

Why Successful Law Firms Switch to Integrated Legal Financial Software

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A law firm is a business. As such, the people running it need to know how the business is performing so they can make financial decisions to help the firm grow. Legal professionals typically use one of three billing and accounting methods to help run their business: the shoe box method, the generic software method, or the integrated industry-specific software method. Is your firm using the best solution?

THE "SHOE BOX" METHOD

The simplest, most rudimentary way to track billing and financial information is to throw all receipts in a shoe box and periodically take them out to review how you are doing. Closely related to this is looking at your checking account and using the balance, deposit, and withdrawal information to do some calculations.

The biggest downside to these methods is the lack of timely information. How accurate is your billing for time and client expenses? With the "shoe box" method it is difficult to track who owes you money and how much. Related to this is knowing how long the money has been owed to you and what follow up has been done. When you don't bill and collect in a timely manner, the firm suffers and it is much harder to collect. Studies show that the older the receivable becomes, the harder it is to collect. If you miss billing for advanced client costs, you are throwing away money.

Lack of information about how the firm is doing can lead to loss of money. Not only because you are not billing and collecting but also because you can't make decisions. How much are you spending in different areas, and how much are you making? If you only determine these answers once a quarter, you can't make decisions in a timely manner. If you don't keep accurate records on invoices from vendors, you may overlook discounts or double pay. If you don't realize the firm is doing well, you may underpay estimated taxes and incur penalties. If you need to obtain financing, you have to present good financials. Trying to prepare these at the last minute adds strain. If you have good information you can know that you may need financing and prepare in advance, possibly obtaining the financing before you need it and getting better rates.

The "shoe box" method also leads to a loss of time. Manual methods require more time to review information and run calculations. If something is missed, you may not catch it as there's no double check, at least not without additional work. There's no way to easily tie information together or back to clients without additional manual work. If you have gathered the information and need to analyze or review it in a different way, more work is required. If you bill for your time, then this extra work is costing you money because you can't be serving clients. Even if you don't bill for your time the extra work is time you could have spent marketing to grow your business or with family and friends.

Timely, accurate financial information avoids the issues and is most easily attainable through software.



THE GENERIC SOFTWARE METHOD

Slightly better than the shoe box method is using generic software that is one-size-fits-all, but not legal specific, like Microsoft® Word and Excel®. While these can help you track information, they are still manually intensive and it is easy to make mistakes. It's up to you to create the reports you need to track and assess the information, and a single mistake in a formula or a number can be hard to notice or find.



There are other generic software options, like QuickBooks, that exist. Just like the Microsoft Office applications, they are not designed for the unique needs of legal firms. The key area where these programs "miss the mark" is Trust/IOLTA accounting. This is of critical importance to law firms, and therefore, deserves special attention. While you can do IOLTA accounting in QuickBooks, it is up to you to make sure it is done correctly. Generic accounting programs won't warn you if you are over-drafting a specific client IOLTA account, which is a significant issue for law firms. Generic accounting programs also lack built-in reports that law firms need

to track and report on IOLTA accounts, like customer ledgers or three-way reconciliation.

Aside from IOLTA tracking and accounting there are additional issues that exist for a law firm using generic billing and accounting software. These include billing flexibility, reporting and advanced client cost tracking.

Many firms feel they need something more legal-friendly and customizable for billing, even if they can meet their accounting needs with generic software. While separate programs for billing and accounting can work, they involve more time and risk than a single, integrated solution. If the two programs don't "talk" to each other, the firm is faced with double entry or export of data from one program and import into the other. Either of these provide more opportunity for errors in the form of data missed or duplicated. Additionally, you have to train staff on two different programs with different interfaces, vocabulary, and approaches; and you have to pay for and maintain two programs.

Even if the separate programs integrate, you will still have extra training and potential issues if the programs are not developed by the same vendor. Software support and maintenance is made more complex as you try to coordinate across vendors, each focused on their own software. Too often you want to upgrade one program to take advantage of some new feature, or just to remain on a supported version, but the second program software vendor does not yet support the new version. You may be stuck with running unsupported versions or updating a program that you don't want to update. Plus you are paying to update multiple programs, each with their own system requirements.

Further, if you are running a supported version, who do you call if the integration breaks? All too often, you end up in no man's land with each vendor pointing at the other. Furthermore, if you add in practice management, you may be entering information three times and tripling your maintenance and your learning curve! Even if the solutions integrate, there is more opportunity for something to go wrong when you are working across multiple different software programs. Data that is not transferred properly, whether through automated integration or export / import, can lead to inaccuracies or time wasted trying to identify and correct the problems.

Generic billing software will not offer options for electronic billing and may be lacking in legal specific billing reports. Reports that measure lawyer productivity and profitability may not be available. Generic software may also not easily measure revenue based on responsible or originating attorney or be able to allocate revenue according to select formulas. For firms that need to report on billing and discounts by case, there may also be issues in generic software.

It is important for the firm to be able to compensate the members of the firm in the way they choose. The software used needs to support the chosen compensation method and formulas. Lawyers don't usually start a firm so that they can spend time on administrative tasks. If you have to spend hours with spreadsheets to figure out who gets how much, you are wasting time that could be spent on marketing, family and friends or clients.

THE INTEGRATED INDUSTRY-SPECIFIC SOLUTION

The best solution is a single, integrated, industry-specific solution (i.e., a software suite from one vendor). With one solution, everything works together smoothly. There's no double entry and there's only a single interface to learn. If you can pay for a client cost and at the same time attach the expense to the matter for billing, you are less likely to overlook billing the client. An industry-specific solution will manage the IOLTA account, ensure payments are applied properly, protect you from errors, and provide the reports you need for day-to-day business or the unexpected bar audit.

WHEN EVALUATING LEGAL-SPECIFIC SOLUTIONS FOR A LAW FIRM, CONSIDER THESE FACTORS:

HARD COSTS AND SOFT COSTS

Hard costs are client expenses paid directly to the vendor (e.g., a court fee or marshal). Soft costs are client expenses incurred by the firm without a direct cash outlay, (e.g., copying documents). If you will be billing clients for hard or soft costs, it is important to understand the IRS rules related to these costs and to ensure the software provides an easy way to track and bill for these costs. It is much easier to track soft costs in advance of billing when you use legal-specific software.

WHAT DO YOU WANT TO SHOW ON THE INVOICE?

- Hours worked
- Rate charged for the work
- Type of work
- No-charge time
- Timekeeper who did the work
- Flat fee or contingency fee
- Time charges sorted and subtotaled by timekeeper, type of work or type of timekeeper
- Expenses sorted and subtotaled by timekeeper or type of expense
- Time charges summarized by date, type of work or timekeeper
- Expenses summarized by type of expense
- Totals for hard costs and soft costs separated
- Electronic billing codes
- Timekeeper summary table
- IOLTA activity
- IOLTA replenishment requests

HOW DO YOU BILL?

Contingency? Flat fee? Hourly? All of these? Can the software handle these billing arrangements and still provide reports for productivity or profitability? Different law firms bill in different ways and want the invoices to look differently. You may choose to bill clients monthly or quarterly, or a combination. It is important that however you do your billing, the software you use can meet your needs. If someone in the firm has to remember when to bill which client, or which bill layout is used for a given client, errors are more likely. If clients have questions about the bill they may delay paying and you will spend additional time answering questions about the invoice.

E-BILLING

Are you required to submit your bills in electronic format with specific A, L, and E codes? It's important to be able to provide the format needed for each specific vendor.

RATES

Law firm rates may vary by matter, timekeeper, or type of work being done. Regardless of the method you want to use, or that e-billing may require you to use, if the billing method doesn't make rate management easy, the firm may spend a lot of time cleaning up rates prior to issuing bills. This delays not only the process of billing, but also collections.

HOW ARE PAYMENTS ALLOCATED?

You may want to specify or designate rules as to how payments are allocated to timekeepers; for example, first to expenses and then to fees. Most generic software cannot apply payments in this way. For example QuickBooks applies payments proportionally across the invoice. This may not only be a problem for internal reporting, but may also be in conflict with tax rules. In contrast, legal-specific software can usually handle allocation in a way that meets the firm's needs.

INVOICE BY CLIENT

If your firm uses varying statement layouts, statement notes, or other statement settings for different clients, ensure the software will allow you to enter and save specific options for individual or groups of clients so you do not need to repeat the process manually each time you bill. You should also be able to easily run draft bills and modify them. Generic programs, like QuickBooks, often fail in these areas by not providing draft bills, requiring you to assign the bill layout at the time the bill is generated, and forcing you to manually rebill any items removed from a bill to be edited.

Additionally, you should determine whether you can accommodate billing preferences easily. Can you generate bills in a batch for all clients, or for a select group of clients? For a contingency firm, billing one client at a time may be fine, but for a busy practice with lots of monthly billed clients, individual billing can be time consuming and a client can easily be missed, costing the firm money. Are you able to select which firms receive statements via mail, email, or both, or enter third party billing information? This level of customization and attention to detail is possible if you have the right software!

OTHER BILLING NEEDS

Some law firms have unique and critical billing needs that typically only legal-specific software can satisfy. When evaluating a solution, you should not only look at whether the software can accomplish these functions, but whether it can do it in the way your firm requires. For example, with split billing, does the bill split the time or does it split the rate? Can you decide which matter gets the remainder when the amount doesn't split exactly? While this may sound trivial those few cents can cause trouble.

Reporting is another factor. Reports can be key to timely and accurate decision making. Check with management to see what kind of information would be helpful, and then see what the software can do to provide it. For a firm that wants to compensate based on the originating or the responsible attorney, tracking and reporting on fee allocation is essential. Accounts Receivable reports are critical for knowing who owes money and ensuring timely payment. Collections reports that include amounts collected and how long between time of work and collection, may be needed for compensation and can help in properly measuring your best clients and areas of practice. Measuring lawyer productivity can help with compensation. It is important to know not only billable hours but how much was actually billed and collected and how much time was written off. Time spent on non-billable hours may also be critical. An attorney spending 20 hours on marketing that brings in hundreds of billable hours has considerable value, regardless of who did the actual work. Reports of Work-in-Progress and detailed pre-bills are also important in the creation of timely and accurate invoices. Since a program may not have every report you want built in, you should also look at options for using outside tools to report on the data stored in the program.

Mobility is more important every year. Whether you want to enter your time when you leave the court, or you want to leave the office and work from home, the ability to access data securely where, when, and how you choose should be considered when evaluating a solution. Firms need to be concerned with where the data resides in case of loss of a mobile device. If data resides directly on a device, there needs to be a mechanism to delete the data. If the data is stored in the cloud and accessed from the device the loss of a device may be less problematic.

Security concerns are growing rapidly. In addition to where the data is stored, security should include what information is visible to different groups of people. For example, can all firm members see information in an IOLTA bank account, but only the bookkeeper and the partners should see the office checking account? You may also need to restrict who can view and enter data related to specific cases or timekeepers. Secure passwords are key, but they are only part of the issue. Data rights must be properly established and maintained.

Another aspect of security is data encryption. This makes the data more secure because even if the data is removed from the office, without the program and the appropriate mechanism to unlock the data the data cannot be read.

SUMMARY

If your firm is not using a legal-specific, integrated solution for your billing and business needs, upgrading to this type of solution will not only add convenience, but will save your firm time and money. Here is a recap of some of the benefits:

- Better management of IOLTA accounts and easily prepare detailed reports
- Eliminate the need for double entry or import/export of information
- Simplify training
- Report accurately
- Streamline support and maintenance

To learn more about how to implement an integrated solution, contact the Tabs3 Sales Department at (402) 419-2200 or sales@tabs3.com.

MORE ABOUT CAREN SCHWARTZ

Caren Schwartz founded **Time & Cents Consultants, LLC**, a Fairfield, Connecticut firm, to help legal and other service professionals select, install and get the most out of their practice management, billing, accounting, and other firm specific technologies. She works to allow companies to better manage their time, money and information through the practical and efficient use of their software. She is an expert in billing, case and practice/office management systems. Caren focuses on making practice management software into real world turn-key solutions. By understanding a firm's practice, business and industry needs, she can help implement a solution that meets the practice's requirements. Time & Cents Consultants is a member of the 35*45 Consulting group providing expanded resources to meet a full range of hardware and software solutions.

Time & Cents works with a diverse range of industries including law firms, accounting and other professional service firms. Caren is an Advanced Certified Pro Advisor for QuickBooks®, a Certified Consultant for Timeslips® by Sage, Sage 50® (formerly Peachtree), Amicus Attorney® and Amicus Premium Billing and a Certified Independent Consultant for Time Matters®, Billing Matters™ and PCLaw®. Caren is also a certified reseller of Tabs3 and PracticeMaster. She is a member of the Intuit Accounting Professionals Trainer and Writers Network and has taught classes for Solo Practice University, SCORE, Scaling New Heights and The Sleeter Group. Caren writes reviews and articles for TechnoLawyer®, a respected online newsletter for attorneys and the Intuitive Accountant. She is the author of the book QuickBooks for Law Firms.