ledger) and individual client ledgers to keep track of how much each client has in your trust account. For additional information, consult the primer on trust account management.
- E. You may also need to change your written fee agreement to state how the client’s money gets from the trust account to your operating account, and how often. Usually, the fees are transferred on a monthly basis. If you have trust withdrawals for multiple clients, this can be transferred in one transaction to your operating account. If you state that you are going to bill the client every 30 days and transfer the funds from trust to operating, then you must make sure you do so each month.

III. **Tips on managing your client trust account**

- 1. In addition to the account journal (or general ledger) that has the running balance of how much money is in the trust account, you must create a ledger for each client on whose behalf you hold money. Also, create a ledger to record any administrative costs used to cover bank charges.
- 2. Never pay a client with cash; always have a check as a record. Do not use an ATM card to withdraw money, and never use a deposit ticket to get “cash back.” Even a wire transfer isn’t a good idea.
- 3. Don’t disburse a check until the deposited funds have cleared. Be diligent, but don’t let a client rush you. After you have written the disbursement check(s), take a moment to add them up and compare against the client’s balance in the trust account. Make sure there are funds available to cover the checks.

4. Reconcile your client trust account monthly, no matter how dull or boring the task!
5. Have a good audit trail. In addition to the account statement and any canceled checks, keep a monthly folder with the following: copies of all checks deposited to or written on the account and copies of all deposit slips (copies made by you—don't rely on the bank); a copy of all disbursement statements/agreements signed by your clients and fulfilled that month, and a copy of your account journal (or a screen print from your computer) showing the account transactions for that month.
6. Take a few minutes right now to re-read Rules 1.5, 1.15, 1.16, and 1.19 of the D.C. Rules of Professional Conduct, to make sure you are still in compliance.

IV. **Client Trust Accounts and the IOLTA Program**

- . In the District of Columbia, a lawyer's responsibility for client funds that are entrusted to him or her are governed by the D.C. Rules of Professional Conduct, specifically Rules 1.15 and 1.19, and District of Columbia Court of Appeals Rule X and Appendix B. The following is a "nuts and bolts" overview of the rules, but is not a substitute for reading the Rules for yourself:
 - i. Funds given to a lawyer to hold for a client or third-party must be held in an account separate from the lawyer's own funds.
 - ii. The account must be maintained:
 - a. in a financial institution which is authorized by federal, District of Columbia, or state law to do business in the District, or
 - b. in the state in which the lawyer's or law firm's office is located, and
 - c. the financial institution must be a member of the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or successor agencies, and
 - d. the institution must be on the list of "D.C. Bar Approved Depositories" maintained by the Board on Professional Responsibility. (A current list is available from the D.C. Bar Foundation by calling 202-467-3750; consult Rule 1.19 for the purposes of this requirement and the obligations of the bank and lawyer.)
 - iii. If the funds are nominal in amount or to be held for a short period, they may be placed in an interest bearing account for the benefit of the Interest on Lawyers Trust Account Program (IOLTA). For more information on IOLTA, see below.
 - iv. The title of each "trust account" or "escrow account" must contain those descriptive words, as well as the lawyer's or law firm's identity.
- a. Interest on Lawyers Trust Accounts Program (IOLTA): The District of Columbia Court of Appeals has instituted a program through which interest from certain interest-bearing lawyer trust accounts is paid not to

lawyers or their clients, but to the D.C. Bar Foundation to distribute for charitable purposes. The financial institution where the trust fund account is located is required to transmit these interest payments directly to the D.C. Bar Foundation. The lawyer must instruct the financial institution to forward the earned interest to the Foundation. (Rule X, Appendix B) Not every trust account is covered by this Rule, and lawyers may decline to participate by following the proper procedure. Appendix B of the D.C. Court of Appeals Rules sets forth the requirements for the program and for opting out of it:

- i. A lawyer or firm (with which the lawyer is associated) who receives client funds shall maintain a pooled interest-bearing account for the deposit of the client funds that are "nominal in amount" or "expected to be held for a short period of time." The determination of whether client funds are nominal or to be held for a short period of time rests in the sound judgment of each lawyer or law firm.
 - ii. The lawyer cannot receive the interest from these IOLTA accounts, and is not required to notify his or her client that the funds are in an IOLTA account.
 - iii. The IOLTA trust account must be:
 - a. in a financial institution which is authorized by federal, District of Columbia, or state law to do business in the District, or
 - b. in the state in which the lawyer's or law firm's office is located, and
 - c. the financial institution must be a member of the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or successor agencies.
 - iv. Upon establishing the account, the lawyer shall direct the depository institution to:
 - a. Remit the interest or dividends, net of any service charges or fees, on the average monthly balance in the account, or as otherwise normally accounted by the institution for other depositors, to the D.C. Bar Foundation. The interest payment transfer must occur at least quarterly, and
 - b. Include a statement from the financial institution with each remittance indicating the name of the attorney or law firm on the account and the interest rate applied.
 - v. Lawyers may decline to participate in the IOLTA program by:
 - a. Filing a "Notice of Declination" each year with the Chief Judge of the D.C. Court of Appeals.
 - vi. For more information about the IOLTA program contact the IOLTA Administrator, at the D.C. Bar Foundation: Phone: 202/467-4231
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Speaking of Ethics

By Susan Gilbert, D.C. Bar Legal Ethics Counsel

Bar Report, October/November 1999

Q: Do I have to open a separate trust fund for each new client?

A: No, unless it's otherwise required by rule or by law. For instance, in probate and bankruptcy, lawyers know that separate escrow accounts are usually required. In real estate and personal injury cases, on the other hand, separate accounts are generally not necessary, so long as complete records of the client's funds are kept.

Q: What steps do I have to take to begin withdrawing "earned" fees from the new client trust account?

A: Again, the bottom line is that putting language in the retainer agreement as to the manner in which earned fees will be "drawn down" simply makes good sense. The rule does not, per se, require this but common sense suggests that it be done.

Speaking of Ethics By Susan Gilbert, D.C. Bar Legal Ethics Counsel

Bar Report, April, 2000

Q: I understand that the Legal Ethics Committee has recently released Opinion No. 293 (Revised), which delineates the obligations of a lawyer who is holding client funds to which third parties are asserting ownership interests. What, in essence, does the opinion hold?

A: Opinion 293 seeks to clarify what constitute "just claims" as that term is used in Comment [4] to Rule 1.15 of the D.C. Rules of Professional Conduct. The comment reads, in relevant part, "Third parties, such as client creditors, may have just claims against funds or other property in a lawyer's custody. A lawyer may have a duty under applicable law to protect such third party claims against wrongful interference by the client, and accordingly may refuse to surrender property to the client."

Q: What types of interests create "just claims"?

A: In general, a "just claim" that the lawyer must honor pursuant to Rule 1.15 is one that relates to the particular funds in the lawyer's possession, as opposed to being a general unsecured obligation of the client. Primary examples are: An attachment or garnishment arising out of a judgment against the client (or ordered judicially prior to judgment) and duly served upon the lawyer, regardless of whether the attachment or garnishment is related to the matter being handled by the lawyer; A statutory lien that applies to the proceeds of the suit being handled by the lawyer; A court order relating to the specific funds in the lawyer's possession; and A contractual agreement, such as an Authorization and Assignment (A & A), made by the client and joined in or ratified by the lawyer to pay certain expenses out of funds in the lawyer's possession. Further, if the lawyer in question is successor counsel, and knows that predecessor counsel joined in or ratified an agreement to pay a service provider out of judgment or settlement funds, then successor counsel is obligated to honor his client's contractual commitments from such monies. As many local lawyers can attest, such situations arise quite frequently, and can obviously implicate a lawyer's duty of loyalty to the client. All necessary considerations must be sorted out carefully

before any action is taken. Similarly, where there is no legitimate dispute about who is entitled to all or part of the funds, the lawyer must disburse the undisputed portion accordingly.

Q: What about the situation where the quantum of undisputed 'just claims' exceeds the amount of judgment or settlement fees available?

A: In such a case, the lawyer is faced with difficult questions about how to disburse the funds. An obvious solution would be to pro rate the funds among the various providers, but the disbursing lawyer would be obliged to secure the consent of all providers before doing so. Otherwise, the question may become one of priority of claims, in which the lawyer becomes an interested party. In this case, the only option available may be the filing of an interpleader action.

Q: What about disputes between the lawyer and client over the lawyer's entitlement to judgment or settlement proceeds?

A: That's another matter entirely, and one in which the concept of 'just claim' is not raised. Regardless of whether a client's claim is meritorious, the lawyer is not entitled to 'draw down' fees or take a contingent fee until the matter is fully and finally resolved. In re Haar, 667 A.2d 1350, 1353 (D.C.1995).

Maintaining a Client Trust Account: An Introductory Example

Whether you hire a bookkeeper, use an accounting software program, or maintain it yourself with pencil and paper, you should know and understand the mechanics of proper trust account management. If your bookkeeper makes a mistake or your computer software has a bug, it is still *your* license that is at risk. Knowing the mechanics of trust account management will allow you maintain the account yourself, or help you detect accounting problems when someone else maintains the account.

Maintaining your trust account(s) is more than just reviewing the bank statement each month; however, it does not have to be an overwhelming task if you know the basic steps and take the time each month to reconcile the account.

Many lawyers will have just one trust account, a common-client trust account, often called a "pooled" trust account. This is also called an "IOLTA" account, which stands for Interest on Lawyer Trust Accounts (See Rule X, Appendix B of the Rules of the District of Columbia Court of Appeals Governing the Bar). This pooled trust account contains funds that you are holding and disbursing on behalf of two or more separate clients. Having one such pooled account helps keep down the cost of banking and cuts down on paperwork. This is where "IOLTA" comes in: Rather than have to try to determine what accrued interest in the pooled trust account is attributable to which client—a real accounting nightmare for most lawyers—the interest is automatically diverted, by court rule, to be used for charitable purposes. Therefore, your clients will not receive interest on their funds that you have deposited into your pooled IOLTA trust account. (However, in some circumstances you may decide to open a separate non-IOLTA trust account for a single client, based on the amount of funds, the duration the funds are in the account, and

the account activity, This is left to the lawyer's discretion as set forth in Rule X, Appendix B.)

Because, over time, numerous clients will have separate funds in the same account, you will need to create and maintain certain accounting documents to keep track of each client's funds. The first document is the client ledger. The ledger is really just a form with column heading to help you track money. You must create a separate client ledger for each client that has funds in you trust account. The client ledger will be your written record of each deposit and withdrawal from your trust account attributable to that client.

In addition to the individual client ledger, you will need to create an account journal to track all of the transactions in and out of that trust account. Each trust account will have one account journal, and that account journal will be your "diary" of what is happening to all of the funds in the trust account. In short, the client ledger tracks the funds of each client in the trust account, and the account journal tracks all of the funds in the account. Finally, you will use the monthly bank statement and copies of canceled checks and deposit slips to maintain a pooled client trust account properly.

So how do you get started? First, decide whether you want to manage your trust account on paper or on a computer. If you choose the traditional paper-based method, account journals and client ledger forms (form names may vary slightly) are available from most office supply retailers. If you choose to manage your trust account(s) using your computer, there are a variety of accounting programs. Quicken and QuickBooks are two popular generic products; there are legal-specific accounting programs as well. Contact the D.C. Bar Practice Management Advisory Service at 202-737-4700 or for additional assistance and information about computer accounting programs.

Once you purchase the paper or computer accounting system, familiarize yourself with the system: what are the column headings, how do I enter the information. Then, continue with this tutorial on managing a trust account (or follow the one included with your computer program). The process of managing your pooled client trust account can best be illustrated by the following examples:

Starting a Client Ledger

Example One: On July 28, the ABC Insurance Company hand-delivers a check to you as full settlement of your client's personal injury suit. Your client, MG, has previously signed a written fee agreement for you to represent her in this suit for a one-third (33.3%) contingent fee before expenses. You have not received any other funds for MG to date, so you must create a new client ledger for her. You determine that the funds should be placed in your common client (or pooled) trust account because the funds will not generate enough interest to cover the cost of a separate trust account. [See Rule 1.15] So you make the deposit and create a new client ledger sheet. The client ledger should look like this:

Client Ledger
 Client Name: MG
 Case Number: 99-1005

Date	Source of Deposit	Payee, Ck. #, Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
07/29/00	ABC Ins.			30,000.00	30,000.00

You should always record the date you received the money from or on behalf of your client, the source of the funds, and the amount of money received.

After learning of the settlement, you sent to your client a settlement sheet listing all fees, expenses and payments that she owes pursuant to your written fee agreement (\$10,000 in legal fees and \$1,000 for filing fees and costs), and others including her doctor, Dr. Allen (\$3,500), your expert witness, Dr. Mann (\$2,200), and court reporter, A&F Reporting (\$1,300). Your client has signed the settlement sheet and returned it to you on July 30. [See Rule 1.5(c)] You then make out a client trust account check, #265, to your law practice (not to "cash") in the amount of \$11,000. You record the payment in the client ledger, subtract the amount of the check from her running balance and write in the new balance. MG's client ledger now looks like:

Client Ledger
 Client Name: MG
 Case Number: 99-1005

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
7/29/00	ABC Ins.			30,000.00	30,000.00
7/31/00		RT & Assoc., #265, fees and costs	11,000.00		19,000.00

You've recorded the date you paid out the money, to whom it was paid, and why, and recorded the new running balance. You also recorded the check number to make it easier to reconcile your records at the end of the month.

You then write checks to the other creditors set forth in the settlement sheet, entering each transaction into the client ledger. After double-checking your calculations, you write the a check to your client for the remaining balance of \$12,000.00, and enter the information on the client ledger. When all the transactions are complete, your client ledger looks like this:

Client Ledger
 Client Name: MG
 Case Number: 99-1005

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
7/29/00	ABC Ins.			30,000.00	30,000.00
7/31/00		RT & Assoc., #265, fees and costs	11,000.00		19,000.00
7/31/00		Dr. Allen, #266, medical expenses	3,500.00		15,500.00
7/31/00		Dr. Mann, #267, expert witness	2,200.00		13,300.00
7/31/00		A&F Rptr., #268	1,300.00		12,000.00
7/31/00		MG, #269	12,000.00		0.00

Example Two: Upon receiving the settlement sheet you sent to her, MG calls you to discuss the costs and fees; she is concerned that she will receive less than she anticipated. You agree to contact Dr. Allen to see if he will cut his fee. After some discussion, Dr. Allen agrees to reduce his fee by \$1,000. You should send your client a new settlement sheet to sign showing the change, and have her sign it. (See, *In re Millstein*, 667 A2d. 1355 (1995). After writing the checks, using the revised settlement sheet, MG's ledger would look like this:

Client Ledger
 Client Name: MG
 Case Number: 99-1005

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
7/29/00	ABC Ins.			30,000.00	30,000.00
7/31/00		RT & Assoc., #265, fees and costs	11,000.00		19,000.00
7/31/00		Dr. Allen, #266, medical expenses	2,500.00		16,500.00
7/31/00		Dr. Mann, #267, expert witness	2,200.00		14,300.00
7/31/00		A&F Rptr., #268	1,300.00		13,000.00

7/31/00	MG, #269	13,000.00	0.00
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Example Three: On July 30, MG, having received the new settlement sheet you sent to her is still unsatisfied, and calls you to object to your fee being deducted before expenses. You refer her to the written fee agreement, but she is still not satisfied. You agree to meet and discuss it when she returns from a business trip next month, but she wants payment before then. You agree to send her a check for the undisputed portion of the fees, and agree to maintain the disputed funds in the trust account. You must make a note that the funds are disputed until the dispute is resolved. Under these facts, MG’s client ledger would appear as follows:

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
7/29/00	ABC Ins.			30,000.00	30,000.00
7/31/00		RT & Assoc., #265, fees and costs	9,000.00		21,000.00
7/31/00		Dr. Allen, #266, medical expenses	2,500.00		17,500.00
7/31/00		Dr. Mann, #267, expert witness	2,200.00		15,300.00
7/31/00		A&F Rptr., #268	1,300.00		14,000.00
7/31/00		MG, #269	11,000.00		2,000.00

MG’s client ledger for the pooled client trust account is now complete until the final billing dispute is resolved.

Example Four: On August 17, a new client, AG, hires you to enforce a real estate covenant on his residential property in the District. You have not represented this client previously, so you request a \$2,500 advanced fee to begin the work. The client reviews and signs the written fee agreement, and hands you a check for \$2,500. The fee agreement clearly states that the \$2,500 is the client’s property, and will be placed in your trust account. [See Rule 1.15, effective January 1, 2000] The agreement further states that you will bill the client monthly for work performed during the prior month, and the amount owing will then be transferred from the trust account to your account. So you make the \$2,500 deposit and create a new client ledger sheet. The client ledger should look like this:

Client Ledger
 Client Name: AG
 Case Number: 99-1066

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
8/18/00	AG (advance fee).			2,500.00	2,500.00

Example Five: On September 30, you complete your billings for the month of September. You have worked for new client, AG, a total of 4.5 hours during that month, and you now want to get paid. Your fee agreement with AG clearly states that you will bill him monthly for work performed during the prior month, and that you will apply the advanced fee (now in your client trust account) to the amount owed. The work performed for September totals \$725.00, so you now write a trust account check payable to your firm or practice. You will then deposit the check into your operating account. It is best to write an actual check, rather than do an electronic transaction between accounts; this objective evidence of a trust account transfer leaves a better audit trail. The client ledger should now look like this:

Client Ledger
Client Name: AG
Case Number: 00-1066

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
8/18/00	AG (advance fee).			2,500.00	2,500.00
9/30/00		R.T. & Assoc., #272, Sept. legal issues	725.00		1,775.00

The Account Journal

For each pooled trust fund account, you must keep an account journal. The account journal is a running history of all the activity in that account. For individual client trust accounts, your client ledger is also your account journal. For a "pooled" or "common" client trust account (that contains funds for multiple clients), in addition to knowing each client's balance, you will need the account journal to keep track of all the funds in the account. If you maintain the account journal properly, you will never bounce a client trust fund account check, unless there's a bank error. In the account journal, you must record each deposit and each payment out of the account. For each deposit, you must record the date you deposited the money, the name of the client for whom you received the money, and the source of the money. For each payment out of the account, you need to list the name of the client on whose behalf the money was paid, the date and the amount of the payment, the trust account check number, and the payee. After each transaction (payment or receipt), you must record the account balance. This information is particularly

important if you deposit checks for more than one client on one bank deposit slip. If you are using your own money in the account to cover bank charges, you must also record every deposit of your own funds and every bank charge. [See, D.C. Rules of Professional Conduct, Rule 1.15(f)] Keep a separate ledger, like the client ledger, to keep track of these bank charges and your minimal contributions that you make to cover these expenses that cannot otherwise be charged to a specific client.

The sample account journal below covers the same time period as the client ledger in Example 2 above but includes transactions for other clients with funds in your trust account.

Account Journal

Client Trust Account Name: Common Client Trust Account

Date	Name of Client	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
7/20/00	JC		WW, #264, partial refund to seller of escrowed funds	1,000.00		1,300.00
7/29/00	MG	ABC Ins.			30,000.00	31,300.00
7/31/00	MG	RT & Assoc., #265, fees and costs		11,000.00		20,300.00
7/31/00	MG	Dr. Allen, #266, medical expenses		2,500.00		17,800.00
7/31/00	MG	Dr. Mann, #267, expert witness		2,200.00		15,600.00
7/31/00	MG	A&F Rptr., #268		1,300.00		14,300.00
7/31/00	MG	MG, #269, disputed settlement balance		13,000.00		1,300.00
8/18/00	AG	AG			2,500.00	3,800.00
	KS Jr.	XYZ			120,000.00	123,800.00

Mortgage

Remember, the account journal is a record of the account—a diary of what happens in the account. It does not tell you how much each client has in the trust account. For that information refer to the individual client ledgers.

Review Problem: On August 21, your client, JC, calls to confirm that the remaining \$1,200 in escrow should be returned to the seller, as the plumbing problem was fixed. You check the client ledger and account journal prior to writing the check to the seller for \$1,200.00. You happen to note that this is the first trust account activity since August 19. Properly record this transaction on the above account journal.

You should now have a basic understanding of the two types of forms used to track client funds in your trust account. Let's now turn to the basics of maintaining the account to eliminate errors.

Reconciliation of Your Client Trust Account

The goal of the reconciliation process is to find the mistakes that are almost always made in recording financial transactions. No amount of training can eliminate these mistakes, but regular reconciliation can prevent them from becoming costly. For example, let's say you deposit a check for \$1,000 into your pooled client trust account, but mistakenly record it as \$10,000 in your client ledger and add \$10,000 to your client's running balance in the client ledger. In your trust account journal, you record the check correctly and add \$1,000 to the trust account's running balance. How will you find the mistake? The account journal contains the right information, and the client ledger looks correct; unless you compare the two, you won't be able to find the recording error. And unless you compare the client ledger and account journal against the bank statement, you won't know which entry was correct—\$1,000 or \$10,000.

There are four main steps in reconciling your books:

1. Reconciling the account journal with the client ledgers to make sure they agree with one another.
2. Entering bank charges and interest shown on the bank statement into your account journal and client ledgers as appropriate.
3. Reconciling the account journal and client ledgers with the bank statement to make sure your records agree with the bank's.
4. Entering "corrected" month ending balances and running balances into both the account journal and client ledger.

Here is an example going through each of the four main steps:

First, create a simple form such as Form One below. Use the form to compare the account journal balance to the client ledger balances. On the form, list all clients with funds in your pooled trust account, and their trust account ledger balances. The sum of the client ledger balances is called the Total Client Ledger Balance. On the same form,

enter the Account Journal balance, using the balance on the same date as your client ledgers (generally the last day of the month or the closing date of the account as indicated on the bank statement). The Total Client Ledger Balance and the Month Ending Account Journal Balance should be the same.

Reconciliation—Form One

Client Ledger Balance
 Reconciliation Date: August 20, 2000
 Client Trust Acct. Name: Pooled
 Period covered: 7/1-7/31/00

Client	Client Ledger Balance (on 7/31/00)
JC	\$1,200.00
Bank charges	100.00
Total Client Ledger Balance:	\$1,300.00
Month Ending Account Journal Balance	\$1,300.00
Mistake Entries (+ or -)	
Adjusted Month Ending Account Journal Balance:	\$1,300.00

Because your Total Client Ledger Balance matches your Month Ending Account Journal Balance, you can move to the second step of reconciliation. If the balances do not match, compare each entry in the account journal with the corresponding entry in the individual client ledger; you will almost always find the mistake here. Remember, when listing all clients with existing ledger balances on this form, include your "Bank Charges" ledger with the other ledgers. The bank charges ledger keeps track of the nominal amount of your money in the pooled client trust account to cover the account fees assessed by your bank not attributable to a specific client.

The **second step** in the reconciliation process is to enter the bank charges in the account journal. Your monthly bank account statement will show your account charges each month. All bank charges must be entered in the account journal twice: once at the end of the month in which the transaction occurred, and again after the most recent account journal entry. Note the bank charge and the amount, but do not revise or alter the running balance yet. The revised amount will be reflected later in the reconciliation process when we add the "Corrected Month Ending Balance." The following example shows the placement of the entries into the account journal:

Date	Name of Client	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
-------------	---------------------------	----------------------------------	--	------------------------------	---------------------------	----------------------------

7/20/00 JC	WW, #264, partial refund to seller of escrowed funds	1,000.00	1,300.00
7/29/00 MG	ABC Ins.	30,000.00	31,300.00
7/31/00 MG	RT & Assoc., #265, fees and costs	11,000.00	20,300.00
7/31/00 MG	Dr. Allen, #266, medical expenses	3,500.00	16,800.00
7/31/00 MG	Dr. Mann, #267, expert witness	2,200.00	14,600.00
7/31/00 MG	A&F Rptr., #268	1,300.00	13,300.00
7/31/00 MG	MG, #269, disputed settlement balance	12,000.00	1,300.00
7/31/00	Monthly Bank Charges (July 00)	\$10.00	_____
8/18/00 (advanced fee)	AG	2,500.00	3,800.00
8/19/00 KS Jr.	XYZ Mortgage	120,000.00	123,800.00
8/20/00	Monthly Bank Charges (July 00)	\$10.00	_____

When making the first journal entry for a new month, skip down several lines. This will make room for the entries created in this reconciliation process.

If a bank charge on a pooled trust account, such as the monthly account fee, is not attributable to a specific client, the amount also needs to be deducted in your bank

charges ledger. (In a trust account set up for a specific client, it is permissible to pay the monthly bank charge out of the client's funds.) If a charge was incurred on behalf of a specific client, such as a wire transfer fee, the charge must also be recorded in that client's ledger.

The **third step** is to reconcile the account journal with the bank statement. The purpose of this step is to make sure that the bank's records of deposits and withdrawals from the account match your records each month. First, on a form like Form Two below, record any corrections you have made to the account journal based on your reconciliation of the account journal and client ledger; next, make note of the deposits and withdrawals not posted on the bank statement. (This occurs because the bank statement often is sent two to three weeks after the closing date for the month; you may have had several transactions during that time not yet recorded by the bank.) Thus, in order to compare what the bank statement says at the end of the month with the balance in the account journal, you will have to adjust the account journal balance by subtracting all uncredited deposits and adding all undebited withdrawals that appear on your account journal, but are not yet on your bank statement. To do this, compare each account journal entry with your current bank statement. Place a check mark by each matching item on the account journal and bank statement. (If your bank returns your canceled checks, also compare them to the bank statement to make sure the bank paid them correctly.) When you have finished, all of the bank statement entries should have a check mark, and the unchecked items on the account journal should be the items not yet credited or debited by the bank. Record these on a form titled "Adjustments to Month Ending Balance" as shown below. Using the entries from the account journal on the previous page, the form would appear like this:

Reconciliation—Form Two

Adjustments to Month Ending Balance

Reconciliation Date: August 20, 2000

Client Trust Acct. Name: Pooled

Period covered: 7/1-7/31/95

A. Deposits & Withdrawals Not Posted on Bank Statement

Uncredited Deposits		Undebited Withdrawals	
Date	Amount	Date	Amount
8/18/00	\$2,500.00		
8/19/00	\$120,000.00		
Total:	\$122,500.00	Total:	\$0.00

B. Mistake Correction Entries (from Account Journal)

Date	Amount Added	Amount Subtracted	Net Mistake
			None
Total:			\$0.00

As you review the bank statement, you may find several types of mistakes: You may find a bank deposit or withdrawal not listed in your account journal, or discover that the bank statement amount is different from your account journal. First, check with your deposit slips and canceled checks; banks can make mistakes too. If you find the mistake, enter it under "Mistake Correction Entries" on Form Two above. This is an interim step until you make correction entries in the account journal and appropriate client ledger later in the reconciliation process. (You may not have any mistakes, either!) You are now ready for the **fourth and final step** of reconciliation, to reconcile your account journal and bank statement, using the form on the next page:

Reconciliation—Form Three

Reconciliation

Reconciliation Date: August 20, 2000

Client Trust Acct. Name: Pooled

Period covered: 7/1-7/31/00

Adjusted Month Ending Balance (From Form One):	\$1,300.00
MINUS total bank charges (From Bank Statement):	\$10.00
PLUS total interest earned (From Bank Statement):	\$0.00
Corrected Month Ending Balance:	\$1,290.00

MINUS Uncredited Deposits (From Form Two):	\$120,000.00
PLUS Undebited Withdrawals: \$ (From Form Two):	\$0.00

Reconciled Total: \$1,290.00

Bank Statement Total: \$1,290.00

The **Reconciled Total** from your account journal should equal the month ending total on your **Bank Statement**. If the numbers are the same, the last step is to enter the Corrected Month Ending Balance and the Corrected Current Running Balance in the account journal and each client ledger. (If the numbers do not match, repeat the process again to find any further mistakes!) After your last entry for the month, make the corrections to the account journal and client ledgers as shown on the next page:

Date	Name of Client	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
7/20/00	JC		WW,	1,000.00		1,300.00

		#264, partial refund to seller of escrowed funds		
7/29/00	MG	ABC Ins.	30,000.00	31,300.00
7/31/00		RT & Assoc., #265, fees and costs	11,000.00	20,300.00
7/31/00		Dr. Allen, #266, medical expenses	3,500.00	16,800.00
7/31/00		Dr. Mann, #267, expert witness	2,200.00	14,600.00
7/31/00		A&F Rptr., #268	1,300.00	13,300.00
7/31/00		MG, #269, disputed settlement balance	12,000.00	1,300.00
7/31/00		Monthly Bank Charges (July 00)	\$10.00	_____
7/31/00		<i>Corrected Month Ending Balance</i>		<i>\$1,290.00</i>
8/18/00	AG	AG Advanced Fee	2,500.00	3,800.00
8/19/00	KS Jr.	XYZ Mortgage	120,000.00	123,800.00
8/20/00		Monthly Bank Charges (July 00)	\$10.00	_____
8/20/00		<i>Corrected Current Running Balance</i>		<i>\$123,790.00</i>

Do not just erase the old numbers and put in the corrected ones; leave the old numbers in as well as the new “corrected” numbers. Account journals and ledgers are intended to provide a running history in case problems arise; erasing and replacing numbers may compound the problem. This may seem to be inefficient and time-consuming now, but when a client (or bar counsel) has a question or complaint, you will have ALL the numbers to back you up.

The client ledger needs to be updated as well. Based on the above problem, you should update the ledger of each client for whom you had a trust transaction this month. Also, do not forget the bank charges ledger, which should now look like this:

Date	Source of Deposit	Payee, Ck. #, and Purpose	Checks (Subtract)	Deposits (Add)	Running Balance
6/21/00	Self	Cover Bank Charges		\$100.00	\$122.00
6/30/00		Monthly Account Fee	\$10.00		
6/30/00		Corrected Month Ending Balance			\$112.00
7/31/00		Monthly Account Fee	\$10.00		
7/31/00		Corrected Month Ending Balance			\$102.00

Get into the habit of leaving a few blank lines in your account journal and client ledgers at the end of each month. When you go back to make these monthly corrections you will have the room to write in the corrected numbers, rather than squeezing them in, rendering them illegible.

When you have entered the Corrected Month Ending Balance in the account journal, and the Corrected Current Running Balance in each of the affected client ledgers, you will have reconciled the trust account--no small task. Put all of the documentation (bank statement, copies of ledger and journal pages, canceled checks, adding machine tapes, notes, etc.) into a folder for that month; file the folder chronologically with the prior months. If further problems arise, you will have a record of your monthly reconciliations.

Review Problem: On July 19, you decide to wire the funds to the seller instead of mailing a check. Your trust account was charged \$15.00, a fact that was confirmed when you received your bank statement today, August 20. You are reconciling your trust account, and have made the corrections to the account journal. Properly record the \$15.00 wire charge in JC’s ledger to the next page:

Client Ledger
 Client Name: JC
 Case Number: 99-1052

Date Source of Payee, Ck. #, and Checks Deposits Running

Deposit	Purpose	(Subtract)	(Add)	Balance
7/20/00 JC	WW, #264, partial refund to seller of escrowed funds	\$1,000		\$1,200.00

Properly maintaining a trust account is not particularly fun or interesting. As a result, many lawyers ignore or disregard measures to maintain their trust accounts properly. These lawyers are at risk of suspension or disbarment from the practice of law if they improperly handle and/or improperly record client funds. Do not let that happen to you. (Too many lawyers also abdicate responsibility for the account to a staff member, who then intentionally or otherwise removes funds from the account!) Learn to maintain your trust account(s) properly, and you won't have to worry about a letter from the Office of Bar Counsel asking about you about missing client funds.

For additional assistance, please call the D.C. Bar Practice Management Advisory Service at 202-737-4700, ext. 212.

The format and content of this trust accounting exercise are based on the exercises and explanatory text contained in the Handbook for *Client Trust Accounting for California Attorneys*, ©State Bar of California, used with permission.

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