The State Bar of California

Title of Report: 2026 Legislative Report on Attorney Client Trust Accounts: Regulatory Findings and Outcomes
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The State Bar has submitted a report to the Assembly Committee on Judiciary and the Senate Committee on Judiciary in accordance with subdivision (h) of Business and Professions Code section 6091.3, which requires the State Bar to report annually on the number of findings, mandatory corrective actions, and referrals for possible discipline it made pertaining to client trust accounts. This summary is provided pursuant to Government Code section 9795.

This inaugural report highlights the first full year of compliance reviews conducted under the Client Trust Account Protection Program (CTAPP), established by the California Supreme Court to proactively safeguard $15 billion of entrusted funds held in California attorney trust accounts. Enabled by legislation effective January 1, 2025, CTAPP compliance reviews combine education and corrective action to strengthen trust account management and protect the public.

The first 100 compliance reviews examined 205 trust accounts holding approximately $321 million and reached 7,483 licensees responsible for client trust funds—about 7.5 percent of all such licensees—exceeding the initial target. Of these, 35 compliance reviews were closed, 40 resulted in mandatory corrective action plans, 22 led to investigative audits, and 3 were referred to the Office of Chief Trial Counsel (OCTC) for possible discipline. The investigative audits may result in additional referrals because one outcome of an investigative audit is a referral for potential discipline.

Early results demonstrate the program's impact. Every attorney who responded to the post-review survey reported improved trust account management practices; bank-reported trust account overdrafts declined by 50 percent, from 1,402 in fiscal year 2023, the year CTAPP reporting began, to 694 in fiscal year 2026, even as OCTC's overall caseload grew 42 percent; and the compliance reviews identified more than $17 million of entrusted funds that were not properly held in a California Interest on Lawyers' Trust Account (IOLTA). The transfer of these funds will increase future funding for grants to local and statewide civil legal aid organizations. If those entrusted funds had been held in a California IOLTA, approximately $515,000 in additional grant funding would have been available in 2024 alone.

CTAPP's first year reflects meaningful progress toward protecting client funds, improving compliance, and supporting public trust in the legal profession. The State Bar will continue to refine CTAPP and seek the resources needed to expand its public protection mission.

The full report is available for download on the State Bar's Data & Reports webpage.

A printed copy of the report may be obtained by calling 415-538-2000.

The State Bar of California

2026 Legislative Report on Attorney Client Trust Accounts: Regulatory Findings and Outcomes

Pursuant to Business and Professions Code section 6091.3(h)

November 19, 2026

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INAUGURAL REPORT

Pursuant to subdivision (h) of Business and Professions Code section 6091.3, on or before November 30, 2026, and annually on or before November 30 thereafter, the State Bar of California shall submit to the Assembly Committee on Judiciary and the Senate Committee on Judiciary a report detailing the number of findings, mandatory corrective actions, and referrals for possible discipline that the State Bar made in the prior fiscal year[1] pertaining to client trust accounts.

Given the timing of the selection of licensees for compliance review, the cadence of notification of the selections, and the time it takes to complete the compliance reviews, as discussed in this report, this report details the regulatory efforts and observations of the State Bar and the number of findings, mandatory corrective actions, investigative audits, and referrals for possible discipline that the State Bar made for compliance reviews initiated during fiscal year 2025, including findings and outcomes that occurred in calendar year 2026.

CLIENT TRUST ACCOUNT PROTECTION PROGRAM DEVELOPMENT

More than 100,000 California attorneys are responsible for safekeeping over $15 billion in funds held in trust for their clients and others. Historically, the State Bar investigated the handling of client trust funds only after a formal disciplinary complaint was filed or a financial institution reported a trust account was overdrawn.

In July 2021, the Board of Trustees established a special committee of the Board, the Committee on Special Discipline Case Audit, to develop a proposal to effectively and proactively regulate attorney trust accounts. The Committee on Special Discipline Case Audit proposed that attorneys annually register their trust accounts, perform self-assessments, and certify compliance, and that the State Bar institute a review of trust account recordkeeping to identify, prevent, and deter misconduct. The committee also recommended rule revisions to ensure that licensees informed the beneficiary of entrusted funds of the receipt of those funds and that entrusted funds were disbursed within a specific period.

Based on the recommendations of the Committee on Special Discipline Case Audit, on October 22, 2022, the California Supreme Court adopted rule 9.8.5 of the California Rules of Court, effective January 1, 2023, directing the State Bar to establish and administer the Client Trust Account Protection Program (CTAPP) "for the protection of client funds held in trust by a licensee that facilitates the State Bar's detection and deterrence of client trust accounting misconduct." As part of the same order, the Supreme Court amended certain California Rules of Professional Conduct to promote the safekeeping and prompt disbursement of funds.[2] In

[1] The State Bar's fiscal year is on a calendar year basis, January 1 to December 31.

[2] Specifically, the Court amended rule 1.15 of the Rules of Professional Conduct to require a lawyer (1) to notify a client or third party within 14 days after receiving funds or property on their behalf, and (2) to disburse any entrusted funds or property within 45 days after the funds become undisputed. Failing to meet that distribution deadline will result in a presumption that the attorney violated rule 1.15, which the attorney can only rebut with

furtherance of the new program, the State Bar adopted State Bar rule 2.5. CTAPP was implemented in two phases, beginning with annual reporting requirements and expanding to compliance reviews and investigative audits.

PHASE ONE: ATTORNEY ANNUAL REPORTING REQUIREMENTS

Beginning with the 2023 attorney renewal cycle, State Bar licensees were required to (1) certify whether or not, at any time during the prior year, they were responsible for client funds and funds entrusted by others under the provisions of rule 1.15 of the Rules of Professional Conduct; (2) if they were responsible for handling entrusted funds, register each and every trust account, including IOLTA and non-IOLTA client trust accounts,[3] through a centralized reporting platform, by identifying account numbers and financial institutions; (3) complete an annual self-assessment on client trust accounting duties and practices confirming compliance with rule 1.15; and (4) certify that they are knowledgeable about, and in compliance with, applicable rules and statutes governing client trust accounts and the safekeeping of funds entrusted by clients and others.

Creating and Updating Educational Resources

In 2023, following implementation of the annual reporting requirements, the State Bar focused on addressing a significant challenge identified during the development of CTAPP: Many attorneys had never received practical training regarding trust accounting compliance and did not know how to comply with the applicable Rules of Professional Conduct and statutes. Accordingly, the State Bar emphasized training and development of educational resources and compliance assistance tools. These materials were designed to translate technical trust accounting requirements into practical procedures attorneys could implement within their practices.

Resources developed by the State Bar included:

- An updated *Handbook on Client Trust Accounting for California Attorneys* that included practical guidance on required monthly reconciliations;
- A practical trust account recordkeeping and reconciliation course;

evidence showing good cause. A new Comment to rule 1.4 was also added to underscore that receipt of client funds is considered a "significant development" that an attorney must promptly communicate to their client under that rule.

[3] IOLTA stands for "Interest on Lawyers' Trust Account." When an attorney holds entrusted funds, they must hold those funds in one or more interest-bearing bank accounts labeled as a "Trust Account," or words of similar import. (Rules Prof. Conduct, rule 1.15(a).) If the amount of entrusted funds is small or the funds will be held for such a short period of time that they are not capable of earning interest for the client in excess of the cost of maintaining a separate bank account, then the funds are deposited into a pooled account with similar funds of other clients. (Bus. & Prof. Code, § 6211, subd. (a).) The interest on these pooled IOLTAs is forwarded to the State Bar and used to support legal aid organizations that provide civil legal aid to indigent and low-income people, seniors, and persons with disabilities. When the amount of entrusted funds is large or the funds are to be held for a long period of time, the attorney must place the money in a non-IOLTA trust account, an individual account where the interest accrues for the benefit of the client. (Bus. & Prof. Code, § 6211, subd. (b).)

- Recordkeeping forms and templates with instructional videos (e.g., Account Journal template in PDF and Excel and the video Using the Account Journal Template);
- A supervision guide for attorneys overseeing lawyers and nonlawyer assistants involved in trust account administration;
- A law firm self-assessment tool to evaluate internal controls and oversight practices; and
- Practical articles, best practices, and compliance tools.

These educational efforts were intended to clearly communicate and improve attorney knowledge of client trust accounting requirements, including recordkeeping requirements, and encourage statewide compliance with these requirements.

PHASE TWO: DEVELOPMENT AND IMPLEMENTATION OF COMPLIANCE REVIEW FRAMEWORK

The State Bar created the CTAPP compliance review program to evaluate attorneys' and law firms' compliance with the Rules of Professional Conduct and applicable statutes regarding the safekeeping of funds entrusted by clients or others and any related obligations.[4] A compliance review is an examination of the prior calendar year's activity to assess whether licensees and their firms maintained accurate and complete records, deposit and disbursement amounts were calculated correctly, transactions were in accordance with their clients' or others' documented expectations, and trust accounting records and communications were compliant with the applicable authorities. See Appendix A for authorities considered in the compliance review framework. Consistent with rule 9.8.5 of the California Rules of Court, compliance reviews would be performed by independent certified public accountants (CPAs) at the licensee's expense.

To implement this model, the State Bar worked closely with CalCPA, a statewide association of CPAs; the American Institute of Certified Public Accountants, the national professional organization of CPAs; and other accounting professionals to develop a standardized compliance review process that would preserve confidentiality and provide appropriate assurances that an attorney or law firm was compliant with the Rules of Professional Conduct and applicable statutes. The State Bar developed specific predefined testing procedures for the CPAs to apply to each trust account and to a sample of client matters during the 12-month period under review. This type of assurance service, known as an "agreed-upon procedures" engagement, allows the State Bar to narrowly tailor the scope of the compliance review to the specific recordkeeping requirements applicable to attorney trust accounts.

[4] CTAPP compliance review program implementation required hiring State Bar staff accountants to oversee the program, train independent CPA firms to perform the compliance reviews, perform quality assurance on the procedures performed by the CPA firms during the compliance reviews, determine the outcomes of the compliance reviews, and conduct follow-up procedures. These costs were funded by an additional fee authorized by Business and Professions Code section 6140.13, effective January 1, 2025. This additional fee sunsets on January 1, 2029.

The resulting framework required that all CPA firms conducting CTAPP compliance reviews meet certain professional requirements and:

- Complete specialized CPA firm training by the State Bar;
- Follow standardized guidance and review protocols; and
- Submit compliance review findings to the State Bar for regulatory evaluation.

The agreed-upon procedures for the CTAPP compliance review prohibit CPA firms from amending the compliance review scope or drawing conclusions or recommendations as to the outcome of a compliance review. The State Bar is responsible for applying the relevant authorities to make conclusions and recommendations and determine the outcome of the compliance review.

In support of phase two of CTAPP, on February 21, 2025, the Board of Trustees adopted rules 2.4 and 2.6 and amended rule 2.5 of the Rules of the State Bar.

Statutory Changes Required to Permit State Bar Compliance Reviews

Given that the compliance reviews would examine both trust account records and attorney-client communication, the State Bar sought statutory authorization to preserve attorney-client privilege and maintain client confidentiality prior to initiating compliance reviews. Business and Professions Code section 6091.4, effective January 1, 2025, provides that, notwithstanding the duty of confidentiality, attorney-client privilege, or work product, licensees and law firms shall, pursuant to a request made as part of a compliance review or investigative audit, provide the requested information. The statute further states that the provision of any information requested during a compliance review or investigative audit does not violate or waive the protections of any other rule or law related to attorney work product, the attorney-client privilege, or the duty of confidentiality.

Pilot Program and Validation of Procedures

Once the statutory exception to the attorney-client privilege and the duty of confidentiality was in place and before launching mandatory compliance reviews, the State Bar conducted a pilot program to test the proposed compliance review procedures and identify opportunities for improvement.

In 2025, 21 volunteer law firms participated in compliance reviews at no cost. Information gathered through the pilot program allowed the State Bar to evaluate the effectiveness of the procedures, refine reviewer guidance, identify operational challenges, and improve the overall review process.

As anticipated under the compliance review framework, the State Bar established requirements for approving CPA firms to conduct the compliance reviews and developed a 12-hour training course to ensure the CPA firm teams understood the duty of confidentiality, the State Bar's

agreed-upon procedures, the State Bar's audit management software, administrative processes and procedures, and requirements for compliance with CTAPP.[5]

Following completion of the pilot program and refinement of the procedures, the State Bar initiated the first 100 compliance reviews between September 29, 2025, and October 29, 2025. These compliance reviews have been substantively completed as of October 30, 2026. The findings and outcomes of these first 100 compliance reviews are discussed in this report.

From June through September 2026, the State Bar initiated 400 mandatory compliance reviews for 2026, of which 5 have been completed as of October 30, 2026. The remaining 395 are expected to be completed by June 2027.

Compliance Review Outcomes

A compliance review may result in one of four outcomes: (1) closure of the compliance review with or without findings, (2) a mandatory corrective action plan, (3) an investigative audit, or (4) referral to the Office of Chief Trial Counsel (OCTC). The outcome depends on the nature and severity of the issues identified during the review and the level of additional regulatory review required to evaluate the proper safekeeping of client funds and to promote compliance.

1. Closure of the Compliance Review

A compliance review is closed when the State Bar determines that a law firm is substantially compliant with the applicable trust accounting rules, statutes, and related authorities. In some instances, the compliance review may identify minor or technical violations that do not present a significant risk to client funds. These issues are often the result of a lack of awareness of a specific requirement rather than an intentional failure to maintain appropriate trust accounting practices. Examples may include missing documentation, incomplete recordkeeping details, or other technical noncompliance that can be readily corrected.

The State Bar provides the law firm with recommendations and guidance designed to promote full compliance with applicable requirements. Because the identified issues do not warrant additional oversight or corrective measures, the State Bar takes no further regulatory action and provides a final Findings Report to the Designated Licensee.

2. Corrective Action Plans

When a compliance review identifies more significant deficiencies but the State Bar determines that those deficiencies can be corrected through remediation and regulatory oversight, the matter will result in a mandatory corrective action plan. The State Bar establishes specific requirements and deadlines and monitors compliance until the identified deficiencies have been resolved. Corrective action plans are intended to bring attorneys and law firms into

[5] The 12-hour CPA firm training was updated in 2026 prior to the launch of the 2026 compliance reviews. Annual training will be required for all approved CPA firms going forward.

compliance while minimizing risks to clients. Depending upon the nature of the deficiencies identified, the plan may require correction of recordkeeping deficiencies, engagement of bookkeeping assistance, completion of three-way reconciliations, adjustment and, where required, reimbursement of incorrectly calculated amounts, or other corrective actions.

3. Investigative Audits

An investigative audit is implemented when the compliance review identifies issues that cannot be adequately evaluated through the limited scope of the agreed-upon procedures. Investigative audits remain part of the CTAPP regulatory oversight function and are distinguished from disciplinary investigations.

Investigative audits may be necessary when:

- Records necessary to complete the compliance review are unavailable or incomplete;
- Trust funds may have been deposited into non-trust accounts;
- Significant unexplained transactions are identified;
- Additional testing is required; or
- Other unusual circumstances require expanded review.

In these situations, the State Bar may obtain additional records, expand the time period, and/or conduct more extensive testing to determine the nature and extent of potential violations. Upon completion of an investigative audit, the State Bar may close the compliance review, implement a mandatory corrective action plan, or refer the matter to OCTC.

4. Referral to OCTC

When a compliance review identifies evidence of misuse of client funds, grossly negligent failure to safeguard funds, or other significant violations of the Rules of Professional Conduct or applicable statutes, the matter is referred to OCTC for investigation and potential disciplinary action. Such referrals represent a small subset of compliance review outcomes.

Compliance Review Attorney Selection Process

The State Bar intentionally utilized a randomized selection methodology, ensuring the law firm size for selected attorneys is proportionally based upon the composition of the California licensee population. For example, solo practitioners comprise approximately 25 percent of attorneys with trust account responsibilities; therefore, no more than 25 percent of selected firms are solo practitioners. This approach allows the State Bar to gather baseline compliance data across the profession before exploring a move to a risk-based approach that may prioritize law firms presenting elevated trust accounting risks based upon factors such as practice area, trust account activity, prior compliance history, and other risk indicators to focus resources on areas with the highest potential impact on public protection.

Compliance Reviews Assess a Law Firm, Not an Individual Attorney

While attorneys are selected through the CTAPP process, compliance reviews are conducted at the law firm level. This approach is necessary because trust account management typically occurs within firm-wide systems and controls. Most firms maintain trust accounts that hold funds belonging to multiple clients and that may be used by multiple attorneys. As a result, it is generally not possible or effective to evaluate an individual attorney's trust accounting practices without examining the broader trust accounting environment in which those activities occur.[6]

In the State Bar's April 1, 2024, *Justification for a Licensing Fee Increase*, submitted to the Legislature in accordance with Business and Professions Code section 6145.1, the State Bar estimated that it would select approximately 0.5–1.0 percent of all licensees annually for compliance review. Completing a compliance review at the firm level allowed the State Bar to achieve that goal. Detailed reporting of the number of compliance reviews and attorneys associated with law firms selected for a compliance review is discussed in the Program Funding and Capacity section below.

CTAPP COMPLIANCE REVIEWS: YEAR ONE

From September 29, 2025, through October 30, 2026, the State Bar conducted the first 100 mandatory compliance reviews. This included selecting 100 licensees out of 99,364 total active California licensees who indicated in their 2025 annual CTAPP reporting that they were responsible for the safekeeping of funds, and then identifying and selecting their law firms for a compliance review. In total, the first 100 compliance reviews examined 205 client trust accounts, including 174 IOLTAs and 31 non-IOLTA trust accounts.[7] These trust accounts collectively held approximately $321 million as of December 31, 2024, and contained funds for which 7,483 licensees indicated they were responsible, approximately 7.5 percent of the population of active licensees with trust accounting responsibilities.

OUTCOMES

The outcomes of the first 100 compliance reviews include the following:

- 35 were closed with minimal findings, and recommendations of best practices were provided to the attorney and law firm.
- 40 concluded with findings, resulting in the issuance of a mandatory corrective action plan of recordkeeping and trust account practices for the attorney and law firm.

[6] The adoption of rule 2.4 and the amendment of rule 2.5 of the Rules of the State Bar, both effective February 21, 2025, require each trust account to have a Designated Licensee responsible for the account. While any attorney with trust accounting responsibilities may be held responsible for trust accounting deficiencies, the State Bar determined that a Designated Licensee must be appointed for each trust account and be primarily responsible for overseeing compliance, including performing or supervising the monthly reconciliations, and participating in the CTAPP compliance review, if selected by the State Bar.

[7] The number of non-IOLTAs reflects the number of sampled non-IOLTA trust accounts during the compliance review—not the complete number of non-IOLTAs held by the law firms selected for compliance reviews.

- 22 concluded with findings that led to an investigative audit. The outcome of the investigative audit will generally result in a mandatory corrective action plan or referral to OCTC for possible discipline.
- 3 concluded with findings that resulted in a direct referral to OCTC for possible discipline relating to their trust account practices.

Table 1. Compliance Review Final Determinations

Final Determination (n=100)	Percent
Close compliance review	35%
Corrective action plan	40%
Investigative audit	22%
Referral to OCTC	3%

The outcomes of the first 100 compliance reviews suggest there are broad gaps in attorneys' trust accounting knowledge and significant recordkeeping deficiencies in attorneys' and law firms' client trust account recordkeeping practices.

FINDINGS DURING COMPLIANCE REVIEWS

The findings detailed below include violations of both the Rules of Professional Conduct and statutes related to trust accounting obligations,[8] as well as practices that are not explicitly addressed by the relevant authorities but could result in client harm.

Table 2. Percentage of Findings by Compliance Area

Attorneys/Firms (n=100)	Had a Finding		Finding Was a Rule Violation	
Compliance Review Area	**No**	**Yes**	**No**	**Yes**
Review of specific client transactions and communications[9]	2%	98%	5%	95%
Review use of trust accounts, including segregation of attorney and client funds	16%	84%	17%	83%
Review attorney oversight and supervision of trust account activities[10]	3%	97%	40%	60%
Review compliance with trust account recordkeeping requirements	1%	99%	4%	96%

[8] See Appendix A for authorities applied to compliance review findings.

[9] Client-specific testing includes reviewing the fee agreement and confirming the trust account activity correctly reflects the hourly rates or fee percentages, determining whether communications include timely disclosure of receipt of funds, and confirming the timely distribution of funds.

[10] Effective February 21, 2025, as part of revisions to State Bar rule 2.5, the State Bar required the Designated Licensee to perform or supervise the monthly reconciliation of the trust account. This rule change was not in effect for the period covered by this report. The State Bar anticipates a potential increase in supervision-related rule violations in the next reporting period due to this rule change.

Misappropriation

CTAPP makes findings of misappropriation when money belonging to a client or third party is used, taken, borrowed, spent, or otherwise made unavailable without authorization. Misappropriation may be intentional for the benefit of the attorney, law firm, or another client, or may be caused by poor recordkeeping, bookkeeping errors, or inadequate supervision.

Examples include:

- Using client trust funds to pay law firm operating expenses;
- Paying a client or a client's obligation with another client's funds;
- Withdrawing fees before they have actually been earned or become fixed;
- Using client funds as a temporary loan, even if the money is later replaced; and
- Allowing a trust account balance, or an individual client's balance, to fall below the amount that should be held on behalf of the client, clients, or third parties.

During a compliance review, a finding of misappropriation broadly identifies when entrusted funds were unavailable when they should have been available, regardless of whether the shortage was intentional. CTAPP categorizes identified misappropriations into four categories: (1) use of funds for the benefit of the attorneys/law firms where the funds had not been returned to the client prior to notice that the licensee had been selected for a compliance review, (2) use of funds for the benefit of the attorneys/law firms where the funds had been returned to the client prior to notice that the licensee had been selected for a compliance review, (3) use of funds that did not benefit the attorneys/law firms, but benefited other clients where the funds had not been returned to the client prior to notice that the licensee had been selected for a compliance review, and (4) use of funds that did not benefit the attorneys/law firms, but benefited other clients where the funds had been returned to the client prior to notice that the licensee had been selected for a compliance review.

Thirty-nine law firms had at least one instance of misappropriation. Table 3 summarizes the occurrences and amounts by misappropriation type.

Table 3. Misappropriation Types and Amounts[11]

Misappropriation Type	Occurrences	Total Amount	Average Amount
Attorney benefit; funds not returned	29	$179,780.21	$6,199.32
Attorney benefit; funds returned	28	$466,162.91	$16,648.68
Another client benefit; funds not returned	6	$6,199.55	$1,033.26
Another client benefit; funds returned	19	$2,900,727.94	$152,669.89
Total occurrences and amounts	**82**	**$3,552,870.61**	**$43,327.69**

In the first category, where the attorney benefited and funds were not returned, one law firm accounted for 7 of the 29 occurrences, totaling just over $150,000. Another law firm accounted

[11] The number of occurrences and associated amounts is from the sampled client matters only.

for 2 of the 29 occurrences, totaling approximately $19,000. These two firms were both referred to OCTC for further investigation and possible discipline of attorneys at those firms.[12] The remaining 20 occurrences of this type of misappropriation involved small amounts, and there was no evidence of a pattern of misappropriation. As a result, these incidents appeared to be calculation errors. All missing funds identified in this category were returned to the clients as a result of the compliance review. These firms likely would have caught these errors had they properly performed monthly three-way reconciliations, as required.

Calculation errors or deficient recordkeeping practices were also the likely cause of misappropriations in the second category, where the attorney benefited and the funds were returned to the client prior to notice that the firm was selected for a compliance review. In some instances, the law firm's recordkeepers caught the errors during the monthly reconciliation process; however, in other instances, the errors were found and corrected but sometimes months later. If firms had properly completed the three-way reconciliation process, they likely would have caught these errors earlier and been able to correct them in a timelier manner. In one case, despite returning the money to the clients prior to notice of the compliance review, the trust account records showed the attorney had a practice of "borrowing" large amounts of client funds months before the attorney's fees had been fixed and earned. This is the third of the three matters where the compliance review findings were referred to OCTC for further investigation and possible discipline.

In the third category in table 3, where funds were unavailable because they were used for the benefit of another client and the money had not been returned to the client prior to the law firm receiving notice of the compliance review, the shortfalls, like many of the instances in the first two categories, appeared to be the result of calculation errors and did not represent a pattern for the law firm.

The fourth category—funds where a client benefited from the misappropriation from another client, but the funds were returned to the client owed—largely represented timing issues where the law firm issued payment to one client before that client's funds had cleared the bank, which meant that another client's funds were technically utilized during the funds clearing process. Corrective action in these cases included education about funds management and implementing processes to ensure the funds were available prior to issuing payments.

Even where an act or omission may violate the Rules of Professional Conduct or applicable statutes, it may not rise to a level warranting discipline. For example, a referral to OCTC may not be made where the misappropriated amount was small and was corrected during the monthly reconciliation process or, even if uncorrected, appeared to result from a calculation error that did not reflect a pattern or practice by the attorney or law firm. Violations that appear intentional and/or that involve large sums of money are referred to OCTC for

[12] See the Compliance Review Outcomes section for a description of circumstances that result in a referral to OCTC. OCTC does not have authority to pursue discipline against law firms; it can pursue disciplinary investigations and action only against individual attorneys.

investigation and possible prosecution in accordance with OCTC's policies and procedures. Where appropriate, CTAPP staff consults with OCTC to determine whether a violation identified by CTAPP staff warrants referral to OCTC.

Where a referral to OCTC is not made, the State Bar considers a mandatory corrective action plan to be the most effective remediation of the deficiencies. Mandatory corrective action plans require the Designated Licensee and law firm to review their recordkeeping practices, consider internal controls to catch errors before they occur, implement corrective recordkeeping practices, and demonstrate their understanding and ability to comply with the Rules of Professional Conduct and applicable statutes. Further, in every case where the unavailability of funds appeared to be the result of an error, the State Bar introduced best practices to prevent similar occurrences in the future.

Commingling Funds

With some specified exceptions, the Rules of Professional Conduct prohibit commingling of funds and generally require that client funds be deposited into a client trust account. (See Rules Prof. Conduct, rule 1.15(c).) During the first 100 compliance reviews, the State Bar discovered that law firms commingle attorney funds with client funds in both the trust accounts and the law firm's operating account. Eighty of the 100 law firms commingled attorney and client funds in the law firm's trust account without a permissible rule exemption. Additionally, 36 of the 100 law firms, including some that commingled funds in their trust account, did not properly deposit approximately $8 million of entrusted funds collectively into a client trust account and instead deposited the funds into the firm's operating account where the funds were commingled with the attorney's or law firm's funds.

Delayed Payments

Based on concerns that lawyers and law firms were not promptly distributing undisputed funds to clients and third parties, the California Supreme Court amended rule 1.15 of the Rules of Professional Conduct, effective January 1, 2023, to create a rebuttable presumption that, absent good cause, a violation of the rule occurs when a lawyer fails to distribute undisputed funds within 45 days of when the ownership of the funds becomes fixed. During the first 100 compliance reviews, the State Bar determined that there was approximately $4.8 million in delayed payments to clients across 32 law firms.

Funds Not Held in California IOLTAs and Other Impacts on IOLTA Grant Funds

Rule 1.15 of the Rules of Professional Conduct and Business and Professions Code sections 6211–6213 generally require that California client funds entrusted to a California lawyer be maintained in the State of California or, with the written consent of the client, in any other jurisdiction where there is a substantial relationship between the client or the client's business and the other jurisdiction. Where those funds are nominal in amount or are on deposit for a short period of time, the funds are required to be deposited into an IOLTA, and the interest and dividends earned are used by the State Bar Legal Services Trust Fund Program to fund qualified

legal services projects that provide legal services and support to indigent persons and qualified support centers that provide training, technical assistance, or advocacy support to qualified legal services projects. (See Bus. & Prof. Code, §§ 6211–6213.)

Analysis of the first 100 compliance reviews revealed a significant amount of California client funds was held outside of California, primarily because the firm's finance team is located in another state. At least 4 law firms were identified as holding California clients' funds in a non-California IOLTA without a rule-based exception. Additionally, 1 law firm maintained approximately $9 million of entrusted funds in a non-interest-bearing trust account that should have been held in a California IOLTA. Together, these 5 firms improperly held more than $17 million in accounts other than a California IOLTA, which, if held in State Bar Leadership Financial Institutions,[13] could have earned approximately $515,000 for legal aid program grants in California in 2024[14] alone.[15] As a result of the compliance review, these law firms must hold entrusted funds in a California IOLTA going forward, which will result in additional interest income for the State Bar's Legal Services Trust Fund Program in future years. The State Bar will continue to monitor the proper holding of entrusted funds for the 400 law firms currently undergoing compliance review.

Deficient Attorney Supervision

Rules 5.1 and 5.3 of the Rules of Professional Conduct establish the responsibilities of lawyers to supervise other lawyers and nonlawyer assistants. Rule 5.2 of the Rules of Professional Conduct sets forth the responsibilities of a subordinate lawyer who acts at the direction of another lawyer. Collectively, these rules require that all lawyers in a law firm comply with the Rules of Professional Conduct and applicable statutes, and that nonlawyer assistants act in a manner compatible with the professional obligations of a lawyer. Relatedly, effective February 21, 2025, the State Bar amended State Bar rule 2.5, requiring the Designated Licensee to perform or supervise the monthly reconciliation of the trust account. The State Bar also put together resources on *How to Supervise Reconciliations Completed by Others*.

Widespread attorney supervision deficiencies were identified in the first 100 compliance reviews. Both Designated Licensees and nonlawyer assistants were unfamiliar with the Rules of Professional Conduct governing trust account recordkeeping requirements, as evidenced by the law firm's records. Bookkeepers responsible for trust account recordkeeping were often hired without being provided with adequate training or sufficient understanding of the ethical requirements governing attorneys' handling of entrusted funds. For example, completing monthly three-way reconciliations to identify and correct recordkeeping errors is essential to properly account for multiple clients' funds in one IOLTA. Performing three-way reconciliations

[13] Leadership Financial Institutions are IOLTA-eligible financial institutions that volunteer to provide increased interest, free of fees, for their IOLTA offerings.
[14] The period under review for the first 100 compliance reviews initiated in 2025 was the prior calendar year, which was January 1, 2024, through December 31, 2024.
[15] Entrusted funds were held for years in accounts that did not earn interest for the benefit of the State Bar's Legal Services Trust Fund Program; for one law firm, it was decades.

is required by the rules, yet only 19 of the law firms in the first 100 compliance reviews were performing this required reconciliation process. Given that safekeeping of entrusted funds is a nondelegable duty owed by the attorney, failure to properly reconcile trust accounting records, when identified, was deemed a supervision deficiency. Other indications of deficient supervision included ongoing unresolved trust accounting errors, noncompliant records, and self-disclosed lack of supervision over trust account management.

Table 4 provides a summary of the evaluation of the Designated Licensee's noncompliance with the Rules of Professional Conduct and applicable statutes.

Table 4. Designated Licensee Noncompliance Types and Rates

Attorney Conduct (n=100)	Yes
Evidence of lack of attorney supervision or training	97%
Attorney failed to review monthly three-way reconciliations	96%
Firm failed to perform monthly three-way reconciliations	81%
Evidence of commingling of funds	80%
Unknown funds in the trust account(s)	25%
Attorney noncompliance with rule 2.6 (compliance review requirements)	14%

Broad Trust Account Recordkeeping Deficiencies

The first 100 compliance reviews revealed widespread knowledge gaps regarding trust accounting practices across all law firm sizes:

- "Ownership" of the attorneys' ethical obligations to safekeep entrusted funds was effectively passed to nonlawyer assistants without proper training or resources.
- Attorneys were unfamiliar with their trust accounting obligations, as required by California Rules of Professional Conduct, rule 1.15.
- Nonlawyer assistants were not properly trained.
- Only 19 percent of firms performed or understood three-way reconciliations, which led to negligent misappropriations and other rule violations.
- There was limited or nonexistent attorney oversight of the accounting team's work.

While there were instances of possible misconduct that were referred to OCTC or are under investigative audit, the majority of identified deficiencies (e.g., incomplete reconciliation of books and records, missing documentation, inadequate client communications, and delayed payments) were attributed to knowledge gaps and lack of training rather than intentional misconduct. In an effort to resolve these training gaps, the State Bar has developed a bookkeeper course bundle, a set of e-learning courses that bookkeepers can take. Upon earning a passing score, bookkeepers may add their name to a list of bookkeepers who have successfully completed the courses. Attorneys seeking to hire bookkeepers can review the list to identify bookkeepers with exposure to attorney trust account management requirements.

PROGRAM FUNDING AND CAPACITY

In the State Bar's April 1, 2024, *Justification for a Licensing Fee Increase*, submitted to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145.1, the State Bar identified the funding and staffing levels needed to initially support the compliance review portion of CTAPP.[16]

The goal of the initial funding, as detailed in the State Bar's 2024 *Justification for a Licensing Fee Increase*, was "to conduct a combination of compliance reviews and audits of between .5 and 1 percent of all licensees with trust accounts annually."

Under Business and Professions Code section 6140.13, beginning in 2025, the State Bar was authorized to collect up to $5.50 from each active licensee and $1.25 from each inactive licensee to support the administration of the CTAPP compliance reviews and audits.

With that funding, the compliance review program is currently staffed by six full-time CPAs and one program coordinator. In 2025, staff initiated 100 compliance reviews. As described in the Compliance Reviews Assess a Law Firm, Not an Individual Attorney section of this report, compliance reviews inspect the practices of the law firm—not one individual attorney. The 100 law firms subject to compliance reviews in 2025 employ 7,483 licensees who reported having trust account responsibilities during the period under review (7.5 percent of the 99,364 licensees who reported having trust account responsibilities during the 2025 annual billing cycle). Therefore, the percentage of licensees associated with the accounts subjected to compliance review significantly exceeds the 0.5–1.0 percent of all California licensees with trust accounting responsibilities initially targeted by the State Bar.

Additionally, staff time associated with compliance review work has included:

1. **Conducting in-house compliance reviews**. Given that licensees selected for compliance reviews must hire a CPA firm to complete their compliance review at the attorney's expense, in an effort to minimize the impact on solo practitioners and small firms, the State Bar implemented a program where State Bar staff conducts no-cost compliance reviews in-house for licensees and firms with $150,000 or less in gross revenue. This resulted in approximately 6–10 percent of all compliance reviews being done in-house.

2. **Handling compliance reviews**. State Bar staff time required for compliance reviews was twice as much as expected, in part due to:

[16] The State Bar indicated that with $5.75 per active licensee and $1.25 per inactive licensee in 2025, $7.25 per active licensee and $1.75 per inactive licensee in 2026, and $8.75 per active licensee and $2.00 per inactive licensee in 2027, the State Bar could secure audit management software and hire 7 additional full-time employees in 2025, increase staffing to 10 in 2026, and increase staffing to 12 in 2027. These staff members would oversee the compliance review program, including training the independent CPA firms to perform the compliance reviews, performing quality assurance on the procedures performed by the CPA firms, determining the outcomes of the compliance reviews, monitoring compliance with the mandatory corrective action plans, and conducting investigative audits.

- Numerous inquiries from attorneys and bookkeepers about trust account management and recordkeeping requirements that required significant direct support;
- Deficient, messy, or missing records, which take more time to review and analyze to determine if clients or third parties have been harmed;
- Numerous emails, phone calls, noncompliance notices, and referrals to OCTC for noncompliance[17] to address attorney noncompliance with the compliance review process, including attorneys providing redacted records despite the requirements and protections of Business and Professions Code section 6091.4; and
- Requests for firm-specific guidance on best practices and how to correct violations given the law firm's specific records systems and practices.

3. **Processing significantly more post–compliance review engagements**. Post–compliance review engagements were more than double the number expected. Initial projections budgeted staff resources for 25 percent of all compliance reviews to end in an investigative audit. However, the outcome of the first 100 compliance reviews included 40 percent ending in a mandatory corrective action plan—which requires State Bar staff to develop, implement, monitor, and assess for compliance—and an additional 22 percent resulting in an investigative audit.

4. **Providing forensic accounting services**. Staff time was required to support OCTC by providing forensic accounting services.

5. **Responding to licensee inquiries**. Staff time was required for responding to thousands of licensee inquiries about CTAPP reporting during the attorney annual license renewal cycle.

6. **Developing educational programs**. To promote awareness of CTAPP and compliance with professional responsibility obligations, staff time was required to develop educational programs, such as the bookkeeper course bundle described above, and other outreach, including *Daily Journal* articles, speaking engagements, and answering questions from the public and licensees about trust accounting–related issues, such as funds held in deceased attorneys' trust accounts.

In 2026, staff has initiated 400 compliance reviews, which should conclude by June 2027.[18]

[17] These noncompliance referrals to OCTC are not included in the number of OCTC referrals in the Outcomes section of this report, as each interim noncompliance referral ultimately resulted in compliance with the CTAPP compliance review process.

[18] These 400 compliance reviews involve law firms with 24,190 licensees who reported having a trust account during the period under review (24 percent of the 100,447 licensees who reported having trust account responsibilities during the 2026 annual billing cycle) and will assess 839 client trust accounts, including 756 IOLTAs and 83 non-IOLTA trust accounts. As of December 31, 2025, these accounts collectively held approximately $1.40 billion.

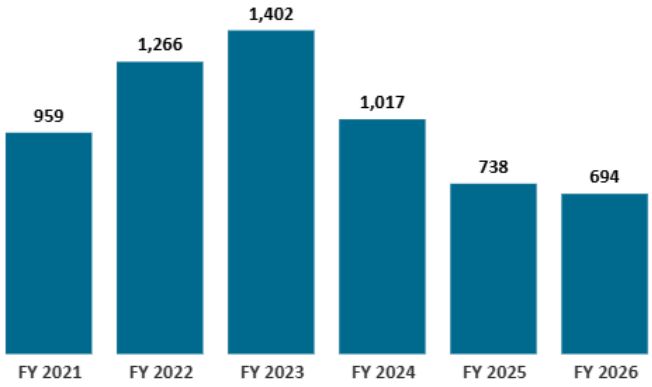
PROGRAM IMPACT

CTAPP has already produced measurable benefits, including (1) a decline in bank reportable actions (i.e., overdrafts of trust accounts), (2) an increase in IOLTA interest income to fund legal aid programs, and (3) improved law firm trust accounting practices.

1. **Decrease in bank reportable actions.** Since 1989, Business and Professions Code section 6091.1 has required financial institutions to notify OCTC whenever there is an overdraft of a client trust account. This statutory requirement includes all trust accounts: IOLTAs and non-IOLTAs.

   The number of bank reportable actions (i.e., overdrafts of trust accounts)—each of which triggers an investigation by OCTC—fell 50 percent, from a high of 1,402 in fiscal year (FY) 2023 to 694 in FY 2026 (figure 1).[19] The decline is more notable given that OCTC's overall caseload grew 42 percent over the same period. The timing coincides with CTAPP's launch in FY 2023.

Figure 1. Bank Reportable Action Cases Received, FY 2021–FY 2026



2. **Increase in IOLTA interest income to fund legal aid programs.** CTAPP compliance reviews also identified more than $17 million of entrusted funds that should have been held in a California IOLTA but were not. The State Bar had not anticipated the extent of this practice. As described earlier in this report, during the first 100 compliance reviews, the State Bar discovered that more than $17 million of entrusted funds were held in accounts other than a California IOLTA without an applicable rule exception. Had these funds been held in State Bar Leadership Financial Institutions, approximately $515,000 in additional interest could have been earned for legal aid program grants in 2024 alone. The law firms have either already moved these entrusted funds to a California IOLTA or are in the process of doing so. The State Bar will continue to identify this practice and

[19] Note that the bank reportable action data are part of the *Annual Discipline Report*, which is calculated on a different fiscal basis than the State Bar's calendar year basis. The data presented in figure 1 are on a fiscal year basis from July 1 through June 30.

report on the increase in future funding made available through the proper handling of California client funds.

3. **Improved trust accounting practices.** Attorneys who completed the compliance review process reported largely positive feedback,[20] with 100 percent of all respondents indicating that the process improved their trust account management. These improvements in account management are expected to reduce client harm and complaints by eliminating or reducing gaps in firm communication practices, calculation and other bookkeeping errors, and inadequate documentation. The program also has a significant deterrent effect, as awareness of CTAPP compliance reviews encourages attorneys to adopt stronger trust accounting practices and reinforces professional obligations related to client funds. As the number of compliance reviews conducted each year increases, the deterrent effect is expected to grow.

CONCLUSION

The State Bar's compliance review program provides valuable oversight of attorney trust account practices and plays a critical role in protecting the public. The program has demonstrated significant benefits in improving attorney practices, reducing noncompliance with trust accounting obligations, and enhancing public trust in the legal profession. The program has identified California client funds that are currently held in an account that is not a California IOLTA and therefore not accruing IOLTA interest income for the benefit of the State Bar's Legal Services Trust Fund Program, and there has been a significant reduction in the bank reportable action caseload for OCTC. The State Bar will continue identifying and evaluating areas where CTAPP can have the greatest impact with its currently budgeted resources. Building on the program's demonstrated success to date, the State Bar will continue to evaluate, make strategic refinements to, and seek increased resources for CTAPP, which will further strengthen attorney compliance, safeguard entrusted funds, and advance CTAPP's public protection mission.

[20] The primary criticism of the program relates to cost. Most attorneys and firms selected for review must hire a CPA firm at their own expense. Although the State Bar conducts no-cost reviews for licensees and firms with gross revenue of $150,000 or less, many solo and small firms above that threshold report difficulty absorbing the additional business expense.

APPENDIX A: AUTHORITIES CONSIDERED IN CTAPP COMPLIANCE REVIEWS

Authority	Section
California Rules of Professional Conduct	Rule 1.4 Rule 1.5 Rule 1.6 Rule 1.15 Rule 5.1 Rule 5.2 Rule 5.3
Rules of the State Bar of California	Rule 2.2 Rules 2.4–2.6 Rules 2.111–2.112
The State Bar Act	Section 6106 Section 6147 Section 6148 Section 6211
California Code of Civil Procedure	Section 1518
State Bar of California Formal Opinions	No. 2005-169 No. 2007-172