BANK ACCOUNTS FOR YOUR LAW FIRM

Accounts you need and how to operate them

OHIO STATE BAR
ASSOCIATION
Connect. Advance. Succeed.

You know how to practice law, but do you know how to set up finance accounts for your solo or small practice? It doesn't take a rocket scientist (or an accountant). Here is a basic overview of necessary and optional bank accounts for your law practice.

Operating and Business Accounts

It is typical for firms to open at least one bank account in the name of the lawyer or firm for the purpose of paying firm and client expenses and receiving client fees or other income earned. There is no legal or ethical requirement to have more than one operating/business account, but there are often practical reasons to have multiple.

Keep a detailed record of each check written from the account. This record should include the check number, date, amount of the check and the purpose of the check. Checks written for expenses advanced on behalf of a client should be recorded in the billing system and subsequently billed to the client for reimbursement. Reconcile these accounts monthly.

Trust Accounts

Open at least one FDIC-insured, interest-bearing bank account designated as a client trust account or IOLTA account (Interest on Lawyers Trust Account). Law firms may have more than one trust account or **IOLTA** account. The trust account must be opened in a bank authorized to do business in Ohio and maintained in the state where the lawyer's office is situated.

Separate client trust accounts should be opened when administering estate funds. In rare circumstances, other individual client trust accounts may be opened for the benefit of the client. Next you should **register the account with the Ohio Legal Assistance Foundation**.

Place all disputed funds into the trust account until the dispute is resolved. This includes disputes where the lawyer has actual knowledge of a dispute and lawful interest by a third party.

An attorney may comingle funds with the trust account solely for the purpose of paying or waiving bank services charges on the account, but only in an amount necessary for that purpose. Maintain accurate records of attorney funds deposited into and withdrawn from a trust account on a separate ledger.

Review the trust account bank statement to ensure that checks written to a client or third parties are cashed. If a check written from the account does not clear the bank within a reasonable period of time, contact the client or third party to determine why the check has not yet been cashed and reissue if necessary.

Unclaimed funds in the trust account must be escheated to the Ohio Department of Commerce. **Funds in trust accounts are presumed abandoned if they have been unclaimed for three years.**

EXPERT TIP:
Preserve all records regarding trust accounts for seven years.

Trust account proper management pursuant to Rule 1.15

Proper management of trust accounts records have been defined under Rule 1.15 of the **Ohio Rules of Professional Conduct** as follows:

- Maintain a copy of the fee agreement with each client. (See Rule 1.5)
- Promptly transfer earned fees out of the trust account, but only after client funds have cleared.
- Maintain a client-specific record of the following information regarding trust funds or property held on behalf of a client:
  - the name of the client
  - the date and amount of the funds received, and from whom the funds were received
  - the date and amount of any expenditure of trust funds, why the funds were spent, and who received the funds
  - the current balance in the trust account for each client

Maintain a record for each trust bank account that includes the following:

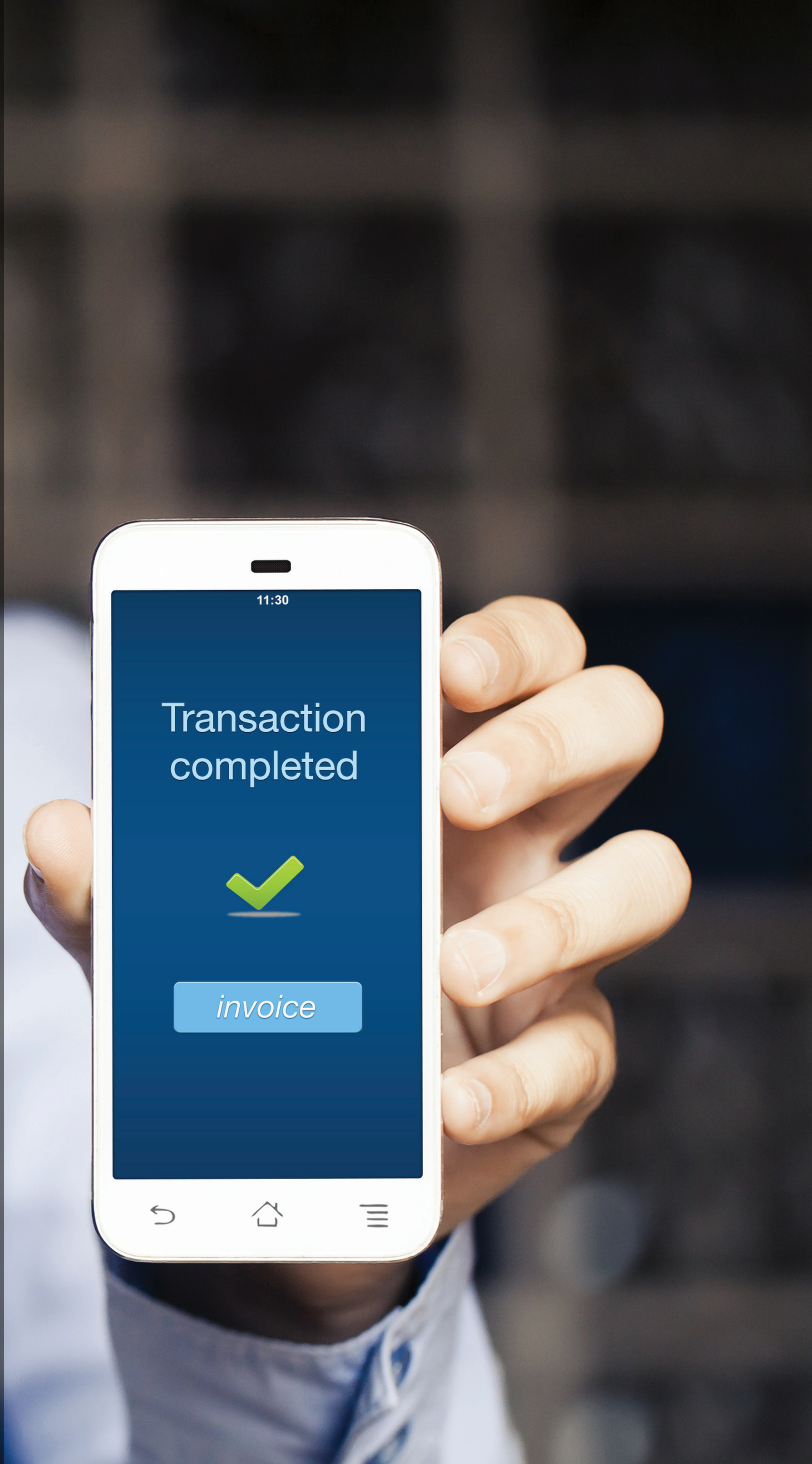
- the name of the bank account
- a record of each deposit and withdrawal of funds by date, amount and name of client
- the overall balance in the bank account

Maintain the bank statements, deposit slips and, if provided by the bank, all cancelled checks for each trust account for seven years (these records can be electronic). **Reconcile trust accounts monthly and keep the records of the reconciliation for seven years.**

Deposit funds received from a third party in the client's interest, such as a settlement payment, jury award, etc., must be deposited into a trust account. Notify the client punctually when these funds are received as these funds must be given to the client promptly.

If the client is to receive anything other than the full amount of the funds received, the arrangement for the distribution of funds must be in writing. If requested by the client or the third party, promptly prepare a full accounting of the distribution of funds received. (Insert Sample Settlement Statement from Ch.10)

Upon dissolution of any law firm the former partner(s) must do a final accounting of monies in the trust account and designate one of them to take responsibility for maintaining the records, a rule created by a unique Ohio provision.



OTHER OPTIONAL ACCOUNTS

Petty Cash

Petty cash is a record of cash withdrawn from any firm business or operating account. Kept on a register like a bank account, it manages use of firm cash, and in turn helps prevent theft.

Other Client Property

An inventory of non-monetary client property held. Your firm must safeguard the property. A suggested location is a bank safety deposit box; however, the rule has no specific requirement.

See Rule 1.15.

Payroll Account

A payroll account assists with reviewing, auditing and keeping payroll records separate. If your primary account is ever overdrawn, but your payroll account has been funded, you don't have to worry about a payroll check bouncing, which would be very bad for employee morale.

The words "payroll account" can be put on the checks, which can help employees cash checks more easily in certain circumstances. It prevents employees from obtaining the check sequence and account number for the operating account, and also promotes proper separation of duties between employees

EXPERT TIP:
The same person who handles the rent check, etc. should not be the same person who handles payroll.

Money Market (Savings Account)

This account is used to keep extra cash, which will often generate more substantial interest income. Automatic "sweeping" to the regular business/operating account when that account falls below a certain level can be set up from these accounts to make sure you have enough money in your main firm account.

Credit Cards

A law firm should treat credits cards exactly as it would a bank account. Transaction detail is more easily reviewed, audited and reconciled. Treating the credit card as cash offers a clearer picture on current cash position.