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Consistent and Current Cash Flow

by Mary Merrell Bailey

The lifeblood of your firm is your cash flow. How do you keep your firm's cash flow healthy? The steps sound basic; conscientiously record your time; regularly review your time; promptly and correctly invoice your clients; track your collections. The procedures you create and the bookkeeper you hire to implement these steps will help you succeed.

Record Your Time:

Remember why you are recording your time. You are capturing your efforts in a manner that encourages your clients to be happy to pay your invoice to reward you for working on their behalf. Knowing that the audience for your time records is your client, what method of tracking works best for you?

BC – before computers – professionals tracked their time with paper and pencil. Those daily timesheets were typed by transcriptionists and manually turned into invoices. This was not the most efficient method, but it worked.

These days, most attorneys use a computer to track their time electronically. There are many software products to help you. At Bailey Zobel Pilcher, we use Timeslips™ to track and bill our time, but any process will work so long as you are consistent.

As soon as you are engaged to handle a matter, set up a separate ID for that matter. Capture your time on that matter as you work on it. Train yourself to change your matter as you change your attention. If Client B calls you while you are working on Client A's matter, change to Client B's matter while you pick up the phone. Client A does not want to pay for you to talk to Client B. The easier your procedure for recording your time, the more accurate your time records will be.

Reviewing Time:

Make each of your legal staff members responsible for the accuracy of his or her time records. At least once per month – more frequently if it helps your firm – provide each legal staff member with a slip report that shows, by client matter, every slip that was created by that staff member for the prior month. Ask your staff member to review all of his/her slips, correct any typos and errors, and affirm that the report is accurate and informative.

Distribute slip reports on the first business day of each month. Give each staff member one day to adjust his/her slips. As the rest of the billing cycle is dependent on all slips being accurate, make sure your staff members take this responsibility very seriously.

Invoicing Your Clients:

Your invoice may be the only written communication your client regularly receives from you. Think of it as a marketing piece. It must be timely, accurate, attractive, and informative. If it does not meet all of these criteria, why would your client be eager to pay it?

The paralegal and the attorney responsible for the matter should review the draft invoice for each matter. Run your pre-bills in batches by paralegal by attorney. Design a block stamp on each pre-bill that has boxes for each person reviewing the pre-bill to check. Give your paralegal responsible for the matters two business days to review the pre-bills, and then the same to the responsible attorney. Only after each has signed off on the pre-bill should you finalize the invoice.

In addition, your managing partner should review each invoice before it goes out the door. Yes, this is a rigorous inspection process, but should result in invoices that get paid promptly. Following this schedule, your invoices should be finalized and in the mail – or e-mail – to your clients by the sixth business day of the month.

Tracking Effectiveness of Invoicing and Collections:

After you have finalized your invoices for the month, you should produce two reports to track how well your firm is invoicing and collecting on your invoices.

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CASH FLOW
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- **Aged Work In Process**

Are all of your matters being invoiced each month? Are all of the slips being charged to a matter being invoiced? An Aged Work in Process (WIP) report can answer these questions.

WIP is time that has been charged to a matter, but has not been included on an invoice to a client. WIP, for a law firm, is inventory. WIP that is more than 30 days old may be a sign of trouble. It means that the invoice has not been produced for that matter. Why not? Is the matter in difficulty? Is the paralegal or managing attorney trying to avoid alerting the client to trouble by not sending an invoice? Is the matter over-budget? Is someone charging time to the wrong matter?

You want WIP converted into an invoice. WIP that has not been invoiced cannot turn into cash. In addition, the longer you wait to send a client an invoice, the less inclined the client is to send a check in return. Work you did in April is not very compelling for your client to pay if your client does not hear about it until November.

- **Aged Accounts Receivable**

Accounts Receivable are invoices that have been created, but the client has not yet paid. The best invoice in the world is no good to your firm until your client pays it. You don't want invoices outstanding. You want cash in hand.

There usually is a reason why a client has not paid an invoice. Your Aged A/R report can show you what those invoices are, so you may contact the client and find out what you may do to make it easy for your client to pay.

Sort your Aged WIP and A/R reports by responsible attorney, with a sub-sort by paralegal, and by age of the slip or invoice. Show the dollar and percentage value of slips or invoices at 30, 60, 90, and greater than 120 days old. Review these reports with the responsible attorney and paralegal, and identify matters or clients that need special attention. WIP or A/R that is more than 30 days old is a signal that the matter or client may be in crisis.

Once you recognize trouble, remediate swiftly. Assign different or additional staff to the matter, or call or write to the client to request payment. You may need to write-off the WIP or the invoice if you deem it uncollectible. Do not allow slips or invoices to linger on your books.

Who Does Your Billing:

No matter if you are a solo practitioner or if you have several attorneys and multiple staff members – you should not be producing your billing. You should not be running and printing the slip reports, finalizing the invoices, or producing the Aged WIP and Aged A/R reports. Hire it out. You may feel that you cannot afford a bookkeeper. In truth, you cannot afford to *not* have a bookkeeper.

Perhaps you spend six hours of your time per month creating invoices for your firm. If your billing rate is $270 per hour, you have spent $1,620 of potentially billable time on a firm administrative function. Let's assume you could pay a bookkeeper $45 per hour to do your billing. If your bookkeeper spends six hours per month creating invoices for your firm, you will pay your bookkeeper $270. In other words, if you bill one hour per month that you otherwise would have spent on an administrative matter, you pay for your bookkeeper. Plus, you are relieving yourself of a duty that – let's be honest – you are not good at, you dread, and you avoid if you can.

A bookkeeper will get your invoices out timely and attractively. As you and your legal staff are responsible for the invoices being accurate and informative, the addition of a bookkeeper to your team will speed your cash flow.

Consistent, positive cash flow is vital to the stability of your firm. Don't let money fritter away because you aren't paying attention. Hire a bookkeeper, track your efforts, invoice regularly and completely, and make sure your clients pay promptly. Your cash flow will flourish.

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