How to Establish Internal Controls

Introduction

A law firm's practice objectives are best met by implementing a good system of internal control procedures and policies. An internal control structure is a system of safeguarding the firm's resources. It provides a way to collect, organize, record and report information that is needed for the efficient operation of your practice. There are several operating activities which require internal controls. Among them are:

Practice Management, Production,
Revenue, Expenditures, and Financial &
Management Reporting.

The firm management establishes practice objectives, which will be met by way of implementing internal control procedures and policies.

Following are examples of internal control goals to be implemented in each of the above mentioned activities:

Practice Management

- New clients and/or new matters will be approved by management before acceptance.
- Contingent fee work will be evaluated and approved by management.
- Pro bono work will be reviewed and approved by management
- Written procedures to reduce the risk of a claim in performing legal work will be communicated to all firm personnel.
- Billing rates and terms as well as client credit limits will be set by management and communicated to clients and staff.
- Non-standard rates or billing arrangements will be approved by management.
- Billing and collection problems will be addressed before they effect the firm's finances.
- Legal work as well as attorney and paralegal performance will be reviewed regularly.
- Write offs of accounts receivable or work in progress will be evaluated and approved by management.
- Maintenance procedures for a docket control system will be established.
- Background information for purposes of conflict checking will be established

Production

- A log or some other tracking system will be maintained in a timely manner to record and report time.
- All recorded billable time will be charged to the correct client file.
- All non-billable time will be recorded in the appropriate accounts provided for such activities (i.e. CLE, pro-bono work, management, or administrative hours).

Revenue

- All recorded time will be billed regularly at the pre-approved rates.
- All bills will be mailed and posted to the clients' file.
- Client advances (third party billings) will be reviewed for pre-approved amounts.
- Direct billing will be initiated for costs in excess of approved advance amounts.
- All incoming funds are logged in and properly deposited.
- Any unbilled time and expenses will be reviewed regularly.
- Aged accounts receivable will be reviewed and followed up on.

Expenditures

- All disbursements for operating or capital expenditures will be authorized by management.
- Purchasing of goods and services will be authorized by designated personnel only.
- Check writing and signing procedures will be established.
- All goods and services received will be verified against goods and services purchased and invoices and shipping documents will be attached to the check copy.
- Disbursement transactions will be properly classified and recorded for financial and management reporting.

Financial and Management Reporting

- Standard accounting policies and procedures will be established and approved by management.
- Information contained in financial and management reports will be verified for accuracy , it will be meaningful, understandable and reliable.
- Financial and management reports will be prepared and distributed regularly.
- An annual operating budget will be prepared and approved.
- Discrepancies between budgeted and actual results will be reviewed regularly.
- All tax returns and other reports will be filed regularly and timely.

Conclusion

The written procedures and policies to achieve these goals will be more detailed and will clarify each individual aspect of the control system.

The users of such a system will realize that non-compliance with these policies will have a direct effect on the revenue potential of the firm.

A crucial component of internal control is follow-up. The information contained in the financial and management reports is to be reviewed and compared with management's objectives. This process allows refinement of the operating cycle. Decisions will be made based on the reported information, therefore the integrity of the reporting system must be preserved and never viewed as a simple clerical exercise.