

[Date]

[Recipient Name]

[Title]

[Organization Name]

[Address]

**Subject: Management Letter - Assessment of Trust Account Overdraft Risks**

Dear [Recipient Name],

During our recent review of the organization's internal controls, we identified specific risks regarding the management of trust accounts, specifically concerning the potential for overdrafts. As trust accounts hold funds on behalf of third parties, maintaining a positive balance is a critical legal and fiduciary requirement.

**Identified Risks:**

- **Fiduciary Breach:** An overdraft indicates that one client's funds are being used to cover another client's expenses, which is a violation of trust account regulations.
- **Regulatory Sanctions:** Banks are often required to report trust account overdrafts to professional regulatory bodies, which may trigger mandatory audits or disciplinary action.
- **Reputational Damage:** Failure to manage trust funds accurately can lead to a loss of client confidence and legal liability.

**Observed Weaknesses:**

- Delays in recording disbursements against uncleared deposits.
- Lack of daily automated alerts for low balances.
- Insufficient frequency of three-way reconciliations.

**Recommendations:**

1. **Clearance Verification:** Implement a policy ensuring that funds are fully cleared and "good" before any disbursements are issued against them.
2. **Real-Time Monitoring:** Enable bank notifications for any balance falling below a pre-defined threshold.
3. **Frequent Reconciliation:** Perform weekly reconciliations between bank statements, the general ledger, and individual client ledgers.

We recommend that management reviews these findings and implements the suggested controls immediately to ensure continued compliance with statutory requirements.

Sincerely,

[Your Name/Signature]  
[Your Title]  
[Firm/Department Name]