

## How to Adopt a More Effective Invoice Review Process

- **Overview**

- Defining the goals
- Identifying roles and who is involved
- Understanding the current process and state of performance
- Identifying improvements and setting forth the new process
- Evaluating results
- Seeking to further improve

**(Practice Tip:** This is a great area for a “Six Sigma” or “Continuous Improvement” project, if your Legal Department is looking for one. The project would show how Legal can engage in quality operations management, while saving the company money.)

- **Defining the goal**

- What is the purpose of a quality invoice review process? What benefits would come via improvement? Here are some suggestions . . .
  - **Achieve higher levels of productivity** per legal dollar spent externally
  - **Avoid wasting money** on practices that do not deliver value to the client
  - **Show that Legal’s operations are well managed**, which delivers additional benefits:
    - Sound practices from a Sarbanes Oxley and/or auditing perspective
    - Stronger position in terms of insurance reimbursement for outside counsel fees

- Improve administrative efforts to **free up in-house attorney time to focus more on legal issues** (and perhaps create new opportunities for in-house paralegals or other team members)
  
- **Identifying Roles and Who Is Involved . . . (Present and Future)**
  - Map out the current roles and responsibilities of:
    - **Front-line in-house counsel** overseeing the matter
    - **More senior in-house attorneys** who approve invoices over a certain amount
    - In-house paralegals, managers, administrative assistants, and any other **non-lawyers** who now contribute to the process or could, going forward
    - **Outside counsel**, including the partner most actively involved on the matter, and – if applicable – the overall relationship partner
    - **Vendors**, including possibly . . .
      - E-billing vendor
      - Legal invoice analysis vendor
  
- **Understanding the Current Process and State of Performance**
  - Even if the current process is informal and not written down – as is likely the case at most companies – it is helpful to **diagram the current approach to approving invoices**
    - What happens first?
    - Who does what?
    - What happens next?
    - Then what
  
  - Diagramming in this fashion **helps define the current state process**, and enables you to **measure current state performance**:

- How much time do people devote to each step of the current process?
- For how long does an invoice reside in the queue before advancing to the next step?
- What adjustments are typically made to invoices? Is this the right level of adjusting?
- Is the current state approach the best use of resources? (Are attorneys able to manage this work flow well, or does the number/complexity of invoices make it challenging to review on a line-by-line basis?)

(**Practice Tip:** if your company does any manufacturing, or utilizes “Quality Improvement” techniques, chances are there are internal experts you can call upon for suggestions along the way. This may be a good opportunity to partner with some of the business folks.)

- **Identifying Improvements and Setting Forth the New Process**

- Brainstorm to devise a list of quantifiable improvements to the process
  - It is often helpful to **focus on the goals of invoice review** – step one (above) – to identify improvements that would best advance those goals
  - For example, if saving money is an overall goal, then focus on improvements such as:
    - Increasing the percentage of invoice amounts written off from X% to Y%, if your analysis shows that the company has been paying for things that it should not
    - Processing invoices sooner (paying within 30 days instead of 45) to capitalize on the early pay discount that some law firms offer
- Some companies have found the following approaches to be helpful ways to improve the invoice review process:

- **Adopt formal billing guidelines** addressing what the company will and will not pay for. Incorporate them into the retainer agreements with outside counsel, addressing key items like whether the client:

- Requires project/staffing plans and budgets from the law firms (paying only for work and attorneys identified in advance)
- Will pay for travel time (many do not)
- Caps the number of hours that can be billed per day
- Pays the law firm's legal research access fees (to Lexis or Westlaw)
- Pays for internal copying, or limits it to X per page
- Pays for long distance or fax charges
- Pays for time devoted to budgeting

(**Practice tip:** It can be very helpful to devise a policy with respect to all these issues. More and more, in-house counsel are thinking closely about which law firm charges should already be covered as overhead already reflected in the hourly fees.)

- **Utilize an e-billing system** as the vehicle to receive invoices.
  - The cost of these systems and the projected return on investment are making them increasingly accessible.
  - The “electronic flags” feature can be used to automatically identify charges that violate certain billing guidelines.
- **Engage a legal invoice analysis vendor** to review a batch of invoices and identify categories of charges that the company has been paying, but which do not deliver good value.
  - There are several vendors out there and, if you choose to go this route, the key is to find one that understands and can help implement your department's view of what constitutes reasonable charges from a law firm.

- Some vendors offer more extensive services, and can stay involved as an adjunct to your department, helping to review invoices going forward. On the other hand, some clients have had success internalizing aspects of this by hiring temp paralegals to assist in invoice review.
- Some vendors offer retroactive legal invoice auditing as well. But, on a cautionary note, that “after the fact” review can get tricky – especially with respect to invoices that have already been paid.

**(Practice tip:** These approaches – billing guidelines, e-billing systems, and legal invoice analysts – are valuable in that they enable two distinct levels of review. The first is a “black and white” analysis of compliance with billing guidelines laid out in advance; this can be performed by a non-lawyer. The second is a higher level review of whether the overall amount invoiced is commensurate with the value of the services provided. This remains within the in-house lawyer’s purview – but there are ways [below] to streamline this as well. This dual approach is often the key in re-structuring the invoice review process to get better results and optimize resources.)

#### ■ Expand outside counsel’s role in the invoicing process

- Have the relationship partner attest to compliance with billing guidelines (either quarterly or on each invoice submitted)
- Meet periodically with outside counsel to discuss overall compliance with the billing guidelines. (This sends a message that it is important to the Legal Department.)
- Require that each invoice contain a quick “dashboard” report, showing: total amount spent year to date, progress vs. budget, and net value of discounts applied.

**(Practice tip:** Involving outside counsel is a key aspect of improving process and results. Here is how. If: (1) the initial budget was well crafted to deliver good value, and (2) outside counsel’s fees and expenditures are “within budget,” and (3) outside counsel attests to overall compliance with the guidelines – then in-house counsel’s review can shift from line-by-line review of every invoice before payment, to a more streamlined review before payment, coupled with periodic spot checks to verify compliance with the guidelines. Non-lawyer members of the team can play a broader role in the latter part.)

- **Evaluating Results & Seeking to Further Improve**

- At the end of the year, ask: did we achieve our quantified goals?
- If not, why not?
- What value did this deliver to our clients?
- How can we make it even better?

(**Practice tip:** prepare a report or slide deck to highlight this success, and quantify Legal's incremental value delivered via quality improvement).