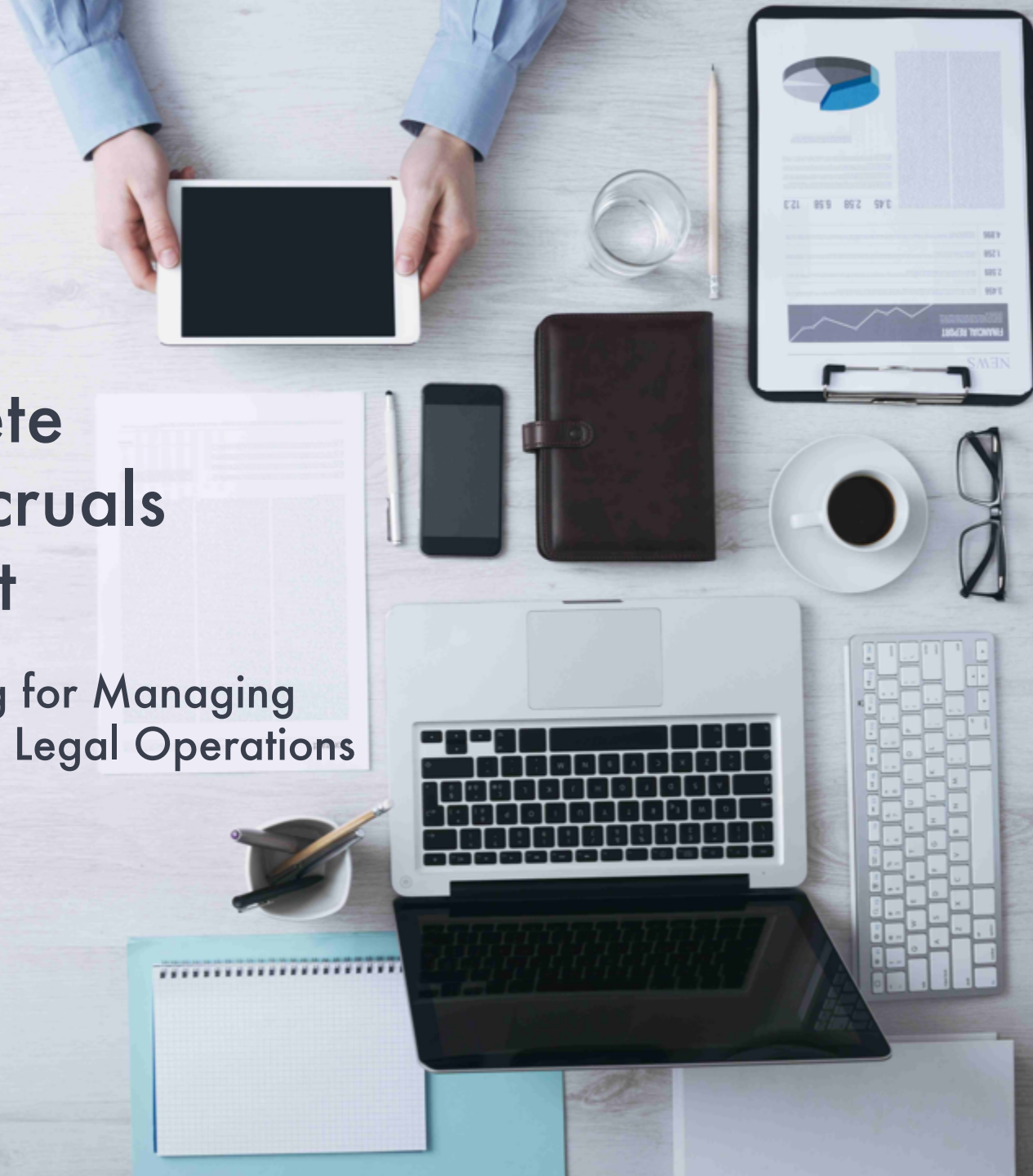




Your Complete Guide to Accruals Management

6 Benefits of e-Billing for Managing Unbilled Estimates & Legal Operations



INTRODUCTION

Today's corporate legal departments are responsible for multi-million dollar budgets, and are under extreme pressure to control and reduce legal spend. Add the fact that legal departments are working with limited, sometimes decreasing resources, and the pressure to effectively manage spend intensifies.

While there are a number of strategies for managing legal spend, this white paper will focus on accruals management – the process of collecting unbilled estimates from law firms and outside counsel. Specifically, we'll be diving deeper into the accrual method of accounting, factors that make accruals collection difficult for corporate legal departments, and process improvements resulting in more accurate and timely accrual estimates from law firms.

*Source: [ACC Chief Legal Officers 2017 Study](#)



37%

of Corporate Legal Officers (CLOs) plan to increase outside budget to meet increased work demands*

THE ACCRUAL METHOD OF ACCOUNTING

There are two principal methods for keeping track of a business's income and expenses. The more basic of the two, the **cash method** of accounting, records transactions when they've been paid for and the money is received. The second method, known as the **accrual method** of accounting, recognizes transactions the moment they occur, despite when payment is received.



Enterprise companies, specifically those that are publically traded and have gross receipts of \$5 million or more, are required to use the accrual method of accounting per Generally Accepted Accounting Principles (GAAP) – a set of standards and procedures that companies must follow when completing financial statements. GAAP requires accrual accounting as opposed to cash accounting because the former method better fits the objectives of the Financial Accounting Standards Board (FASB).*

*Source: [IRS](#)

HOW ACCRUALS IMPACT CORPORATE LEGAL DEPARTMENTS

Work performed by outside counsel is often in progress, beginning on a certain date, but spanning over the following weeks or months. Under the accrual method of accounting, when work by outside counsel begins, an expense has occurred. However, nothing has been entered in the accounting records for that expense because it hasn't been completed and paid for.

To account for this “known unknown”, an estimate of the cost of work must be included in the current period's income statement and balance sheet for accurate record keeping by the finance department.

Finance relies on legal to provide this estimate. Legal, however, relies on their law firms to estimate the cost of the work based on the scope of the project and the timekeepers involved.

ACCRUAL COLLECTION INVOLVES NUMEROUS STAKEHOLDERS

It's necessary to understand what's important to each stakeholder involved in the accruals process:

LAW FIRMS



Aligning with in-house goals and expectations

Understanding the submission processes for all clients

Receiving payment

IN-HOUSE ATTORNEYS



Maintaining a collaborative relationship with law firms

Selecting the best law firm to partner with

Managing the workload

LEGAL OPERATIONS



Streamlined processes for managing legal spend, vendors, technology, etc

Financial management and cross-functional collaboration

GENERAL COUNSEL



Minimizing inefficiencies and risk

Providing valuable data for executive decision-making

Ensuring ROI of outside counsel

FINANCE/ACCOUNTING



Accurate and timely unbilled estimates

Closing the books with the fewest adjustments

Staying within budget



“The legal department is the closest to outside counsel, the matters they are working on, and the specific work being done. The legal team should own accruals and act as a buffer between law firms and finance to increase overall accuracy.”

Nathan Wenzel
CEO, SimpleLegal

COMBATING LOW RESPONSE RATES

48%

Only 48% of law firms respond to requests for unbilled estimates from their clients*

Low response rates for accrual estimates leave legal teams with no choice but to guess what the estimate might be. Best case scenario, they use what that specific law firm charged in months past as a starting point, and finance can easily “true up” the books at the end of the month.

But what happens when the estimate is much lower than what’s actually billed? The numbers could be off by hundreds of thousands of dollars, blowing legal’s budget out of the water.

PRO TIP

Adopt modern e-Billing software

e-Billing software automates accrual collection, reaching out to law firms on your behalf to request accruals via email.

If law firms don’t respond, the system will reference your timeline for reaching out, and send requests until you receive an unbilled estimate.

With e-Billing software, you can increase your accrual request response rate, not only providing your legal department with the data it needs to evaluate law firm performance, but your finance department with the numbers they need to get their job done.

And all your estimates are stored in a reliable repository so the data you need is always available.

THE 4 TYPES OF ACCRUALS

When legal departments think about accruals, they generally focus on two main types that are the easiest to account for:

- 1 Accrual Estimates** Fee and expense amounts that haven't been billed – the “known unknowns” as reported by your law firms.
- 2 Pending Invoices** Fee and expense amounts that have been billed, but haven't been approved by the legal or finance departments.

However, there are two other types of accruals to think about, which are a little more complicated and sometimes go unaccounted for:

- 3 Rejected Invoices** Fee and expense amounts that were billed, but ultimately rejected by the legal department. Maybe an expense wasn't accepted per billing guidelines, or a partner billed for administrative time when this type of work is only accepted at paralegal rates. The problem with rejected invoices is the information within the invoices isn't always 100% correct, meaning the legal department has to work with their law firms to get correct and accurate information.
- 4 Missing Information** Fee and expense amounts that were likely incurred but there's no real evidence of an invoice or accrual estimate. In these cases, someone has to take a closer look at the numbers to identify whether or not they make sense. A drop off or decline in expense, for instance, is a red flag that information might be missing.



PRO TIP

Leverage legal analytics to better manage the various types of accruals

Having a single place to act as a system of record for important data points like accrual estimates, pending invoices, and rejected invoices makes it easy to manage the various types of accruals.

These types of analytics can also be spun into reports which is all finance needs to close the books.





4 FACTORS THAT MAKE ACCRUALS COLLECTION DIFFICULT

Now that we have an understanding of the accrual method of accounting and the individuals involved in the collection process, let's take a look at the factors that make collecting unbilled estimates so difficult.

After **3** attempts to collect unbilled estimates from law firms, it takes an additional **5** days, on average, after the final attempt for law firms to provide accrual information.*



*Source: SimpleLegal's 2017 Accruals Management Study

FACTOR #1

FINANCE DRIVES INITIATIVE TO COLLECT ACCRUALS...

Finance often drives the initiative to collect accruals. Their department's number one priority is to make sure there are no financial surprises at the end of the month, quarter, or fiscal year end.

Issues tend to arise because finance isn't as close to the work being done by law firms, so they don't know if an estimate should be flagged as too high for the amount and type of work in progress.

26%

There's a 26% delta between monthly accrual estimates provided by law firms and what's actually invoiced*

FACTOR #2

...AND DOESN'T ALWAYS PROVIDE CLEAR DIRECTION

Securities and financial requirements mandate that companies keep accurate accounting records, and accruals are critical to these obligations. As a result, finance has rules for calculating accruals, for instance, for a non-completion matter versus a completion matter. Accrual numbers must then be submitted within an open accrual window, a pre-determined period when accruals will be accepted, typically three to five days before month end.

Not privy to these requirements, in-house legal teams, and specifically legal operations, ask their law firms for "unbilled estimates". Without providing concrete direction regarding how to calculate unbilled estimates or submission deadlines, each law firm arbitrarily uses their own method so there's no consistency in the data provided and information is calculated incorrectly.

FACTOR #3

LEGAL TEAMS DON'T PROVIDE THEIR LAW FIRMS WITH PROPER TRAINING

Simply asking law firms for accrual estimates without explaining their importance, or guidelines for how to calculate and submit them can result in inaccurate and delayed unbilled estimates.

Legal needs to own accruals in this regard, providing law firms with training as to when the accrual window opens and closes, how to submit accruals (specific to tools the company uses like e-Billing software), and calculating them in a way that satisfies the requirements set by finance.

FACTOR #4

THE PROCESS FOR COLLECTING UNBILLED ESTIMATES IS TIME CONSUMING

The time lost waiting for law firms to provide unbilled estimates is further compounded by the time it takes to contact each law firm the legal department engages.

An individual from the in-house team is forced to shift their focus away from their daily responsibilities, instead spending time reaching out to numerous law firm via email, phone, or a combination of both, in order to get proper estimates for outstanding work.

PRO TIP

[Download our Law Firm Accruals Training Deck](#) which can be customized to your specific accrual collection process, and get started on the path toward more accurate and timely unbilled estimates.

E-BILLING SOFTWARE SUPPORTS EFFICIENT LEGAL OPERATIONS PROCESSES

In order for corporate legal departments to effectively manage legal spend, efficient processes must be implemented to manage the collection of accruals. e-Billing software like SimpleLegal simplifies accruals management and provides corporate legal teams with **six key benefits**.



6 KEY BENEFITS OF E-BILLING SOFTWARE

BENEFIT #1 BOOSTED PRODUCTIVITY FOR LEGAL TEAMS

Modern legal software gives organizations access to reliable legal analytics related to accruals, budgets, timekeeper rates, general matter status, and more – all which can be used to identify and fix inefficiencies with current operational processes for additional time and cost savings.

Other legal operations software features that help control spend while boosting productivity include:

- Automatic invoice routing
- Billing guideline enforcement
- Easy matter creation
- Ability to adjust line items
- Out of the box and adhoc reports

BENEFIT #2 AUTOMATED PROCESS FOR COLLECTING UNBILLED ESTIMATES

Adopting e-Billing software brings automation to legal operations processes, including the collection of unbilled estimates. Instead of having a member of the legal team devote hours of their day to manually contact law firms for unbilled estimates, you can rely on your e-Billing software to reach out and collect the information required within the open accrual window.

When evaluating e-Billing solutions, take an in-depth look at the system's reporting capabilities. Specifically look for reports that track estimates versus actuals. Not only does this provide you with a high-level overview of your outside legal spend, it helps you gauge the ability of each law firm to provide accurate estimates for work in progress.

BENEFIT #3 INCREASED VISIBILITY INTO LEGAL SPEND

e-Billing software is able to track key data points as invoices are submitted in real-time, creating a reliable system of record for all your legal data. All invoice line items are captured as soon as your law firms submit their invoices, so you know where every dollar is going.

A spend management tool like SimpleLegal captures a wealth of data so legal teams have reports and metrics for a transparent overview of the departments legal spend. Armed with this data, legal can better and more accurately predict cost, labor, and duration of future projects.

BENEFIT #4 BETTER COMMUNICATION & COLLABORATION WITH OUTSIDE COUNSEL

60% of legal operations departments will use analytics to gauge law firm performance*

e-Billing gives legal operations valuable data regarding law firm rates, spend history, feedback performance, and each firm's ability to deliver work on time. These metrics are a great way to evaluate law firms, allowing legal to select and work with the firms that offer the best value.

That said, we encourage legal to use data in a productive way. Instead of turning low ratings into toxic interactions about the value law firms provide your in-house legal team, the numbers should be used to frame productive conversations around which in-house expectations aren't being met and why. In the process, you'll be providing your law firms with additional direction, further enhancing overall collaboration.

BENEFIT #5 ENHANCED RELATIONSHIP WITH FINANCE

Legal and finance departments have different responsibilities, but must often work together to achieve the same end goals. When the departments have separate processes and work in their own systems, it can be difficult for the two to collaborate.

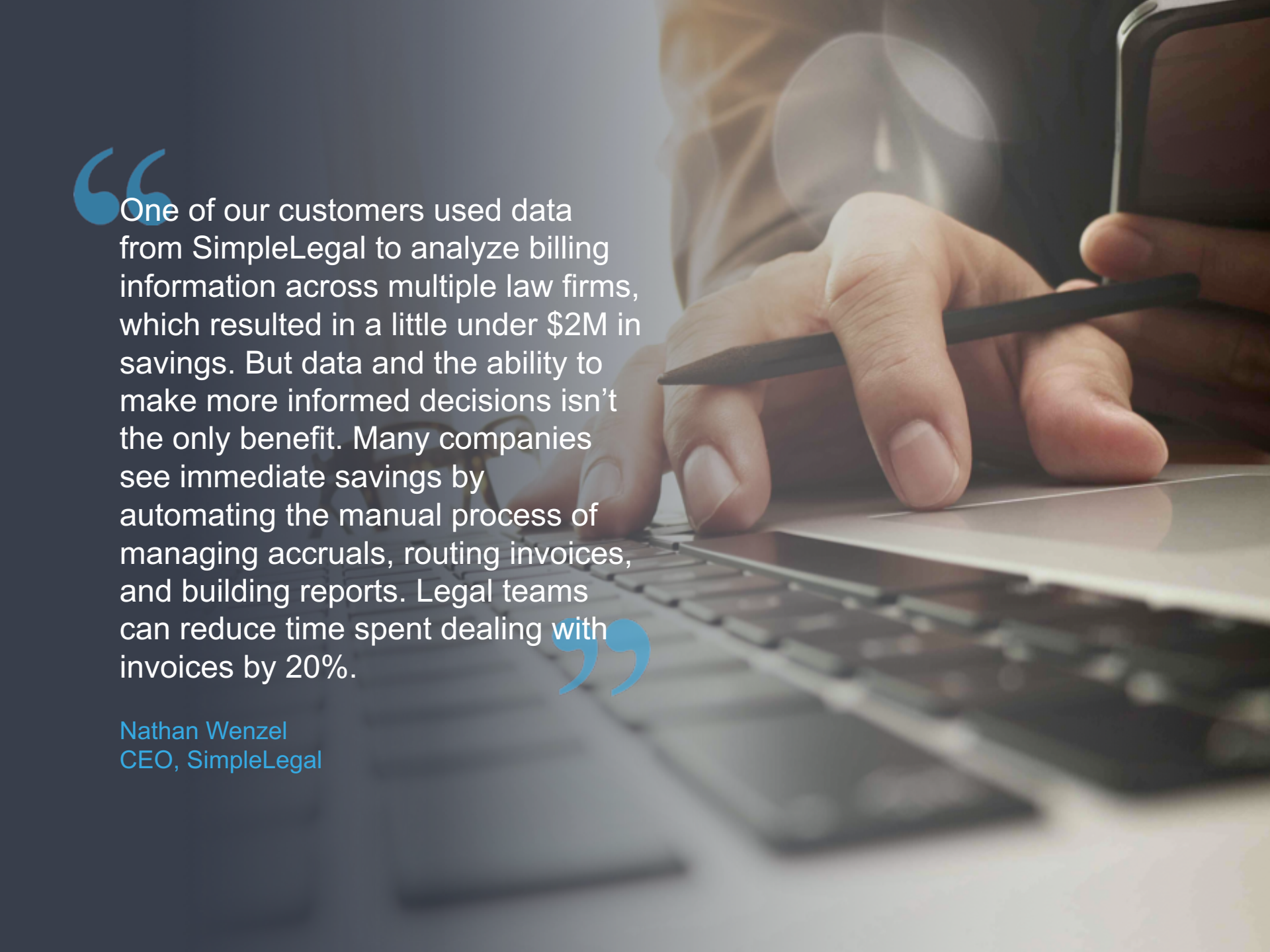
e-Billing software can be used by both departments, giving all the stakeholders involved in accrual collection the ability to access key data points, status updates, and reports related to their specific job functions. This type of collaborative system and ability to access reliable information from a single source of truth, makes it easy for the two teams to work together

and have productive conversations to ensure organization-wide compliance and reduce risk. Furthermore, e-Billing solutions often integrate with finance or AP systems, making the handoff between legal and finance even smoother. When the right process is implemented, accruals act as the common language that joins the two departments.

BENEFIT #6 INCREASED FEELINGS OF TRUST FROM EXECUTIVES & STAKEHOLDERS

Historically, legal has been less quantitative than other departments within the organization because outside spend has been notoriously difficult to track and predict. Yet, as legal departments start to carry multi-million dollar budgets, they must be as quantitative as possible to effectively meet organizational expectations and demonstrate the value of the department.

e-Billing solutions solve this problem, giving legal access to metrics that make it easier to control, manage, and predict spend. With data, they can also respond to questions from finance, executives, or other stakeholders almost instantly. Gone are the days when it takes days, sometimes weeks, to track down all the data, build a report, and finally provide a response.



“One of our customers used data from SimpleLegal to analyze billing information across multiple law firms, which resulted in a little under \$2M in savings. But data and the ability to make more informed decisions isn't the only benefit. Many companies see immediate savings by automating the manual process of managing accruals, routing invoices, and building reports. Legal teams can reduce time spent dealing with invoices by 20%.”

Nathan Wenzel
CEO, SimpleLegal

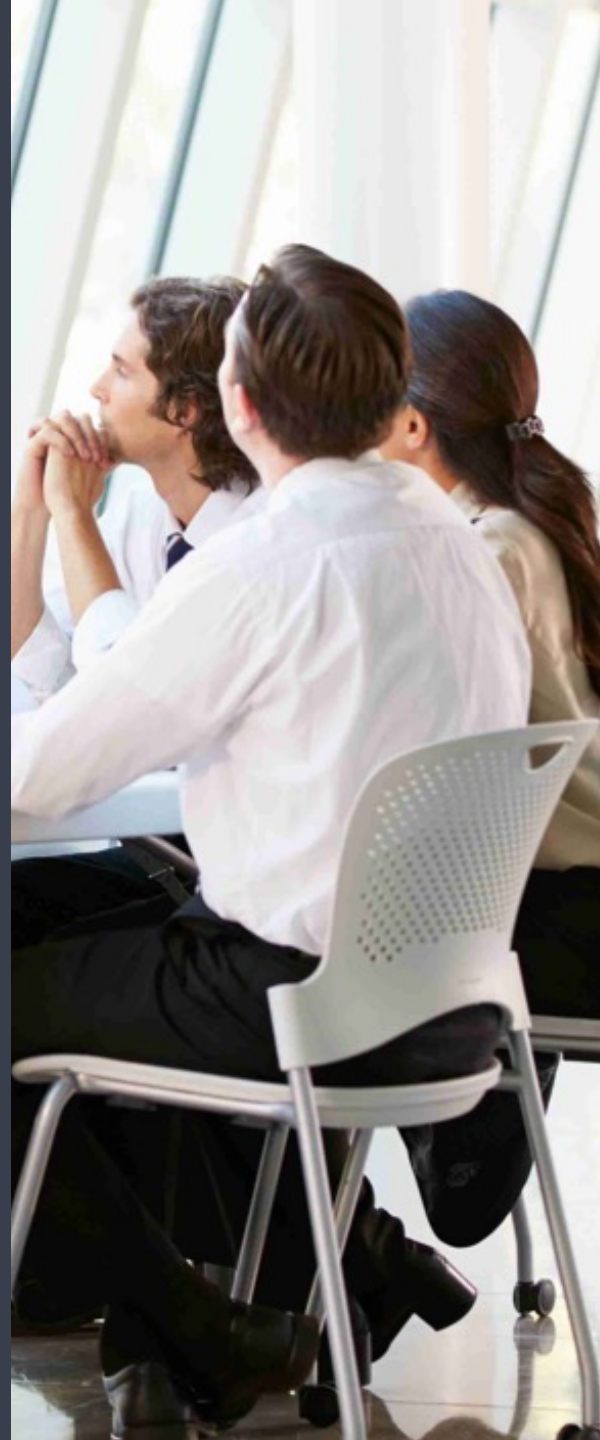
A group of business professionals, including a woman with long dark hair and a man in a light blue shirt, are seated at a table in a modern office setting. They are looking towards the right, where another person is partially visible. The background features large windows with a view of greenery outside.

PRO TIP

Work with the entire organization to understand each department's expectations and required metrics.

Legal teams that have a solid understanding of what each department within the organization is looking for can take that information to the e-Billing providers they're evaluating, making sure any potential system can produce valuable legal analytics for the company.

Making sure each department has key metrics increases knowledge share between departments and facilitates strategic, data-driven decision making throughout the organization.

A group of business professionals, including a man in a white shirt and a woman with dark hair, are seated at a table in a modern office setting. They are looking towards the left, where another person is partially visible. The background features large windows with a view of greenery outside.

ABOUT SIMPLELEGAL

SimpleLegal is a modern e-Billing, legal spend, and matter management solution that streamlines invoice management for greater visibility and control over legal spend. Built to support the evolving needs of corporate counsel, SimpleLegal empowers in-house legal departments to reduce spend and improve operational efficiencies, all while proactively and effectively managing risk.

ACCESS TO VALUABLE SPEND DATA

Unlike traditional spend and matter management solutions on the market, SimpleLegal has a native reporting engine which provides real-time analytics regarding spend with outside counsel.

In addition to providing top-level summaries for quick takeaways, our system extracts the rich data within your invoices to create reports related to accruals, budgets, timekeeper rates, general matter status, and more. Armed with a wealth of information, your corporate legal team can better gauge outside counsel performance, fix inefficiencies with current processes, and gain additional time and cost savings.



SimpleLegal

To learn more, visit www.simplelegal.com