

Trust Accounting in Nevada



Trust Accounting in Nevada

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Every effort has been made with this publication to provide the most accurate information on the subject. It should not, however, be construed as legal advice. If you have questions, please call our ethics hotline at 702-382-2200 or toll free at 1-800-254-2797.

Credits

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Acknowledgement and Reprint Permission

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Introduction

Trust accounting is a complex matter than can cause issues for even the most experienced attorneys. As such, the State Bar of Nevada has published this handbook – Trust Accounting in Nevada – as a resource to help Nevada attorneys fulfill their obligations to clients whose money they hold in trust. It is imperative that all attorneys – whether they hold money for clients or not – understand these obligations.

This handbook assumes that you know very little about client trust accounting and is devoted to teaching you basic accounting techniques necessary for you to properly account for your client's money. It will explain Nevada's rules governing your client trust accounting duties, the concepts behind client trust accounting, and a simple step-by-step system for accounting for your clients' money.

If you have further questions on trust accounts, please contact the Ethics Hotline, State Bar of Nevada at (702) 382-2200.

Importance of Client Trust Accounting

If you died suddenly, would your clients — or the executors who have to answer to your clients — be able to tell how much of the money in your various professional accounts belong to each client? If the State Bar’s Office of Bar Counsel asked you to account for a particular client’s money, would you be able to do so? Would they find complete, systematic, up-to-date records showing what’s been received and paid out for each client, or would they find a random assortment of cancelled checks, unopened bank statements, and checkbook registers full of cryptic notations and rounded-off figures? In these situations, the fact that you “have it all in your head” isn’t going to help your clients find their money or satisfy the state bar.

There are two completely mistaken ideas about client trust accounting. One idea is that client trust accounting is a mysterious, complicated process that requires years of training and innate mathematical ability. The other is that “maintaining a client trust account” simply means opening a bank account and depositing clients’ funds into it.

The truth is that client trust accounting is a simple set of procedures that is easy to learn and easy to practice. It doesn’t require financial wizardry or mathematical genius; all it requires is consistent, careful application. But as simple as it is, client trust accounting still means more than keeping money in the bank. A bank account is something you have; client trust accounting is something you do in order to know—and to show your clients that you know—how much of the money in your account belongs to each client. To clear up this confusion, in this handbook, we never say “client trust account.” We say “client trust accounting”—when we mean what you have to do to account for your clients’ money—or “client trust bank account”—when we mean the bank account where you keep your clients’ money.

Whether you find it easy or difficult, the fact is that if you agree to hold money in trust, you take on a non-waivable, personal fiduciary responsibility to account for every penny as long as the funds remain in your possession. Regardless of who you hire to do your books or fill out your deposit slips, you have full responsibility for all other actions when you receive money in trust. This responsibility can’t be transferred, and it isn’t excused by ignorance, inattention, incompetence or dishonesty by you, your employees or your associates. The legal and ethical obligation to account for those monies is yours and yours alone, regardless of how busy your practice is or how hopeless you are with numbers. You may employ others to help you fulfill this duty, but if you do, you must provide adequate training and supervision. Failure to live up to this responsibility can result in personal monetary liability, fee disputes, loss of clients and public discipline.

The essence of client trust accounting is contained in these three words:

- **Client** — These duties arise in the context of an attorney-client relationship, regardless of whether you are paid for your services, and they are as inviolable as your duty to maintain client confidences. These duties may also be owed to third parties.
- **Trust** — The willingness of people to trust a complete stranger with money just because the stranger is an attorney is a fundamental aspect of the attorney-client relationship, and maintaining that trust is the duty of every individual attorney and a matter of supreme public interest.

- **Accounting** — The way to fulfill your clients' trust is to be able at any time to make a full and accurate accounting of all money you've received, held and paid out on their behalf.

That's all "client trust accounting" means. If you follow the simple procedures explained below, you will never have to worry about failing to live up to your duties as a fiduciary, no matter how complex or busy your practice.

Nevada Rules on Client Trust Accounting

Rules of Professional Conduct

RPC 1.15. Safekeeping Property.

(a) A lawyer shall hold funds or other property of clients or third persons that is in a lawyer's possession in connection with a representation separate from the lawyer's own property. All funds received or held for the benefit of clients by a lawyer or firm, including advances for costs and expenses, shall be deposited in one or more identifiable bank accounts designated as a trust account maintained in the state where the lawyer's office is situated, or elsewhere with the consent of the client or third person. Other property in which clients or third persons hold an interest shall be identified as such and appropriately safeguarded. Complete records of such account funds and other property shall be kept by the lawyer and shall be preserved for a period of seven years after termination of the representation.

(b) A lawyer may deposit the lawyer's own funds in a client trust account for the sole purpose of paying bank service charges on that account, but only in an amount necessary for that purpose.

(c) A lawyer shall deposit into a client trust account legal fees and expenses that have been paid in advance, to be withdrawn by the lawyer only as fees are earned or expenses incurred.

(d) Upon receiving funds or other property in which a client or third person has an interest, a lawyer shall promptly notify the client or third person. Except as stated in this Rule or otherwise permitted by law or by agreement with the client, a lawyer shall promptly deliver to the client or third person any funds or other property that the client or third person is entitled to receive and, upon request by the client or third person, shall promptly render a full accounting regarding such property.

(e) When in the course of representation a lawyer is in possession of funds or other property in which two or more persons (one of whom may be the lawyer) claim interests, the property shall be kept separate by the lawyer until the dispute is resolved. The lawyer shall promptly distribute all portions of the funds or other property as to which the interests are not in dispute.

[Added; effective May 1, 2006.]

Supreme Court Rules

SCR 78.5. Maintenance of trust funds in approved financial institutions; overdraft notification.

1. Clearly identified trust accounts in approved financial institutions required.

(a) Active members of the State Bar of Nevada shall deposit all funds held in trust in this jurisdiction in accordance with S.C.R. 165¹ in accounts clearly identified as “trust” or “escrow” accounts, referred to herein as “trust accounts,” and shall take all steps necessary to inform the depository institution of the purpose and identity of the accounts. Funds held in trust include funds held in any fiduciary capacity in connection with a representation, whether as trustee, agent, guardian, executor or otherwise. Lawyer trust accounts shall be maintained only in financial institutions approved by the State Bar.

(b) Every lawyer engaged in the practice of law in the State of Nevada shall maintain and preserve for a period of at least five years, after final disposition of the underlying matter, the records of the accounts, including checkbooks, cancelled checks, check stubs, vouchers, ledgers, journals, closing statements, accountings or other statements of disbursements rendered to clients or other parties with regard to trust funds or similar equivalent records clearly and expressly reflecting the date, amount, source, and explanation for all receipts, withdrawals, deliveries and disbursements of the funds or other property of a client, and make such records available to the State Bar for inspection upon request.

2. Overdraft notification agreement required. A financial institution shall be approved as a depository for lawyer trust accounts if it files with the State Bar an agreement, in a form provided by the State Bar, to report to the State Bar counsel whenever any properly payable instrument is presented against a lawyer trust account containing insufficient funds, irrespective of whether or not the instrument is honored. The State Bar shall establish rules governing approval and termination of approved status for financial institutions, and shall annually publish a list of approved financial institutions. No trust account shall be maintained in any financial institution that does not agree to so report. Any such agreement shall apply to all branches of the financial institution and shall not be cancelled except upon thirty days notice in writing to the State Bar.

3. Overdraft reports. The overdraft notification agreement shall provide that all reports made by the financial institution shall be in the following format:

(a) In the case of a dishonored instrument, the report shall be identical to the overdraft notice customarily forwarded to the depositor, and should include a copy of the dishonored instrument, if such a copy is normally provided to depositors;

¹ Supreme Court Rule 165 has been changed to Rules of Professional Conduct 1.15 Safekeeping Property.

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Whether you find it easy or difficult, the fact is that if you agree to hold money in trust, you take on a non-waivable, personal fiduciary responsibility to account for every penny as long as the funds remain in your possession. Regardless of who you hire to do your books or fill out your deposit slips, you have full responsibility for all other actions when you receive money in trust. This responsibility can’t be transferred, and it isn’t excused by ignorance, inattention, incompetence or dishonesty by you, your employees or your associates. The legal and ethical obligation to account for those monies is yours and yours alone, regardless of how busy your practice is or how hopeless you are with numbers. You may employ others to help you fulfill this duty, but if you do, you must provide adequate training and supervision. Failure to live up to this responsibility can result in personal monetary liability, fee disputes, loss of clients and public discipline.

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(b) A lawyer may deposit the lawyer's own funds in a client trust account for the sole purpose of paying bank service charges on that account, but only in an amount necessary for that purpose.

(c) A lawyer shall deposit into a client trust account legal fees and expenses that have been paid in advance, to be withdrawn by the lawyer only as fees are earned or expenses incurred.

(d) Upon receiving funds or other property in which a client or third person has an interest, a lawyer shall promptly notify the client or third person. Except as stated in this Rule or otherwise permitted by law or by agreement with the client, a lawyer shall promptly deliver to the client or third person any funds or other property that the client or third person is entitled to receive and, upon request by the client or third person, shall promptly render a full accounting regarding such property.

(e) When in the course of representation a lawyer is in possession of funds or other property in which two or more persons (one of whom may be the lawyer) claim interests, the property shall be kept separate by the lawyer until the dispute is resolved. The lawyer shall promptly distribute all portions of the funds or other property as to which the interests are not in dispute.

[Added; effective May 1, 2006.]

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(a) Active members of the State Bar of Nevada shall deposit all funds held in trust in this jurisdiction in accordance with S.C.R. 165¹ in accounts clearly identified as “trust” or “escrow” accounts, referred to herein as “trust accounts,” and shall take all steps necessary to inform the depository institution of the purpose and identity of the accounts. Funds held in trust include funds held in any fiduciary capacity in connection with a representation, whether as trustee, agent, guardian, executor or otherwise. Lawyer trust accounts shall be maintained only in financial institutions approved by the State Bar.

(b) Every lawyer engaged in the practice of law in the State of Nevada shall maintain and preserve for a period of at least five years, after final disposition of the underlying matter, the records of the accounts, including checkbooks, cancelled checks, check stubs, vouchers, ledgers, journals, closing statements, accountings or other statements of disbursements rendered to clients or other parties with regard to trust funds or similar equivalent records clearly and expressly reflecting the date, amount, source, and explanation for all receipts, withdrawals, deliveries and disbursements of the funds or other property of a client, and make such records available to the State Bar for inspection upon request.

2. Overdraft notification agreement required. A financial institution shall be approved as a depository for lawyer trust accounts if it files with the State Bar an agreement, in a form provided by the State Bar, to report to the State Bar counsel whenever any properly payable instrument is presented against a lawyer trust account containing insufficient funds, irrespective of whether or not the instrument is honored. The State Bar shall establish rules governing approval and termination of approved status for financial institutions, and shall annually publish a list of approved financial institutions. No trust account shall be maintained in any financial institution that does not agree to so report. Any such agreement shall apply to all branches of the financial institution and shall not be cancelled except upon thirty days notice in writing to the State Bar.

3. Overdraft reports. The overdraft notification agreement shall provide that all reports made by the financial institution shall be in the following format:

(a) In the case of a dishonored instrument, the report shall be identical to the overdraft notice customarily forwarded to the depositor, and should include a copy of the dishonored instrument, if such a copy is normally provided to depositors;

¹ Supreme Court Rule 165 has been changed to Rules of Professional Conduct 1.15 Safekeeping Property.

(b) In the case of instruments that are presented against insufficient funds but which instruments are honored, the report shall identify the financial institution, the lawyer or law firm, the account number, the date of presentation for payment, and the date paid, as well as the amount of overdraft created thereby.

4. Timing of reports. Reports under paragraph 3 shall be made simultaneously with, and within the time provided by law for notice of dishonor, if any. If an instrument presented against insufficient funds is honored, then the report shall be made within five banking days of the date of presentation for payment against insufficient funds.

5. Consent by lawyers. Every active member of the State Bar shall, as a condition of maintaining active membership in the State Bar, be conclusively deemed to have consented to the reporting and production requirements mandated by this Rule.

(a) Certification of compliance with this Rule and consent shall be acknowledged as part of every active member's annual licensing form. A member shall immediately file with the State Bar an updated certificate of compliance and consent upon:

(1) any change of law firm affiliation;

(2) opening of any trust account with a financial institution; or

(3) the utilization of any trust account for which there is no certification and consent on file with the State Bar for said active member.

6. Costs. Nothing herein shall preclude a financial institution from charging a particular lawyer or law firm for the reasonable costs of producing the reports and records required by this Rule.

7. Financial institution immunity. A financial institution shall not be liable for damages to any person or entity for any erroneous overdraft report filed in good faith or for the unintentional failure to comply with this Rule.

8. Definitions. For purposes of this Rule:

(a) "Financial institution" includes a bank, savings and loan association, credit union, savings bank, and any other business or person located in this state that accepts for deposit funds held in trust by lawyers.

(b) "Properly payable" refers to an instrument which, if presented in the normal course of business, is in a form requiring payment under the laws of this jurisdiction.

9. Suspension for non-compliance. All active members shall meet the certification and consent requirements of this rule within 30 days of the effective date of this rule or of becoming an active member of the State Bar. Active members who fail to meet the requirements of this rule shall be notified of their non-compliance, in writing, by the State Bar. Upon the expiration of 30

days from the date the State Bar sends the member notice of non-compliance, said member shall be suspended from membership in the State Bar, but may be reinstated upon filing the certificate of compliance and consent with the State Bar. Additionally, clients' funds which are nominal in amount or to be held for a short period of time shall also be deposited and maintained in accordance with the provisions of SCR 217.

SCR 217. Creation and maintenance of interest-bearing trust accounts.

A member of the state bar or the member's law firm shall create or maintain an interest-bearing trust account for clients' funds which are nominal in amount or to be held for a short period of time in any banking, credit union, or savings and loan association which is in compliance with the following provisions:

1. An interest-bearing trust account established pursuant to this rule may be established with any bank, credit union, or savings and loan association authorized by federal or state law to do business in Nevada, located in Nevada and insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or other financial institution approved by the state bar pursuant to Rule 78.5 of these rules. Funds in each interest-bearing account shall be subject to withdrawal upon request and without delay.

2. Interest minimum standards. The rate of interest payable upon any interest-bearing trust account shall meet any one of the following minimum standards:

(a) The 30-day LIBOR minus .50 percent, or, the Federal Discount Rate plus .50 percent, whichever is greater; or

(b) Equal to the Federal Fund Target Rate, or, the Federal Discount Rate plus .50 percent, whichever is greater; or

(c) Equal to or greater than a flat interest rate, which rate shall be reviewed and approved by the Access to Justice Commission twice annually and made public at least 30 days prior to the effective date.

(d) Higher rates offered by the institution to customers whose deposits exceed certain time or quantity minima, such as those offered in the form of certificates of deposit, are permissible so long as there is no impairment of the right to withdraw or transfer principal immediately without penalty.

3. Fees prohibited. Accounts under this rule shall be exempt from service charges and fees.

4. Reporting. A member of the state bar or the member's law firm establishing such account shall:

(a) Direct the depository institution to:

(i) remit interest or dividends, as the case may be, on the average monthly balance in the account or as otherwise computed in accordance with an institution's standard accounting practice at least monthly, to the designated tax-exempt foundation pursuant to SCR 216;

(ii) transmit with each remittance in an electronic format to be specified by the designated tax-exempt foundation a statement which shall include:

(1) the name of the member of the state bar or the member's law firm for whom the remittance is sent;

(2) the rate of interest applied;

(3) the account number for each account;

(4) the average amount on deposit for each account;

(5) the rate and type of interest or dividends remitted;

(6) the amount and type of charges or fee deducted, if any;

(7) the average account balance for the monthly period for which the report is made; and

(iii) transmit to the depositing member of the state bar or the member's law firm at the same time a report showing the amount paid to the designated tax-exempt foundation; and

(b) Establish and follow reasonably prudent procedures to verify, at least annually, that each account maintained under this rule is on deposit with an institution currently listed by the designated tax-exempt foundation as operating in compliance with the Interest Minimum Standards set forth in subsection 2 above. Member verification shall be reported to the State Bar, by completing and submitting a form provided with the annual membership fee statements.

5. Exceptions. If the member or the member's law firm does not maintain an office within 20 miles of a complying financial institution pursuant to subsection 6:

(a) The minimum interest standards set forth in subsection 2 (a)-(c) are waived; and

(b) The reporting requirements of subsection 4(a)(ii) are partially waived such that the member must direct the depositing institution to report at least quarterly, electronically if possible, to include at a minimum the name of the member of the state bar or the member's law firm for whom the remittance is sent and the rate of interest applied.

Notice of waiver shall be reported by the member or member's law firm annually on a form to be provided by the state bar with annual membership fee statements.

6. List of complying financial institutions. The designated tax-exempt foundation shall maintain an accurate and up-to-date list of all financial institutions as defined in subsection 1 above, which are in compliance with the Interest Minimum Standards set forth in subsection 2 above. This list shall be provided to the State Bar by the designated tax-exempt foundation, posted on the State Bar's website and published in other media from time to time to facilitate members' compliance with this rule.

7. Effective dates; compliance monitoring. The amendments to this rule mandated by order dated December 16, 2009, shall be effective 30 days from entry of order. The designated tax-exempt foundation pursuant to Rule 216 shall begin monitoring banking compliance within 30 days of the effective date and provide reports at least quarterly to the Access to Justice Commission and the State Bar of Nevada. The first member reporting required pursuant to subsection 5(b) shall begin in 2010, and reported in the 2011 annual membership fee statements.

8. Non-compliance; assessment/suspension. Active members who fail to meet the requirements of this rule shall be notified of their non-compliance, in writing, by the State Bar. Upon the expiration of 30 days from the date the State Bar sends the member notice of non-compliance, said non-compliant member shall be:

(a) Assessed \$200, payable within 30 days to the designated tax-exempt foundation pursuant to Rule 216; and

(b) Suspended from membership in the State Bar, but may be reinstated upon filing verification of compliance on a form to be provided by the State Bar.

Supplying false information in response to the requirements of this rule shall subject the member to appropriate disciplinary action.

[Added; effective May 27, 1983; amended effective July 5, 2011.]

Key Concepts in Client Trust Accounting

Separate Clients are Separate Accounts (i.e. Don't pay Paul using Peter's money)

Client A's money has nothing to do with Client B's money. Even when you keep them in a common client trust bank account (such as in an IOLTA account), each client's funds are completely separate from those of all your other clients. In other words, you are NEVER allowed to use one client's money to pay either another client's or your own obligations.

When you keep your clients' money in a common client trust bank account, the way to distinguish one client's money from another's is to keep a client ledger (as required by RPC 1.15(a)) of each individual client's funds. The client ledger tells you how much money you've received on behalf of each client, how much money you've paid out on behalf of each client, and how much money each client has left in your common client trust bank account. If you are holding money in your common client trust bank account for 10 clients, you have to maintain 10 separate client ledgers. If you keep each client's ledger properly, you will always know exactly how much of the money in your common client trust bank account belongs to each client. If you don't, you will lose track of how much money each client has, and when you make payments out of your client trust bank account, you won't know which client's money you are using.

Also note, if your client's money can earn income in excess of the costs incurred to hold the account, either because the funds are large enough in amount or are held for a long period of time, then you cannot place the funds in an IOLTA account.

However, SCR 221 states that the determination of whether a client's funds are nominal in amount or to be held for a short period of time "rests exclusively in the sound judgment" of the attorney, and no ethical violation can be brought regarding the attorney's "good faith" exercise of judgment.

You Can't Spend What You Don't Have

Each client has only his or her own funds available to cover their expenses, no matter how much money belonging to other clients is in your common client trust bank account. Your common client trust bank account might have a balance of \$100,000, but if you are only holding \$10.00 for a certain client, you can't write a check for \$10.50 on behalf of that client without using some other client's money.

The following example graphically illustrates this concept. Assume you are holding a total of \$5,000 for four clients in your common client trust bank account as follows:

Client A	\$1,000
Client B	\$2,000

Client C	\$1,500
Client D	\$500
Total	\$5,000

If you write a check for \$1,500 from the common client trust bank account for Client D, \$1,000 of that check is going to be paid for by Clients A, B and C. The funds you are holding in trust for them are being used for Client D's expenses. You should have a total of \$4,500 for Clients A, B and C, but you only have \$3,500 left in the trust account. In State Bar disciplinary matters, a finding of a failure to maintain a sufficient client trust account balance will support a finding of misappropriation.

Don't think if you keep enough of your own money in the client trust bank account that everything will be alright. That constitutes a violation known as "comingling," especially if you use that money for your own expenses.

There's No Such Thing As a "Negative Balance"

It's not uncommon in personal banking for people to write checks against money they haven't deposited yet or hasn't cleared yet, and show this as a "negative balance." In client trust accounting, there's no such thing as a negative balance. A "negative balance" is at best a sign of negligence and, at worst, a sign of theft. (Don't think that because you have "automatic overdraft protection" on your client trust bank account and the check doesn't bounce, you have fulfilled your client trust account responsibilities. See [Automatic overdraft protection](#).)

In client trust accounting, there are only three possibilities:

- You have a positive balance (while you are holding money for a client);
- You have a zero balance (when all the client's money has been paid out); or
- You have a balance of less than zero (a so-called "negative balance") and a problem.

Timing Is Everything

It takes anywhere from a day to several weeks after you make a deposit before the money becomes "available for use." A client's funds aren't "available" for you to use on the client's behalf until they have cleared the banking process and been properly credited to your client trust bank account. If you write a check for a client at any time before that client's funds clear the banking process and are credited to your client trust bank account, either the check will bounce or you will be using other clients' money to cover the check.

The time it takes for client trust account funds to become available after deposit depends on the form in which you deposit them and the bank's own procedures. Depending on the instrument, you may have to wait as many as 15 working days before you can be reasonably confident that the funds are available. For example, even if you make a cash deposit, the money may not be available for use until the following day. If you deposit a personal check from an out-of-state

bank, the money will take longer to be available. The bottom line is that until the bank has credited a client's deposit to your client trust bank account, you can't pay out any portion of that money for that client, and it is your responsibility to verify the availability of the funds.

You also need to know what time your bank has set as the deadline for posting deposits to that day's business and for paying checks presented to it. Otherwise, even when you have deposited cash, you may end up drawing on uncollected funds. For example, let's say your bank credits any deposit made after 3 p.m. on the following day, but stays open for business until 5 p.m. Your client arrives at 3:30 p.m. and gives you \$5,000 in cash, which you immediately deposit. At 4 p.m., you write a client trust bank account check to an investigator against that money. If the investigator presents the check for payment at the bank before it closes at 5 p.m., the check will either bounce or be covered by other clients' money.

You may be tempted to do your client a favor by writing a check to the client for settlement proceeds before the settlement check has cleared, because you know there's money belonging to other clients in your client trust bank account to cover this client's check. Depending on the circumstances, your client may insist that you do this. *Don't*. If you do, you'll end up writing a check to one client using another client's money. In other words, no matter how expedient or kind or convenient it seems, don't make payments on your clients' behalf before their deposited funds have cleared. Otherwise, sooner or later, you'll end up spending money your clients don't have.

You Can't Play the Game Unless You Know the Score

In client trust accounting, there are two kinds of balances: the "running balance" of the money you are holding for each client, and the "running balance" of each client trust bank account.

A "running balance" is the amount you have in an account after you add in all the deposits (including interest earned, etc.) and subtract all the money paid out (including bank charges for items like wire transfers, etc.). In other words, the running balance is what's in the account at any given time. The running balance for each client is kept on the client ledger, and the running balance for each client trust bank account is kept on the account journal.

Maintaining a running balance for a client is simple. Every time you make a deposit on behalf of a client, you write the amount of the deposit in the client ledger and add it to the previous balance. Every time you make a payment on behalf of the client, you write the amount in the client ledger and subtract it from the previous balance. The result is the running balance. That's how much money the client has left to spend.

The running balance for the client trust bank account is calculated the same way. Every time you make a deposit to the client trust bank account, you write the amount of the deposit in the account journal and add it to the previous balance. Every time you make a payment from the client trust bank account, you write the amount in the account journal and subtract it from the previous balance. The result is the running balance. That's how much money is in the account.

Since “you can’t spend what you don’t have,” you should check the running balance in each client’s client ledger before you write any client trust bank account checks for that client. That way, if your records are accurate and up-to-date, it’s almost impossible to pay out more money than the client has in the account.

The Final Score is Always Zero

The goal in client trust accounting is to make sure that every dollar you receive on behalf of a client is ultimately paid out on behalf of that client – no more, no less.

Many attorneys have small, inactive balances in their client trust bank accounts. Sometimes these balances are the result of a mathematical error, sometimes they are part of a fee you forgot to take, and sometimes a check you wrote never cleared or wasn’t cashed.

Whatever the reason, as long as the money is in your client trust bank account, you are responsible for it. The longer these funds stay in the bank, the harder it is to account for them. Therefore, you should take care of those small, inactive balances as soon as possible, including, if necessary, following up with payees to find out why a check hasn’t cleared.

If you take steps to take care of these small balances and are still unable to pay out the funds, you cannot presume those accounts have been abandoned because of inactivity or failure to make a demand, pursuant to NRS 120A.500(6)(f).

Always Maintain an Audit Trail

An “audit trail” is the series of bank-created records, like cancelled checks, bank statements, etc., that make it possible to trace what happened to the money you handled. An audit trail should start whenever you receive funds on behalf of a client and should continue through the final check you issue against them. Without an audit trail, you have no way to show that you have taken proper care of your clients’ money, or to explain what you did with the money if any questions come up or you have to respond to an inquiry from the state bar. The audit trail is also an important tool for tracking down accounting errors. If you don’t maintain an audit trail, you will find it hard to correct the small mistakes, like errors in addition or subtraction, and the big mistakes, like miscredited deposits, that are inevitable when you handle money.

The key to making a good audit trail is being descriptive – this practice should include referencing the client name on all deposit slips for that client and all checks issued on behalf of that client. Let’s say you are filling out a deposit slip for five checks relating to three separate clients. All the bank requires you to do is write in the bank identification code for each check and the check amounts. This notation doesn’t identify which client to whom the money belongs. If you include the name of the client and keep a copy or make a duplicate, you will know which client the check was for, which is the purpose of an audit trail. That will make it easy to answer any questions that come up, even years later.

By the same token, every check you write from your client trust bank account should indicate which client it's being written for, so that it's easy to match up the money with the client. Never issue a check to cash. Further, if you are handling more than one case for the client, indicate which matter the payments and receipts relate to on your checks and deposit slips.

A good audit trail, one that will make it easy for you to explain what happened to each client's money and to correct accounting errors, requires that you keep more than just the minimum records required by RPC 1.15(a).

A good audit trail should include:

- The initial deposit slip (or a duplicate copy or bank receipt). This document should show the date the deposit slip was filled out, the amount of the deposit, the name or file number of the client on whose behalf the money was received, who the money came from, and the bank's date stamp showing the day the deposit was actually received.
- Copies of the front and back of any executed drafts, especially insurance settlement drafts, received on behalf of a client.
- The checkbook stub, which should show when payments were made, how much the payments were, to whom they were made and in connection with which client matter they were made.
- The cancelled check. In a good audit trail, the check should show the date the check was drawn, the amount of payment, who the check was made out to, the purpose of the check (or the matter it relates to), the order in which the check was negotiated (from the endorsements), and the date it was deposited for collection.
- The bank statement, which shows the date the trust account was actually credited with a deposit for a check.

Opening a Client Trust Bank Account

Whenever you receive or hold money for clients — or any other persons with whom you have a fiduciary relationship — you have to deposit the money into a specifically labeled client trust bank account, pursuant to SCR 78.5. As we detail below, client trust bank accounts are a special kind of bank account. The state bar has a list of preferred banks for IOLTA and non-IOLTA accounts on its website - <https://www.nvbar.org/member-services-3895/iolta/>. When you first open the account, make sure the bankers you're dealing with know what a client trust bank account is; if they don't, ask to work with someone else.

General Dos and Don'ts

Client trust bank accounts:

- **Must be identified as a client trust bank account.** The name of any account where you keep your clients' money must clearly tell the bank, your clients, your employees, the State Bar, the people you pay out your clients' funds to and everyone else that it is a client trust bank account. Whatever name you choose, you can avoid all kinds of problems if the name of the account is prominently displayed on all your client trust bank account checks, deposit slips and other documents. Make sure that papers relating to your client trust bank account look different from those relating to your personal or general office account. For example, you can have your client trust bank account checks printed in a different color than your other checks.
- **Must be maintained in Nevada.** Supreme Court Rule 217 says interest-bearing trust accounts may be established with any bank, credit union, or savings and loan association authorized by federal or state law to do business in Nevada, located in Nevada and insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or other financial institution approved by the State Bar pursuant to SCR 78.5.
- **Should limit accessibility of funds.** Ideally, you should be the only person authorized to sign client trust bank account checks and otherwise pay out client funds. Since you are individually, personally accountable for all client funds you receive or hold in trust, and since this accountability can't be delegated to anyone else, allowing other people access to your client trust bank account is risky. By the same token, you should never pre-sign blank client trust bank account checks and leave them for employees to issue.
- **Should NOT have ATM access.** ATM access should be distinguished from "online" banking. Whether online banking is offered for common client trust bank accounts is the bank's prerogative in determining which financial products it will offer. If online banking is offered, it is your responsibility to ensure that the online banking mechanisms create an audit trail that complies with all of your obligations.

- **May include “automatic overdraft protection,” provided that the bank’s terms do not result in a commingling violation.** Automatic overdraft protection can benefit your clients by assuring that the important checks you’ve written on a client’s matter will not bounce if a bank error or delay causes an unanticipated shortfall in your client trust bank account. Generally, “automatic overdraft protection” means that whenever you write a check for more money than is in your account, the bank will automatically make you a personal loan and apply those funds to your account to keep the check from bouncing. This optional account feature may also be offered as an “instant credit” arrangement where the bank agrees to immediately credit accounts for deposits while the bank waits for the funds from another financial institution. A commingling problem does not arise if your bank’s automatic overdraft protection operates according to terms that compensate exactly for the amount that the overdraft exceeds the funds on deposit. In contrast, overdraft protection that automatically deposits a set amount (i.e., a deposit or credit of \$200 to cover a \$155 overdraft) will leave a residual balance of funds after covering the amount of insufficient funds. This residue in your client trust bank account is money that belongs to you and not to any of your clients, and it creates the commingling problem.

There are additional considerations in deciding whether to use automatic overdraft protection. With the exception of bank errors, one important consideration is that you should never have insufficient funds in your client trust bank account in the first place; if you do, you’re in violation of your professional responsibilities. Overdraft protection is not a substitute for the proper handling of clients’ money. It can, however, help protect your clients from the effects of accounting errors by you or your bank. You should be aware that regardless of whether you have overdraft protection to keep a check from bouncing, the state bar will find out about it. SCR 78.5(3) requires financial institutions to report overdrafts to the state bar. This means that banks will report not only checks that are rejected for insufficient funds, but also checks that are paid against insufficient funds.

A report to the state bar pursuant to SCR 78.5(3) will mean that you will be asked to provide an explanation to the state bar. If you fail to provide the state bar with a satisfactory explanation or if the problem occurs more than once, a more thorough investigation of your client trust accounting practices may result. The state bar may subpoena your client trust accounting records as part of its investigation pursuant to *Liborius I. Agwara v. State Bar of Nevada* 406 P. 3d 488 (2017). Remember, banks routinely charge for handling checks returned for insufficient funds, even if the bank pays them. The bank may also charge you for handling checks you deposit in your client trust bank account if the check is returned unpaid from the maker’s bank. These charges should be handled like any other bank charges.

Know Your Bank

From the moment you make the first deposit into your client trust bank account, handling your clients’ money means dealing with your bank. Every bank has different procedures; not knowing those procedures can hurt you and your clients. For every bank in which you maintain a client trust bank account, make sure you get the answers to the following:

- **On what day of the month does the bank usually send out statements of account activity?** Every bank sends out monthly statements that show what deposits have been credited to and what payments have been withdrawn from each account. SCR 217(4)(a) requires you to do monthly reconciliations of your client trust bank accounts to make sure that your records match the bank's records. (See.) If you know when you can expect to receive the bank statement, you can schedule a regular time every month to do this.

Knowing when to expect your bank statement can also help you guard against theft by an associate or an employee. If someone is stealing from your client trust bank account, the bank statement should show it. An in-house thief may try to hide by concealing incriminating bank statements; if you're looking for the bank statement in the mail every month, the thief won't be able to hide for long. Be sure to review both the bank statements and cancelled checks to avoid potential problems.

- **What does your bank charge for and how much will you have to pay?** As we've discussed, you need to know what bank charges to expect so that you can ensure that you or your clients always have money in the account to cover them. Ask your banker about bank fees and charges.

IOLTA Accounts

When a client gives you a "nominal" amount of money, or you will be holding a client's money for a "short period of time," SCR 217 states that you must hold the money in an interest-bearing trust bank account for clients, which for convenience we've referred to as an "IOLTA" account. (IOLTA stands for Interest On Lawyers Trust Accounts.)

Pursuant to RPC 217(a)(i), interest earned on an IOLTA account must be transferred to a designated tax-exempt foundation pursuant to SCR 216. IOLTA funds are designated to the Nevada Bar Foundation, a 501(c)(3) charitable arm of the State Bar, and law-related education programs.

Since most attorneys at some time hold money for clients that are "nominal in amount" or will be held for a "short period of time," the chances are that you will need to set up an IOLTA. (For a discussion of how to decide which client funds should be held in an IOLTA account, see [What MUST Be Held in Your IOLTA Account?](#))

SCR 78.5 states that attorneys may hold IOLTA accounts only at eligible financial institutions. The State Bar's list of IOLTA-eligible institutions is continuously updated in its website – <https://www.nvbar.org/member-services-3895/iolta/participating-financial-institutions/>. If your financial institution is not already IOLTA-eligible, you should direct them to the state bar for information on becoming eligible.

Under SCR 217 (4)(a)(i), a member of the state bar or the member's law firm establishing such account shall direct the depository institution to remit interest or dividends, as the case may be, on the average monthly balance in the account or as otherwise computed in accordance with an

institution's standard accounting practice at least monthly, to the designated tax-exempt foundation pursuant to SCR 216.

SCR 217(3) says that accounts under this rule shall be exempt from service charges and fees.

Reporting IOLTA Compliance to the State Bar

Attorneys should establish and follow reasonably prudent procedures to verify, at least annually, that each account maintained under this rule is on deposit with an institution currently listed by the designated tax-exempt foundation as operating in compliance with the Interest Minimum Standards set forth in SCR 217(4)(a)(ii). Member verification shall be reported to the state bar by completing and submitting a form provided with the annual membership fee, according to SCR 217(4)(b).

If a member or the member's law firm does not maintain an office within 20 miles of a complying financial institution pursuant to SCR 217(6), the minimum interest standards set forth in SCR 217(2)(a-c) are waived, and the reporting requirements of 4(a)(ii) are partially waived such that the member must direct the depositing institution to report at least quarterly, electronically if possible, to include at a minimum the name of the member of the state bar or the member's law firm for whom the remittance is sent and the rate of interest applied, according to SCR 217(5)(a-b).

Depositing Money into Your Client Trust Bank Account

As far as your fiduciary responsibility towards your clients is concerned, there are only two kinds of money – money that **MUST** go into your client trust bank account and money that **MUST NOT** go into your client trust bank account.

What MUST Go into Your Client Trust Bank Account?

SCR 78.5 says you have to deposit all funds held in trust in this jurisdiction in accounts clearly identified as “trust” or “escrow” accounts, and you shall take all steps necessary to inform the depository institution of the purpose and identity of the accounts. Funds held in trust include funds held in any fiduciary capacity in connection with a representation, whether as a trustee, agent, guardian, executor or otherwise.

Money received or held for the benefit of a client includes:

- Money that belongs to the client outright (e.g., funds from the sale of the client’s property);
- Money in which you and your client have a joint interest (e.g., settlement proceeds that include your contingency fee and to be held in anticipation of case costs);
- Money in which your client and a third party have a joint interest (e.g., money you hold for a partnership of which your client is a partner or funds from the sale of community property); and
- Money that doesn’t belong to your client at all, but which you are holding as part of carrying out your representation of the client (e.g., when your client has commenced an action for interpleader).
- Money that is paid as an “advance fee” and does not belong to you until the services have been performed.

What MUST NOT Go into Your Client Trust Bank Account?

Generally, no funds that belong to you or the law firm shall be deposited into your client trust bank account. Unless one of your clients has an interest in the money, keep it out of your client trust bank account. **NEVER** put your personal or office money, including funds like employee payroll taxes, into your client trust bank account.

RPC 1.15 (b), however, permits a lawyer to deposit his or her own funds into the account “for the sole purpose” of paying bank services charge for that account, “but only in an amount necessary for that purpose.”

These funds would include nonrefundable flat-fee retainers taken to ensure your availability to a client. In the event a client gives you a check that includes a flat fee and money to be held in trust, deposit it into trust and issue a check for the earned portion.

What MUST Be Held in Your IOLTA Account?

As we’ve mentioned, SCR 217 requires you to keep amounts of money that are “nominal in amount” or “to be held for a short period of time” in your IOLTA account. Client funds that can earn revenue for the client in excess of the costs to hold those accounts must be deposited for the benefit of the client. Thus, you are required to make the practical determination of whether your clients’ money must be held in your IOLTA account.

Paying Money Out of Your Client Trust Bank Account

Before you write your first client trust bank account check, there are five things you should know.

What Payments CAN You Make?

You can make any payments on behalf of your client out of your client trust bank account, including paying client costs and expenses (e.g., court filing fees or deposition transcript costs) that the client has prepaid, disbursing settlement proceeds, paying yourself earned and undisputed legal fees, etc. Those are the *only payments* you're allowed to make out of your client trust bank account.

What Payments CAN'T You Make?

You can't make payments out of your client trust bank account to cover your own expenses, personal or business, or for any other purpose that isn't directly related to carrying out your duties to a client, even if you are owed earned legal fees from the account. You also can't pay money out of your client trust bank account on behalf of a client if the client doesn't have money available in the account to cover those payments. (See [You Can't Spend What You Don't Have.](#))

You should also remember that you can't pay yourself legal fees that your client is disputing, whether or not you feel you've earned them. The moment a client disputes your fees, the disputed amount is frozen in your client trust bank account until the dispute is settled. When the amount of your fees is no longer in dispute, you have an ethical obligation to take those fees out of the client trust bank account as soon as you reasonably can.

How Should You Make Payments?

You should always pay out money from your client trust bank account by using:

- a check;
- a wire transfer;
- or another instrument that specifies who is getting the money and who is paying it out.

You should never pay out money in cash, or with checks or other instruments made out to cash, because you have no evidence of payment. (See [Always Maintain an Audit Trail.](#)) If you do make a payment in cash (or another instrument that doesn't give you a record of the transaction), you must get a receipt signed by the client or other recipients, or you have violated your professional responsibilities.

Some attorneys carry blank client trust bank account checks around to pay client expenses that come up when they're out of the office. Don't. This is a bad practice that results in checks being written out of numerical order (i.e., lower-numbered checks being dated later than higher-numbered checks), and, more often than not, a few checks disappearing altogether. That situation can make it hard to keep orderly records and reconcile your books. If you're out of the office and a client expense comes up, pay it out of your general office account and, when you get back to the office, write a client trust bank account check to reimburse yourself.

When MUST You Make Payments?

Pursuant to RPC 1.15(d), you should make every effort to “promptly pay ... as requested by the client” money that the client is entitled to receive. This rule means that if your client asks you to return money you are holding in trust for that client, you must deliver that money promptly. Often, a client request for payment is triggered by notice from you that certain money has been received for the client, such as settlement proceeds. What is meant by “promptly” for purposes of both notifying clients about funds received and making payment as requested by clients will depend upon the specific circumstances of each client's matter.

Attorney fees. As we've discussed, when you're holding client money that includes your undisputed fees, you have to take those fees out of the client trust bank account promptly after you've earned them.

Third-party claims. You also may have a duty to promptly pay expenses due to a third party incurred on behalf of a client. In some cases, the client may dispute a third party's claim to the money. This situation most often arises in connection with a medical lien that the attorney and client have both signed. After the recovery is received, the client instructs you not to pay the doctor. Since you signed the lien, turning the funds over to the client may expose you to potential civil liability and may violate your fiduciary duty to the doctor (See *Achrem v. Expressway Plaza Ltd.* 112 Nev. 737, 917 P. 2d 447). On the other hand, paying the doctor against the express instructions of the client also presents difficulties. You should consider writing to the client and the doctor to inform them of the problem and your intention to hold the disputed funds in your client trust bank account until the dispute is resolved. If the parties cannot resolve their dispute, you should advise them of your intent to file an interpleader action. *In no case should you use the disputed funds*, which would constitute misappropriation. An interpleader action may also be needed if the client has insufficient funds in their client trust account to satisfy all obligations, including attorney fees. An attorney shall not take fees until approved by the court in this instance. (See *Michael v. 6th Judicial Ct.* 117 Nev. 145, 17 P.3d 1003 [2001]).

Recordkeeping

As we've discussed, SCR 78.5 requires you to keep two kinds of records: records created by the bank that show what went into and out of your client trust bank accounts, and records created by you to explain the transactions reflected in the bank documents.

If your client trust accounting system will accomplish what our client trust accounting system does, then it's probably alright. However, the system described below will give you everything you need to do in order to account for your clients' funds.

We have provided herein a simple, effective system for accounting for your clients' money.

Our client trust accounting system is designed for sole practitioners and attorneys in small law firms. It assumes that you will be directly involved in every aspect of handling your clients' money. However, whatever size firm you work in and whatever client trust accounting system you use, you still have full personal fiduciary responsibility for accounting for your clients' money. Recordkeeping must be done consistently, and keeping incomplete records is just as great a breach of your professional responsibility as keeping no records at all.

How Long Must You Keep Records?

RPC 1.15 requires you to keep trust accounting records for seven years after final disposition of the underlying matter. To be on the safe side, you should keep **all** financial records related to a client for a minimum of **seven** years after you closed that clients' case, unless they relate to a matter under disciplinary investigation. In that case, you must retain the records until the investigation is concluded as part of your duty under SCR 78.5(5).

What Bank-Created Records Do You Have to Keep?

Although there is no rule requiring you to keep client trust bank account statements, it is recommended. Some attorneys don't take their duty to keep bank-created records seriously because they can always get copies from their bank. This isn't true. If your bank fails, merges with or is taken over by another bank, you may find that copies of your statements just aren't available. Finding a bank that still offers cancelled checks may take some searching and, if you're unable to find such a bank, be sure to access and maintain cancelled check information by requesting check imaging or other documentation from your bank.

While it isn't required by rule, you should also keep your client trust bank account deposit slips, so you will have a complete audit trail. These records will make it much easier to balance your books and to show what you did with your clients' money.

How Should You File Bank-Created Records?

To ensure that you have a complete set of bank-created records, and to save you time when you need to find a particular record, you should have a simple, consistent filing system. One good system is to keep separate binders for each of your client trust bank accounts. Each binder should have one section for bank statements, one section for cancelled checks, one section for deposit slips and one section for checkbook stubs. File each record in date order in the appropriate section of the binder for the account they refer to. Label each binder with the name of the client trust bank account and the period it covers, and you should be able to find any record in one or two minutes.

What Records Do YOU Have to Create?

Good accounting practices require you to create three kinds of records to show that you know at all times what you're doing with your clients' money. We'll discuss each of these records in detail below, but a few general points apply to all of them:

- Like bank-created records, SCR 78.5(b) requires you to retain these records for a minimum of five years after final disposition of the underlying matter.

However, RPC 1.15(a) requires attorneys to preserve “complete records” of account funds and other property for a period of seven years after the termination of representation.

- Never round off figures in these records. That means all receipts and payments must be recorded to the penny.
- These records can be handwritten, typed or printed out from a computer file. However, they should be complete, neat and legible, and stored in such a way that you can find them — and read them — later. Handwritten records should be kept in ink — not pencil or magic marker — in bound accounting books, and typed records or computer printouts should be filed in binders. As with bank-created records, you can save yourself time and trouble by labeling the covers of the books and binders with complete account or client names and the dates the records cover.
- All deposits and payments should be recorded to the account journal and client ledger within 24 hours. Waiting longer increases the chance that you will forget to record a transaction or will record it incorrectly. It also means that your records aren't up-to-date, and that you might be spending money your clients don't have.

The client ledger. It is important that you keep a *written ledger* for each client whose money you hold. This client ledger must give the name of the client, detail all money you receive and pay out on behalf of the client, and show the client's balance following every receipt or payment.

Maintaining a client ledger is like keeping a separate checkbook for each client, regardless of whether or not the client's money is being held in your common client trust bank account.

Every receipt and payment of money for a client must be recorded in that client's client ledger. For every receipt, you must list the date, amount and source of the money. For every payment, you must list the date, the amount, the payee (who the payment went to) and purpose of the payment. After you record each receipt, you must add the amount to the client's old balance and write in the new total. After you record each payment, you must subtract the amount from the client's old balance and write in the new total. Leave a number of blank lines after the last entry of each month, so that you can make additional entries during the monthly reconciliation process.

You will find it much easier to keep your records straight if you don't put more than one client's records on a given page. Also, you shouldn't use the front of a page for one client and the back of the page for another. This practice means wasting some paper, but it will enable you to file all the client ledger pages that refer to a given client in chronological order and find those pages faster if you need them. If you're handling more than one case for the same client, it may be helpful to maintain a separate client ledger for each matter. If you don't, make sure that it's clear which case the transaction is related to when you record your client's receipts and payments.

Example: At your first meeting, on Thursday, July 9, new client KB gives you a check for \$1,500 as an advance against costs and expenses. The \$1,500 couldn't earn interest for KB after costs are deducted. You deposit KB's money into your IOLTA account and create a new client ledger for her, starting on the front of an unused page in the book you use for client ledgers. The new client ledger looks like this:

CLIENT LEDGER					
CLIENT: <u>KB</u>					
CASE#: <u>920137</u>					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/09/16	KB			1,500.00	1,500.00

Record the date you received KB's money, who the money came from, the amount of money and the balance you're holding for KB. Notice that the Payee, # & Purpose and Checks (Subtract) columns are left blank, since they are only used when you are recording a payment out of the account, although you could notate the funds were received for costs/expenses.

The first thing KB needs is a private investigator to locate witnesses for her case. Since you know that your bank won't clear KB's check (which is drawn on an out-of-town bank) until the third working day after the deposit, you wait until then to hire one. (If the matter required immediate attention, you could have paid the private investigator with a check drawn on your general office account, and then reimbursed yourself for the expense after KB's check had cleared.)

On Tuesday, July 14, when the check has cleared, you look up KB's balance to make sure she has enough money in the account (you can't keep every client's balance in your head) and then make out a client trust bank account check, #437, for \$500 to FS, a private investigator. You record the payment in KB's client ledger, subtract the amount of the check from her running balance and write in the new balance. KB's client ledger now looks like this:

CLIENT LEDGER CLIENT: <u>KB</u> CASE#: <u>920137</u>					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/09/16	KB			1,500.00	1,500.00
7/14/16		FS, #437 Investigation	500.00		1,000.00

You've recorded the date you paid out KB's money, who you paid the money out to, why you spent the money, the amount of money you spent and the balance you're holding for KB. You also recorded the number of the check you wrote, to make it easier to reconcile your records at the end of the month. Notice that the Source of Deposit and Deposits (Add) columns were left blank, since they are only used when you are recording a deposit to the account. Also notice that you didn't round off; you recorded the amount of the payment to FS and the new balance to the penny.

During the next couple of weeks, you receive two more checks from KB and make one additional payment to cover court costs. Following the procedure above, you record these transactions in KB's client ledger. When KB calls you at 5:30 p.m. on Friday, July 24, to ask how much you're still holding for her, you are able to tell her immediately, even though your secretary has already gone home. When KB's case is closed at the end of the month, per your written fee agreement, you pay yourself your legal fees. At the time you close the matter, KB's client ledger looks like this:

CLIENT LEDGER CLIENT: <u>KB</u> CASE#: <u>920137</u>					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/09/16	KB			1,500.00	1,500.00
7/14/16		FS, #437 Investigation	500.00		1,000.00
7/15/16	KB			325.00	1,325.00
7/15/16		SF Muni Court, #446 Filing Fee	50.00		1,275.00
7/15/16	KB			225.00	1,500.00
8/01/16		Self, #448 Legal Fee	1,500.00		0

If KB questions your fees, or if the state bar asks you to explain what you did with KB's money, this client ledger gives you a complete, clear record to account for the funds you held in trust. In the course of keeping this client ledger, you've fulfilled six of the seven key concepts. You've kept KB's money separate from all your other clients', even though it's being held in your common client trust bank account; you haven't spent more money than KB had and have thus avoided a negative balance; you waited until KB's check cleared before paying out any of the money; you've been able to tell at all times exactly how much of KB's money you're holding; and you've zeroed out KB's balance. Your goal of maintaining an audit trail is not complete until you have identified and corrected any accounting errors that can be ascertained by reviewing and reconciling your records.

The account journal. You should keep a *written journal* for each client trust bank account. This account journal must give the name of the bank account, detail all money you receive and pay out, say which clients you received or paid out the money for, and give the account balance after every receipt or payment.

Maintaining an account journal is very similar to keeping a client ledger. In fact, for your individual client trust bank accounts (i.e., accounts in which you keep only one client's money), you only need to keep the client ledger in order. But for your common client trust bank account, keeping the account journal is the only way you can know how much you have in the account at any given time. If you maintain the account journal properly, you will never bounce a client trust bank account check unless there's been a bank error.

In the account journal, you must record every deposit into and payment out of the client trust bank account. For every deposit, you must record the name of the client you received the money for, the date you deposited the money and the amount of money you deposited. After you record each deposit, you have to add the amount to the account's old balance and write in the new total. For every payment, you must list the client for whom you paid out the money, the date and the amount of the payment. You will find it a lot easier to balance your books and answer any future inquiries if you also record the number of the check and the payee or source of the money. After you record each payment, you have to subtract the amount from the account's old balance and write in the new total. As with the client ledger, leave a number of lines blank after the last entry of each month, so that you can make additional entries during the monthly reconciliation process.

When you deposit more than one check at a time (i.e., using one deposit slip for all the checks), you must record each check as a separate deposit in your account journal. If you don't, you won't be able to indicate how much was deposited for each client.

If you are keeping your own money in the account to cover bank charges, you must also record every deposit of your own funds and every bank charge. In the account journals for interest-bearing client trust bank accounts, you must also record any interest the bank credits to or charges the bank takes from the account.

Example: Let's look at an example of an account journal for a common client trust bank account. To show you how the account journal relates to the client ledger, we'll look at the account journal page for the day you deposited KB's first check, July 9, 2016:

ACCOUNT JOURNAL**CLIENT TRUST BANK ACCOUNT NAME: Common Client Trust Bank Account**

DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/09/16	DS		FB, #423 Prof. Fee	1,800.00		13,000.00
7/09/16	KB	KB			1,500.00	14,500.00
7/09/16	GC	Insurance Co.			3,500.00	18,000.00
7/09/16	DC		DC, #424 Settlement Proceeds	6,500.00		11,500.00

As you can see, at the time you deposited KB's first check, there was already a substantial amount of money in the account that belonged to other clients. The account journal doesn't show you how much of this money belonged to each client. To find that out, you have to look in the client ledgers for those clients. What the account journal does tell you is how much, to the penny, was in your common client trust bank account at any given time.

For each transaction, you've recorded the date you received or paid out the money, which client you received or paid out the money for, how much you received or paid out and what your client trust bank account balance was after each deposit or payment. As with the client ledger, you've recorded who the money came from (in the Source of Deposit column), who the money went to, why you paid out the money and the number of the client trust bank account check you used to make each payment (in the Payee, # and Purpose column). You recorded the amount of each deposit in the Deposits (Add) column, the amount of each payment in the Checks (Subtract) column, and, after adding in each deposit and subtracting each payment, you recorded a new running balance in the Balance column.

Bank charges ledger. You must record every bank charge against your client trust bank account in the account journal, and RPC 1.15 permits you to keep your own money in your common client trust bank account to pay these bank charges. If you keep your own money in the client trust bank account to pay these charges, you should create a separate ledger where this money, and all the bank charges you pay with it, is recorded. We'll call this the "bank charges ledger." You should keep the bank charges ledger the same way you keep your client ledgers, recording every deposit, every charge the bank makes against the account and the running balance of money you have left to cover the charges.

The bank charges ledger should look like this:

BANK CHARGES LEDGER CLIENT: <u>Bank Charges</u> CASE#: <u>N/A</u>					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
6/30/16	CORRECTED MONTH ENDING BALANCE				50.00
7/01/16	Self			100.00	150.00
7/31/16		Check Printing	10.00		140.00

Reconciliation

Reconciliation means checking the three basic records you are required to keep—the bank statements, the client ledgers and the account journal—against each other so you can find and correct any mistakes.

It is essential that you reconcile your client trust bank account monthly and keep a written record that you completed the process, because mistakes always happen when people keep track of money. Even banks make mistakes when it comes to recording money transactions. That's because when you're working with numbers, mistakes are easy to make and difficult to notice. No amount of training can eliminate these mistakes.

To make sure that you find and correct these mistakes, you should record every client trust bank account transaction *twice* (in your client ledger and your account journal), check these records against each other and check them against the bank's records. For example, let's say you deposit a check for \$1,000 into your common client trust bank account, but mistakenly record it as \$10,000 in your client ledger and add \$10,000 to your client's running balance. In your account journal, you record the check correctly and add \$1,000 to your client trust bank account's running balance. How will you find the mistake? The account journal balance is right, so you won't find the mistake by bouncing a check. The numbers in the client ledger all add up—there's no way to tell you made a mistake. Unless you compare your client ledger balance to your account journal balance, you won't be able to find the recording error. And unless you compare your client ledger and account journal against the bank statement, you won't know which entry was right—\$10,000 or \$1,000.

We've just described the reconciliation process. The theory is that it's unlikely that the same mistakes will be made in three different records—the client ledgers, the account journal and the bank statement—so if those records are all checked against each other, any mistakes will show up.

Note that although it is OK to hire a bookkeeper or an equivalent, you are still personally responsible for accounting to your clients and to the State Bar for the money in your client trust bank accounts. Therefore, even if you never intend to do the reconciling, you should understand the process. Even if it's your bookkeeper's mistake, if you bounce a client trust bank account check, you're the one your client or the state bar is going to come to for an explanation.

You can't do reconciliation for one month until you're sure you have correct balances in all your client ledgers and account journals for the previous month. If you haven't recently reconciled your books, or if you are worried that they're wrong, you may want to bring in a bookkeeper to straighten them out before you take on the monthly reconciliations yourself. Once you have correct balances for the previous month, you are ready to reconcile.

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 that your records agree with the bank's.
4. Entering corrected month ending balances and corrected current running balances into your account journal and client ledgers.

As you can see, the third step of the reconciliation process is comparing your monthly bank statement with the account records you've created. A bank statement is a list of all the withdrawals, deposits, charges and interest that the bank has credited to your account during the month. (For IOLTA accounts, the bank statement may also show interest paid to the State Bar, which you do not need to enter into your account journal.) It takes some banks several weeks to prepare and mail out statements for the previous month; that fact means you may be reconciling your books as long as three or four weeks after the month in which the deposits or withdrawals are made. (In the example that follows, records for July are reconciled on August 22.) Also, as we've discussed, it can take days or weeks for checks to be presented for payment. These delays mean that you can't just compare the balance in your account journal to the balance shown on the bank statement to see if anything is wrong. You have to adjust your account balance by noting all the transactions that weren't debited or credited by the time the bank statement was prepared. This adjustment process may seem complicated, but if you carefully follow the instructions for filling out the forms below, you shouldn't have any problems.

The goal of the reconciliation process is to figure out the Corrected Month Ending Balance for the month you are reconciling (that is, the amount of money that was actually in the account on the last day of the month) and the Corrected Current Running Balance as of the date you complete the reconciliation (that is, the amount of money that is actually in the account now) by entering interest, bank charges and mistake corrections into your account journal and client ledgers. (You'll put these entries in the space you left after the last entry of the month so that you could add entries during the reconciliation process.) Since you can't be sure you've found every mistake until you've finished reconciling, you can't enter a Corrected Month Ending Balance or a Corrected Current Running Balance into your account journal and client ledgers until you've finished the reconciliation process.

The following process is a recommended three-form system that makes reconciliation simple. Remember that each of the three forms—the Client Ledger Balance form, the Adjustments to Month Ending Balance form, and the Reconciliation form—should be filled out every month for every client trust bank account.

When filling out these forms, it's a good idea to use an adding machine or other calculator that will produce a printed record of the calculation you performed. That way, if your records don't match, you can easily check to see if the reason is a mathematical mistake made while preparing the form.

Reconcile the Account Journal with Client Ledgers

The first step in reconciliation is to reconcile the account journal with client ledgers. The purpose of this step is to make sure that the entries in your client ledgers agree with the entries in your account journal. Here's an example:

FORM ONE	
Client Ledger Balance Reconciliation Date: <u>8/22/16</u>	
Client Trust Bank Account Name: <u>Common Client Trust Bank Acct.</u>	
Period Covered by Bank Statement: <u>7/1/16 to 7/31/16</u>	

Client	Client Ledger Balance
KB	1,500.00
DC	200.00
GC	8,500.00
DS	250.00
Bank Charges	125.00
TOTAL CLIENT LEDGER BALANCE:	10,575.00
MONTH ENDING ACCOUNT JOURNAL BALANCE:	10,575.00
TOTAL MISTAKE CORRECTION ENTRIES (+ or -): _____	
(From Form Two)	
ADJUSTED MONTH ENDING ACCOUNT JOURNAL BALANCE:	_____

In the space after Reconciliation Date, write the day, month and year you are doing the reconciliation; in the space after Client Trust Bank Account Name, write the name of the client trust bank account (e.g., Common Client Trust Bank Account); in the space after Period Covered by Bank Statement, write the dates of the period covered by your most recent bank statement (e.g., 7/1/06 to 7/31/06, if you are doing your July 2016 reconciliation).

On the lines under Client, write the name of each client whose money you are holding in the client trust bank account. On the lines under Client Ledger Balance, write the running balance as of the last day covered by the bank statement (in this case, July 31, 2016) from each client ledger next to the name of that client. (For your common client trust bank account, this notation may require more lines than shown here. For an individual client trust bank account, you will only need the first line.) Add up the client ledger balances in the Client Ledger Balance column and write in the total after Total Client Ledger Balance. Even if only one client's money is in the client trust bank account, you have to write that client's balance on this line. In the space after

Month Ending Account Journal Balance, write in the running balance for the client trust bank account as of the last day covered by the bank statement.

Notice that the Total Client Ledger Balance exactly matches the Month Ending Account Journal Balance. That match means that your client ledger balance entries for the month agree with your account journal entries, and you're ready to move on to the next step of the reconciliation process. For the moment, leave the last two lines, Total Mistake Correction Entries (+ or -) and Adjusted Month Ending Balance, blank; you might find mistakes during the rest of the reconciliation process.

If the Total Client Ledger Balance doesn't exactly match the Month Ending Account Journal Balance, don't panic; you've found a mistake, and that's what reconciliation is for. You can call in a bookkeeper to help you or make the correction yourself (see Finding and Correcting Mistakes, below). When you've found and corrected the mistake, move on to step 2.

Finding and Correcting Mistakes

What do you do if you add up all your client ledger balances and the total doesn't match the month ending account journal balance?

You should record every deposit and withdrawal twice. If you systematically compare each entry in the account journal with the corresponding entry in the client ledger and check the new balance you entered after each entry, you will always find the mistake.

For example, let's say that the sample form shown above had looked like this:

FORM ONE	
Client Ledger Balance Reconciliation Date: <u>8/22/16</u>	
Client Trust Bank Account Name: <u>Common Client Trust Bank Acct.</u>	
Period Covered by Bank Statement: <u>7/1/16 to 7/31/16</u>	

Client	Client Ledger Balance
KB	1,500.00
DC	200.00
GC	8,500.00
DS	250.00
Bank Charges	125.00
TOTAL CLIENT LEDGER BALANCE:	10,575.00
MONTH ENDING ACCOUNT JOURNAL BALANCE:	10,500.00
TOTAL MISTAKE CORRECTION ENTRIES (+ or -): _____ (From Form Two)	
ADJUSTED MONTH ENDING ACCOUNT JOURNAL BALANCE:	_____

The Total Client Ledger Balance and Month Ending Account Journal Balance differ by \$25. This difference could be the result of a single mistake or of several mistakes; it could be in a client ledger, the account journal, or both. It could be that you forgot to record a deposit or withdrawal, which you recorded the amounts incorrectly, or it could be the result of incorrectly adding a deposit or subtracting a withdrawal.

Open your account journal to the page that shows the corrected month ending balance for the previous month and the first entries for the month you are reconciling, which looks like this:

ACCOUNT JOURNAL						
Client Trust Bank Account Name: <u>Common Client Trust Bank Acct.</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
6/30/16	CORRECTED MONTH ENDING BALANCE					9,500.00
7/01/16	DS		FB, #408 Prof. Fee	500.00		9,000.00
7/01/16	GC		Self, #409 Atty Fees	1,500.00		7,500.00
7/01/16	DC	DC			2,000.00	9,500.00
7/02/16	DS	DS			1,000.00	10,500.00

Since you reconciled this account last month, you know that the corrected month ending balance shown for June 30, 2016, is right and agrees with the total client ledger balance for that date; whatever is causing the \$25 difference between the account journal balance and the total client ledger balance must have happened since then. Therefore, you look at the first entry for July 1, 2016: check #408, which you wrote for DS to FB for \$500, giving you a new running balance of \$9,000. You make sure that you correctly subtracted \$500 from the 6/30/16 corrected month ending balance to get this new running balance, then open DS's client ledger to the page where you recorded check #408:

CLIENT LEDGER						
CLIENT: <u>DS</u>						
CASE#: <u>920123</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
6/30/16	CORRECTED MONTH ENDING BALANCE					600.00
7/01/16			FB, #408 Prof. Fee	500.00		100.00
7/02/16	DS			1,800.00		1,900.00

You compare the entry in the client ledger with the entry in the account journal; they are both for the same check and the same amount. You subtract the amount of the check—\$500—from the client ledger's 6/30/16 corrected month ending balance of \$600, and see that the new running balance of \$100 you entered was right. You have now determined that the \$25 difference you are

trying to correct wasn't caused by recording the check to FB, and that the balances in the account journal and in this client ledger after you wrote this check are right.

You put a light pencil mark (shown as an asterisk) next to these balances and repeat this process with each entry in the account journal. Everything is correct until you get to the deposit of \$3,550 on July 9, 2016, for GC:

ACCOUNT JOURNAL CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, #'S & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/09/16	DS		FB, #423 Prof. Fee	1,800.00		13,000.00*
7/09/16	KB	KB			1,500.00	14,500.00*
7/09/16	GC	Insurance Co.			3,500.00	18,000.00
7/09/16	DC		DC, #424 Settlement Proceeds	6,500.00		11,500.00

Notice the asterisks you put next to each balance that you have already verified. You add the \$3,500 to the last verified balance, and see that the new running balance of \$18,000 you entered was right. You open GC's client ledger to the page where you recorded this deposit:

CLIENT LEDGER CLIENT: <u>GC</u> CASE#: <u>920125</u>					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
6/30/16	CORRECTED MONTH ENDING BALANCE				<u>13,000.00</u>
7/01/16		Self, #409 Atty Fees	1,500.00		11,500.00*
7/09/16	Insurance Co.			3,525.00	15,025.00

You compare the entry in the client ledger with the entry in the account journal; the deposit was recorded, but the amount of the deposit is \$3,525, not \$3,500. You subtract one amount from another and find that the difference is exactly \$25. You add \$3,525 to the previous client ledger balance and verify that the new running balance is right. That match means the mistake was made by entering the amount of the deposit incorrectly; but which entry is wrong, the account journal entry or the client ledger entry?

To find out, compare the account journal and client ledger entries to the deposit slip, which you filed in the appropriate binder, or to your most recent bank statement. The bank statement shows one deposit on 7/9/06 of \$5,025, which doesn't match either number. But your account journal shows that you made two deposits on July 9:

ACCOUNT JOURNAL						
CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/09/16	DS		FB, #423 Prof. Fee	1,800.00		13,000.00*
7/09/16	KB	KB			1,500.00	14,500.00*
7/09/16	GC	Insurance Co.			3,500.00	18,000.00
7/09/16	DC		DC, #424 Settlement Proceeds	6,500.00		11,500.00

Since the bank statement shows only one deposit for July 9, 2016, that means you deposited both checks on the same deposit slip. You add these two deposits together and get \$5,000, not \$5,025, as the bank statement shows. You subtract the smaller amount from the larger amount and get \$25, the exact difference you're looking for. That means that the entry in the account journal—\$3,500—is wrong, and the entry in the client ledger, \$3,525 is right. (If you'd kept a copy of the deposit slip you filled out on July 9, which listed the two deposits separately, you could have found the mistake without doing the math.)

Now that you've found the mistake, you need to correct it so that your account journal reflects the right amount of the July 9, 2016, deposit. Since you keep your records in ink, not in pencil, you can't just erase and write in the correct deposit amount and balance. You don't want to scratch out the incorrect amount and write in the new one; this is messy. It also means you'd have to scratch out all the running balances from the July 9 deposit on; they were all based on the mistaken entry, and they are all wrong.

The easiest—and clearest—way to correct the mistake is to mark the wrong entry (you can use any prominent notation that doesn't make it hard to read the entry), make a mistake correction entry using the lines you left blank for entering the Corrected Month Ending Balance and make the same mistake correction entry after your most recent entry to correct your current running balance. (Since the mistake was in the account journal, not the client ledger, you don't have to make any mistake corrections entries there.) This process means that you have to record the correction twice: at the end of the month in which you made the mistake, so that it's included in the Corrected Month Ending Balance, and after your last entry, so that it's included in the Corrected Current Running Balance. In this example, the mistake correction entry for the Corrected Month Ending Balance would look like this:

ACCOUNT JOURNAL						
CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/31/16	DS		FB, #423 Prof. Fee	250.00		8,000.00
7/31/16	DC	JA			2,500.00	10,500.00
7/09/16	ERROR	-backing out wrong deposit - adding in correct deposit		3,500.00	3,525.00	
7/31/16	KB	CORRECTED MONTH ENDING BALANCE		1,500.00		9,000.00

To show that you've backed out the wrong amount and inserted the correct amount, the mistake correction entry shows that you have subtracted the wrong amount from the account balance, and added the right amount to the account balance. (If you make a mistake in recording a withdrawal, you do the same thing.) You could have corrected the mistake with a mistake correction entry that just added the missing \$25; however, that entry wouldn't tell you what the mistake was, or help you track it down if any questions come up in the future. Notice that you haven't filled in the Corrected Month Ending Balance yet; you won't do that until you complete all the steps in the reconciliation process.

Now let's look at the mistake correction entry that corrects the account's current running balance:

ACCOUNT JOURNAL						
CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
8/21/16	Bank Chg	Self			100.00	11,500.00
8/22/16	DS		FB, #447 Prof. Fee	1,000.00		10,500.00
8/22/16	DC	DC			6,500.00	17,000.00
7/09/16	ERROR	-backing out wrong deposit - adding in correct deposit		3,500.00	3,525.00	

This entry ensures that when you enter the Corrected Current Running Balance at the end of the reconciliation process, it will reflect the correct deposit, instead of the mistake.

Now that you've corrected the mistake and the account journal entries agree with the client ledger entries, go back to Form One and fill out the last two lines with the total of the mistake correction entries you made and the Adjusted Month Ending Account Balance:

FORM ONE**Client Ledger Balance****Reconciliation Date: 8/22/16****Client Trust Bank Account Name:: Common Client Trust Bank Acct.****Period Covered by Bank Statement: 7/1/16 to 7/31/16**

Client	Client Ledger Balance
KB	1,500.00
DC	200.00
GC	8,500.00
DS	250.00
Bank Charges	125.00
TOTAL CLIENT LEDGER BALANCE:	10,575.00
MONTH ENDING ACCOUNT JOURNAL BALANCE:	10,550.00
TOTAL MISTAKE CORRECTION ENTRIES (+ or -): <u>25.00</u>	
(From Form Two)	
ADJUSTED MONTH ENDING ACCOUNT JOURNAL BALANCE:	<u>10,575.00</u>

When we get to step 3, we'll record these mistake correction entries and any others we have to make on Form Two: Adjustments to Month Ending Balance.

What if the mistake had been in the entry in GC's client ledger, instead of in the account journal entry? In that case, you would put mistake correction entries in the client ledger the same way you would in the account journal, in both the space above the Corrected Month Ending Balance and after the most recent entry. However, on Form One, instead of recording the mistake on the Total Mistake Correction Entries (+ or -) line, you would simply cross out the incorrect client ledger balance for GC and write the correct balance beside it. Since GC's balance was wrong, the Total Client Ledger Balance you recorded is wrong. Cross it out and write in the correct total; it should exactly match the Month Ending Account Journal Balance. Put a zero on the Total Mistake Correction Entries (+ or -) line; this line is only for recording mistakes in the account journal, not for mistakes in client ledgers. Fill in the Adjusted Month Ending Account Journal Balance line.

When you're done, Form One should look like this:

FORM ONE**Client Ledger Balance****Reconciliation Date: 8/22/16****Client Trust Bank Account Name:: Common Client Trust Bank Acct.****Period Covered by Bank Statement: 7/1/16 to 7/31/16**

Client	Client Ledger Balance	
KB	1,500.00	
DC	200.00	
GC	8,525.00	8,500.00
DS	250.00	
Bank Charges	125.00	
		10,550.00
TOTAL CLIENT LEDGER BALANCE:		10,575.00
MONTH ENDING ACCOUNT JOURNAL BALANCE:		10,550.00
TOTAL MISTAKE CORRECTION ENTRIES (+ or -): <u>0.00</u>		
(From Form Two)		
ADJUSTED MONTH ENDING ACCOUNT JOURNAL BALANCE:		<u>10,550.00</u>

Enter Bank Charges and Interest

The purpose of this step is to make sure that bank charges and interest credits reflected on the bank statement are also reflected in your records. Since you don't know what these bank charges or interest credits are until you receive the bank statement, you need to enter them into your records after you receive the bank statement.

All bank charges must be recorded in the account journal. If a bank charge was incurred on behalf of a specific client (as, for example, a charge for wiring money to a client), the charge must also be entered in that client's client ledger. (This notation ensures that the account journal balance will continue to match the total of the individual client ledger balances.) If the charge was not for a specific client (for example, a charge for printing common client trust bank account checks), the charge must also be entered in the bank charges ledger.

Since all interest earned on money held in an individual interest-bearing client trust bank account belongs to the client, interest must always be entered in the account journal and the client ledgers. (Since the interest on IOLTA accounts is transmitted by the bank to the state bar, it shouldn't be entered into your records. However, if your bank doesn't include the interest deposit and withdrawal on the same statement, you will need to ask for this information.)

Like mistake-correction entries, bank charge and interest entries must be recorded twice: at the end of the month in which the transaction occurred, so that they are included in the Corrected Month Ending Balance; and after your last entry, so that they are included in the Corrected Current Running Balance.

This example will deal with an IOLTA account that pays interest to the state bar. In the account journal for our sample common client trust bank account, the bank charges (other than the regular service charges to the state bar) for July are entered twice, once in the space above the Corrected Month Ending Balance:

ACCOUNT JOURNAL						
CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/31/16	DS		FB, #447 Prof. Fee	250.00		8,000.00
7/31/16	DC	JA			2,500.00	10,500.00
7/09/16	ERROR	- backing out wrong deposit - adding in correct deposit		3,500.00	3,525.00	
7/31/16	BANK CHARGE	- new checks - wire for DS		10.00 15.00		
7/31/16	CORRECTED MONTH ENDING BALANCE					
8/01/16	KB		Self, #448 Atty. Fee	1,500.00		9,000.00

And once after the most recent entry:

ACCOUNT JOURNAL CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, #S & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
8/21/16	Bank Chg.	Self			100.00	11,500.00
8/22/16	DS		FB, #457 Prof. Fee	1,000.00		10,500.00
8/22/16	DC	DC			6,500.00	17,000.00
7/09/16	ERROR	- backing out wrong deposit - adding correct deposit		3,500.00	3,525.00	13,500.00 17,025.00
7/31/16	BANK CHARGE	- new checks - wire for DS		10.00 15.00		

As you can see, there were two bank charges during July: one for printing new checks, which is not specific to an individual client and must be recorded in the bank charges ledger; and one for sending money by wire for DS, which is specific to an individual client and must be recorded in DS's client ledger. (Notice that we still haven't filled in the Corrected Month Ending Balance for July; as we've discussed, we won't do that until we've finished the reconciliation process.)

The bank charge entry in DS's client ledger should look like this:

CLIENT LEDGER**CLIENT: DS****CASE#: 920123**

DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/31/16		FB, #447 Prof. Fee	250.00		1,000.00
7/31/16	BANK CHARGE- wiring \$ to FB		15.00		
7/31/16	CORRECTED MONTH ENDING BALANCE				
8/03/16	DS			250.00	1,250.00
8/07/16		FS, #451 Investigation	500.00		775.00
8/15/16	DS			250.00	1,000.00
8/22/16		FB, #456 Prof. Fee	750.00		250.00
7/31/06	BANK CHARGE- wiring \$ to FB		15.00		

The entry in the bank charges ledger should look like this:

BANK CHARGES LEDGER**CLIENT: Bank Charges****CASE#: N/A**

DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
6/30/16	CORRECTED MONTH ENDING BALANCE				<u>50.00</u>
7/01/16	Self			100.00	150.00
7/31/16		Check Printing	10.00		140.00
7/31/06	CORRECTED MONTH ENDING BALANCE				

Reconcile the Account Journal with the Bank Statement

The purpose of this step is to make sure that the bank's records of the deposits and withdrawals you've made to your client trust bank account during the past month match your records. Since you've already reconciled the client ledgers with the account journal, you know that the entries in the client ledger agree with the ones in the account journal. Therefore, unless you find a mistake, during this stage of the reconciliation process, you only have to compare the bank statement with the account journal.

Adjustments to Month Ending Balance

First, record any mistake-correction entries that you made in the account journal and all uncredited deposits and undebited withdrawals on the Adjustments to Month Ending Balance form:

FORM TWO	
ADJUSTMENTS TO MONTH ENDING BALANCE Reconciliation Date: <u>8/22/16</u> Client Trust Bank Account Name: <u>Common Client Trust Bank Acct.</u> Period Covered by Bank Statement: <u>7/1/16 to 7/31/16</u>	

A. DEPOSITS AND WITHDRAWALS NOT POSTED ON BANK STATEMENTS

UNCREDITED DEPOSITS		UNDEBITED WITHDRAWALS	
Date	Amount	Date	Amount
<u>7/31/16</u>	<u>2,500.00</u>	<u>7/09/16</u>	<u>1,800.00</u>
_____	_____	<u>7/31/16</u>	<u>250.00</u>
_____	_____	<u>6/30/16</u>	<u>30.00</u>
TOTAL:	<u>2,500.00</u>		<u>2,080.00</u>

B. DEPOSITS AND WITHDRAWALS NOT POSTED ON BANK STATEMENTS

DATE	AMOUNT		NET MISTAKE (+ OR -)
	Additions	Subtraction	
<u>7/09/16</u>	<u>3,525.00</u>	<u>3,500.00</u>	<u>25.00</u>
_____	_____	_____	_____
TOTAL MISTAKE CORRECTION ENTRIES:			<u>25.00</u>

In the space after Reconciliation Date, write the day, month and year you do the reconciliation; in the space after Client Trust Bank Account Name, write the name of the client trust bank account (e.g., Common Client Trust Bank Account); in the space after Period Covered by Bank Statement, write the dates of the period covered by your most recent bank statement (e.g., 7/1/16 to 7/31/16, if you are doing your July 2016 reconciliation).

Deposits and Withdrawals Not Posted on Bank Statement

Generally, the bank sends out statements one to three weeks after the end of the month. As a result, by the time you reconcile the account, you will usually have made deposits or withdrawals that aren't shown on the bank statement. In addition, checks you wrote or deposits you made may not have cleared by the time the bank produced the statement, and therefore the amounts of those checks or deposits won't be reflected in the account balance shown on the bank statement. Thus, in order to compare the balance the bank statement says is in the account at the end of the month with the balance your account journal shows for the end of the month, you have to adjust the account journal balance by subtracting all uncredited deposits and adding all undeleted withdrawals.

These unposted transactions should be listed under Deposits and Withdrawals Not Posted by the Bank. To find out which transactions haven't been posted, you have to compare the entries on the bank statement with the entries in your account journal.

Go through each entry on the bank statement and compare it to the corresponding entry in your account journal. If the entry in the account journal exactly matches the entry on the bank statement, mark off the entry in the account journal to show that the money has cleared the banking process and mark off the entry on the bank statement to show that you have verified it against the account journal. The marks in the account journal will help you keep track of items like checks that are never cashed, which otherwise can become those small, inactive balances that make your account harder to reconcile. ([See The Final Score is Always Zero.](#)) The marks should be permanent (i.e., in ink) and clearly visible, but shouldn't make it harder to read the entries. You should use the same mark consistently, to avoid confusion later.

When you are finished, all the entries on the bank statement should be checked off to show that you have verified them against the corresponding entries in the account journal. Now go back through the account journal to find any entries that are unmarked; these transactions haven't yet been debited or credited by the bank, and should therefore be listed in the appropriate column on the Adjustments to Month Ending Balance form. All entries in your account journal must either be marked to indicate that they have appeared on a bank statement or recorded on this form.

Write the date and amount of the entry in the appropriate column on the Adjustments to Month Ending Balance form. Write uncredited deposits in the Uncredited Deposits column and undeleted withdrawals in the Undebited Withdrawals column. (For busy client trust bank accounts, you may need more lines than the sample form shows to list all the unposted transactions. If you do, you can add lines to the copies of the forms you use or attach additional pages that list the transactions that didn't fit on the form.)

When you've listed all the unposted transactions, add up the amounts in the Uncredited Deposits column and write the total in the space at the bottom of that column. Then add up the amounts in the Undebited Withdrawals column and write the total in the space at the bottom of that column.

As you go through the bank statement, there are two kinds of mistakes you may find:

1. **You find a deposit or withdrawal listed on the bank statement that isn't in your account journal.** To correct this mistake, go through your cancelled checks (if it's a withdrawal) or deposit slips (if it's a deposit) until you find the one that reflects the transaction on the bank statement. If you can't find a cancelled check or deposit slip that matches the entry on the bank statement, contact your banker and ask him or her to help you track down the transaction. DON'T record the bank statement entry in your records until you verify that the transaction occurred; banks make mistakes too.

When you find the cancelled check or deposit slip that shows the transaction, record the transaction in both your account journal and in the client ledger of the client for whom the money was deposited or paid out. Remember that you have to enter the transaction twice in the account journal and twice in the client ledger; once above the "Corrected

Month Ending Balance” line, and once after the latest entry. The entries should be the same as when recording any other transaction, but include a notation indicating that you'd forgotten to enter the transaction at the time it occurred.

After you correct the mistake in your client ledger and account journal, record it on Form Two under “Mistake Correction Entries,” as described below.

2. **An entry in the bank statement is different from the corresponding entry in the account journal.** You correct this mistake the same way you correct a transaction you forgot to record. First, find the cancelled check or deposit slip that shows the transaction to figure out which record is correct, the account journal or the bank statement. If you can't find a cancelled check or deposit slip for this transaction, contact your banker and ask him or her to help you track it down before you make any changes in your records.

If the cancelled check or deposit slip shows that the bank statement is wrong, write a note on the bank statement that clearly describes the mistake, then contact your banker and tell him or her to correct their records. If it shows that your account journal is wrong, record the correction in the account journal and the appropriate client ledgers using the same kind of mistake correction entries we used in our example. Like all mistake correction entries, these must be entered twice in both the account journal and the client ledger for the client on whose behalf you deposited or paid out the money; once above the “Corrected Month Ending Balance” line, and once after the latest entry.

After you correct the mistake in your client ledger and account journal, record it on Form Two under “Mistake Correction Entries,” as described below.

Mistake correction entries. Under “Mistake Correction Entries,” list all mistake correction entries you entered in the space above the Corrected Month Ending Balance in your account journal. In the “Date” column, write the date of each mistake. In the “Amount” column, write the amount of each mistake correction entry. As you remember, each mistake correction entry requires two notations; one to back out the incorrect amount, and one to add in the correct amount. If the mistake correction entry amount was entered under the “Deposits (Add)” column in your account journal, write the amount under the “Additions” column. If the mistake correction entry amount was entered under the “Withdrawals (Subtract)” column in your account journal, write the amount under the “Subtractions” column. Then write in the net amount of the mistake under the “Net Mistake (+ or -)” column. (If the amount in the “Subtractions” column is larger than the amount in the “Additions” column, the net mistake will be negative and should be recorded with parentheses around it. If the amount in the “Additions” column is larger than the amount in the “Subtractions” column, the net mistake will be positive and should be recorded without parentheses around it.) When you have recorded all the mistake correction entries, total the amounts in the “Net Mistake (+ or -)” column and enter it in the space after “Total Mistake Correction Entries.” If this amount is negative, put parentheses around it. If it's positive, don't.

If you found mistakes while you were going through the bank statement (in other words, after you finished filling out Form One), you have to go back to Form One, enter the new “Total

Mistake Correction Entries” and a new “Adjusted Month Ending Account Balance” before you go on to the next step.

Reconciliation form. The next step is to reconcile the balance the bank statement shows for the end of the month you are reconciling with the balance your account journal shows for the date by filling out the “Reconciliation” form:

FORM THREE	
RECONCILIATION	
Reconciliation Date	8/22/16
Client Trust Bank Account Name:	Common Client Trust Bank Acct.
Period Covered by Bank Statement	7/1/16 To 7/31/16

ADJUSTED MONTH ENDING BALANCE	<u>10,575.00</u>
(From Form One)	

MINUS TOTAL BANK CHARGES	<u>(25.00)</u>
(From Bank Statement)	

PLUS TOTAL BANK CHARGES	<u>IOLTA</u>
(From Bank Statement)	

CORRECTED MONTH ENDING BALANCE	<u>10,550.00</u>
(Total)	

MINUS UNCREDITED DEPOSITS	<u>(2,500.00)</u>
(From Bank Statement)	

PLUS UNDEBITED WITHDRAWALS	<u>2,080.00</u>
(From Bank Statement)	

RECONCILED TOTAL:	<u>10,130.00</u>
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BANK STATEMENT BALANCE:	<u>10,130.00</u>
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1. In the space after “Reconciliation Date,” write the day, month and year you did the reconciliation; in the space after “Client Trust Bank Account Name,” write the name of the client trust bank account (e.g., “Common Client Trust Bank Account”); in the space after “Period Covered by Bank Statement,” write the dates of the period covered by your most recent bank statement (e.g., 7/1/16 to 7/31/16, if you are doing your July 2016 reconciliation).

2. In the space after “Adjusted Month Ending Balance,” write the balance shown in the “Adjusted Month Ending Account Journal Balance” space on the Client Ledger Balance form.
3. In the space after “Minus Total Bank Charges,” write in the total of all bank charges to the account shown on the bank statement. For IOLTA accounts, don't include amounts charged to the State Bar. (Note the parentheses around this number show it is negative and should be subtracted.)
4. If this is an individual interest-bearing individual client trust bank account, in the space after “Plus Total Interest Earned,” write in the total interest shown on the bank statement. Write “IOLTA” in this space if this is an IOLTA account, and “non-interest bearing” if it is a noninterest bearing client trust bank account.
5. To the amount in the “Month Ending Balance” space:

Subtract the amount you wrote in the “Total Bank Charges” space;

Add the amount in the “Total Interest Earned” space; and

Write the result in the “Corrected Month Ending Balance” space.

6. In the “Minus Uncredited Deposits” space, write the total of the “Uncredited Deposits” column you listed on Form Two.
7. In the “Plus Uncredited Withdrawals” space, write the total of the “Uncredited Withdrawals” column you listed on Form Two.
8. To the amount in the Corrected Month Ending Balance space:
 - **Add** the undebited withdrawals;
 - **Subtract** the uncredited deposits; and
 - Write the total in the “Reconciled Total” space.
9. Write the balance shown on the bank statement in the space after Bank Statement Balance. This amount should exactly match the reconciled total above it. If it does, you have successfully reconciled the account and are ready to proceed to the last step.

Entering Corrected Month Ending Balance and Corrected Current Running Balance

When you have completed all three forms and the Corrected Month Ending Balance is exactly the same as the Bank Statement Balance, the account is reconciled. Now you are ready to enter the Corrected Month Ending Balance for July and the Corrected Current Running Balance in the account journal and in each client ledger.

Here's how the Corrected Month Ending Balance entry would look in the account journal:

ACCOUNT JOURNAL						
CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/31/16	DS		FB, #447 Prof. Fee	250.00		8,000.00
7/31/16	DC	JA			2,500.00	10,500.00
7/09/16	ERROR	- backing out wrong deposit - adding correct deposit		3500.00	3,525.00	7,000.00 10,525.00
7/31/16	BANK CHARGE	- new checks - wire for DS		10.00 15.00		10,515.00 10,500.00
7/31/16	CORRECTED MONTH ENDING BALANCE					<u>10,500.00</u>
8/01/16	Dc		Self, #448 Legal Fee	1,500.00		9,000.00

As you can see, you got the Corrected Month Ending Balance by subtracting the amount of the wrong deposit from the old July 31 balance of \$10,500, adding the amount of the correct deposit and subtracting the amounts of the bank charges. Notice that the Corrected Month Ending Balance is identical to the balance after the interest entry.

This is how the Corrected Current Running Balance entry looks in the account journal:

ACCOUNT JOURNAL CLIENT TRUST BANK ACCOUNT NAME: <u>Common Client Trust Bank Account</u>						
DATE	CLIENT	SOURCE OF DEPOSIT	PAYEE, #'S & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
8/21/16	Bank Chg.	Self			100.00	11,500
8/22/16	DS		FB, #457 Prof. Fee	1,000.00		10,500.00
8/22/16	DC	DC			6,500.00	17,000.00
7/09/16	ERROR	- backing out wrong deposit - adding correct deposit		3500.00	3,525.00	13,500.00 17,025.00
7/31/16	BANK CHARGE	- new checks - wire for DS		10.00 15.00		17,015.00 10,000.00
8/22/16	CORRECTED MONTH ENDING BALANCE					<u>17,000.00</u>

As you can see, you got the Corrected Current Running Balance by subtracting the amount of the wrong deposit from the old August 22 balance of \$17,000, adding the amount of the correct deposit and subtracting the amounts of the bank charges.

Now you have to go into each client ledger and enter the Corrected Month Ending Balance for July and Corrected Current Running Balance for each client. Let's look at DS's ledger to see what these entries should look like:

CLIENT LEDGER**CLIENT: DS****CASE#: 920123**

DATE	SOURCE OF DEPOSIT	PAYEE, #'S & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	RUNNING BALANCE
7/31/16		FB, #447 Prof. Fee	250.00		1,000.00
7/31/16		BANK CHARGE- wiring \$ to FB	15.00		985.00
7/31/16		CORRECTED MONTH ENDING BALANCE			985.00
8/03/16	DS			250.00	1,235.00
8/07/16		FS, #451 Investigation	500.00		735.00
8/15/16	DS			250.00	985.00
8/22/16		FB, #456 Prof. Fee	750.00		235.00
7/31/06		BANK CHARGE- wiring \$ to FB	15.00		220.00
8/22/16		CORRECTED CURRENT RUNNING BALANCE			<u>220.00</u>

As you can see, you got the Corrected Month Ending Balance by subtracting the amount of the bank charge from the old July 31 balance of \$1,000. You got the Corrected Current Running Balance by subtracting the amount of the bank charge from the old August 22 balance of \$235.

When you write in the Corrected Month Ending Balance for July and the Corrected Current Running Balance for KB, DC and GC, you will have reconciled this trust account.

These steps are particularly important since you may have written a client trust account check based on an erroneous balance shown on one or more of your written records. If, at some point in the future the State Bar asks you about the issuance of that check, you can respond by showing that it was an isolated mistake in posting an entry; and that you found and corrected the entry when you reconciled the account.

Now clip all the pages that relate to the reconciliation process together (all three forms, any attached pages, and any adding machine tapes) and file them away.

Afterword

If you've read all the way through this handbook, you should now know everything you need in order to properly receive, pay out and account for money you hold for your clients. However, your professional responsibility isn't to know client trust accounting, it's to do client trust accounting. There are three final points without which your best efforts to properly account for your clients' money will be in vain:

1. Set up a complete client trust accounting system;
2. Consistently and rigorously follow your client trust accounting system; and
3. Don't rely on others to do your client trust accounting. It's your responsibility.

Appendix 1

List of Participating IOLTA Financial Institutions

Neither the State Bar of Nevada nor the Nevada Bar Foundation has made any determination regarding the financial institutions on this list, other than the criteria established by Supreme Court Rule 217. By creating and posting this list, neither the Nevada Bar Foundation nor the State Bar of Nevada expresses any opinion regarding the wisdom of depositing funds with a particular financial institution on the list. No warranty, representation or guaranty as to the financial soundness, business practices, insurance coverage, if any, or other attributes of any financial institution is intended. Each attorney should exercise reasonably prudent business judgment in selecting a financial institution from this list for the deposit of IOLTA funds.

Thank you to the following Nevada financial institutions who pay a favorable rate on IOLTA accounts to help fund legal aid which helps to deliver access to justice for Nevada's low income population.

- American First National Bank
- Bank of America
- Bank of George
- Bank of Nevada
- Bank of the West
- BMO Harris Bank
- Citibank
- City National Bank (merged with Sun West Bank, acquired Nevada Commerce Bank)
- East West Bank
- Financial Horizons Credit Union
- First Foundation Bank
- First Independent Bank of Nevada
- First Savings Bank
- First Security Bank of Nevada
- Heritage Bank
- JPMorgan Chase & Co.
- Kirkwood Bank of Nevada
- Meadows Bank
- Mutual of Omaha
- Nevada Bank & Trust
- Nevada State Bank
- Northern Trust Bank
- Pacific Premier Bank (formerly Plaza Bank)
- Plumas Bank
- Royal Business Bank
- Silver State Schools Credit Union

- Town and Country Bank
- Umpqua Bank
- US Bank*
- Valley Bank of Nevada (BNLV)
- Washington Federal
- Wells Fargo

**This is a participating financial institution, but is no longer accepting new IOLTA accounts.*

Appendix 2

Model Forms

CLIENT LEDGER CLIENT: DS CASE#: _____					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	REMAINING BALANCE

ACCOUNT JOURNAL CLIENT TRUST BANK ACCOUNT NAME: _____					
DATE	SOURCE OF DEPOSIT	PAYEE, # & PURPOSE	CHECKS (SUBTRACT)	DEPOSITS (ADD)	REMAINING BALANCE

OTHER PROPERTIES JOURNAL

CLIENT/CASE #	ITEM	DATE RECEIVED	DATE DISBURSED	DISBURSED TO

FORM ONE: CLIENT LEDGER BALANCE

RECONCILIATION DATE:
CLIENT TRUST BANK ACCOUNT NAME:
PERIOD COVERED BY BANK STATEMENT:

Client

Client Ledger Balance

TOTAL CLIENT LEDGER BALANCE:

MONTH ENDING ACCOUNT JOURNAL BALANCE:

TOTAL MISTAKE CORRECTION ENTRIES (+ or -):
(From Form Two)

ADJUSTED MONTH ENDING ACCOUNT JOURNAL BALANCE:

FORM TWO: ADJUSTMENTS TO MONTH ENDING BALANCE**RECONCILIATION DATE:****CLIENT TRUST BANK ACCOUNT NAME:****PERIOD COVERED BY BANK STATEMENT:****A. DEPOSITS AND WITHDRAWALS NOT POSTED ON BANK STATEMENTS**

UNCREDITED DEPOSITS		UNDEBITED WITHDRAWALS	
Date	Amount	Date	Amount
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTAL:	_____	TOTAL:	_____

B. DEPOSITS AND WITHDRAWALS NOT POSTED ON BANK STATEMENTS

DATE	AMOUNT		NET MISTAKE (+ OR -)
	Additions	Subtraction	
_____	_____		_____
_____	_____		_____
_____	_____		_____
_____	_____		_____
_____	_____		_____
_____	_____		_____
TOTAL MISTAKE CORRECTION ENTRIES:			_____

FORM THREE: RECONCILIATION

RECONCILIATION DATE:

CLIENT TRUST BANK ACCOUNT NAME:

PERIOD COVERED BY BANK STATEMENT:

ADJUSTED MONTH ENDING BALANCE

(From Form One)

MINUS TOTAL BANK CHARGES

(From Bank Statement)

PLUS TOTAL INTEREST EARNED

(From Bank Statement)

CORRECTED MONTH ENDING BALANCE

(Total)

MINUS UNCREDITED DEPOSITS

(From Bank Statement)

PLUS UNDEBITED WITHDRAWALS

(From Bank Statement)

RECONCILED TOTAL:

BANK STATEMENT BALANCE:

Appendix 3

What To Do When the Reconciled Total and the Bank Statement Balance Don't

Exactly Match

If, after you've filled out Forms One, Two and Three, the Corrected Month Ending Balance for the client trust bank account doesn't exactly match the balance the bank statement shows for the account, it means that either your records are wrong or the bank's records are wrong. Follow the steps detailed below until you find the mistake; when you find it, go to Correcting the mistake.

Subtract the Bank Statement Balance from the Corrected Month Ending Balance so you know exactly what the difference is. If there's only one mistake, knowing this number will help you recognize it. If there's more than one mistake, knowing this number will ensure that you don't stop looking too soon. Remember that until the whole difference is explained, you have to keep looking for mistakes.

Check your copying. In preparing the Reconciliation form, you may have copied numbers from the Adjustments to Month Ending Balance form incorrectly. That's the easiest mistake to detect, so first check to see that you copied those numbers correctly.

Check your math. You probably did a lot of adding and subtracting to get those numbers, so check your math. (This step will be quicker if you kept an adding machine tape or other clear written record of your calculations.)

Check each uncredited deposit and withdrawal you listed. Go back through the account journal and, using the date on the Adjustments to Month Ending Balance form, find each unposted deposit and withdrawal you listed, and check to make sure you copied it correctly onto the form. Make a light pencil mark on the form next to each item after you've made sure it's right, so you don't miss any.

Next, go through the account journal and make sure that every uncredited deposit and undebited withdrawal has been listed on the Adjustments to Month Ending Balance form. Since you marked every entry in the account journal that you found on the bank statement, this process should be easy. Go back at least two months; you may have missed an old check that was never deposited.

Compare the bank statement to the account journal and make sure that you have correctly marked all the items that had been credited. You may have incorrectly marked an entry as credited in the account journal that wasn't on the bank statement. Go through the bank statement item by item, and in the account journal put a clear additional mark next to every entry that matches the bank statement. When you're done, make sure that every item for the month you're reconciling has two marks: the one you put when you first prepared the Account Journal Balance form, and the one you just put next to every item you verified.

Get last month's Adjustments to Month Ending Balance form and check the unposted deposits and withdrawals against the current month's bank statement. If you successfully reconciled your client trust bank account last month, any mistake must have happened in this month's records. Take out last month's Adjustments to Month Ending Balance form and compare the list of uncredited deposits and undebited withdrawals to this month's bank statement. With a light pencil mark, check off all the items in last month's list of unposted transactions that show up on this month's bank statement. Any that aren't checked off are still unposted; therefore, they should be listed on this month's Adjustments to Month Ending Balance form. Make sure they are.

Call in a bookkeeper. You have now gone through all of the steps necessary to check your own records. The mistake is in there, but the chances are that you aren't going to find it. It's also possible that the difference between the reconciled balance and the bank statement balance is caused by something you can't find this way. Don't waste any more of your valuable time hunting; call in a professional.

Correcting the mistake. If the mistake is on the bank statement, write a note on the bank statement that clearly explains the mistake, then contact your banker and tell them to correct their records. Then go back to Form Three, put a line through the Bank Statement Balance (making sure that the original number is still legible) and write in the corrected Bank Statement Balance, which should be exactly the same as the Corrected Month Ending Balance above it.

If the mistake is in your records, correct it in the account journal and appropriate client ledgers using the same mistake-correction processes described above. Like all mistake correction entries, these must be entered twice in both the account journal and the client ledger for the client on whose behalf you deposited or paid out the money: once above the Corrected Month Ending Balance line, and once after the latest entry.

After you correct the mistake in your client ledger and account journal, record it on Form Two under Mistake Correction Entries and change the Total Mistake Correction Entries on Form Two. Then go back to Form One, write in the new Total Mistake Correction Entries and new Adjusted Month Ending Account Journal Balance. Then go to Form Three, write in the new Adjusted Month Ending Balance, the new Corrected Month Ending Balance and the new Reconciled Total. If you make so many corrections that the numbers are getting hard to read, rewrite the form.