

California State Bar Finds Major IOLTA Compliance Gaps at Law Firms in First CTAPP Reviews

First 77 mandatory CTAPP reviews reveal widespread problems with three-way reconciliations, attorney supervision, and client trust accounting.

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EINPresswire.com/ -- On September 18, 2026, the State Bar of California released preliminary findings from the first 77 of 100 mandatory Client Trust Account Protection Program (CTAPP) compliance reviews launched in 2025.

The results identify significant

deficiencies involving [three-way](#)

[reconciliations](#), attorney supervision,

recordkeeping, and the handling of client funds. Although CTAPP reviews encompass client trust accounts generally—including both IOLTA and non-IOLTA accounts—the findings are particularly relevant to law firms maintaining IOLTA accounts.



The Results at a Glance

Among the first 77 completed mandatory compliance reviews, the State Bar reported:

- Only 18% of firms properly perform or understand required three-way reconciliations.
- 96% showed evidence of a lack of general attorney supervision over trust accounting.
- 58% resulted in a corrective action plan, investigative audit, or referral to the Office of Chief Trial Counsel.
- 35% had at least one instance of misappropriated client funds.
- More than \$2.1 million was involved across 57 occurrences of misappropriation.
- All except approximately \$164,000 of that \$2.1 million had been returned to clients before the attorney received notice of the compliance review.
- 42% of completed reviews were closed with no further action required.

These are preliminary results. The remaining reviews from the original group of 100 are expected to be completed by October 2026.

“The biggest takeaway from these results is that IOLTA compliance is not simply about whether the bank account reconciles,” said Marc Pamatian, founder of Chief Bookkeeping Officer. “A trust account can have plenty of money in it and still have serious problems at the client-ledger level. A proper three-way reconciliation brings the bank records, trust account journal, and individual client ledgers together, and the attorney still needs to review that information, understand what it is showing, and ask questions when something does not make sense.”

Only 18% Properly Perform or Understand Three-Way Reconciliations

For law firms that maintain IOLTA accounts, perhaps the most notable finding is that only 18% of reviewed firms properly “perform or understand” required three-way reconciliations.

The wording matters. The State Bar did not report simply that 18% of firms were performing compliant three-way reconciliations. Performance and understanding were combined into the same reported statistic.

From a bookkeeping perspective, this finding highlights an important distinction: reconciling a bank account is not necessarily the same thing as completing a three-way trust reconciliation.

The State Bar identifies three primary components of the monthly reconciliation process:

- the trust account bank statement and supporting bank records;
- the trust account journal, which records activity affecting the trust account as a whole; and
- the individual client ledgers, which record receipts, disbursements, and balances for each client or matter.

The total of the individual client ledger balances should reconcile with the trust account records and the adjusted bank balance. The State Bar also expects supporting information such as outstanding deposits and outstanding disbursements to be maintained as part of the monthly reconciliation process.

The accounting concept itself is not especially complicated. The difficulty is maintaining accurate underlying records month after month so that all three components can actually be reconciled.

An IOLTA bank statement can reconcile perfectly to accounting software while problems remain within individual client ledgers. A transaction can be assigned to the wrong matter. A client ledger can become negative. An old check can remain outstanding. A deposit can be recorded incorrectly.

That is why the third component—the individual client accounting—is so important.

96% Showed Evidence of Inadequate Attorney Supervision

The State Bar also reported that 96% of reviewed firms showed evidence of a lack of general attorney supervision over trust accounting.

That does not mean an attorney is expected to become an accountant.

Law firms routinely rely on internal accounting employees, outside bookkeepers, controllers, accountants, and other professionals to maintain financial records. But trust accounting involves information that an accountant or bookkeeper cannot always independently know.

A meaningful monthly review starts with the attorney understanding what is being presented.

The bank statement and supporting bank information show what actually moved through the financial institution. The account journal shows the overall activity within the trust account. The individual client ledgers show how that money has been attributed among individual clients and matters.

Once those records are assembled and reconciled, the attorney should be able to review the report, understand the balances, and ask questions about unusual activity.

That final review matters because the attorney often possesses information the accountant does not.

For example, an outside bookkeeper may see that a paper check has remained outstanding for several months. The bookkeeper cannot necessarily know that the attorney physically voided the check unless someone communicates that information.

Likewise, an accountant may identify an unusual payment, client balance, or disbursement but may not know the underlying facts of the matter, settlement, lien, fee arrangement, or client instruction that explains the transaction.

Accounting professionals understand the numbers. Attorneys understand the matters that created those numbers.

Effective trust accounting requires both.

The State Bar's own CTAPP guidance makes the distinction clear. Attorneys remain responsible even when bookkeeping and banking responsibilities are assigned to nonlawyers, and the designated licensee is responsible for performing or supervising the monthly reconciliation.

58% of Completed Reviews Required Further Action

Of the 77 completed reviews, 58% resulted in a corrective action plan, investigative audit, or referral to the Office of Chief Trial Counsel.

Those three outcomes are significantly different.

Mandatory Corrective Action Plan

When a possible violation involving the safekeeping of entrusted funds is identified, the State Bar may require a mandatory corrective action plan.

The plan identifies the issue, requires specified corrective action within a designated period, and requires the attorney to verify that the corrective measures have been implemented.

From a bookkeeping standpoint, that can mean correcting deficient processes and establishing procedures so that trust-account records are properly maintained, reconciled, reviewed, and supported going forward.

Investigative Audit

An investigative audit is a substantial escalation from the initial compliance review.

A standard compliance review encompasses at least one year of trust-account activity. If findings warrant an investigative audit, the State Bar can expand its examination to at least three years of trust-account activity and request additional documentation regarding transactions and the handling of entrusted funds.

The scope can include far more than a bank statement and a QuickBooks file. State Bar guidance identifies supporting records such as client ledgers, trust journals, check copies, documentation of deposits and disbursements, fee agreements, settlement agreements, invoices, and relevant client communications.

For a law firm with incomplete historical records, that difference between reviewing one year and reconstructing several years can be significant.

Referral to the Office of Chief Trial Counsel

The most serious category is referral to the Office of Chief Trial Counsel (OCTC) for possible disciplinary action.

A referral itself is not a finding of discipline. OCTC investigates alleged attorney misconduct and determines whether disciplinary charges are warranted. State Bar investigations generally remain confidential; disciplinary charges become public when they are filed in State Bar Court.

If public discipline ultimately results, official information can appear on the attorney's State Bar profile and in State Bar Court records.

For that reason, the difference between identifying and correcting an accounting weakness internally and allowing that weakness to develop into a serious trust-account problem can extend far beyond bookkeeping.

35% Had Client Funds Classified as Misappropriated

The State Bar reported that 35% of reviewed firms had at least one instance of misappropriated client funds, representing more than \$2.1 million across 57 occurrences.

That statistic is significant, but it requires context.

The State Bar specifically noted that some of the money was misappropriated because of recordkeeping errors, while more serious cases involved conduct such as borrowing from client funds. All except approximately \$164,000 of the more than \$2.1 million identified had already been returned to clients before the attorneys received notice that they had been selected for review.

Accordingly, the 35% figure should not be interpreted as meaning that 35% of the reviewed attorneys intentionally stole client money.

From an accounting standpoint, the more useful lesson is how a recordkeeping error can result in one client's funds being used incorrectly.

An IOLTA account may contain money belonging to dozens or hundreds of different clients. The bank sees one account balance. The accounting records must identify who owns every portion of that balance.

Consider a simplified example.

If Client A's ledger incorrectly shows \$10,000.00 available when only \$7,000.00 actually belongs to Client A, a \$10,000.00 disbursement may still clear the bank because sufficient money exists in the IOLTA account overall. But the additional \$3,000.00 necessarily came from money belonging to someone else.

The bank account itself may never become overdrawn.

That is one reason individual client ledgers and monthly three-way reconciliations are so important. A healthy bank balance does not, by itself, demonstrate that the money within the account has been properly allocated among clients.

The frequency reported by the State Bar—35% of reviewed firms having at least one occurrence—is therefore more instructive than simply focusing on the aggregate \$2.1 million figure.

“Closed With No Further Action” Does Not Necessarily Mean Perfect Accounting

The inverse of the 58% further-action statistic is also worth understanding.

The State Bar reported that 42% of completed reviews were closed with no further action required.

That should not automatically be interpreted to mean that every one of those firms maintained flawless trust-account records.

The State Bar's compliance-review guidance identifies several possible outcomes, including confirmation of compliance, recommendations for best practices where findings are minimal, mandatory corrective action, investigative audit, and referral to OCTC.

In other words, the decision not to escalate a review is an outcome of the review process. It is not necessarily the same thing as saying no deficiency of any kind existed.

That distinction is particularly important when the State Bar simultaneously reports that only 18% of reviewed firms properly perform or understand required three-way reconciliations.

The Compliance Review Program Is Expanding

These first 100 mandatory reviews are only the beginning.

On June 17, 2026, the State Bar began notifying 400 additional California attorneys that they had been randomly selected from a cross-section of the attorney population for mandatory reviews of their 2025 trust-account recordkeeping.

The State Bar has previously stated that the mandatory compliance-review program is expected to expand to as many as 800 attorneys annually.

That means CTAPP compliance reviews are becoming an ongoing component of California's oversight of client trust accounting rather than a limited pilot project.

The population subject to trust-account oversight is substantial. In its 2024 annual report, the State Bar reported that approximately 117,750 attorneys reported client trust account responsibilities.

For any individual law firm, the probability of selection in a given year may remain relatively small. But the broader direction is clear: the State Bar is collecting more trust-account information, reviewing more firms, and placing greater emphasis on documentation, reconciliation, and attorney oversight.

What Law Firms Should Take From the First CTAPP Results

The preliminary results do not mean that every accounting discrepancy constitutes misconduct or that every law firm maintaining an IOLTA account is at risk of discipline.

They do show that the State Bar is finding trust-account weaknesses at a significant rate among the firms reviewed.

From a bookkeeping perspective, a law firm does not need to wait for a State Bar compliance review to answer several basic questions:

- Are three-way reconciliations actually completed every month?
- Does the reconciled bank balance agree with the trust account journal?
- Does the total of the individual client ledger balances agree with those records?
- Are negative client ledger balances investigated?
- Are old outstanding checks and deposits reviewed and resolved?
- Can the firm support deposits and disbursements with appropriate documentation?
- Are unexplained or unidentified balances investigated?
- Does an attorney actually review the completed reconciliation and ask questions about unusual items?
- Can the firm readily produce the records supporting the reconciliation if requested?

The State Bar itself now identifies failure to perform monthly three-way reconciliations, errors in distributions, inadequate supervision of bookkeepers and outside vendors, commingling, inadequate documentation, and incomplete journals and client ledgers among the most frequent issues encountered during compliance reviews.

Those are not abstract regulatory concepts.

They are accounting processes that occur—or fail to occur—inside a law firm every month.

The first mandatory CTAPP results provide an unusually clear picture of what can happen when those processes break down.

And as the State Bar expands the number of mandatory reviews, California law firms that maintain IOLTA and other client trust accounts have increasingly good reason to understand exactly what their monthly trust-account reporting contains, who reviews it, and whether the underlying records actually reconcile.

About Chief Bookkeeping Officer

Chief Bookkeeping Officer provides [bookkeeping services to law firms](#), including monthly IOLTA three-way reconciliations, client trust ledger reconciliation, and historical trust-account catch-up and cleanup.

Bookkeeping services can support a law firm's accounting processes and recordkeeping but do not replace an attorney's professional responsibilities, legal judgment, or required supervision of entrusted client funds.

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