



Accruals Communications Kit for Legal Operations

How to Have the Right Conversations Around
Accruals for Efficient Legal Operations

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Introduction

Accruals are the common language between legal and accounting. Accrual accuracy plays a large role in preventing surprises for legal and accounting departments, and often signals the cornerstone of effective and data-driven legal operations.

If you're a legal operations professional that has been tasked by your finance department to collect accruals, but are concerned because you lack accounting experience, worry not! Most of the legal operations and in-house folks that we talk to are in the same position. Their success with accruals has been a direct result of effective communication. In fact, many would tell you that the secret to successfully implementing an accruals program within your organization is to over-communicate.

DID YOU KNOW?

Most legal operations professionals that are tasked with accruals collection have no finance or accounting background.

To help legal operations professionals talk the accruals talk, while ensuring alignment with the key stakeholders involved in the accruals process, this guide will focus on the conversations that must take place between legal operations and accounting, attorneys, and law firms.

Wait a second, what are accruals...

Accruals are adjustments to a company's profit and loss (P&L) statement to match expenses to revenues in a given month, quarter, or year. Expenses should be recognized when incurred, regardless of when they are actually paid. There are four types of legal accruals:



...and why should I care?

Many legal teams are familiar with accrual estimates and pending invoices, the most common types of accruals. However, the other two, rejected invoices and missing information, are often overlooked. Understanding all four types of accruals and how to talk about each with all the stakeholders involved in the accruals process – which we'll discuss throughout this white paper – can help ensure accurate and timely submissions.

In the meantime, here are some statistics that our data has uncovered about accruals:

A mere 30 percent of all billings are submitted within the appropriate time frame of 30 days of the work being performed



80 percent are submitted within 60 days



90 percent are submitted within 90 days



The remaining 10 percent are submitted more than 90 days after the work was performed!

These delays in accrual submissions cause accounting nightmares and make it nearly impossible for legal operations to achieve fiscal responsibility and control of legal spend.



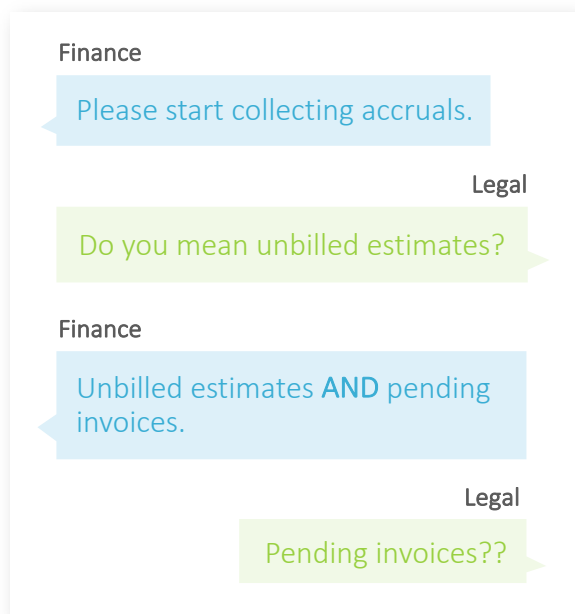
Legal Operations & Accounting

The Conversation Between Legal Operations & Accounting

In most organizations, legal is aware of accruals **because finance said so**. Legal “does accruals” to some extent through a very manual or slightly ad hoc process. The key to success is to have a more formalized and structured accruals process that can be quantified and leveraged to understand vendor performance and manage budget and spend.

The Terminology Barrier

Believe it or not, terminology is one of the primary causes of misalignment around accruals. It boils down to legal operations and finance defining accruals in two very different ways.



Finance requests that legal operations collect accruals. In the minds of the finance department, accruals are viewed as the invoices that the legal department has received, but hasn't notified finance about. These invoices are stuck somewhere in the approval process, as early as 'the invoice is in an unopened envelope on someone's desk.' Finance means estimates and pending invoices.

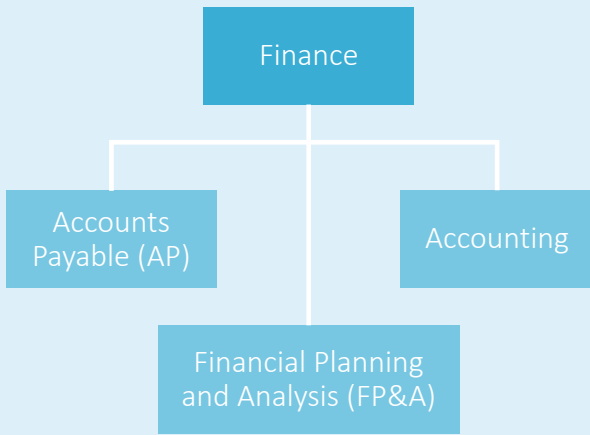
From the perspective of the legal department, an accrual often means that someone within the legal department has to reach out to a law firm for what hasn't been billed yet. Legal almost always means estimates.

Right off the bat, legal operations and finance think about accruals from such diverse perspectives, they might as well be talking about two entirely different things. Misalignment on vocabulary is the first element to fix during a conversation with your finance team. Doing so will immediately clear up confusion and allow legal operations to collect and share the right information.

“Identifying a business partner in our finance department was instrumental to our success. We meet once a month and the more he becomes familiar with our departmental goals and spend practices, the more he is able to provide strategic insights.”



Jill Fukunaga
Head of Legal Operations



The Structure of Finance Departments

Finance departments are typically comprised of various functions: Accounts Payable (AP), Financial Planning and Analysis (FP&A), and Accounting.

It is important to call out that legal operations will likely be working with the accounting function of their finance department because this is the group that is responsible for closing the books. Accounting is most concerned with the invoices that haven't yet been processed. AP and FP&A focus on processing billings for payment.

How to Calculate Accruals

Once you and your accounting team start thinking about accruals in the same way and share the same terminology, accounting needs to walk you through how accruals are calculated so you can pass this information along to your law firms.

Understand that not all organizations calculate accruals using the same formula. Your accounting team is privy to how your CFO and executive team want accruals to be calculated, as well as what is needed to satisfy state or government mandated requirements. You'll want to learn how law firms should submit accruals:

- Matter by matter vs each trademark
- Monthly vs quarterly
- Cumulative total accruals vs separate period and prior period accruals

Having a thorough conversation about how to properly calculate accruals will ensure data consistency so you can compare apples to apples when analyzing work in progress. This data can be leveraged to evaluate law firm performance – which firms are doing the most work, at what cost, and in what time frames – and help budget and forecast for future projects.

Meeting Agenda

Legal Operations & Accounting

When sitting down to have a conversation around accruals with your partner in accounting, here are the top items to cover:

How to calculate accruals

Period end dates

- When is the close?

Process for approving accrual estimates

- When does accounting need the data?
- What review is accounting going to do?
- What review is expected from legal?

Understanding the Internal Accruals Process

When should a law firm submit their unbilled estimates? What happens next? Who in your organization is best positioned to validate and approve unbilled estimates – should accounting or legal take on this task? It starts with understanding your organization’s internal accruals process.

Period End Dates

Knowing the period end dates of your organization are critical how you structure the accruals process. A period end date gives you a point to count backwards from, allowing you to determine the most appropriate time to open the accruals process with your first request.

Let’s say your close date is the 30th of the month. You’ll need to get answers to the following questions:

- When does accounting need the data?
- What review is accounting going to do?
- What review is expected from legal?

Then, the timeline of communications can be determined as follows:



Approvals

In a majority of organizations, accounting receives and approves accrual estimates. Unfortunately, accounting isn't always aware of what legal is spending money on and why. This disconnect can potentially – and in some cases, dramatically and negatively – impact the bottom line. Without visibility into the legal process or an understanding of how legal issues evolve, accounting doesn't have the full picture, which makes it difficult for them to act as qualified approvers.

Legal departments will find that managing accruals is the easiest and most accurate when someone within their own legal team receives and approves the accrual estimate. Legal is more in-tune to the work that is in progress and completed by law firms, and therefore has the knowledge to identify when an incorrect accrual estimate crosses their desk.

Benefits of this type of early intervention include:

- Catching mistakes before they evolve into larger issues
- Limiting the number of stakeholders involved at the wrong time
- Ensuring accurate information is passed to finance
- A more streamlined process promoting departmental efficiency

Missing Information

Law firms won't always submit their accrual estimates. When this happens, someone will need to enter a placeholder. Make sure that your legal and accounting departments discuss who is responsible for getting the accrual number when none have been submitted.

Because obtaining a missing accrual estimate from a law firm often involves a lot of frustrating back and forth phone calls and emails, many legal departments will adopt a legal operations platform to automate the collection of accruals. This enables legal operations to send law firms a reminder email (or multiple emails) to submit accruals based on accounting's process and timeline needed to close the books.

PRO-TIP

If your law firms do not have any accruals for a particular time period, it might also make sense to have them enter an 'x' or '0' so that you can tell that there was no estimate instead of assuming it's missing information.

Two Heads are Better Than One

Creating a partnership with a business partner in your accounting department has benefits that go beyond enhanced collaboration a streamlined accruals process.

- **A knowledgeable adviser.** Legal operations leaders don't always have financial or accounting backgrounds. But if you have a partner in accounting, you can leverage their expertise to discuss outside counsel spend, outliers in spend data and what to do when they're identified, and strategy for when out of the ordinary line items appear (i.e. one-time run rate items that are booked right to accounts).
- **Someone in your corner for budget conversations.** If you're able to layer accruals into your invoicing process and can show your finance department accurate, predictable spend, you'll inherently build trust. The more your finance team trusts you, the more room you'll have in your budget for other initiatives like headcount. Their insider knowledge of how the budget is set can also be helpful for positioning your legal budget to get the maximum amount possible.

“Of course, legal operations includes process, systems, org structure, and billing and accruals. But when all of these things are done correctly, you're not only effectively managing legal department spend, you're creating trust with finance. You're demonstrating control of your budget and cost savings thanks to more efficient and effective processes.”



Dan Baker

Chief of Staff, Director of Legal Operations
Ancestry.com



Legal Operations & Law Firms

The Conversation Between Legal Operations & Law Firms

Whenever we discuss accruals with legal professionals, the collective response tends to be something along the lines of:

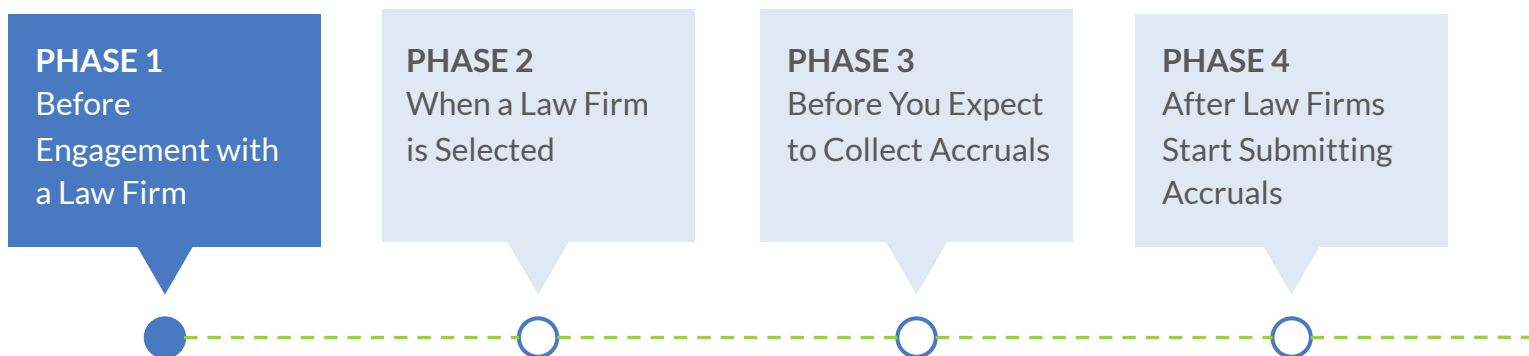
We agree that accruals are a necessary component of building an efficient, data-driven legal department *but...*

How are we supposed to overcome the daunting challenge of getting our law firms to submit the right accrual numbers at the right time?

This is a legitimate concern! The unbilled estimates you receive are only as good as what is provided to you by your law firms. Inaccurate numbers can skew financials and introduce surprises, and are ultimately counterproductive to any reporting or decision making efforts.

Timeline of Communications & Messaging

Helping your law firms understand that accruals are important to you will help make accruals important to them. It seems too simple, but it's true! To help legal operations professionals determine the best communications schedule, here are the typical phases of engagement:



Phase 1: Before Engagement with a Law Firm

Your accruals requirements should always be included in your billing guidelines. This is the first step to ensure that your expectations around accruals and other billing best practices are outlined, communicated, and understood.

Include an:

- Explanation of what accruals are and why it matters
- Instructions for calculating accruals as well as the format to submit accruals
- If you use a legal operations management platform, how to submit accruals
- What to do if the law firm has no accruals to submit

Example Text

[Company] collects and monitors accruals through its legal operations management platform, SimpleLegal, to better manage its financial liabilities. Accruals are fees and expenses incurred that have yet to be billed by the vendor.

1. Accruals must be submitted monthly to SimpleLegal and reflect the fees and expenses you anticipate billing for the calendar month
2. Separate accruals by matter unless prior instructions have been provided
3. If you have no accruals to submit, you need to enter a '0'

Phase 2: When a Law Firm is Selected

Your law firms are an extension of your legal team! They are partners who want to do good work for you, so the more you communicate the importance of accruals, the more they'll be viewed as a priority by your law firms.

When onboarding your law firms, include your accrual requirements in your engagement letter and state that:

- There's a recurring month-end process that law firms must adhere to.
- Stress that law firms are not only your legal partner in helping protect your company, but a business partner who is closely aligned with you and your CFO to deliver positive business outcomes.
- Following the right accruals process is as important to your CFO as them doing good work is to your GC.

How to Initiate the Accruals Conversation with Current Law Firms

While you don't need a reason to have a review with your law firms, the following are great opportunities to share your newly defined operational process for accruals:

- Hiring of a new legal operations manager
- Implementation of a new or more modern legal operations management platform
- End of quarter reviews
- Recurring meetings with your relationship partner
- Annual review

Phase 3: Before You Expect to Collect Accruals (at least a month before)

Educating firms up front and giving them adequate time to understand what your department is trying to do is a must. Despite the work you've put in with your internal team and organization, you can't just announce that you're going to start collecting accruals and expect your law firms to jump on board. Allocate plenty of time to training, and plan to ease them into the accruals process so they understand their importance and why you're asking them to participate in such a program.

Conduct Trainings

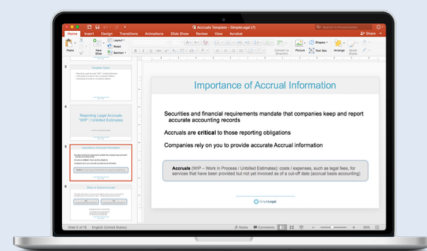
After working with your internal accounting team to understand how they expect accruals to be calculated, work with your relationship and finance partners at each law firm to set up trainings. This way, you can walk through important steps of the accruals process, discuss submission schedules, and what to do in particular use cases, such as not having any accruals for a specific period. Questions will undoubtedly arise, giving you an opportunity to clarify any process requirements and ensure accurate accrual submissions.

Some companies schedule face-to-face meetings, while others, due to geographic limitations, schedule online trainings. No matter which way aligns best with your process, it's helpful to have a presentation or handout available so your law firms have something to reference when it comes time to submit accruals.

Phase 4: After Law Firms Begin Submitting Accruals

Once your law firms start submitting accruals, closely monitor the unbilled estimates being submitted. This gives you the opportunity to identify any outliers or potential errors in their submissions.

It's up to you to provide immediate feedback, nipping problems as soon as they arise. This instant feedback loop plays a large role in influencing positive billing and accrual habits. Scheduling check-ins on a regular cadence is also recommended so you can ensure everyone is on the same page at all times.



PRO-TIP

Not sure what to include in a training presentation?

No problem! Based on conversations with our customers, we've created a training deck that covers the high level points to discuss with your law firms and has areas that you can customize to your specific process. [Download the training deck.](#)

3 Strategies to Get Law Firms to Submit Accurate Accrual Estimates

In talking with our customers and legal teams of all sizes, we've compiled the top three strategies that have been most effective for getting law firms to submit accurate accruals within the appropriate timeframes.

1

Identify the Right Contact and Make Them Your Champion

Before you even begin the accruals conversation with your law firms, make sure you're talking to the right contact at each law firm. Legal often goes to their relationship partner, and in some cases will turn to the attorneys doing the actual legal work. Unfortunately, these individuals don't always know how finance operates within their firm, nor do they have the accounting background to have a productive conversation about accruals.

Instead, seek out a partner in finance at each of your law firms. They'll speak the language of accruals, understand their importance, and will be able to get the right numbers for you. Looping in your relationship partner (who understands your wants and goals) at this point can help you manage the efforts on the law firm side. Together, these individuals will be your champions and will help you roll out an effective accruals management program.

2

Make Ongoing Trainings a Priority

Training is part of the legal operations' supply chain of financial information! There will be turnover within your law firms and throughout their teams. It is up to your legal operations group to ensure that trainings are ongoing and that everyone involved in the accruals process is provided with the right information at the right time.

Create and communicate what needs to be done after someone key in the accruals process leaves the firm. Make yourself, or another legal operations point of contact, known so that law firms can reach out if schedules arise or schedule additional training sessions.

3

Make Accruals a Topic of Your Annual Review or Relationship Meeting

After law firms begin submitting accruals on a regular cadence, make sure to include a review of the overall process with your law firms during your annual review or relationship meeting. This type of reconciliation or accuracy check allows you to identify any issues with the process, address questions, and reinforce the importance of accruals for your legal department and business.



Legal Operations & Attorneys

The Conversation Between Legal Operations and Attorneys

As the legal operations role becomes more prominent in corporate legal departments, we're seeing the function take charge of vendor management and vendor relationships, which often includes oversight of the accruals process from collection and submission to receipt and analysis.

That being said, legal operations professionals have some insight into the work that's being done by outside counsel. However, to ensure the highest level of accuracy, they'll need to lean on their lead attorneys who are closest to the matters and the projects being completed by each law firm to approve the invoices.

Meet Face to Face

Letting your attorneys know that you're starting (or that you currently have) an accruals program is instrumental to success. Stress how they are the first line of defense to prevent inaccuracies in accounting and issues from arising upstream.

Follow Up (Over and Over Again)

In the spirit of over-communication, make sure to follow up with your attorneys. This can start with a follow-up email with all the information covered. If possible, create a hub where they can access relevant accruals information at any time. Just like onboarding a team onto a new legal tech solution, you must onboard attorneys onto your accruals program.

PRO-TIP

Even if you do not have a dedicated legal operations specialist, communicating your department's needs, goals, and expectations with your attorneys must take place to mitigate any financial surprises for your legal and finance departments.

Meeting Agenda

Legal Operations & Attorneys

When sitting down to have a conversation around accruals with your attorneys, here are a few items to cover:

The importance of accruals

Potential red flags to look out for when an invoice is received

Process for rejecting accrual estimates

Conclusion

We have to admit that we love accruals here at SimpleLegal and feel they're an under-discussed topic among legal operations professionals. We want legal operations and their in-house teams to use accruals as a lever to help them achieve their legal spend goals, position themselves as a predictable and reliable department, and increase collaboration and alignment with finance and other departments in the organization.

To learn more about automating accruals with a legal operations platform, visit www.simplelegal.com or [request a demo](#) to see the platform in action!

About SimpleLegal

SimpleLegal provides a solution that addresses the legal operations and business process challenges for corporate legal departments.

More than just e-Billing and matter management, our legal operations platform centralizes all legal matters, vendors, and expenses -- and surfaces the data and insights needed to make better decisions and more efficiently manage your entire legal department.