The single most important administrative function in a law firm is legal services billing, according to Deborah J. Schaefer, a CPA and consultant specializing in legal accounting. Even law firms with the highest dedication to pro bono work need capital to sustain their practices. Rent, salaries and utility bills are realities for every office regardless of size or area of specialty. Efficient and effective billing systems can make the business side of a practice easier to manage. Beyond that, a sophisticated, multi-functional system can maximize the resources of any firm by determining each timekeeper or area of practice performance and evaluating that performance to make meaningful business decisions.

**Essential Features**

What should a system offer? Among other features, there are three overarching considerations in choosing a system. First, the system must be easy to use to get bills out in a timely fashion. Clients need to be billed shortly after services are rendered. Payments are generally remitted more quickly when bills are submitted for services that are still fresh in the client’s mind. Second, a system should lend itself to the automation of repeatable tasks. Users should not be reinventing the wheel every time they need to make data entries. This is the basic function of a billing system which will produce successful results. It is also the key to saving time and effort on the part of practitioners, who should be devoting their energies to practicing law and satisfying clients’ needs rather than bookkeeping. Third, a system should produce bills that are clear, concise and easy to understand by incorporating standard parameters for method of billing, time measurement, frequency of billing, bill format, means of delivery or submission and so on.

In brief, a firm can benefit most from having a timely billing system that automatically assists users in duplicating repeatable tasks, establishes consistent procedures that are followed by everyone and incorporates firm-wide parameters into all the main features of its billing format.
Consistency in the billing process is another important element in any successful billing system. The same steps should be undertaken for every client. First, an engagement letter or fee agreement must be identified for the client, who must have a clear understanding of the billing. Next, each client’s billing criteria must be established. Is the client being billed by the hour, on contingency or flat fee? What about expenses? Finally, the system must be able to accumulate billable time and expenses in a useful way that lends itself to easy analysis for management and produce consistent, accurate and clear bills for clients. Additionally, another level of vital data can be garnered by having a system that tracks collections and accounts receivable.

Within all this regimentation, however, there is a need for flexibility. Each firm is unique and has its own requirements. Even within the same firm, different practice areas or partners may need very different billing criteria.

Fortunately, there are advanced billing systems to handle these differences. But, whether billing is being done hourly or on a flat-fee basis, tracking time is essential in order to determine individual performance and overall profitability. Additional management requirements, such as the use of ABA task codes or identifying hours spent on research, should be easily handled by the billing system. Certainly, it should also be possible to have more than one standardized billing format. Formats could vary based on practice area, supervising partner or any other criterion that benefits the firm. The increasing popularity of the Legal Electronic Data Exchange Standard (LEDES) electronic billing (and payments) should also be considered in choosing a billing system.

The minutiae of billing must also be incorporated into a billing system. Will client costs be advanced or expensed? Is the system measuring time increments in minutes, quarter-hours or tenths? Retainer policies can also differ case-by-case. Is the system equipped to handle these variations?

A superior billing system will also be advantageous in case administration. By offering standard engagement letters or fee agreements with optional features, individual clients can be offered defined rates, fixed fees, discounts, a choice of paper or electronic billing, and different billing frequencies. But regardless of these preferences, time is still being tracked by the system. Other flexible components of the bill can be disbursements for court fees, postage, fax charges, the cost of document delivery and other “soft” costs.

Tracking hours has already been mentioned as a basic component in all valuable billing systems. An objection could be raised that this is not so important in areas of law that commonly use contingency fees or flat fees. However, the objective of any billing system is to account for all time worked. By doing this, the system can provide management with valuable reports for staff and firm evaluation as discussed below. But the system can only be used to its greatest advantage if users are entering data accurately and as they perform work. By choosing a system that makes this data entry convenient and quick, users are encouraged to make immediate entries. It is widely accepted that if entries are recorded as “work is completed,” more billable time is recovered. Attorneys who wait to record time until the end of the day, week or month, lose revenue. A simple and easy recording method taking one minute or less guarantees a more accurate record.

It is clear that choosing a system with timesaving features is important. Data entry needs to be efficient. Many systems offer pre-set descriptions with an auto-fill option, for example “tcw” can be expanded to “telephone call with.” This saves on keystrokes and typing time. There are also interface features that make it possible to import timer information from Internet research sites. Calendar entries from a practice management module can also be used to create fast and accurate time entries. By having a system that tracks time in many different reporting modes, it is possible for attorneys to keep billable-hour objectives in sight and on track. Daily time registers can be useful reminders where entries have been forgotten or erroneously entered. It is also important to analyze non-billable time. Identifying non-billable time that may otherwise be of value to the firm is important for overall profitability analysis.
Accounting Functions

Many firms still use separate systems for billing and accounting functions. The disadvantages of doing this are obvious. Separate systems require separate entries, and this increases the likelihood of errors or if there is a link between the billing and accounting programs, it often requires some sort of reconciliation between the two systems. Moreover, using a system that has a single database where integration of the accounting and billing functions are innate has far more benefits. For example, expenses can be allocated to cases as checks are written. Data can be imported from other sources, such as research invoices. Cost recovery function modules are available for outside bills, which can be automatically applied to the client. Billable non-cash costs can be applied to cases as they are identified. Reconciliation of client costs to accounting records guarantees that all client costs are recorded. Some systems also generate partner alert reports showing matters for which no bill has been sent or cases that have had no time charged. Such oversights can be very costly and result in very unhappy clients.

Where’s the Money?

Unfortunately, all the most accurate and concisely rendered bills in the world are meaningless unless payments are remitted. Especially in these troubled economic times, tracking payments, matching each attorney’s billings against actual receipts, and maintaining strict oversight of the firm’s accounts receivable situation can be a challenge without a system designed to make this information readily accessible in a number of different formats. Collection can be the most difficult step in the entire billing process. But it can be made less stressful by a system that is prepared to assist by managing accounts receivables with such tools as aged accounts receivables reports, a choice of client reminder statement templates and an automatic addition of interest charges on substantially past due accounts.

An Obvious Solution

There are many advantages of using a fully loaded, accounting-integrated billing system versus stand alone or non-legal billing and accounting systems. Programs such as PCLaw® by LexisNexis offer all the tools mentioned here and many more. The usual objection to acquiring these programs is cost. However, effective implementation of these programs is so beneficial that even solo and two-attorney firms will discover that the system more than pays for itself, according to consultant Deborah Schaefer.

Know Who You Can Trust

At LexisNexis® we are committed to helping you spend more time practicing law and less time worrying about all the headaches of the business of law. Our solutions for law firms include award-winning software created with input from legal professionals and backed up by a highly experienced and dedicated services and support team.

PCLaw billing and accounting software simplifies your firm’s accounting tasks with a legal-specific system that integrates time, billing and accounting functions in one easy-to-use solution. PCLaw provides flexible financial tools that are fine-tuned for law professionals—offering a comprehensive collection of powerful, flexible and easy-to-use tools for time and expense tracking, billing and receivables, trust accounting, and more in one integrated package. PCLaw software is designed specifically to help your firm expedite billing and manage trust, financial and client accounting tasks. As an added bonus, the annual maintenance fee with PCLaw provides access to LexisNexis® University, an online learning management system with free Anytime Training available for getting started with PCLaw. If you currently have a billing system, LexisNexis has a conversion team and for a reasonable cost your data can be converted to minimize the pain of switching to a new system. So, why wait? Time is money.

This Best Practice article is based on the original Best Practices: Legal Services Billing Webinar presented by Deborah J. Schaefer, a CPA who specializes in the implementation, training and support of computer-based accounting systems.
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