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What lawyers need to know before a CTAPP compliance review arrives

With up to 800 attorneys a year expected to face mandatory CTAPP reviews, California lawyers should now treat the program as an ongoing compliance function, with failures carrying consequences and potential disciplinary action.

By Gary L. Krausz

California's Client Trust Account Protection Program (CTAPP) has moved from annual reporting and self-assessment into active compliance review.

Effective Jan. 1, 2023, California's Client Trust Account Protection Program (CTAPP) established a comprehensive framework for monitoring attorneys' compliance with trust-accounting requirements and protecting client funds. That mandate is implemented through California's State Bar rules governing annual reporting, trust account registration, self-assessment, compliance review and investigative compliance review procedures, with Rule 1.15 serving as the core rule governing the safekeeping of client funds and property.

The mandatory compliance review phase officially launched on Sept. 29, 2025, when the State Bar began randomly selecting and notifying 100 attorneys to complete CTAPP compliance reviews for reporting year 2024. Prior to that, the State Bar conducted a voluntary CTAPP pilot program to assess procedures and gather attorney feedback. With the expectation that now up to 800 attorneys per year will be randomly selected for mandatory compliance reviews, the message is clear for California lawyers and law firms. CTAPP should be approached as an ongoing compliance function to avoid



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costly corrective action, additional scrutiny and, in serious cases, disciplinary consequences. A compliance review is not, by itself, a disciplinary investigation. However, significant deficiencies identified during the review process may result in additional State Bar inquiry or referral.

The framework behind CTAPP
CTAPP applies broadly to any California attorney who is responsible for client funds or funds entrusted by others under Rule 1.15, although

some categories of licensees are exempt from aspects of the reporting framework. The program relies on overlapping authorities. Rule 9.8.5 formally created the program; the State Bar's CTAPP rules govern reporting and review procedures; Rule 1.15 establishes the substantive trust-accounting obligations; and Business and Professions Code section 6091.4 preserves the confidentiality of records and information produced during compliance reviews.

Rule 1.15 is the heart of CTAPP. It requires attorneys to deposit entrusted funds into properly identified trust accounts, avoid improper commingling, notify clients or other interested persons within a set number of days of receiving funds absent good cause, maintain complete records, preserve those records for a set period of time after final distribution, and promptly distribute undisputed funds. The rule's record-keeping standards specifically require a client ledger for each matter, a journal for each trust account, bank statements with copies of checks, and monthly reconciliations balancing those records together.

What triggers a review

A CTAPP compliance review begins when a licensee is selected by the State Bar under the governing CTAPP rules. The purpose of the review is to evaluate compliance with the Rules of Professional Conduct and applicable laws concerning the safekeeping of entrusted funds. The review tests whether the lawyer or firm can substantiate its trust-accounting practices with accurate, complete and current records.

Under the current rules, a compliance review covers at least one year of trust-account activity, while a more serious investigative compliance examination may extend to at least three years. The selected attorney must respond promptly, provide the requested records, coop-

erate with follow-up requests and comply with the State Bar's review procedures. Because the process is document-intensive, the quality and organization of a firm's records can materially affect both the cost and the efficiency of the review. However, the State Bar has created financial exemptions for attorneys with annual gross income of \$150,000 or less; these reviews may be overseen by State Bar CPA staff directly. Otherwise, everyone who is not exempt must hire a CPA firm from the State Bar's list of approved firms.

The cost of the compliance reviews varies based on three factors. The main drivers are (a) the number of trust accounts and number of transactions, (b) the type of law firm practice, as some are much more complex than others, and (c) how well prepared and organized the firm is for the examination. The average cost was approximately \$7,700. Poor recordkeeping, slow response times in turning over requested documents and unclear communications will generally require the CPA to spend more time completing the compliance review, inevitably increasing the cost.

What the pilot and initial rollout revealed

The pilot program offered an early picture of the deficiencies the State Bar is most likely to identify. Among the 18 firms that completed the voluntary process, 83% had noncompliant trust account journals, 89% had noncompliant client ledgers, and 83% had noncompli-

ant monthly three-way reconciliations. The State Bar also reported deficiencies involving late client notification, delayed distribution of funds, inadequate attorney supervision, and incorrectly calculated attorney or firm fees.

Those findings are consistent with the design of Rule 1.15. While firms often focus on the bank balance, CTAPP requires more than that. A compliant system must allow the attorney to trace each receipt and disbursement by client, reconcile the journal, ledger and bank records monthly, and demonstrate timely notice and distribution practices. Many CTAPP problems are not rooted in intentional misconduct but rather in weak internal controls, inconsistent supervision and incomplete documentation.

Responsibility cannot be delegated away

One of the most important lessons for attorneys is that trust-account compliance remains an attorney's responsibility even when daily bookkeeping functions are performed by staff, a finance department or outside accountants. Rule 1.15 imposes the underlying duties, and the State Bar's initial findings underscore that deficient attorney supervision is itself a recurring compliance problem.

That point is especially important for firms with sophisticated internal accounting support. Delegation may be operationally necessary, but it does not displace the lawyer's duty to ensure that trust funds are

handled properly, records are complete, reconciliations are current, and client notifications and distributions occur on time.

Preparing proactively

Attorneys should ensure that their annual CTAPP self-assessment responses accurately reflect their trust-accounting practices. Discrepancies between self-assessment responses and records produced during a compliance review may raise additional questions during the review process.

In order to best position a firm for a CTAPP review, treat trust accounting as a controlled compliance function rather than a back-office administrative task. That means maintaining complete and contemporaneous ledgers and journals, performing monthly three-way reconciliations, preserving bank statements and canceled checks, documenting notice and disbursement decisions, and ensuring that fee practices align with Rule 1.15's restrictions on commingling and withdrawal. Typical requests include trust account bank statements, canceled checks, deposit records, client ledgers, trust journals, monthly three-way reconciliations, and documentation supporting trust-to-operating account transfers.

It also means assessing the process before a notice arrives. The firms most likely to navigate a CTAPP review efficiently are those with documented procedures, regular reconciliations and attorney oversight. Firms should confirm that

responsible attorneys can identify every trust account, explain who supervises each one, retrieve a full year of records promptly, and reconcile those records to client-specific activity without guesswork. CTAPP's pilot and mandatory rollout suggest that many issues can be addressed before they become disciplinary concerns, but only if firms approach trust-account management with the same rigor they apply to other areas of professional risk.

For more information, visit the State Bar of California's CTAPP Compliance Review FAQ.

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