

Law Firms: The IOLTA / Trust Reconciliation Red Flags Checklist

Spot compliance risks without digging through endless spreadsheets.

INSTRUCTIONS

1. Pull your **trust bank statement, client trust ledger detail (by matter), and reconciliation report** for the same month.
2. Work top-down: bank → reconciliation → client ledgers.
3. Use this checklist to flag issues; mark each as **OK / Review / Fix**.
4. Triage fixes in this order: **negative balances → variances → old items**.
5. Re-run your reconciliation and save a **monthly audit pack** (PDFs + notes).

- 1. Bank ≠ Ledger Total**
Trust bank balance does not equal the sum of client trust ledgers for the same date.
- 2. Negative Client Trust Balances**
Any client/matter shows a balance below \$0 (fee withdrawn before earned or posting error).
- 3. Unassigned or “Unknown” Client IDs**
Deposits or withdrawals posted to a generic or suspense client instead of a real matter.
- 4. Uncleared Items > 60–90 Days**
Stale checks or deposits lingering on the bank rec; investigate and resolve or void/reissue.
- 5. Unapplied Retainers**
Funds sitting in trust that should have been applied to billed invoices but weren't.
- 6. Operating vs. Trust Cross-Posting**
Client funds deposited to operating (or fees pulled from trust) without proper entries and documentation.
- 7. Transfers with No Paper Trail**
Any movement between trust accounts (or trust → operating) lacking memo, client/matter, and support.
- 8. Interest / Bank Fees Not Handled Correctly**
Interest left in the trust account or bank fees taken from trust instead of operating (jurisdiction-dependent).
- 9. Date Mismatches**
Trust ledgers dated differently than the bank statement/reconciliation period (causes phantom variances).
- 10. Manual Journal Entries to Trust**
JEs used to “force balance” instead of correcting the underlying transaction flow.
- 11. Duplicate Receipts or Split Deposits**
Same retainer recorded twice, or one deposit split across days/clients without clear documentation.
- 12. Client Matter Closed with Balance**
Matters marked closed while holding trust funds or with open liabilities.
- 13. Fee Withdrawals Before Earned**
Fees moved from trust prior to invoice finalization or client approval per your policy.
- 14. No Monthly Reconciliation Log**
Missing signed/dated monthly rec pack (bank statement, rec report, client ledger roll-up, adjustments).
- 15. Mysterious “Rounding” or Penny Variances**
Small write-offs masking mapping/sync issues (fix the cause, don't round it away).

Why This Matters

- 1. Compliance & Ethics:** Trust mistakes can trigger bar inquiries, audits, and reputational damage.
- 2. Partner Confidence:** Clean, documented trust processes prevent emotional comp debates and client escalations.
- 3. Cash Clarity:** Correct trust handling keeps invoices, retainers, and distributions in sync—so decisions are based on reality, not guesses.
- 4. Speed:** A tight monthly audit pack makes audits and client ledger requests painless.

Ready for a quick, no-pressure review? Visit:

<https://bluebird-partners.com>