Handling Client Expense Disbursements

All firms are called on from time to time to pay case-related expenses on behalf of their clients. This is especially true of firms which handle only plaintiffs' work on a contingency basis and often advance the expenses associated with the litigation; however, even defense firms and transactional lawyers must keep up with and properly bill costs which arise during the course of representing their clients.

It is extremely important that a firm maintain a system of accounting for case expense disbursements. Not only do the rules of professional responsibility require that a lawyer accurately account to his client for funds expended in furtherance of the case, whether paid from the client trust account or advanced by the firm, but it is also in the firm's best interest to keep tight controls on all expenses advanced since they are, essentially, unsecured, non-interest bearing loans made by the firm to the client.

When the client deposits funds with the attorney for the payment of costs to be incurred, the accounting is fairly straightforward. Good trust accounting principles require that the lawyer create a trust account ledger for each client on behalf of whom he receives funds. The ledger card or sheet should have a place for the date, deposit or check number, deposit payor or check payee, and purpose for each entry. The balance of each client trust ledger card or sheet should always be kept current, and the total of all trust ledger cards or sheets should always equal the total balance in the trust account. No individual trust ledger card or sheet should ever be allowed to go below a zero balance.

The same type of system should be used to keep up with expenses advanced. Any firm which advances costs for a client should maintain an unbilled client disbursements ledger. As with the client trust ledger, there should be a separate sheet or card for each *matter* in which costs are advanced, indicating the date the advance is made, to whom, the check number, and the purpose for the advance.

Each disbursement on behalf of a client should generate a piece of paper of some kind which is used to post the expense to the appropriate client unbilled disbursement ledger as soon as the advance is made. Remember that there are internal as well as external advances which must be accounted for. Examples of internal advances are photocopies, postage and overnight delivery fees. External advances are things such as court filing fees, court reporter fees, and payments for medical records. Always post from the first piece of paper generated which accurately reflects the amount advanced, and carefully maintain each voucher.

When it is time to bill the client, the bookkeeper combines information from the lawyers' time records with the information from the unbilled disbursements ledger, and indicates on the ledger that all expenses advanced to date have been billed.

Sample Office Procedure
Client Expense Disbursements

Client Costs Advanced

Because advanced costs are, essentially, unsecured, non-interest bearing loans to the client, the firm strives to obtain cost advances from its clients whenever possible. Before advancing costs to pay a bill issued in connection with a client's case, the bookkeeper should always check to determine whether the client has a trust balance with the firm.

In order to accurately keep up with and bill for costs advanced, the firm maintains an unbilled client expense ledger with an individual ledger sheet for each client matter in which costs are advanced. All costs advanced for the matter must be posted to the unbilled expense ledger at the time the expense is incurred. The ledger sheet contains room for the date of the advance, to whom the advance was made, the purpose of the advance and the check number by which it was paid, if applicable, and all this information must be complete.

Each disbursement on behalf of a client must generate a voucher showing the case name/number and the amount and purpose of the disbursement. For internal advances, such as photo copies and postage, the vouchers are the copier log and postage log, respectively, which are collected and posted each day by the bookkeeper. For services such as overnight delivery and long distance telephone calls, all charges on each monthly bill must be identified and will then be posted by the bookkeeper. For external advances, such as court reporter fees and medical records, the voucher is the original invoice for the service. Original invoices shall be maintained chronologically in a file folder for the service provider, and another copy shall be maintained with the client advanced-expenses ledger. In the case of telephone and overnight mail statements, a copy of each statement with the applicable charges marked shall be maintained with the client unbilled disbursements ledger. Once the disbursements are billed, all vouchers shall be placed with the firm copy of the appropriate client bill.