



The State Bar *of California*

# Client Trust Account Protection Program: A First Look at the Data

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Board of Trustees, May 18–19, 2023

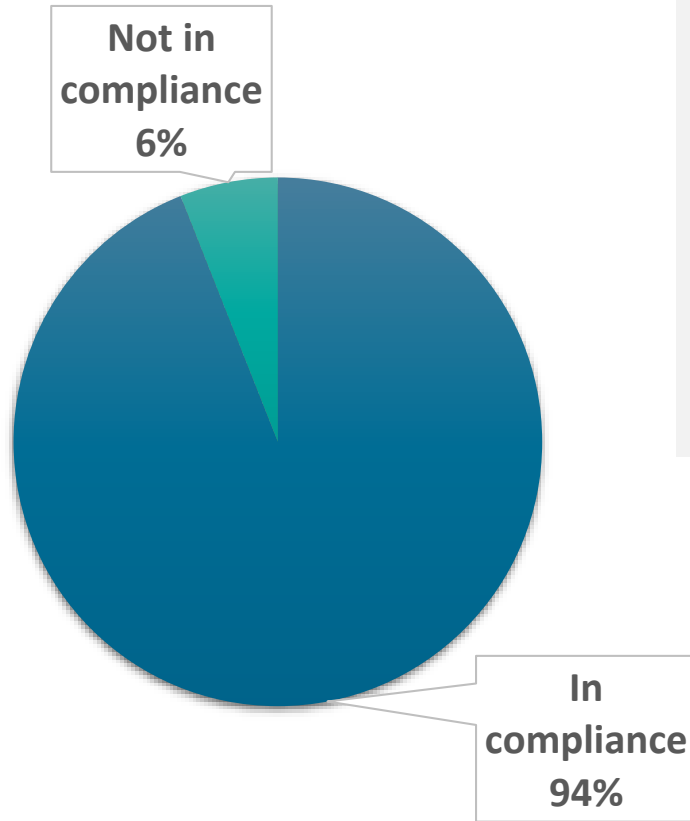


# Background

- Recommended by Committee on Special Discipline Case Audit
- Annual Reporting and Registration of Trust Accounts
  - IOLTA
  - Non-IOLTA CTA
- Annual Self-Assessment



# Attorneys Compliance with CTAPP Reporting

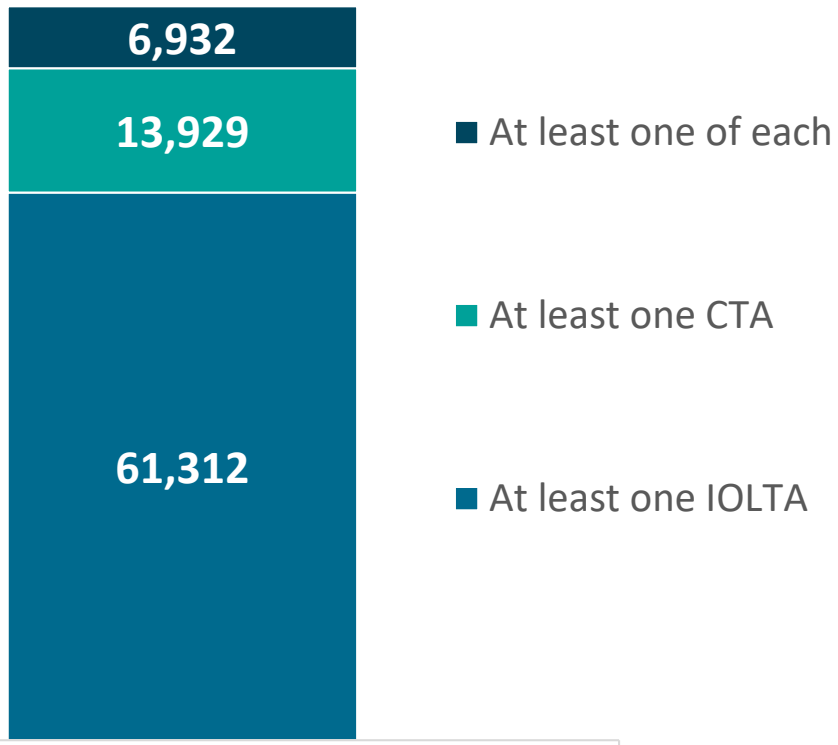


- 202,415 attorneys were required to complete CTAPP reporting this year.
- As of April 14, 2023, approximately 94% had done so.



# Attorneys Reporting IOLTA and CTA Accounts

82,173 attorneys reported maintaining at least one IOLTA or CTA account

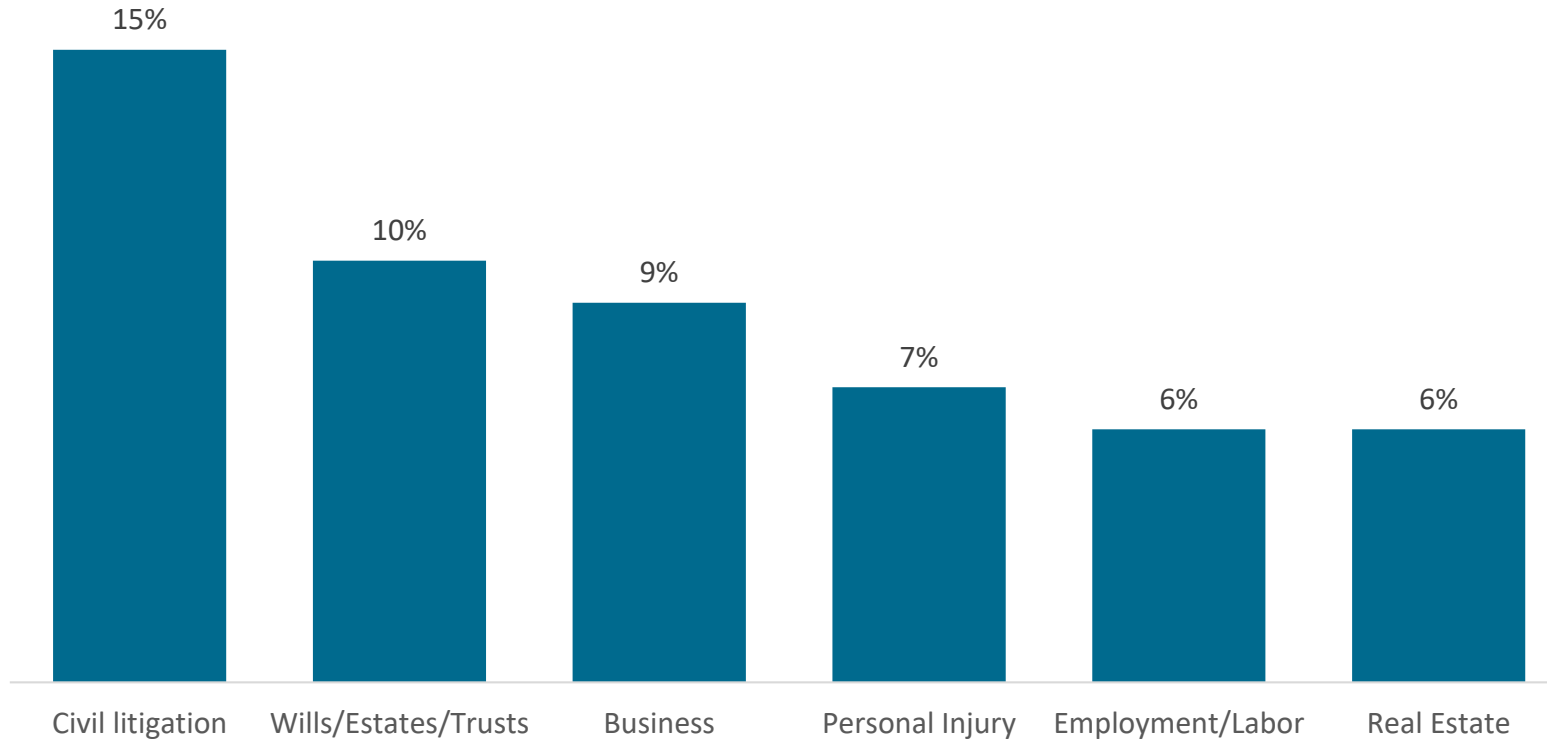


- The majority of attorneys that reported maintaining an IOLTA or CTA account reported at least one IOLTA.



# Top 6 Practice Areas of Attorneys Reporting IOLTA/CTA

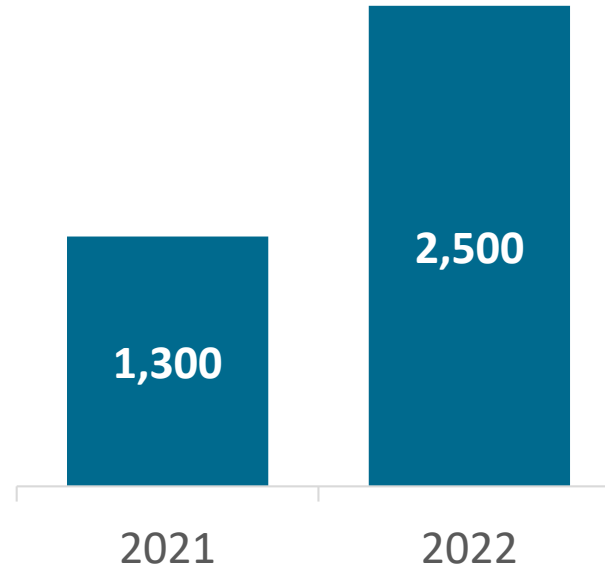
Over half of all attorneys reporting IOLTA/CTA practice in these areas



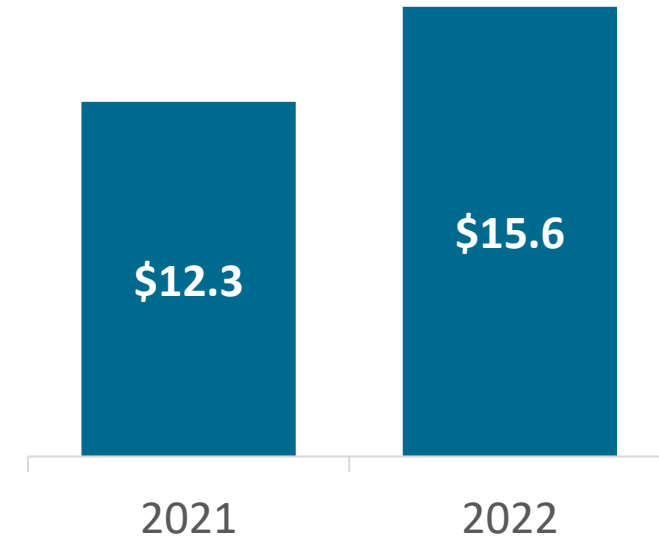
# Trends in IOLTA Accounts

- Attorneys are holding greater amounts of clients' funds in IOLTA accounts.

Number of IOLTA Accounts with Balances Greater than \$1M

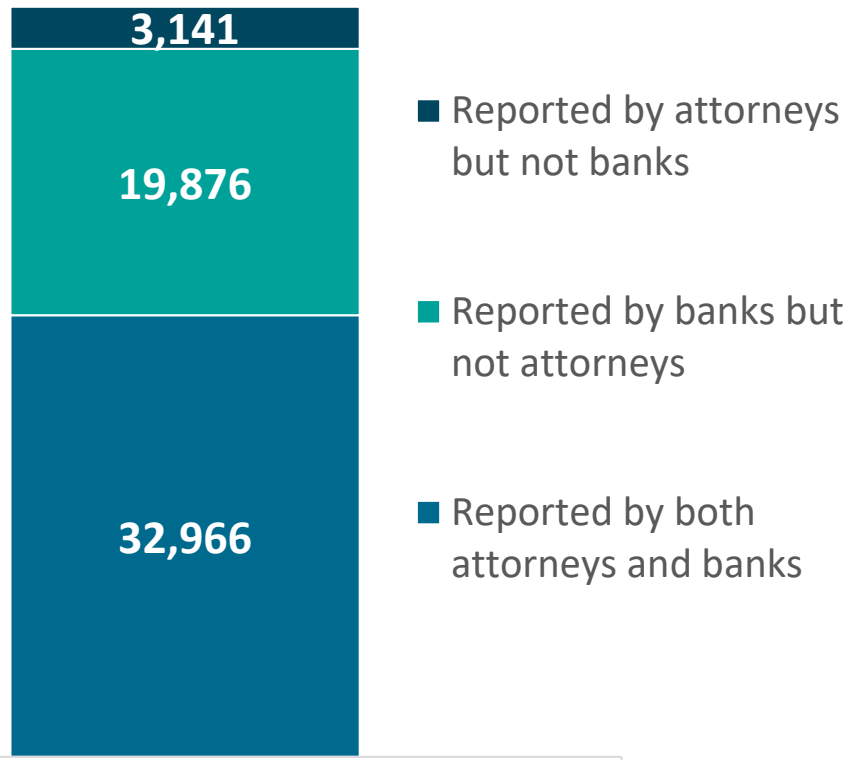


Average Daily Balance of IOLTA Accounts (in billions)



# IOLTA Accounts

**55,983 unique IOLTAs were reported to the State Bar by both attorneys and banks.**



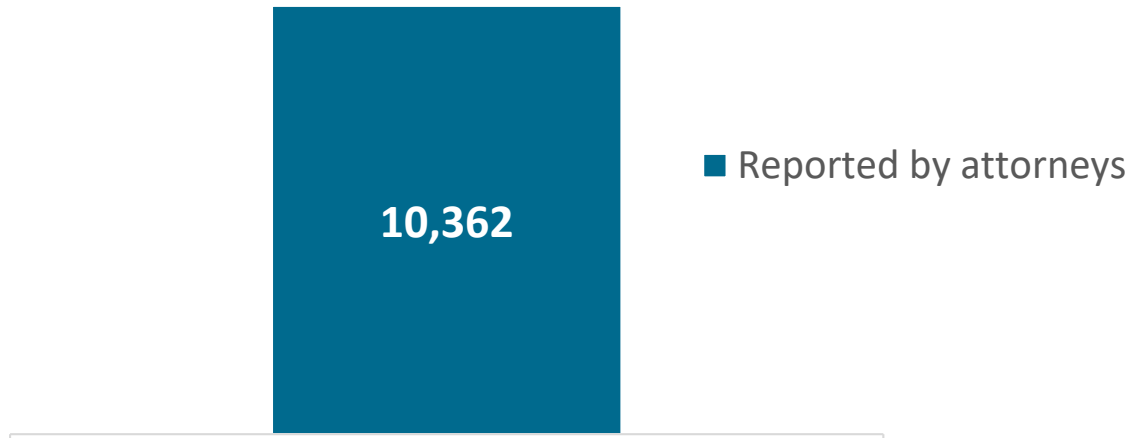
- Bank reporting of IOLTA accounts is generally reliable and part of their IOLTA Program remittance reports.
- The 19,876 IOLTA accounts reported by banks but not attorneys are very likely active and open IOLTA accounts.
- The 3,141 IOLTA accounts reported by attorneys but not banks are likely the result of registration errors (incorrect account numbers or account types).

*Note: the number of unique IOLTA accounts is lower than the number of attorneys who reported at least one IOLTA account (61,312) because many IOLTAS are shared by more than one attorney.*



# CTA Accounts

10,362 unique CTAs were reported to the State Bar by attorneys



- Banks do not report information about individual CTAs to the State Bar.
- However, it is very likely there are thousands of individual CTAs not reported by attorneys (as is the case with IOLTA accounts).





# Limitations and Next Steps

## **Analyses suggest that more attorneys are registering IOLTA accounts**

- Attorneys began reporting IOLTAs in 1982 but were not required to confirm account registration on a regular basis prior to the implementation of the CTAPP program.
- However, approximately 33,000 IOLTA accounts reported by attorneys post-CTAPP matched to bank reports compared with 40,200 accounts over the previous 40-year period.

## **Efforts to reconcile attorney vs. bank reported IOLTAs revealed key learning points.**

- There are open IOLTAs held by disbarred, resigned, or inactive attorneys, judges, and never licensed in CA.
- There is no mechanism in place for banks to learn if an attorney's license status has changed other than directly from the attorney.



## Limitations and Next Steps

- Bank reporting of IOLTA accounts only includes account number which inhibits our ability to confirm compliance.
  - Staff will request change to rule 6091.1 to require banks to include attorney name and license number.
- Follow-up with Noncompliant Attorneys
- Implement Phase II of CTAPP



## Next Steps (cont'd)

- Practical CTA Training

FIRM RECORDS - ACCOUNT BALANCES		
1	1. TRUST ACCOUNT JOURNAL BALANCE..... <div>Does each entry contain the information required by Standard (1)(b), adopted pursuant to rule 1.15(e)? (client name, date, amount, payor/payee, current balance) (Y/N) <input type="text"/></div>	<input type="text"/>
2	2. TOTAL OF ALL INDIVIDUAL LEDGER BALANCES	
	A. Total Individual Client Ledger Balances, including all undisbursed funds pursuant to rule 1.15(c)(2).....	<input type="text"/>
	Do any client ledgers have a negative balance? (Y/N) <input type="text"/>	
	— If yes, attach an explanation, including any corrective action taken.	
	Does each entry contain the information required by Standard (1)(b), adopted pursuant to rule 1.15(e)? (date, amount, payor/payee, purpose, current balance) (Y/N) <input type="text"/>	
	— If no, attach an explanation, including any corrective action taken.	
	B. Total Firm Funds in Trust Account .....	<input type="text"/>
	In compliance with rule 1.15(c)(1), are the firm funds in the account no more than reasonably sufficient to pay bank charges? (Y/N) <input type="text"/>	
	TOTAL #2 (A+B) (automatically calculated) .....	= \$ <input type="text"/>
BANK ACCOUNT RECONCILIATION		
3	3. RECONCILED BANK BALANCE	
	A. Bank Account Ending Balance .....	<input type="text"/>
	B. Add In-Transit Deposits (total deposits made to the account through the end of bank statement period, but not reflected on bank statement) .....	+ <input type="text"/>
	C. Less Outstanding Disbursements (checks and other disbursements made through the end of the bank statement period, but not reflected in bank statement) .....	- <input type="text"/>
	TOTAL #3 (A+B-C) (automatically calculated) .....	= \$ <input type="text"/>
DO TOTAL BALANCE OF 1, 2 and 3 AGREE? (Y/N) <input type="text"/>		
— If no, your account is not reconciled. Identify the error(s) and re-reconcile the account.		

