

Trust Accounting and Case Management Technology

*Revised and updated by David Bilinsky**

Every firm must have a financial recording and reporting system — yet all financial systems are not created equal. Furthermore, while accountants need access to accounting tools that produce balance sheets and yearly income and expense statements, lawyers need access to financial tools that produce meaningful monthly (or more frequent) reports for managing their law business. Lawyers also need their financial accounting system to comply with the Law Society's recording and accounting requirements.

We are seeing a trend develop where traditional legal accounting systems, which used to concern themselves with only general and trust accounting issues, are now integrating their product into other systems in the lawyer's office and are attentive to issues such as the production of management reports. For example, the ability to do conflicts checks and calendaring, including bring-forward systems, are appearing in accounting systems. PCLaw, for example, has expanded its client database to now include expanded contact management — allowing you to create a database of contacts — clients, lawyers, experts, witnesses — so when you do a conflict search, these references will pop up. Case management has been linked to accounting software to share resources (client and file names, billable time links) for several years now (for example, Amicus Attorney and Time Matters will link to accounting software such as PCLaw or ESILAW and now Quickbooks) and this linkage has come to the point where some vendors have developed one product that fulfills both of these roles (for example, ProLaw and the Integra Office System).

So let us examine the different types of accounting systems in use and outline their strengths and weaknesses.

Paper-Based Systems

Traditional Bound Accounting Books

These are the books that can be purchased at any stationery or office supply store (Staples, Office Depot). They are inexpensive and generally easy to keep — provided that the initial journals and accounts have been properly set up in the first place (it is VERY useful to engage an accountant to do this and one would be well advised to spend a little time with the accountant to understand how this system works and how to make proper postings if you are not going to engage a

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bookkeeper) and that the users are diligent in making the entries. Because they are not a 'one-write' system, the entries must be made repeatedly. (DR/CR). Balancing and reconciliation of the books at months' end can be tedious and time-consuming if you have made a posting error. To be used effectively, a certain knowledge of accounting and bookkeeping is required.

Initial cost: Inexpensive

Benefits: Cheap, can be easy to use if familiar with its operation, suitable for low-volume practices

Drawbacks: Requires knowledge of accounting

Difficult to reconcile (as compared to a computerized system)

No benefit of ancillary systems (such as conflict checking, limitation systems, accounts receivable reminders etc that arise in a computerized system)

No automatic production of management reports (cash flow statements, billings by lawyer per period, disbursements on a file, etc.)

No linkage to other office systems

“One-Write” Systems

These are accounting systems that have been designed by people such as Safeguard™. They simplify the accounting process by providing a means whereby all entries are prepared simultaneously (by carbon or NCR paper) (accountants call bookkeeping a “double-entry” accounting system — meaning that entries are made twice — showing the source and application of funds by debiting one account and crediting a second account. For example when you write a cheque to pay a disbursement you need to make two entries — one for the bank reflecting the withdrawal of funds (source) and another to the supplier being paid (application). These systems ease these double-entries by causing them to be made at the same time — hence the “one-write” system). Full instruction in the use of the system should be obtained for both the bookkeeper and the lawyer(s) using same. A typical base system would consist of:

Trust Account Disbursements

General Account Disbursements

Fees Billed

Cash Receipts

The advantage of a one-write system is that little or no accounting or bookkeeping experience is required to use it as compared to the traditional paper systems. A one-write system is not foolproof, but it can and does reduce the time-consuming process of balancing and reconciling the books.

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The initial cost of such a system is approximately \$500. Suppliers are listed in the Yellow Pages under “Accounting and Bookkeeping Systems.”

Initial cost: \$500

Benefits: Reduces mistakes, easy to use

Drawbacks: Requires some knowledge of accounting

Difficult to reconcile

No benefit of ancillary systems (such as conflict checking, limitation systems, accounts receivable reminders, etc. that arise in a computerized system)

No automatic production of management reports (cash flow statements, billings by lawyer per period, disbursements on a file, etc.)

No linkage to other office systems

Computerized Accounting Software

These can be categorized under four main headings:

- (a) Trust accounting systems only
- (b) Generic accounting and financial statement packages
- (c) Integrated legal accounting systems
- (d) Fully integrated accounting and law practice management software

(a) Trust Accounting Systems only

These systems offer trust accounting only (not general accounting). (Fountain Software is one supplier of just trust accounting software — some of the integrated accounting systems offer stand-alone accounting modules and you could, if desired, purchase only the trust accounting module.)

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- Initial cost:* \$150 (approximate)
- Benefits:* Quick and easy trust accounting
- Drawbacks:* No benefit of ancillary systems (such as conflict checking, limitation systems, accounts receivable reminders, etc. that arise in a full-computerized accounting system)
- No linkage to other office systems
- No general accounting capability — you still require another system to do your regular office accounting

(b) Generic accounting and financial statement packages

Examples: Quickbooks and QuickBooks Pro, MYOB, Quicken, Simply Accounting, Peachtree, Microsoft's Great Plains Accounting.

Most of these systems were designed for a manufacturing business — but that does not limit them to that use. Quickbooks Pro along with others are now incorporating features that make them very useful for professionals. Some of them incorporate features such as:

- Client file database
- Time and disbursement recording and billing
- Trust accounting
- Non-trust accounting including general ledger and financial statements

They are available from office supply stores (Staples, Office Depot) and from the internet. Prices start from approximately \$100.

- Initial cost:* \$100 to \$400
- Benefits:* Full computerized accounting system, often with additional components
- Drawbacks:* No limitation system incorporated into the system
- Not designed specifically with a law office environment in mind. May need some training to use.
- Not designed specifically to handle trust funds — see for example an article by the Minnesota State Bar Association on how to set up and use Quickbooks for lawyer's trust accounting:
<http://www2.mnbar.org/qbguide/qbguide.htm>

(c) Integrated Legal Accounting Systems

Examples: PCLAW and PCLAW PRO, ESILAW, Brief Accounting, Tabs III.

These packages take the idea of a general accounting and financial statement package and apply them to the specific needs of the legal market. As well as offering all the features of the general accounting systems, they *can* (and usually do) incorporate conflict checking, calendaring (bring forward systems) and management reports specific to lawyers and law offices.

They are usually available from local distributors or from sales offices or on the internet.

Initial cost: Typically \$500 and up

Benefits: Full computerized accounting system

Some integrated legal systems (conflict checking, calendaring, bring-forward systems)

Integrated time and billing

Drawbacks: Starting to become expensive

Require training to use the component parts effectively. Usually require a trained or experienced bookkeeper or accounting department.

(d) Fully integrated accounting and law practice management software

Examples: ProLaw, Integra Office System, CMS Open, Javelan, Elite Information Systems, Gryphon99, Juris, etc.

These packages are the Cadillacs of the field. In addition to all the features of the integrated legal accounting systems, they offer modules for (or have already fully integrated) case and file management, full integration of time and billing into the accounting system and full office management reporting.

One exception to this big-firm focus is the Integra Office System developed by a Bill Pope, a lawyer in Dawson Creek, BC. Integra integrates general and trust accounting with case management functionality. It is an example of an integrated system that is intended for the solo or small firm office. I expect that other legal accounting systems will be following Bill's example (for example, PCLaw is moving in this direction by starting to build in some case management functionality into its accounting system).

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- Initial cost:* Typically thousands of dollars (Integra is the exception starting at \$600)
- Benefits:* One-stop shopping
- Usually offer a full-line of modules that extend the accounting system into a full accounting and case management system
- Integrate multiple offices
- Drawbacks:* These are the accounting systems for larger law firms or ones requiring a fully integrated office solution
- Training in the systems is required
- Dedicated staff required to manage and run the system

Integrating Accounting and Case Management Software

Many developers are starting to work together to offer the ability for their software to work with legal accounting systems. The advantage here is to have a case management system (such as Amicus Attorney or Time Matters) that is developed by one company “pipeline” or share data with your accounting system (such as Quickbooks or PCLaw or PCLaw Pro).

This cooperation allows firms to use the time and billing or case management software that they prefer and have it integrate with their accounting system (hence reducing the need to rekey data).

This results in the user having the equivalent benefits offered by the fully integrated solutions developed by one company by using components developed by different providers. This can result in your achieving the “best of breed” at a lesser cost than a fully-integrated system (say from ProLaw). The disadvantage is that you will pay a price in getting the systems to fully work together (often requiring a consultant’s help in installation and configuration) and since you are using two different databases (one in the accounting system and one in the case management software with a software “bridge” between them) this match up may be somewhat more problematic than an integrated system that shares one database. However, it can be a very powerful approach and one that can be expected to grow as developers are realizing that greater utility and user satisfaction comes from allowing their systems to work with other legal office systems.

Management Reports

The distinguishing ability of computerized and integrated financial systems in particular is the ability to provide feedback to the lawyers in the firm on how the practice stands from a financial and management perspective.

For example, PCLaw will produce the following management reports:

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<i>Client Ledger Report</i>	List complete matter history: time, fees billed, client and trust disbursements and receipts, write ups/write downs by date, client, matter and lawyer.
<i>Client Summary/Matter Status</i>	List billed and unbilled hours, fees, disbursements, trust and accounts receivable balances, last bill and trust entry date by date, lawyer, client, matter or dollar value.
<i>Client Trust Listing</i>	List trust account balances by date, matter, client and lawyer.
<i>Receivables by Client</i>	List billed but unpaid amounts by date, matter, client and lawyer.
<i>Billing by Lawyer</i>	List fees billed by lawyer and total firm fees daily, weekly, monthly or annually by area of practice.
<i>Work-in-Progress (Unbilled) Report</i>	List aged amounts of unbilled hours, disbursements and fees for each matter by date range, firm, client, matter, or timekeeper.
<i>Collection Summary Report</i>	List amounts of retainers, cash receipts, hours, fees and disbursements billed; payments made against fees and disbursements; accounts receivable; monitor lawyer contribution to cash flow.
<i>General Bank Report</i>	List disbursement and receipt transactions for up to 99 general (operating) bank accounts by date, G/L account, cheque number and bank account.
<i>Trust Bank Report</i>	List disbursements, receipts and totals for up to 99 trust accounts by date range, cheque number and bank account.

This is just the start — most of the computerized accounting systems will allow you to customize the production of reports. You can see the benefit to a practice in terms of receiving timely and accurate information on the financial health of a practice. Furthermore, case management programs such as Amicus and Time Matters will produce further reports, reminders and summaries (either using the built-in features or via Crystal Reports for custom designed reports) that will update you on your practice. For example, Amicus will allow you to quickly access all the phone calls and messages on a file or for a contact, it will allow you to determine your billable hours to date and how you are progressing compared to your monthly and yearly billable targets, and you can determine all the uncompleted “To-Do’s” on a particular file (and who they have been assigned to for completion).

Summary

While a simple paper-based accounting system, if set up properly, can fulfill all of the Law Society of BC’s requirements for a legal accounting system, the computerized approach can offer

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a great deal more functionality and practicality to a lawyer and law firm. Taking the systems to the next step — integrating case management into your accounting system — can increase your productivity, help to reduce missed reminders and limitation dates, assist in conflicts checks and generally greatly assist a lawyer in staying on top of his or her files and practice. Amicus Attorney calls itself “The Law Office on Computer” and this title is very apt when considering what benefits case management software can bring to a law office.