

Powerful Partnerships

For Administrators, Bankers Are Critical Cash Management Allies

BY ED POLL

Once billable work is turned into collected cash, it generally falls to the law firm administrator to manage the cash flow process and to keep the firm functioning as a business organization. This is a hands-on process that requires the administrator's individual focus and expertise. Today's financial information systems and software can and do produce extensive and detailed financial information /data, but they cannot adequately handle the cash management process by themselves.

Administrators, however, are not alone in handling the process, because they can turn to experienced allies – provided they are adequately prepared to do so. Those allies are your firms' bankers, and your preparation should encompass understanding what bankers can do – and how you can get them to work *with* you in doing it.

ADVERSARY OR PARTNER?

Some administrators tend to visualize bankers as adversaries, offering help only when it isn't needed. And, of course, the experience of the past year has shown that, when crunch time comes, your bank may be having as many, if not more, problems than you are. However, lawyers and law firms remain generally attractive customers for banks. Banks value lawyers for having good financial prospects, relatively low risk, and solid potential for new business referrals. Banks and law firm administrators can develop mutually beneficial and effective business relationships if they work at them.

From the administrator's standpoint, a bank can be a valuable partner in helping you to manage the business side of the firm. But just as not every lawyer can properly represent every client, not every bank is appropriate for every firm. Administrators should look for a bank that gives them the types of services and responsiveness they want.

Think of the bank as a supplier. Suppliers provide lawyers with goods and services that allow the law firm to deliver quality legal services to clients. Good banking relationships provide the necessary funds and financial services that allow a firm to maintain itself and grow. This is especially true of the cash management function.

CASH MANAGEMENT MECHANICS

Begin at the beginning, when you have the client's check in hand. For the most part, lawyers still get paid via personal checks from clients, and they must physically deposit those checks with the bank. The first rule of cash management is to never wait to deposit checks. While a check is being held for deposit, too many problems can happen: the client may become angry and stop payment, or have insufficient funds when the check is finally presented for clearance,



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or become party to a lawsuit or other proceeding in which financial assets are attached.

Deposit all checks from clients. Do this even if the amount received does not match the amount due per the statement. Make a photocopy of the check. After making the deposit, call the client and ask for an explanation of the difference. You will ultimately reconcile the amount paid with the amount due; however, in the meantime, you will have deposited and benefited from the amount sent to you. The only exception is when there is a disputed claim, and a check is marked "paid in full," with the check amount being less than the amount owed to you.

Additional deposit difficulties may also be involved. For example, an attorney is not automatically authorized to endorse the client's name to checks. This can be an issue with a two-party check in which one of the parties is not available (out of the country on business, for example) to endorse it. Too many discipline cases involve lawyers forging endorsements to settlement checks, lying to the client about whether the check was received or about the amount, and then walking off with the proceeds.

Banks can refuse any deposit for any reason. By accepting a two-party check as a deposit, a bank may believe it has liability if a dispute arises between the parties. But by cashing rather than depositing the check, the liability for any dispute is on the account holder, and the bank believes it does not assume liability. As long as you have the funds in your account to cover the check, it should go through.

There are two caveats to this. First, your funds equivalent to the amount of the check will be placed on hold until the check clears. This won't be a problem if you turn around and deposit the funds

into the account. Any hold can be only until the check actually clears, which is usually midnight the same day, according to the newest check clearing rules, although some banks will hold checks for more than \$5,000 slightly longer. Second, if the check is refused by the originating bank or is disputed elsewhere, you are liable to make your bank whole.

Technology now offers a way to avoid this problem. Firms are taking advantage of the new check scanners offered by some banks to more quickly and securely deposit client checks. Scanners treat a check virtually as a debit card, making the deposit instantaneous. A related but more comprehensive strategy is to negotiate for a lockbox, which many banks now advertise as among their premier business services. In this arrangement, the bank picks up remittances several times a day, records them, and sends details of the transaction to you (as the customer) within several days. Online technology allows communication of this information on the same day as, or the day after, the deposit. This saves the time required to physically process the deposit.

CREDIT LINE OPTIONS

Note that my cash management emphasis has been entirely on the management function – which, after all, is what firms can directly control. If the cash is not coming in as you need, law firms do have credit lines, in which the firm borrows and repays at will up to the amount of the credit line; but, given the headlines about lawyer and staff layoffs, banks may be reluctant to give credit to any law firm customer. This is particularly true because credit line terms can fluctuate substantially, however the bank dictates. Most typical is a term loan – which can be as long as seven to 10 years for a large

law firm, or three to five years for a smaller one – but banks today have stricter standards to make such loans.

It's important to remember, especially in this era of tighter credit standards, that bankers view and understand any law firm as a business, with cash flow, receivables, revenue, and profits. Lawyers should educate their bankers on how their businesses operate in order to build relationships of trust. That means documenting clear plans for cash and receivables management, marketing, and business growth. It also means confirming your status as a reliable borrower by having a high credit score on any of the various systems used. All this should be established *before* the firm ever needs to seek a loan. Then, when "crunch" time comes, the foundation established will be one on which the firm and the banker can rely in a loan transaction.

KEEPING TRACK

Obviously, this is a complex process, and the best way to view your firm's cash position is to develop a cash flow statement, a forward-looking budget of cash receipts, and payments for the next 12 months. Keep that statement on a rolling 12-month cycle such that, as you conclude the current month, you look at the 12th month and add it into your budget, adjusting all the other months if needed based on new information. Also, as part of this process, relating back to collections, keep your accounts receivable listing always at your elbow to ensure that your clients are paying you in accordance with their agreements. If you do these two things, and maintain a solid relationship with your banker to manage the cash you do receive, you will be far ahead of the financial curve compared to most firms. ✱

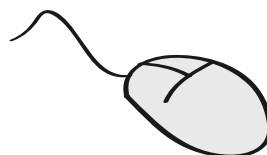
about the author

Ed Poll is the Principal of LawBiz Management and a renowned law firm management consultant who recently launched www.LawBizForum.com, an online venue for legal professionals to network and to share best practices. His LawBiz Coach® column appears regularly in *Legal Management*. Contact him at edpoll@lawbiz.com or (800) 837-5880.

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