



What Happens During a NC Bar Audit & How to Prepare

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My Background

- Master's Degree in Accounting from NC State
- Over 20 years of experience
- Successfully navigated multiple bar audits



What is IOLTA?

Interest on Lawyers' Trust Account

- Bank account for trust funds.
- Required for most NC attorneys
- Trust Funds - Money from client or third party
- Examples: retainers, client costs, settlements



Why Trust Account Compliance Matters

Client Protection

Safeguarding client funds is your ethical duty

This is not your money



Why Trust Account Compliance Matters

Protect License

Violations can lead to disciplinary action

Career & Financial Consequences

Lose client's trust, trust account frozen, clean-up costs

Are YOU in Compliance?

Out of 2,000 trust audits, only 1% were found to be in complete compliance - Anne Parkin (Head of Audit Dept at NC State Bar)

99%

were not compliant





Real Consequences

Suspension of License

Disbarment

License, Career and Reputation at risk

Who Gets Audited?



Random Selection

NC Bar conducts quarterly random audits



Client Complaints

Triggered by trust account concerns



Firm-Wide Impact

If one attorney audited, all are reviewed



The Audit Notification Process*

Contact

Bar contacts firm to schedule

Location

Audit takes place at your office

Preparation

Gather required documents



What You Must Provide

Documents

Paper or electronic records (12 months)

Workspace

Dedicated area for auditor to work



Required Documents: The Essentials

- 3-way reconciliations with attorney signature *
- Quarterly reviews with attorney signature *
- Bank statements
- General ledger reconciliations
- Monthly client ledger balances



Banking Documentation

- **Check Images ***
All cleared checks (12 months)
- **Deposit Records**
Deposit slips with teller stamp or bank receipts
Credit card deposit reports
- **Transfer Confirmations**
Wire/ electronic/ online transfer confirmations *



Additional Compliance Requirements

NSF Directive

Bank directive on NSF trust checks

CLE Proof

1-hour CLE for all with fund authority

Check Formatting

Proper trust check identification and size

Check Formatting

**INFORMATION AND
FIELDS REQUIRED BY THE RULES**

Trust Account Designation **Payee Name** **Pre-Numbered Check**

Dee Fender, Esq.
Trust Account
Raleigh, NC 27808

Date: May 23, 2009

101

PAY
TO THE
ORDER OF ABCXYZ Chiropractic Center

\$ 1,500.00

Fifteen hundred and no/100 ----- DOLLARS

 **Wegottayourmoney
BANK**

MEMO Omega (12345) – full and final payment

Dee Fender

00000101 8 **031202084** **000-123-12345678**

Auxiliary On-Us **Client Matter & Purpose** **Account Number**

LONGER THAN 6"



Escheatment Requirements

Old trust funds must be properly handled

Unclaimed client funds over 5 years old must be escheated to the state according to NC law.



The Deep Dive Review Process

1

Selection

Auditor picks specific client matters

2

Tracking

Follows transactions across all records

3

Verification

Ensures complete accuracy and compliance



Audit Day: What to Expect



Provide Space

Private workspace



Be Available

Answer questions promptly



Stay Organized

Documents ready and accessible



The Exit Interview

Responsible attorney must be present.

Auditor will ask a set of questions –
be prepared to answer these questions.

Questions

- Do you send final accountings?
- Do you send annual interim accountings?
- Have you ever misappropriated trust funds?
- Do you keep your trust records for 6 years?
- Everyone who has check signing authority or can move trust funds has taken 1 hr trust acct CLE?

Questions

- Do you use a signature stamp or electronic signature for trust checks?
- Are the trust accounts you have showed me today your only trust accounts?
- Do you have trust accounts in other states?
- Are you holding any other property besides trust funds?
- Are you aware of your duty to report issues?



Results

Auditor discusses findings and next steps before leaving your office.



Compliance Report

What You'll Receive:

- Items that met compliance
- Areas needing correction
- Timeline for fixes



Corrective Action Process

1

Review Report

Understand all deficiencies

2

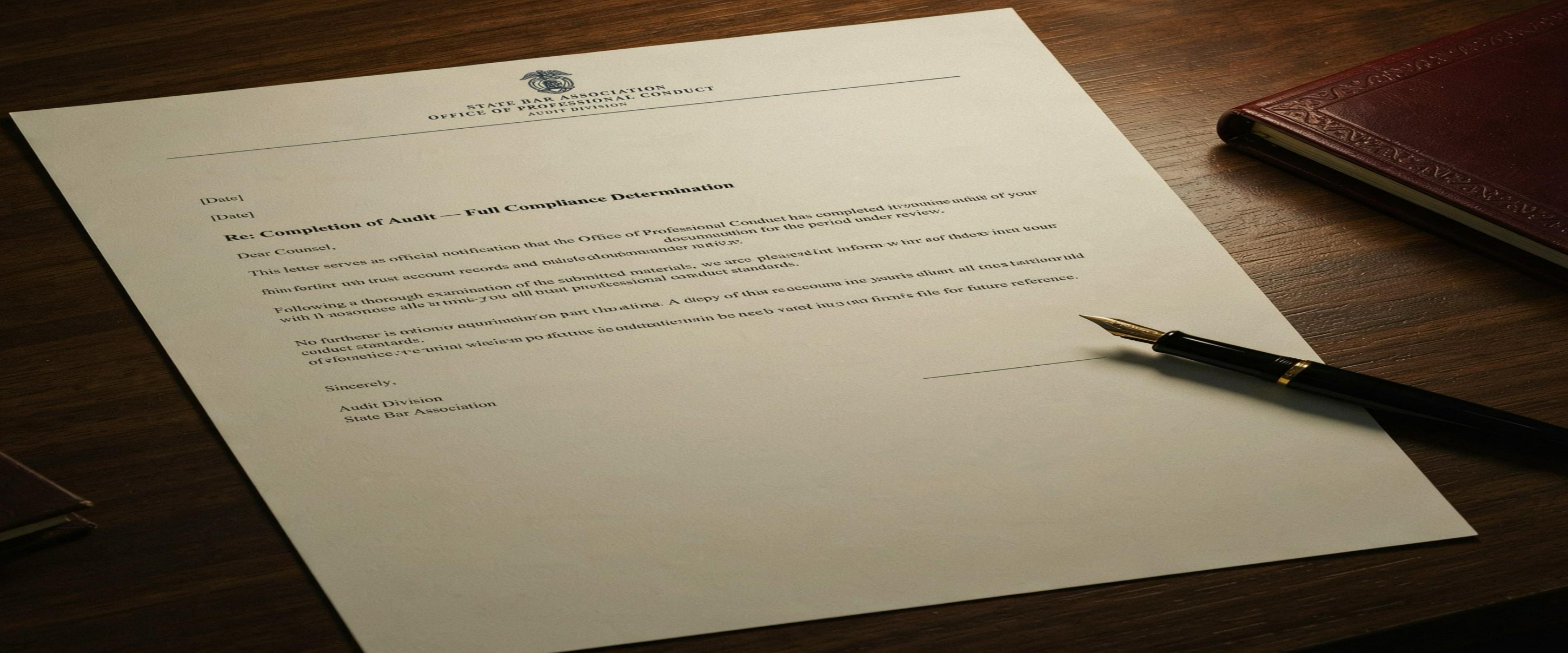
Make Corrections

Fix all identified issues

3

Submit Proof

Provide evidence of compliance



1

All corrections completed and supporting evidence submitted to the Bar.

2

The Bar confirms that all compliance requirements have been satisfied.

3

Letter of Compliance



Achieve Compliance



Enjoy Peace of Mind



3 Years Audit-Free

If the audit uncovers serious violations

Misuse of client funds

Missing money

Repeated noncompliance

Gross negligence

Referral to the
Grievance Committee



Further Investigation

01

Formal Inquiry

Bar Counsel opens a formal disciplinary investigation.

02

Attorney Response

Lawyer provided opportunity to respond in writing.

03

Further Subpoenas

Additional records or client information may be requested.



Grievance Committee Decision

Dismissal

No ethical violation found.

Warning/Caution

Minor violations requiring correction.

Discipline

Public or private actions for rule violations.

Referral to Disciplinary Hearing Commission

For serious misconduct.



Disciplinary Hearing Commission (DHC)

If referred, your case is tried like a court proceeding before a panel of lawyers and public members.

License Suspension

Temporary loss of license, sometimes with conditions like monitoring.

Active Suspension

Prohibited from practicing law during the specified period.

Disbarment

Permanent loss of your license to practice law.

Additional Sanctions

May include restitution, mandatory audits, or required training.

Best Practices for Success



Get organized now and maintain compliance year-round.



Stay on top of monthly reconciliations and Quarterly Reviews



Fix errors quickly and keep detailed notes of what happened and how you fixed it.



Prepare Permanent Documents in Advance



Ask for Help

Questions?

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