

Getting Started

“If I were any good with numbers, I wouldn’t have gone to law school.”

“If I don’t have a client trust account, I won’t get into trouble with the Bar.”

Sound familiar? Trust accounting may seem a daunting topic for a number of reasons. You may feel anxious about the idea of being solely responsible for safeguarding other people’s money in your trust account. You may feel mathematically challenged when reviewing accounting reports or performing bookkeeping duties. You may even feel that the risk of doing something wrong and getting disbarred outweighs any benefit of getting money up front from clients.

All these feelings may become intensified during tough economic times, especially if you open your own law firm soon after becoming admitted to practice law. This was my experience in 2000, when I was admitted to the Oregon State Bar and the next day opened my law office and my IOLTA trust account. I haven’t forgotten what those early days felt like. It doesn’t matter how much experience you have practicing law or managing another type of business, opening a law practice, and becoming responsible for a trust account just seem fraught with peril.

This book is here to help this be less perilous for you. Since 2005 I have worked for the Oregon State Bar Professional Liability Fund as a practice management advisor, helping many lawyers understand how to fulfill their ethical duty to safeguard client and third-party property by

properly setting up trust accounts and implementing best practices for managing them. By writing this book I hope to help you, too.

My goal is to explain this information simply and clearly so you will have less stress in setting up and managing your trust account and more enjoyment in running your own law firm. I hope you will mark up this book, so go ahead, gather your highlighters, pens, and Post-it flags, and let's begin.

Who Should Read This Book?

This book can serve as a quick overview and monthly go-to resource guide for lawyers and their staff who assist them in managing a trust account; for law professors and their students in a professional responsibility course during their discussions on handling a trust account; and for ethics counsel helping lawyers fulfill their ethical obligations to properly handle their trust account. To make this book relevant to the widest group of readers, we will look at both the American Bar Association Model Rules of Professional Conduct and the Federation Model Code of Professional Conduct from the Federation of Law Societies of Canada as general guidelines. Readers should treat the information in this book as a general overview and seek the relevant guidelines where they will practice.

In the field of law, trust accounting is an important topic, though the demands of mastering law as a profession and a business mean that there is limited time available for studying it. This book can become a valuable addition to your law library because it is one of the ABA Law Practice Division books in the One Hour for Lawyers series designed for today's busy law offices.

Understanding Your Ethical Obligations

To properly manage your trust account, you will need to be concerned with certain ethical obligations that are part of your jurisdiction's rules

of professional conduct. We will focus on the American Bar Association Model Rules of Professional Conduct and the Federation Model Code of Professional Conduct from the Federation of Law Societies of Canada here, but you should consult the rules in your jurisdiction, as there may be additional or even different requirements that you must comply with.

Because fulfilling your ethical obligations is the foundation for properly managing your trust account, we will start with this topic in Lesson 1, on ethical obligations.

The prime ethical obligation is to properly safeguard the property belonging to your client or other third parties. In Lesson 2, we will look at safeguarding property.

Because this book's chief focus is trust accounting, in Lesson 3, we will review types of trust accounts, and in Lesson 4, we will look at the IOLTA program.

Day-to-Day Management of Your Trust Account

You do not need to understand any complicated accounting topics to properly manage your trust account or even to prepare accurate reports for your clients and other third parties.

You will be exposed to certain basis accounting concepts if you use an accounting program to handle your trust account. For example, you will want to know what a chart of accounts is and the difference between the accrual basis and cash basis of recordkeeping. In looking at available financial reports to generate, you will want to know about the income statement, balance sheet, and cash flow statement. In Lesson 5, we will cover accounting basics. For a more in-depth understanding of accounting, you will want to take a continuing legal education (CLE) class, read an accounting book, or consult an informative website such as accountingcoach.com.

Technology is very helpful with managing your trust account, and you will most likely buy software for this purpose. You will quickly see that the software can also track your general business account, so you will want to manage your law firm's business checking account with this same program. Before you know it, not only can you set up reports for tracking each subaccount for clients and third parties, but you can also generate helpful accounting reports that enable you to more effectively manage your law practice. Reports that would take hours for you to compile by hand are generated with a few clicks of the mouse and just as quickly printed on paper or as a PDF document and saved electronically in your report folders. In Lesson 6, we will cover technology for trust accounting.

To properly manage your trust account on a day-to-day basis, you will need to know how to open it and how to set up the subaccounts to track the funds that individual clients and others have entrusted to you. We will look at these topics in Lesson 7.

Proper management of your trust account will require you to know how to reconcile your trust account's monthly bank statement with your trust account checkbook register or journal of transactions and the individual transaction reports of each client subaccount on a consistent basis. These topics are discussed in Lesson 8.

You have an ethical obligation to report about funds you hold in your trust account. In Lesson 9, we will go over providing reports to clients and third parties.

Finally, you will need to know how to close your trust account when you no longer need to have one, whether this is because you are leaving the private practice of law or are joining an existing firm that has its own trust account. In Lesson 10, we will cover closing a trust account.