

# Fiscal Aerobics:

## 25 Tips to Improve Your Financial Fitness

By Patricia A. Yevics

By the time most of you will be reading this, the end of the year will be quickly approaching. This is a good time to look at the fiscal outlook for your firm or practice so that you can enter the new year fiscally healthy.

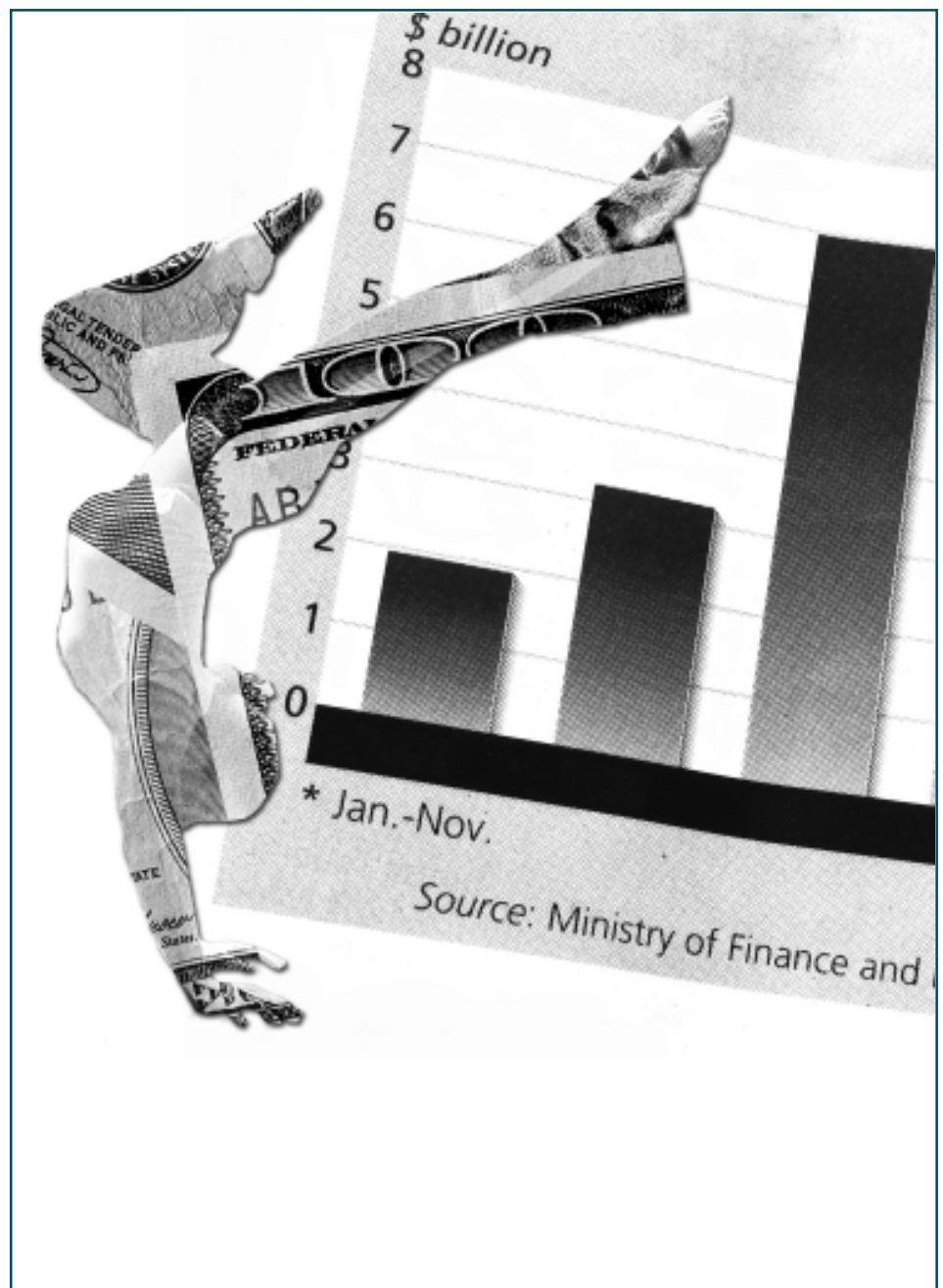
Here are some tips in no particular order to help with your financial well-being.

1. Have a good financial advisor or accountant. This should be someone who works with solo and small firm lawyers. This person should be an advisor and *not* a bookkeeper.

2. All firms should have someone who does the bookkeeping on a monthly basis. While most accounting packages make it much easier to do the bookkeeping, this is *not* where practitioners should be spending their time.

3. In addition, *all* firms/practitioners must monitor all staff members who work with billing, collections or financial records. All accounts must be reconciled monthly and reviewed by a partner. If there is more than one partner, this responsibility should be alternated to avoid fraud.

4. Have a partner be the first to open all bank statements. According to CPA J. Richard Borck with the firm Weil Akman Baylin & Coleman: "Even if you write and sign all the checks, people



can embezzle from you. I know several lawyers who have had checks stolen from the back of the checkbook and forged. If you don't open the bank statements you won't find out until it's too late."

5. All firms, no matter how small or how new, should have a written annual and monthly budget. This budget should be reviewed regularly. Ideally, you should work with an accountant familiar with law firms of your size. Your budget should include all fixed expenses for the coming year on a month-to-month basis.

6. You should know when all of your accounts payable are due. This will help with cash flow. You should have a spreadsheet listing of all your fixed expenses, the amounts due and dates due. No accounts payable should be paid without partner approval.

7. You should have a projected budget for non-fixed expenses such as education, publications, marketing/client development, supplies. If you have been in practice for a few years, you should be able to know what you spent each year on these expenses to make an estimate for the coming year. You should be able to compare months and years to determine differences or when there may be a greater need for cash.

8. You should have a technology budget for at least the next year. If you have others in the office, get their input on what problems they may be currently having and what types of purchases may be needed within the next year. Be sure to put the cost of training into the budget.

9. You should review the rules on fees and on attorney trust accounts. Make certain that everyone in your office knows the rules.

10. Do you know how much you will need to generate in fees in order to pay your expenses and your salary? You should have a budget for projected income. Your budget for your expenses lets you know how much you need to just cover expenses, but you will have to add in your own salary. According to Ward Bower of Altman Weil Inc., knowing your costs is fundamental to financial management. It is important to know your per-lawyer overhead. To know the cost of your lawyers, add compensation and benefits and divide by 90 percent of expected billable hours to get the actual number of billable hours needed to cover costs.<sup>1</sup>

11. Do you know your projected cash flow for the next six months? You should know what will be coming in and what needs to be paid.

12. Manage expenses as though money were tight. I knew a managing partner of a firm who once said, "If we had managed the practice as well when times were good as when times were bad, we would not have noticed that times were bad." Unless there is a good reason to spend more with a particular vendor, such as for outstanding service, business referral, relative, etc., if you can get it for less, do so.

13. Another tip from Richard Block is to use a payroll service. Yes, they cost money but they also eliminate tax penalties and having to prepare quarterly reports, paying taxes weekly at the bank, etc. You can sleep better at night.

14. All clients should have signed written fee agreements. At a minimum, all new clients should receive a fee agreement. They should understand that little or no work will begin on a matter until the fee agreement is signed. There should be a mechanism for knowing

whether or not a fee agreement has been signed before putting too much time into a matter.

15. You should have a written billing and collection policy. These policies should be given to the client at the initial interview and explained.<sup>2</sup>

16. There should be written policies for billing and collection, even for contingency work. The policies should state the procedures for out-of-pocket expenses, replenishing the account for expenses, and payment from fees for outstanding expenses. According to CPA Steven Manekin with Ellin & Tucker Chtd: "[Practitioners] who do not bill by the hour [need] to monitor their files carefully and make sure they keep them on the fast track for settlement. They need to monitor their settlements by type of file, i.e., workers' comp, personal injury, etc., to allow them to forecast their revenues and budget on a monthly basis."

17. Keep a record of referral sources and who sends the most profitable cases. Devote more time to sources that send you good cases. "Every two years, make a list of all the cases for which you received fees in the past three years, along with the type of case, amount billed, amount received and referral source. Cultivate the referral sources who have made you the most money. Stop taking the types of cases that have made you the least."<sup>3</sup>

18. Monitor the types of cases that are most and least profitable. Stop doing work that is not profitable.

19. Establish an attitude of "Full Day Accounting." You and everyone in your office who does billable work should be able to account for a full day. This includes time that is not billable or client-related. It could include time

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spent marketing, reading, attending CLE, etc. This is important in small firms to make certain that time is being used wisely.<sup>4</sup>

20. Consider taking credit cards to speed cash flow.

21. According to CPA John G. Iezzi: “A firm should perform an annual analysis and ascertain the extent to which each client is generating revenue.”<sup>5</sup> He points out the difficulties of having a firm depend too much on one client or even one partner to generate revenue. Some of the other issues this analysis may point out are whether the firm is client or case-oriented and whether major clients are more aligned with a particular attorney than with the firm.

22. There is a philosophy that each year a firm should “fire” one or two of its least profitable clients. Obviously, it may not be possible if there is

litigation or other factors that prevent this, but getting rid of clients that are not profitable frees you up to find better clients.

23. Have a retirement plan. Explore options such as SIMPLE Plans and Roth 401-Ks.

24. Monitor your expenses. Enough said.

25. “Make more money? There is no simple secret. The rules are simple: 1) pick clients who can and will pay for your services; 2) receive a retainer from them before you begin work; 3) use a fee agreement to confirm the fee and payment arrangement; 4) bill promptly and regularly using each entry on the statement to clearly describe efforts on behalf of the client with more than a reminder statement; 6) cut off the work when the client has not paid for 90 days or has not made arrangements to pay.”<sup>6</sup>

Work hard and get paid. You deserve it!

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## ENDNOTES

1. “Ten Action Steps for More Profitable, Productive Practices,” Ward Bower, *Law Practice Management*, ABA.

2. Samples of billing and collection procedures are available from the author at [www.msba.org/departments/oma/articles/financial/collectionforms.htm](http://www.msba.org/departments/oma/articles/financial/collectionforms.htm).

3. “How to Make More Money,” Linda Ravdin, Esq., *Law Practice Management*, ABA, April 1999.

4. “Gauging a Law Firm’s Financial Health,” L. Donald Holland and Paula Turner, *Accounting for Law Firms*, July 1999.

5. *Results-Oriented Financial Management: A Step-by-Step Guide to Law Firm Profitability*, ABA Law Practice Management Section, 2003.

6. “How to Make More Money,” *Law Practice Management*, ABA, April 1999.

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