

Client Trust Accounting using QuickBooks Online (1.5 CLE Credits, including 1.0 Hours Ethics):

Presenters:

- Ryan A. Brown, Esq., Arlington Law Group
- Brian Wendroff, CPA, Wendroff & Associates, LLC

Outline:

1) Introduction

- a. Presenter introduction
 - i. Ryan A. Brown, Esq., Arlington Law Group
 - ii. Brian Wendroff, CPA, Wendroff & Associates, LLC
- b. Agenda for Trust Accounting Using QuickBooks Online Seminar
 - i. Intro to QuickBooks Online
 - ii. Virginia State Bar Trust Accounting Requirements
 - iii. Maintaining Trust Accounting Compliance Using QuickBooks Online
 - iv. Top 3 Trust Accounting Errors and How to Avoid/Fix Them (Rule 1.15 Violations)

2) Intro to QuickBooks Online – 5 minutes

- a. QuickBooks Online vs. QuickBooks Desktop
 1. QuickBooks Online
 - a. Allows access to the accounting system as long as there is Internet. It is on the cloud. (I.e. Online Banking, Email)
 - b. You can have up to 25 users on it at any time including an accountant user.
 - c. It is backed up hourly on Intuit's Server.
 - d. It updates automatically.
 - e. You can push customized reports via email.
 - f. Can be viewed with I-phone, Android, Blackberry or Ipad.
 - g. Unlimited client support.
 2. QuickBooks Desktop
 - a. Internet access not required to us
 - b. Additional reporting features.
 - c. Additional customization features.
 - d. Additional third party applications available.
 - e. Desktop product is usually cheaper if you don't update the software each year.
- b. Security, and compliance with client confidentiality requirements under Rule 1.6
 - i. Following Rule 1.6(a), which states that "[a] lawyer shall not reveal information...that the client has requested be held inviolate or the disclosure of which would be embarrassing or would be likely to be detrimental to the client,"
 1. It is important take extra precautions to ensure client's trust accounting information will be kept confidential.

- ii. Using a product such as QB Online is permissible under Rule 1.6 (b)(6), which states that “[t]o the extent a lawyer reasonably believes necessary, the lawyer may reveal information to an outside agency necessary for statistical, bookkeeping, accounting, data processing, printing, or other similar office management purposes, provided the lawyer exercises due care in the selection of the agency, advises the agency that the information must be kept confidential and reasonably believes that the information will be kept confidential.”
 - 1. In addition to the standard internet security such as encryption, password protection, and firewalls, to meet the standard of due care in the selection of the agency mentioned in Rule 1.6, you should carefully examine the terms and conditions as well as the security safeguards of the agency you intend to use.
 - 2. It is reasonable to believe that your client’s trust accounting information will be kept confidential using QB Online because:
 - a. Data is protected with the same encryption technology that the world’s top banks use.
 - b. Data is located in Intuit’s data center monitored 24 hours a day and 7 days a week.
 - c. You create accounts for each user that requires a password and can give each user certain permissions to work on or view information
- c. Costs and Fees
 - i. QuickBooks Online - Three Platforms
 - a. Simple Start – 12.95/Month – Create invoices, checks, basic financial reports.
 - b. Online Essentials – 26.95/Month – Does what Simple Start does, download bank and credit card transactions and provides more reporting.
 - c. Online Plus – 39.95/Month – Does what Online Essentials does, plus has inventory management, time tracking and budgets.
 - ii. QuickBooks Desktop – Two Most Common Platforms
 - a. QuickBooks Pro - \$229.95 (QB Website) - Create invoices, checks, financial reports, can attach external documents (PDF, Word, etc.) to file and downloads bank and credit card transactions.
 - b. QuickBooks Premier (Industry Focused) - \$399.95 (QB Website) – Does everything QuickBooks Pro does as well as provides more industry focused reports (I.e. General Business, Contractor, Retail, Nonprofit, etc.), job costing, and allows you to track time and expenses by employee, project, client or service & create an invoice
 - c. Recommend updating every 3 years since phone assistance is not supported for software older than 3 years and there updates that usually enhances the software capabilities.

2. WendroffCPA is a QuickBooks Pro-Advisor and we can get you a 20% discount.

d. Bottom Line

i. QuickBooks Online

1. Works well if multiple users are on it that are not in the same office or they are mobile (business owners, office manager/bookkeeper, accountant, etc.)
2. More seamless management, is updated and backed up automatically every hour and stored in two separate hard drives.
3. It offers seamless access, can be viewed anywhere as long as there is Internet and even on your smart phone or Ipad.

ii. QuickBooks Desktop

1. Does not require internet connection to access accounting file. The data is on your computer and you have control over it.
2. There is no monthly fee.
3. There are more customization and reporting features since the software has been out longer than QuickBooks Online.

3) Review of Trust Accounting Requirements from the Virginia State Bar – 15 minutes

- a. In 2011, there were Amendments to the original Rule 1.15 adopted January 1, 2000, but the rule remains largely the same. To make the rule more easily understood, the rule's language was simplified and the portions regarding the Financial Institutions duties were redacted and instead incorporated into the Trust Account Notification Agreement.

b. Overview of Rule 1.15: Safekeeping Property

- i. Section (a) of Rule 1.15 discusses the how lawyers or law firms who receive funds or hold funds on behalf of another should properly store the funds. Specifically, this section mandates that a trust account at a financial institution approved by the Virginia State Bar or safe deposit box be used. A 2011-2012 Proposed Virginia Rule Change would add language to clarify that all funds held by a lawyer on behalf of others must be held in a trust account, while other property should be held in a safe deposit box or other place of safekeeping. The only funds that a lawyer or law firm can deposit along with funds held or received for another are funds to pay charges or fees of the financial institution or funds for which ownership is currently in dispute (could be between the lawyer and the client). Once the dispute is resolved, if funds were awarded to the lawyer, the lawyer should remove those funds from the other stored funds as soon as possible.
- ii. Section (b) of Rule 1.15 lays out five duties for safekeeping property.
 1. First, a lawyer should notify the client that the lawyer has the property in the lawyer's possession.
 2. Next, the lawyer should identify and label the property so that it is not confused with others' property.

3. Third, the lawyer should keep a record of all of the property being held by the lawyer and should give each client accountings so that they are aware of the status of their property.
 4. Fourth, if the client is entitled to receive the property and requests that it be returned, a lawyer should promptly return the property.
 5. Finally, a lawyer should never disburse funds or use property of a client or third party without their consent, unless they've been directed to do so by a tribunal.
- iii. Section (b) laid out the duty for a lawyer to keep records of the property being held, and Section (c) details out the record-keeping requirements.
1. Subsection 1 requires that a lawyer keep cash receipts and disbursements journals for each trust and lays out the requirements for recording each transaction.
 2. Next, Subsection 2 requires a lawyer to keep a subsidiary ledger that contains a separate entry for each person or entity from whom money was received, with specific information, which is detailed in Subsection 2, recorded in each entry.
 3. Subsection 3 discusses the requirements for lawyers who hold property as a fiduciary, including an annual summary of all receipts and disbursements and changes in assets.
 4. Finally, Subsection 4 dictates that all records should be held for 5 calendar years after the termination of the representation or fiduciary responsibility.
- iv. Section (d) incorporates all of the rules from Sections (a)-(c), but adds minimum procedures dealing specifically with Trust Accounts, such as insufficient fund check reporting, depositing trust funds intact, monthly and quarterly reconciliations, and a requirement that adequate records and explanations be given to support trust fund receipts and disbursements.
- c. Bottom Line
- i. You need to keep track of each client's funds in a trust account. There needs to be a separate ledger for each client that shows money coming in and money going out as well as the purpose of the matter. When the legal service has been provided and/or the matter is closed, then the funds need to get out of the trust account. The trust account needs to be reconciled against the total of the subsidiary ledgers on a monthly or quarterly basis.

4) Maintaining Trust Accounting Compliance Using QuickBooks Online – 40 minutes

- a. QuickBooks Interface
 - i. Home Page
 1. Money in and money out
 2. Your recent transactions
 3. Customization
 - ii. Different Tabs
- b. Setting up specialized accounts

- i. Chart of Accounts
 - 1. What is the chart of accounts?
 - 2. Interest on Lawyers Trust Account (IOLTA) Bank Account – Bank Account
 - 3. Operating Bank Account – Bank Account
 - 4. Trust Liability Account – Other Current liabilities Account
 - 5. Clearing Account – Other Current Liabilities Account
 - 6. Legal Services – Revenue Account
- ii. Using Items in QuickBooks
 - 1. What is an Item in QuickBooks?
 - a. An item is a simple way to post transactions to the chart of accounts.
 - b. You use items when creating invoices
 - i. Example - 3 Types of legal services with different hourly fees posting to the legal services account.
 - b. Contract Review at \$250/hr – Legal Services Account
 - c. Trust - Trust Liability Account
- c. Creating memorized reports to comply with new Rule 1.15 requirements
 - i. REPORT 1: Trust liability ledger showing each client’s balance.
 - ii. REPORT 2: Trust liability ledger showing the showing incoming and outgoing transactions for the month as a total to assist with transferring money from IOLTA to Operating Bank Account.
 - iii. How to Automate Customized Reports.
- d. Specialized invoicing for services provided
 - i. Recognizing Legal Services earned and applying trust retainer against invoice
 - ii. Getting paid with credit cards and other payment methods
 - 1. Recommend credit card merchant company that separates the merchant fee from the client payment.
 - 2. Reimburse trust account for merchant fees.
 - 3. If you use ACH, make sure to notate that as the payment method.
 - iii. Recommend getting paid through the Intuit Payment Network
 - 1. Client can pay directly through the invoice you email them.
 - 2. You can accept credit card or bank payment.
 - 3. You can take in credit card payments through the phone.
- e. Writing checks to other organizations on behalf of clients
 - i. This is when you write checks for filing fees, expert witness fees, etc.
 - ii. Use a clearing account – Other liabilities when writing the check.
 - iii. Make sure to use memo box to explain what the check is for.
 - iv. Make sure to check off that the check is billable and choose the client the check relates to.
 - v. Create the invoice for the same date and choose the client. You will see an outstanding charge to use on the invoice.
 - vi. From there, you can send out the invoice to the client and ask for payment or use the payment that is in the trust from the client.

- vii. You can send the invoice to the client showing what the payment is for and it will show if money is owed or if money was taken from the trust to make the payment.
- f. How to credit invoices and refund clients
 - i. You can credit invoices for clients who think you should have not charged them for certain services.
 - 1. You can create credit memo and use the same method of using items in an invoice.
 - 2. You need to also need to re-deposit the money that you transferred from the IOLTA account to the operating account.
 - ii. Refunding the client
 - 1. If the money is still in trust, then you can cut a check from the trust account to the client by writing the check and choosing the trust liability account.
 - 2. If the money has already been earned, then you need to use the refund function in QuickBooks and choose the item that pertains to the original service that you provided (i.e. Contract Review).
- g. Transferring from IOLTA to operating bank account to comply with new Rule 1.15 requirements
 - i. Recommend transferring money from IOLTA to the Operating Bank Account on a daily to weekly basis.
 - 1. You can cut a check and use one line each for each client for the amount that has been earned for services rendered. The offsetting account would be the operating account.
 - ii. Use the REPORT 2: Trust liability ledger showing the showing incoming and outgoing transactions for the month as a total to assist with transferring money from IOLTA to Operating Bank Account.
 - 1. Dates are very important so make sure to use the correct date range to review how much money needs to be transferred from IOLTA to Operating.
- h. Example client, John Doe
 - i. Record sales receipt of payment in the Trust Liability Account for \$3,000 on 6/3/12.
 - ii. Pay for government filing fee of \$1,200 with check number 7 from IOLTA account.
 - iii. Send out invoice for Legal Services provided on 6/30/12 for \$1,800.
 - iv. If there was excess money owed, then there would be an outstanding amount in accounts receivable from the client.
 - v. Review subsidiary ledger for John Doe
- i. Accounting for bank fees and interest
 - i. Bank Fees

1. A lawyer may deposit enough of his/her own funds to cover bank charges made for the administration of the escrow account. A lot of banks do not charge fees since you don't keep the interest.
 2. Create a client called IOLTA Bank Charges and deposit money from operating account just like you would deposit money into the IOLTA account from a client.
 3. When a bank charges a fee, you then use the same client name to show the fee.
- ii. Interest
1. Create a client called VA IOLTA Interest and deposit money for interest earned. Use the Trust Liability Account to show where the deposit is going to and put Interest earned for month in the memo line.
 2. When the interest gets taken out, use the write check function and make sure to use the same client called VA IOLTA Interest as the payee. Use the Trust Liability Account to show where the deposit is going to and put Interest paid to IOLTA for month.
 3. Most of the time, you will see in the subsidiary ledger that these transactions offset each other.
- j. Reconciling IOLTA, AR and Trust Liability Accounts to comply with new Rule 1.15 requirements.
- i. Make sure the balance per the IOLTA Bank Account equals the Trust Liability Account.
 - ii. Reconcile on a monthly basis.
 - iii. VERY IMPORTANT – Password protect the accounting file for the prior month after you reconcile the IOLTA and Trust Liability Account.
 1. This is called closing the books and is a QBO function. This can prevent you from erroneously changing something in the past.

5) The Top 3 Trust Accounting Errors and How to Avoid/Fix Them to avoid Rule 1.15 Violations – 15 minutes

- a. Individual client's ledger has a negative balance.
 - i. HOW TO AVOID
 1. Make sure that the client has paid enough in the IOLTA account to take care of future expenditures.
 2. Closely monitor subsidiary ledger for clients and make sure you not overstating more than what is in their trust account on invoices being sent for legal services.
 - ii. HOW TO FIX
 1. Replenish account immediately from client if the amount is owed to the law firm.
 2. Revise invoice to accurately reflect amount left in the trust account. There should be an amount owed to you after this is fixed.
- b. IOLTA Bank Account doesn't reconcile with Trust Liability Account.
 - i. HOW TO AVOID

1. Close the books with a password for the prior month to you don't erroneous go in the past month and change something.
 2. Transfer money from the IOLTA account to the operating account as soon as a transaction occurs that requires this (i.e. fees earned, credit memo, etc.)
- ii. HOW TO FIX
1. Look for the most previous reconciled month and start from there to find out where the error may have arisen.
 2. Audit your subsidiary ledger and see if all of the client balances are correct. If they are, then you can either take out money from the IOLTA account or transfer to the Operating account or vice versa.
- c. Failure to maintain subsidiary ledger for client and use memo line in check disbursements and invoices.
- i. HOW TO AVOID
1. Start from the beginning using QuickBooks, develop disciplined accounting procedures and use customized reports as spoken earlier.
 2. Make sure to use consistent client names. Just changing one letter in a client's name could make you have two subsidiary ledgers for the same client.
 3. Make it a habit to write in the memo line the purpose of what the transaction is for and what other factual information needs to be put there such as a check number.
- ii. HOW TO FIX
1. Reconcile the subsidiary ledger by audit each client and making sure that is their true balance.
 2. If you have two clients in QuickBooks that relates to the same client, you can Merge them by changing one of them to the same name as the other. It will merge all of their data.
 3. Work with an accounting firm like ours that works with law firms in developing customized solutions that are compliant with Rule 1.15


6) Q&A – 15 minutes



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Arlington Bar Association


Business Tools Series
Trust Accounting Using QuickBooks Online



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Wendroff & Associates, CPA
Today's Presenters


 <p>Brian Wendroff, CPA Managing Partner WendroffCPA</p>	 <p>Ryan A. Brown, Esq. Managing Partner Arlington Law Group</p>	 <p>Darren Wendroff Communications WendroffCPA</p>
<ul style="list-style-type: none"> •Firm Founder •Board Member at Virginia Society of CPAs Nova Chapter •Staff Accountant at International Accounting Standards Board in London •George Mason University Graduate 	<ul style="list-style-type: none"> •Founder and managing partner of Arlington Law Group. •Practice areas include Trusts & Estates, Small Business, Computer and Internet Law •Former Arlington County Bar Association Member 	<ul style="list-style-type: none"> •Former Editor at Men's Health Magazine •Founder of BJDMedia, Online Communications Firm •In charge of all Wendroff CPA Communications Initiatives



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Wendroff & Associates
Specialized Services

- **Full Service Business Accounting Firm**
 - Specialize in Small Business Accounting, Tax Planning, Outsourced Accounting and CFO Consulting
- **Individual QuickBooks Training and Review Services**
 - Customized to your specific needs
 - Prepare Financial Statements, Make Adjusting Journal Entries, Accounting System Clean Up and Overview
 - Available Monthly, Quarterly or Biannually






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Today's Agenda


- **Agenda for Trust Accounting Using QuickBooks Online Seminar**
 - Intro to QBO
 - Review of Trust Accounting Requirements from the Virginia State Bar
 - Using QBO to Effectively Maintain Compliance with Trust Accounting
 - How to Avoid/Fix the Top 5 Trust Accounting Errors
 - Open Q&A Session



QuickBooks Desktop vs. QuickBooks Online

What's the difference?

QuickBooks Online	QuickBooks Desktop
Allows multiple users to access account simultaneously from different locations (business owners, office manager/bookkeeper, accountant, etc.)	Accessible without internet, though data is limited to one computer.
More seamless management, is updated and backed up automatically every hour and stored in two separate hard drives.	No monthly fee
Offers seamless access, can be viewed anywhere as long as there is Internet and even on your smart phone or Ipad.	QuickBooks Desktop has additional customization features and reporting functionality than QBO.


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Virginia State Bar Trust Accounting Requirements

Rule 1.6(a)

- [a] lawyer shall not reveal information ... that the client has requested be held inviolate or the disclosure of which would be embarrassing or likely to be detrimental to the client

•Rule 1.6(b)(6)

- Lawyer may reveal information to an outside agency necessary for ... bookkeeping, accounting ... provided the lawyer exercises due care in the selection of the agency, advises the agency that the information must be kept confidential and reasonably believes the information will be kept confidential.



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Virginia State Bar Trust Accounting Requirements

•In addition standard internet security such as encryption, password protection, and firewalls, you should carefully examine the terms and conditions as well as the security safeguards of the agency you intend to use.


•It is reasonable to believe that your client's trust accounting information will be kept confidential using QB Online because:

- QBO Data encryption technology is identical to technology used by world's top banks.
- Data is located in Intuit's data center, which is monitored 24/7/365.
- Information access can be regulated by attorney through password protection and access to work on or view information.


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**Costs and Fees
QuickBooks Online**

- **QuickBooks Online - Three Platforms**
 - **Simple Start** – Create invoices, checks, basic financial reports.
 - \$12.95/Month
 - **Online Essentials** – Does what Simple Start does, download bank and credit card transactions and provides more reporting.
 - \$26.95/Month
 - **Online Plus** – Does what Online Essentials does, plus has inventory management, time tracking and budgets.
 - \$39.95/Month




**Costs and Fees
QuickBooks Desktop**

- **QuickBooks Desktop – Two Most Common Platforms**
 - **QuickBooks Pro** - Create invoices, checks, financial reports, can attach external documents (PDF, Word, etc.) to file and downloads bank and credit card transactions.
 - \$151 (amazon.com)
 - **QuickBooks Premier (Industry Focused)** – Similar to QB Pro, also provides more industry focused reports (i.e. General Business, Contractor, Retail, Nonprofit, etc.), job costing, and allows you to track time and expenses by employee, project, client or service & create an invoice.
 - \$252 (amazon.com)




**Costs and Fees
Other Considerations ...**

- You should update QB Desktop every 3 years since phone assistance is not supported for software older than 3 years and there updates that usually enhances the software capabilities.
- WendroffCPA is a QuickBooks Pro-Advisor and we can get you a 20% discount off QBO.




**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15 – Safekeeping Property
 •In 2011, there were Amendments to the original Rule 1.15 adopted January 1, 2000, but the rule remains largely the same. To make the rule more easily understood, the rule’s language was simplified and the portions regarding the Financial Institutions duties were redacted and instead incorporated into the Trust Account Notification Agreement.




**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15 overview continued ...
 •Section (a) of Rule 1.15 discusses the how lawyers or law firms who receive funds or hold funds on behalf of another should properly store the funds.
 •Section mandates that a trust account at a financial institution approved by the Virginia State Bar or safe deposit box be used.
 •A 2011-2012 Proposed Virginia Rule Change would add language to clarify that all funds held by a lawyer on behalf of others must be held in a trust account, while other property should be held in a safe deposit box or other place of safekeeping.



**Virginia State Bar
Rule 1.15 Requirements**


•Rule 1.15 overview continued ...
 •The only funds that a lawyer or law firm can deposit along with funds held or received for another are funds to pay charges or fees of the financial institution or funds for which ownership is currently in dispute (could be between the lawyer and the client).
 •Once the dispute is resolved, if funds were awarded to the lawyer, the lawyer should remove those funds from the other stored funds as soon as possible.



**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15(b) - 5 duties for safekeeping property


- 1 - The lawyer should notify the client that the lawyer has the property in the lawyer's possession.
2. Next, the lawyer should identify and label the property so that it is not confused with others' property.
3. Third, the lawyer should keep a record of all of the property being held by the lawyer and should give each client accountings so that they are aware of the status of their property.



**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15(b) - 5 duties for safekeeping property continued ...


4. If the client is entitled to receive the property and requests that it be returned, a lawyer should promptly return the property.
5. A lawyer should never disburse funds or use property of a client or third party without their consent, unless they've been directed to do so by a tribunal.



**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15(c) - Record keeping requirements


- Subsection 1 requires that a lawyer keep cash receipts and disbursements journals for each trust and lays out the requirements for recording each transaction.
- Subsection 2** requires a lawyer to keep a subsidiary ledger that contains a separate entry for each person or entity from whom money was received, with specific information, which is detailed in Subsection 2, recorded in each entry.



**Virginia State Bar
Rule 1.15 Requirements**

•Subsection 2 Requirements


- A subsidiary ledger containing a separate entry for each client, other person, or entity from whom money has been received in trust. The ledger should clearly identify:
 - The client or matter, including the date of the transaction and the payor or payee and the means or methods by which trust funds were received, disbursed or transferred; and ...
 - Any unexpended balance.


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**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15(c) – Record keeping requirements continued ...


- Subsection 3 discusses the requirements for lawyers who hold property as a fiduciary, including an annual summary of all receipts and disbursements and changes in assets.
- Finally, Subsection 4 dictates that all records should be held for 5 calendar years after the termination of the representation or fiduciary responsibility.


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**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15(d)


- Incorporates all of the rules from Sections (a)-(c), but adds minimum procedures dealing specifically with Trust Accounts, such as insufficient fund check reporting, depositing trust funds intact, monthly and quarterly reconciliations, and a requirement that adequate records and explanations be given to support trust fund receipts and disbursements.


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**Virginia State Bar
Rule 1.15 Requirements**

•Rule 1.15 – Bottom Line:


- Keep track of each client’s funds in a trust account.
- Create a separate ledger for each client that shows money coming in and money going out as well as the purpose of the matter.
 - When the legal service has been provided and/or the matter is closed, then the funds need to get out of the trust account.
- The trust account needs to be reconciled against the total of the subsidiary ledgers on a monthly or quarterly basis.


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**Maintaining Trust Accounting
Compliance Using QuickBooks Online**

•Agenda:


- QBO Interface Basics
- Setting up specialized accounts
 - Chart of Accounts and Items
- Creating memorized reports to comply with new Rule 1.15 requirements
- Specialized invoicing and writing checks to organizations on client behalf
- Crediting invoices and refund clients
- IOLTA transfer to operating bank account (Rule 1.15)
- Accounting for bank fees and interest
- Reconciling IOLTA, AR and Trust Liability Accounts (Rule 1.15)


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**Top 3 Trust Accounting Errors
How to Avoid and Fix ...**

•Error # 1: Individual client’s ledger has a negative balance


- How to Avoid
 - Make sure that the client has paid enough in the IOLTA account to satisfy future expenditures.
 - Closely monitor subsidiary ledger for clients and don’t overstate what is available in trust account on invoices sent for legal services
- How to Fix:
 - If amount is owed to law firm, replenish account immediately from client
 - Revise invoice to accurately reflect amount left in the trust account.
 - There should be an amount owed to you after this is fixed.


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**Top 3 Trust Accounting Errors
How to Avoid and Fix ...**

•Error # 2: IOLTA Bank Account doesn't reconcile with the Trust Liability Account


- How to Avoid
 - Close the books with password for the prior month to accidental/erroneous edit of prior month.
 - Transfer money from the IOLTA account to the operating account as soon as a transaction requiring transfer occurs (ie. Fees earned, credit memo, ect.)
- How to Fix:
 - Review previous reconciled month to discover where error occurred.
 - Audit subsidiary ledger to see if client balances are correct.
 - If correct, either take out money from the IOLTA account to transfer to operating account or vice versa.



**Top 3 Trust Accounting Errors
How to Avoid and Fix ...**

•Error # 3: Failure to maintain subsidiary client ledger and use memo line in check disbursements and invoices


- How to Avoid
 - Start at the beginning using QBO, develop disciplined account procedures and use customized reports.
 - Use consistent client names (changing one letter in a client's name could create two subsidiary ledgers for the same client.
 - Make a habit to write in the memo line the purpose of each transaction.
 - Include other factual information there such as check number.



**Top 3 Trust Accounting Errors
How to Avoid and Fix ...**

•Error # 3: Failure to maintain subsidiary client ledger and use memo line in check disbursements and invoices continued ...

- How to Fix
 - Reconcile the subsidiary ledger by auditing each client and making sure that is their true balance.
 - If you have two clients in QBO that relate to the same client, you can merge them by changing creating one client name. It will merge all data.
 - Work with an accounting firm that specializing in working with trust accounting and law firms to develop a customized solution that is compliant with Rule 1.15.
 - WendroffCPA specializes in this type of accounting and setup.



VIRGINIA:

JUN 23 2011

In the Supreme Court of Virginia held at the Supreme Court Building in the
VIRGINIA STATE BAR
City of Richmond on Tuesday *the* 21st *day of* June, 2011.

On July 8, 2010 and May 26, 2011 came the Virginia State Bar, by Irving M. Blank, its President, and Karen A. Gould, its Executive Director and Chief Operating Officer, and presented to the Court a petition, approved by the Council of the Virginia State Bar, and a modified proposal, respectively, praying that the Rules for Integration of the Virginia State Bar, Part Six of the Rules of Court, be amended.

Amend Part Six, Section II, Rule 1.15 to read as follows:

Rule 1.15. Safekeeping Property.

(a) Depositing Funds.

(1) All funds received or held by a lawyer or law firm on behalf of a client or a third party, or held by a lawyer as a fiduciary, other than reimbursement of advances for costs and expenses, shall be deposited in one or more identifiable trust accounts or placed in a safe deposit box or other place of safekeeping as soon as practicable.

(2) For lawyers or law firms located in Virginia, a lawyer trust account shall be maintained only at a financial institution approved by the Virginia State Bar, unless otherwise expressly directed in writing by the client for whom the funds are being held.

(3) No funds belonging to the lawyer or law firm shall be deposited or maintained therein except as follows:

(i) funds reasonably sufficient to pay service or other charges or fees imposed by the financial institution or to maintain a required minimum balance to

avoid the imposition of service fees, provided the funds deposited are no more than necessary to do so; or

(ii) funds in which two or more persons (one of whom may be the lawyer) claim an interest shall be held in the trust account until the dispute is resolved and there is an accounting and severance of their interests. Any portion finally determined to belong to the lawyer or law firm shall be promptly withdrawn from the trust account.

(b) Specific Duties. A lawyer shall:

(1) promptly notify a client of the receipt of the client's funds, securities, or other properties;

(2) identify and label securities and properties of a client, or those held by a lawyer as a fiduciary, promptly upon receipt;

(3) maintain complete records of all funds, securities, and other properties of a client coming into the possession of the lawyer and render appropriate accountings to the client regarding them;

(4) promptly pay or deliver to the client or another as requested by such person the funds, securities, or other properties in the possession of the lawyer that such person is entitled to receive; and

(5) not disburse funds or use property of a client or of a third party with a valid lien or assignment without their consent or convert funds or property of a client or third party, except as directed by a tribunal.

(c) Record-Keeping Requirements. A lawyer shall, at a minimum, maintain the following books and records demonstrating

compliance with this Rule:

(1) Cash receipts and disbursements journals for each trust account, including entries for receipts, disbursements, and transfers, and also including, at a minimum: an identification of the client matter; the date of the transaction; the name of the payor or payee; and the manner in which trust funds were received, disbursed, or transferred from an account.

(2) A subsidiary ledger containing a separate entry for each client, other person, or entity from whom money has been received in trust.

The ledger should clearly identify:

(i) the client or matter, including the date of the transaction and the payor or payee and the means or methods by which trust funds were received, disbursed or transferred; and

(ii) any unexpended balance.

(3) In the case of funds or property held by a lawyer as a fiduciary, the required books and records shall include an annual summary of all receipts and disbursements and changes in assets comparable in detail to an accounting that would be required of a court-supervised fiduciary in the same or similar capacity, including all source documents sufficient to substantiate the annual summary.

(4) All records subject to this Rule shall be preserved for at least five calendar years after termination of the representation or fiduciary responsibility.

(d) Required Trust Accounting Procedures. In addition to the

requirements set forth in Rule 1.15 (a) through (c), the following minimum trust accounting procedures are applicable to all trust accounts:

(1) Insufficient Fund Reporting. All accounts are subject to the requirements governing insufficient fund check reporting as set forth in the Virginia State Bar Approved Financial Institution Agreement.

(2) Deposits. All trust funds received shall be deposited intact. Mixed trust and non-trust funds shall be deposited intact into the trust fund and the non-trust portion shall be withdrawn upon the clearing of the mixed fund deposit instrument. All such deposits should include a detailed deposit slip or record that sufficiently identifies each item.

(3) Reconciliations.

(i) At least quarterly, a reconciliation shall be made that reflects the trust account balance for each client, person or other entity.

(ii) A monthly reconciliation shall be made of the cash balance that is derived from the cash receipts journal, cash disbursements journal, the trust account checkbook balance, and the trust account bank statement balance.

(iii) At least quarterly, a reconciliation shall be made that reconciles the cash balance from (d) (3) (ii) above and the subsidiary ledger balance from (d) (3) (i).

(iv) Reconciliations must be approved by a lawyer in the law firm.

(4) The purpose of all receipts and disbursements of

trust funds reported in the trust journals and ledgers shall be fully explained and supported by adequate records.

COMMENT

[1] A lawyer should hold property of others with the care required of a professional fiduciary. Securities should be kept in a safe deposit box, except when some other form of safekeeping is warranted by special circumstances. For purposes of this Rule, the term "fiduciary" includes personal representative, trustee, receiver, guardian, committee, custodian, and attorney-in-fact. All property that is the property of clients or third persons should be kept separate from the lawyer's business and personal property and, if monies, in one or more trust accounts. Separate trust accounts may be warranted when administering estate monies or acting in similar fiduciary capacities.

[2] Separation of the funds of a client from those of the lawyer not only serves to protect the client but also avoids even the appearance of impropriety and, therefore, commingling of such funds should be avoided.

[2a] In relation to (b) (5), consent can be inferred from the engagement agreement or any consequential agreement between the lawyer and the client regarding the disbursement of fees, i.e., when earned fees are routinely withdrawn from the lawyer's trust account upon an accounting to the client, when costs and expenses of litigation are routinely withdrawn, or when other fees/costs or expenses are agreed upon in advance.

[3] Lawyers often receive funds from third parties from which the lawyer's fee will be paid. If there is risk that the client

may divert the funds without paying the fee, the lawyer is not required to remit the portion from which the fee is to be paid. However, a lawyer may not hold funds to coerce a client into accepting the lawyer's contention. The disputed portion of the funds should be kept in trust and the lawyer should suggest means for prompt resolution of the dispute, such as arbitration or mediation. The undisputed portion of the funds shall be promptly distributed.

[4] Paragraphs (b) (4) and (b) (5) do not impose an obligation upon the lawyer to protect funds on behalf of the client's general creditors who have no valid claim to an interest in the specific funds or property in the lawyer's possession. However, a lawyer may be in possession of property or funds claimed both by the lawyer's client and a third person; for example, a previous lawyer of the client claiming a lien on the client's recovery or a person claiming that the property deposited with the lawyer was taken or withheld unlawfully from that person. Additionally, a lawyer may have a duty under applicable law to protect such third-party claims against wrongful interference by the client, and accordingly may refuse to surrender the property to the client. For example, if a lawyer has actual knowledge of a third party's lawful claim to an interest in the specific funds held on behalf of a client, then by virtue of a statutory lien (e.g., medical, workers' compensation, attorneys' lien, a valid assignment executed by the client, or a lien on the subject property created by a recorded deed of trust) the lawyer has a duty to secure the funds claimed by the third party. Under the above-described circumstances, paragraphs (b) (4) and (b) (5) require the lawyer either to deliver the funds or

property to the third party or, if a dispute to the third party's claim exists, to safeguard the contested property or funds until the dispute is resolved. If the client has a non-frivolous dispute with the third party's claim, then the lawyer cannot release those funds without the agreement of all parties involved or a court determination of who is entitled to receive them, such as an interpleader action. A lawyer does not violate paragraphs (b)(4) and (b)(5) if he has acted reasonably and in good faith to determine the validity of a third-party's claim or lien.

[5] The obligations of a lawyer under this Rule are independent of those arising from activity other than rendering legal services. For example, a lawyer who serves as an escrow agent is governed by the applicable law relating to fiduciaries even though the lawyer does not render legal services in the transaction.

[6] Nothing in this Rule is intended to prohibit an attorney from using electronic checking for his trust account so long as all requirements in this Rule are fulfilled. It is the lawyer's responsibility to assure that complete and accurate records of the receipt and disbursement of entrusted property are maintained in accordance with this Rule. Many businesses are now converting paper checks to automated clearinghouse (ACH) debits. Authorized ACH debits that are electronic transfers of funds (in which no checks are involved) are allowed provided the lawyer maintains a record of the transaction as required by this Rule. The record, whether consisting of the instructions or authorization to debit the account, a record or receipt from the financial institution, or the lawyer's independent record of the transaction, must show the

amount, date, recipient of the transfer or disbursement, and the name of the client or other person to whom the funds belong.

PRIOR RULE COMPARISON

This rule is substantially the same as the original Rule 1.15 adopted January 1, 2000 except that the language has been substantially simplified for ease of understanding and the portions regarding the Financial Institutions duties redacted as they are appropriately incorporated into the "Trust Account Notification Agreement" signed by all Virginia-approved financial institutions.

COMMITTEE COMMENTARY

The Committee chose to modify the rule for ease of understanding and enforcement with no substantive changes to a lawyer's safekeeping property and record-keeping requirements.

* * *

Amend Part Six, Section IV, Paragraph 20 to read as follows:

20. Maintenance of Trust Accounts; Notice of Election Requirements.

Every trust account maintained by an active member of the VSB under Rules of Professional Conduct 1.15 shall also be maintained at a "financial institution approved by the Virginia State Bar" and maintained in accordance with this paragraph and Rule 1.15. A "financial institution approved by the Virginia State Bar" includes regulated state or federal chartered banks, savings institutions, and credit unions that are properly licensed and authorized to do

business, have federal insurance on deposits, and have entered into and agreed to abide by a Virginia State Bar Approved Financial Institution Agreement. (See Appendix A which the Virginia State Bar reserves the right to amend or modify upon notice to all approved financial institutions.) The Virginia State Bar shall maintain and publish from time to time a list of approved financial institutions.

(A) Interest-bearing Trust Accounts. A lawyer may maintain funds of clients in one or more interest-bearing accounts in one or more financial institutions, whenever the lawyer has established and follows record-keeping, accounting, clerical, and administrative procedures to compute and credit or pay periodically, but at least quarterly, pro rata to each client the interest on such client's funds less fees, costs, or expenses charged by the lawyer for the record-keeping, accounting, clerical, and administrative procedures associated with computing and crediting or paying such amounts.

(B) IOLTA Accounts. A lawyer may deposit funds of a client in an identifiable interest-bearing trust (IOLTA) account for which the lawyer has not established procedures to compute and credit or pay pro rata net earnings to such client whenever:

(1) At the time of such deposit the lawyer reasonably expects that the fees, costs, or expenses which the lawyer would be entitled to charge under Paragraph 20(A) would equal or exceed the pro rata interest on such client's funds (the determination of whether the funds of a client or third person can earn income in excess of fees, costs or expenses the lawyer would be entitled to charge under paragraph 20(A)

shall rest in the sound judgment of the lawyer or law firm, and no lawyer shall be charged with an ethical impropriety or breach of professional conduct based on the good faith exercise of such judgment); and

(2) The financial institution has agreed to:

(a) Periodically, but at least quarterly, remit to the Legal Services Corporation of Virginia (LSCV) interest or dividends on the average monthly balance of each such account or as otherwise computed in accordance with such bank's standard accounting practice, provided that such rate of interest shall not be less than the rate paid by such bank to regular, non-attorney depositors;

(b) Transmit with each remittance to LSCV a statement identifying the name of the lawyer or law firm from whose account the remittance is sent, the rate of interest applied, the period for which the remittance is made, the total amount of interest earned, the service charges or other fees assessed against the account, if any, and the net amount of interest remitted;

(c) Transmit to the depositing lawyer or law firm at the same time a report showing the amount paid to LSCV from such interest-bearing account, the rate of interest applied, the fees assessed, if any, and the average account balance for the period for which the report is made;

(d) Charge no fees against an IOLTA trust account that are greater than the fees charged to non-attorney

depositors, except that an IOLTA remittance fee may be charged to defray the depository institution's administrative costs attributable to calculating and remitting the interest to LSCV; other allowable fees are per check charges, per deposit charges, a fee in lieu of a minimum balance and sweep fees. Allowable, reasonable fees may be deducted from interest or dividends earned on an IOLTA account, provided that such charges or fees shall be calculated in accordance with the Financial Institutions' standard practice for non-IOLTA customers. Fees or charges in excess of the interest or dividends earned on the IOLTA account, for any month or quarter, shall not be taken from the interest or dividends of any other IOLTA account. Fees for wire transfers, insufficient funds, bad checks, stop payment, account reconciliation, negative collected balances, and check printing are not considered customary account maintenance charges and are not deductible from the interest or dividends earned on the IOLTA account. All other fees including those non-customary fees just listed are the responsibility of the lawyer or law firm, who in turn may absorb these specific costs or pass along those fees to the client(s) being served by the transaction in accordance with attorney/client agreements. Financial Institutions may elect to waive any or all fees on IOLTA accounts in recognition of their charitable nature;

(e) Collect no fees from the principal deposited in the IOLTA trust account;

(f) Pay all or part of the funds deposited in such interest-bearing trust account upon demand or order. An IOLTA account may be an interest-bearing check account, a money market account with or tied to check-writing, a sweep account which is a government money market fund or daily overnight financial institution repurchase agreement invested solely in or fully collateralized by United States government securities, or an open-end money market fund solely invested in or fully collateralized by the United States government securities; and

(g) Agree and abide by all provisions in the Virginia State Bar Approved Financial Institution Agreement.

(3) Interest accruing on such accounts and paid by the financial institution to LSCV shall be used for funding 1) civil legal services to the poor in Virginia, 2) LSCV's administrative expenses, and 3) the creation and augmentation of a reserve fund for the same purposes.

(C) Non-interest-bearing Trust Accounts. A lawyer may deposit funds of a client in an identifiable non-interest-bearing trust account for which the account accrues no interest or dividends so long as the attorney or law firm receives no consideration or benefit from the Financial Institution for opening a non-interest bearing trust account or for converting from an IOLTA account to a non-interest bearing trust account. A lawyer who elects not to participate in the maintenance of an interest-bearing trust account as described in Paragraph 20(B) must submit such an election in accordance with the procedures set forth in

Paragraph 20(F) of this rule.

(D) Reporting to Client. A lawyer who elects to deposit funds of a client in an account pursuant to Paragraph 20(B) or (C) shall not be required to seek permission from such client in making the election. As to funds deposited in accordance with Paragraph 20(B), a lawyer shall not be required to compute or report to such client any payment to LSCV of interest or dividends by the banking institution on funds in any such account wherein the client's funds have been deposited by the lawyer.

(E) Law Firm Trust Accounts. A law firm of which any participating lawyer is a member may maintain the account(s) on behalf of any or all lawyers in the firm.

(F) Opt-Out of IOLTA Account. A lawyer who elects to open an IOLTA account shall obtain a "Request to Establish IOLTA Account" form from LSCV. A lawyer who elects not to maintain an IOLTA account shall make such election on a "Request to Opt-Out" form provided by LSCV.

* * *

APPENDIX A

Virginia State Bar Approved Financial Institution Agreement

This Virginia State Bar Financial Institution Agreement ("Agreement") is made this ____ day of _____, by and between the Virginia State Bar and _____, ("Financial Institution").

WITNESS:

The undersigned, an officer of the Financial Institution executing this Agreement, being duly authorized to bind said institution by this Agreement, hereby applies to be approved as a depository to receive escrow, trust, or client funds, as defined in Part 6, § IV, Para. 20, of the Rules of the Supreme Court of Virginia, or any successor provision(s), from attorneys for deposit in what are hereinafter referred to as "Trust Accounts." The Financial Institution agrees to comply with the following requirements, or any successor provisions:

1. **Notification to Attorneys or Law Firm.** To promptly notify the attorney or law firm of an overdraft in any Trust Account or the dishonor for insufficient funds of any instrument drawn on any Trust Account held by it.
2. **Notification to Bar Counsel.** To report the overdraft or dishonor to Bar Counsel of the Virginia State Bar, as set forth in Paragraph 5 of this Agreement.
3. **Audit of Trust Account.** To provide reasonable access to the Virginia State Bar of all records of the Trust Account if an audit of such account is ordered pursuant to court order, or upon receipt of a subpoena therefor. The financial institution may charge for the reasonable costs of producing these records.
4. **Interest Calculation.** The financial institution shall not engage in the practice of "negative netting" as to IOLTA trust accounts.

5. **Form of Report.** That all such reports shall be substantially in the following format:

In either case of a dishonored instrument or an instrument presented against insufficient funds in a Trust Account, but honored by the financial institution, the report shall be identical to the notice customarily forwarded to the depositor and shall include the name and address of the depositor notified, including the name of the lawyer responsible for the account, as well as a copy of the dishonored instrument, if such copy is normally provided to the depositor. In addition, the report shall identify the financial institution reporting the overdraft, the account number, the date of the overdraft, the name of the person making the report, their address and telephone number and date. The report shall be made simultaneously with and within the time provided by law for notice of dishonor to the depositor or, in the case of instruments that are honored by the financial institution, within five (5) banking days after the date of presentation for payment against insufficient funds.

6. **Consent of Attorneys or Law Firms.** The Financial Institution may require, as a condition to opening an attorney Trust Account, the written consent of the attorney or law firm opening such account to the notification to Bar Counsel of the Virginia State Bar as set forth in Paragraph 2 of this Agreement.

7. **Change of Name or Corporate Form.** If a Financial Institution changes its name, merges or otherwise affiliates with, or is acquired by another entity, the successor Financial Institution shall promptly notify Bar Counsel of the change and whether the successor institution wishes to serve as a financial institution approved by the Virginia State Bar for attorney Trust Accounts and enter into an Agreement.
8. **Termination of Agreement.** This Agreement may terminate upon thirty (30) days notice from the Financial Institution in writing to Bar Counsel that the institution intends to terminate the Agreement on a stated date and that copies of the termination notice have been mailed to all attorneys and law firms that maintain Trust Accounts with the Financial Institution or any branch thereof. Notice to the Bar Counsel shall be sent by certified mail to the Virginia State Bar, Attention: Bar Counsel, 707 E. Main Street, Suite 1500, Richmond, Virginia 23219-2800. This agreement may also be canceled without prior notice by Bar Counsel of the Virginia State Bar if the financial institution fails to abide by the terms of the agreement.
9. **Binding Effect.** This Agreement shall be binding upon the Financial Institution and any branch thereof receiving Trust Accounts.
10. **Definitions.** For purposes of this agreement the following definitions will apply:

- a. "Notice of Dishonor" refers to the notice which, pursuant to Uniform Commercial Code Section 3-508(2), must be given by a drawee bank before its midnight deadline.
- b. "Insufficient funds" refers to a state of affairs in which there is an insufficient collected balance in an account as reflected in the financial institution's accounting records, so that an otherwise properly payable item presented for payment cannot be paid without creating an overdraft in the account.
- c. "Dishonored" shall refer to instruments that have been dishonored because of insufficient funds as defined above.
- d. "Negative Netting" refers to the practice of a financial institution collecting some part or all of the fees assessed during a stated period of time against any IOLTA account that has failed to generate enough interest to pay assessed fees from the positive interest generated by other IOLTA accounts and deducting those fees from the total interest remitted to the Legal Services Corporation of Virginia for that time period.

IN WITNESS WHEREOF, the Financial Institution has executed this Agreement on the date and year written above.

ATTEST:

Name of Financial Institution

Address of Financial Institution

By _____
Officer's Name
(Please print)

Officer's Signature

Corporate Office Held

* * *

Upon consideration whereof, it is ordered that the Rules for Integration of the Virginia State Bar, Part Six of the Rules of Court, be and the same hereby are amended in accordance with the prayer of the petition aforesaid, effective immediately.

A Copy,

Teste:

Pat L. Hamilton

Clerk

Virginia MCLE Board

CERTIFICATION OF ATTENDANCE (FORM 2)

MCLE requirement pursuant to Paragraph 17, of Section IV, Part Six, Rules of the Supreme Court of Virginia and the MCLE Board Regulations.

INSTRUCTIONS

Certify Your Attendance Online at <https://member.vsb.org/vsbportal/>

Complete this Certification. Retain for two years.

MCLE Compliance Deadline - October 31. MCLE Reporting Deadline - December 15.

A \$100 fee will be assessed for failure to comply with either deadline.

Member Name: _____ VSB Member Number: _____
Address: _____ Daytime Phone: _____
_____ E-mail Address: _____
_____ City State Zip

Course ID Number: ARZ004

Sponsor: Arlington County Bar Association

Course/Program Title: Client Trust Accounting Using QuickBooks Online

Live Interactive * CLE Credits (Ethics Credits): 1.5 (1.0)

Date Completed: _____ Location: _____

By my signature below I certify

- ____ I attended a total of _____ (hrs/mins) of **approved CLE**, of which (_____) (hrs/mins) were in **approved Ethics**.
Credit is awarded for actual time in attendance (0.5 hr. minimum) rounded to the nearest half hour. (Example: 1hr 15min = 1.5hr)
____ The sessions I am claiming had written instructional materials to cover the subject.
____ I participated in this program in a setting physically suitable to the course.
____ I was given the opportunity to participate in discussions with other attendees and/or the presenter.
____ I understand I may not receive credit for any course/segment which is not materially different in substance than a course/segment for which credit has been previously given during the same completion period or the completion period immediately prior.
____ I understand that a materially false statement shall be subject to appropriate disciplinary action.

* NOTE: A maximum of 8.0 hours from pre-recorded courses may be applied to meet your yearly MCLE requirement. Minimum of 4.0 hours from live interactive courses required.

Date

Signature

Questions? Contact the MCLE Department at (804) 775-0577 or E-mail questions to mcle@vsb.org

If not certified online, this form may be mailed or faxed (fax disabled Nov 2-Dec 31)

Virginia MCLE Board

Virginia State Bar

707 East Main Street, 15th Floor

Richmond, VA 23219-2800

Web site: www.vsb.org Fax: (804) 775-0544

[Office Use Only: Live]