

LAWPAY[®]

A Guide to Ensuring IOLTA Account Compliance



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Introduction

Properly setting up and managing IOLTA accounts helps prevent the risk of being disbarred and ensures your current and prospective clients can trust your firm with their funds throughout their case.

However, between commingling prevention and client ledger/reconciliation management, the process can be confusing and cumbersome—especially since your time is already limited.

In this e-book, we'll guide you through the proper management of IOLTA accounts to help ensure your firm is in full compliance at all times. This includes a general overview of IOLTA account management, key tips for starting and managing these accounts, and how LawPay can help your firm ensure compliance.



IOLTA Account Overview

Let's start by giving a general overview of IOLTA accounts to understand the basics of running them.



1. Every Lawyer Needs to Operate a Trust Account

A trust account is a special bank account that houses money on behalf of your clients or third parties—this is separate from your firm's operating bank account. While receiving or handling unearned client funds, a trust account must be opened to house this money until it is earned.



2. There is No Difference Between an Attorney Trust Account and an IOLTA Account

There is generally no difference between these two account types. IOLTA, which stands for "Interest on Lawyer Trust Accounts" represents a program (created by your state) that authorizes the bank to send any interest developed in trust accounts to a state program—typically philanthropic causes or pro bono activities.



3. You May Be Able to Use Any Bank When Starting a Trust Account

Typically, the bank must participate in your state's IOLTA program. Before starting a trust account, confirm the bank is a "qualified" institution.



4. Only Client Funds Go Into and Out of a Trust Account

Never mix operating costs or personal funds within a trust account. To prevent commingling, only unearned client funds go into trust accounts. As work is completed, your firm can then withdraw funds from the trust account.



5. Follow the Correct Procedure When Putting In and Taking Out Money from an Attorney Trust Account

You are responsible for proving that funds were properly deposited and distributed. Therefore, your firm must keep records of all activities including the deposit date, amount, and withdrawal activities of trust accounts. To cover all your bases, also track the purpose of each deposit and withdrawal.



6. Properly Handle all Client Trust Account Disputes

If you receive a client dispute on the trust account money you desire to draw from, only the disputed portion needs to remain in the trust account until the matter is resolved.

Managing an IOLTA Account and Ensuring Compliance

Now, we'll uncover how to properly set up an IOLTA account to help your firm stay compliant and earn client trust. Please note that many state bars commonly require the information below. Be sure to visit your state bar's website for specific requirements.



1. Setup Your Trust Account Through a Bank

Each state's bar determines which banks you can use to set up a trust account. Below are some common bank requirements:

- Open a bank with a physical location within your state
- The bank must automatically report any overdrafts to the state bar
- Any interest earned on trust accounts must be sent from the bank directly to the state bar
- The bank must provide copies of canceled checks—either physically or digitally (copies that are digital-only must be maintained for a certain period of time, which is usually six years)

Most state bars require the bank account to be titled a "Trust Account." In addition, special business-sized blank checks must also be ordered with "Trust Account" printed on them.



2. Arrange A Recordkeeping System

To remain compliant, you'll need to implement a recordkeeping system to track each client's funds deposited and withdrawn from your trust account. This process involves keeping an organized record of all receipts and payments for each client, such as bank statements, instructions/authorizations from clients, and quarterly and monthly reconciliation records.

Additionally, all client funds must be properly segregated from each other. For example, you cannot use Client A's money to pay for Client B's obligations. This process can be performed via a paper log or electronic spreadsheet, but preferably through a software tool, like LawPay, designed for trust accounting.



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3. Generate Trust and Client Ledgers

As a part of your recordkeeping compliance requirements, you'll need to generate a trust ledger and a client ledger. The former contains a big-picture view of transactions flowing in and out of your trust account, while the latter showcases a more granular view of transactions for each client.



4. Prepare A Reconciliation Process

To ensure that deposits and payments are managed adequately for trust accounts, you'll need to complete a three-way reconciliation process, which includes:

- Your trust bank account
- Your trust ledger
- Your client ledgers

Three-way reconciliation is a compliance requirement that helps ensure the sum of all client ledger balances always matches your trust ledger and trust bank account activity. State bars typically require this report to be completed either monthly or quarterly.



With LawPay, you can ensure your internal trust accounting records match the activity/transactions in your bank account with built-in three-way reconciliation.

Easily Operate IOLTA Accounts and Build More Client Trust with LawPay

Unlike generic processors, LawPay is a solution built specifically for lawyers and understands the rules they must follow when accepting client payments. With LawPay, you can easily and quickly receive payments from clients with online pay options—while correctly separating earned and unearned fees and protecting your trust account against third-party debiting. Additionally, you can ensure your internal trust accounting records match the activity/transactions in your bank account with built-in three-way reconciliation.

Schedule a Demo with LawPay

The best client service begins with trust, and with LawPay, you'll have access to decades of expertise and knowledge in managing and complying with IOLTA accounts. You'll be able to manage complex trust accounting and reconciliation processes easily, and if you have any questions, our support team is available to help. That's why LawPay is trusted by over 150,000 lawyers and vetted and approved by the ABA and all 50 state bars.

Take the stress out of trust account management today and ensure that your firm is in compliance.

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