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Law Firm Collections

By: Jerry Schwartz, President of Legal Management Services, Inc.

Cash flow in the law office should always be of critical concern to the owners of the firm. Many firms put off salary or benefit adjustments for themselves or staff and purchases of equipment and technology are shelved because of inadequate cash flow. Lawyers feel frustrated by the lack of ample compensation for the hours of work. This occurs even though many law firms today have instituted some excellent business practices:

- They have developed case acceptance criteria to ensure that the matter presented to the law office by the potential client can be competently handled by the law office personnel on a fee basis that will be acceptable to the client and profitable to the law office.
- Conflicts of interest systems have been established to ensure that the work is not adverse to a current or former client or any related parties.
- Engagement letters have been developed which inform the client of the name of the responsible person for managing the case; describe the work which the law office has been engaged to perform; provide a cost or estimated cost of the matter

and the method of billing; the time in which the client has to pay and the consequences of untimely payments.

- Time and expenses are recorded on a regular basis and work in process is billed on a schedule agreed upon with the client.

The collection process for delinquent accounts is the missing link to a complete and effective cash flow system for the law office. In addition to the above business practices the law office must also have a collection policy in place to address delinquent accounts. The following schedule will provide a basis for adequate monitoring of accounts receivable balances.

- Send reminder statements for all invoices more than thirty days old from the billing department without attorney intervention.
- A mild letter is sent by the office manager or billing clerk at forty-five days indicating that payment of the statement has not been received and that the owners are concerned and would like to know of any problems that may exist. The client should be encouraged to communicate with a specific individual other than the primary attorney.
- A low key and non confrontational call should be made if the statement is not paid within sixty days. The purpose of the call should be to get information and a commitment for payment by a certain date. A follow up should be made with the client every two weeks until payment is made.
- At ninety or one hundred twenty days and subject to the Code of Professional

Obligation a decision should be made by the firm to cease representation, write off the account or send the matter to an outside collection lawyer.

An accounts receivable aged report is an invaluable tool for law offices to monitor the value of the receivables from clients. Historically the older the receivable the less value it will have to the firm. It is extremely important to have a collection policy in force to ensure an adequate cash flow for the firm.

The accounts receivable should be monitored every other week to make sure that client balances are not getting too old.

If the client eventually pays the statement after considerable effort on the part of the firm, a decision must be made to accept further business from the client. Evaluate each slow paying client on an individual basis. It may be that the firm contributed to the slow pay by not providing information to the client or that the failure to pay on a timely basis was beyond the control of the individual client. If you have a collection policy which helps to ensure the cash flow of your office and is handled professionally, the slow pay client may be a more loyal client in the future.