In Legal Matters, Everyone Cares

It's not just the law department that has a stake in the company's matter-management system.

BY REES W. MORRISON

Few law departments sufficiently appreciate how many other groups have a stake in the workings of the department's matter-management system. In particular, five groups care about the software that helps track cases, matters, and how much has been paid to outside counsel.

The influence of these groups is important because law departments should not proceed in isolation when they choose, use, or modify their matter-management system. Most law departments take a myopic view of their software, concerned only with whether it serves the department's needs. But a much wider set of interests are in play and need to be satisfied.

Management Matters

I would like to examine the concerns of five groups (four of them clients of the department) regarding the way legal details are tracked: internal audit, accounting, in-house clients, information technology, and law firms. Each of them, plus the law department, depends on the matter-management system for different, interrelated reasons.

INTERNAL AUDIT

The internal audit department wants the law department's matter-management system to keep a close watch on money spent and the processes by which the company spends its legal dollars. For example, at a food company I have been advising, internal auditors want to be assured that the proper financial controls are in place. Does the software keep a trail of who made initial entries of data and who later modified it? How far back does that trail go, and with what detail?

Auditors want to make sure the software helps enforce a system in which those at the right level of authority are the ones approving bills. And because of rules instituted under Sarbanes-Oxley, auditors want assurance that the person who approves payment of a bill is not the person who enters the invoice information into the system.

Auditors also want to be able to compare invoices that go to accounting against the data on those invoices that have been entered into the system; in essence, they want to feel comfortable that electronic bills accurately reflect hard-copy versions. In other words, internal audit serves a control purpose and has a

clear interest in whether the law department's matter-management system promotes proper controls.

ACCOUNTING

The chief financial officer cares about the law department's tracking software because that software serves as the front end for all spending data that go into the corporate accounting system. So the CFO's group cares about financial accuracy, comprehensiveness, integrity, and reporting. The accounting department and others who report to the CFO want to be able to reconcile what the company's general ledger system shows with what the matter-management system shows. For example, according to both systems, did Firm A get paid $350,000 last year? The general ledger system is the financial reporting system of record, while the law department's software plays the role of a front-end, data-entry system.

Accounting also needs to keep track of amounts to accrue for legal services provided the company but not yet billed, and can use the system to help it determine those figures. Accounting wants to properly reserve for contingent liabilities—those potential expenditures that depend on a court or regulatory decision to become real and quantifiable—and once again, the law department's system provides that data and support. (To that extent, the company's outside accountants also watch the matter-management system, because they must vouch for the reasonableness of reserves set aside by the company to cover future expenses, such as environmental cleanup costs.)

To the extent the law department transmits information electronically to the accounts payable system (often called the general ledger system) or prepares check-request vouchers, accounting has an interest in the accuracy of the matter-management system's accounts. If the bills from law firm Rees & Associates on the Morrison matter need to be charged to the Widget Group, both internal systems—that of the law department and that of the accounting system—must share the same information.

Accounting also cares about how much a system costs as well as what portion of that cost is capitalized and what portion is expensed. Accounting, much like internal audit, also wants the procedures by which financial information is entered and reported on in the system to comply with financial accounting standards and to be reliable.

Whatever the use, one point stands out: The matter-management system should serve as the most detailed and timely source of information about legal spending. The company's general accounting system does not need to duplicate that level of specific information.

As its most essential contribution to the internal clients of the law department, a matter-management system reports on legal costs and events and forecasts future legal costs. Client groups care about past expenditures and forecasted expenses, of course. But there are other ways that matter-management systems affect internal clients.

Here's one example: A good practice for a law department is to charge back to client groups those outside counsel costs incurred on behalf of the group. If the law department has to retain a firm to press for collection of the Widget Group invoice, the Widget Group should be charged that firm's costs. Where chargebacks occur, clients learn to care about the accuracy and alacrity of the legal matter-management system.

Clients may also need to know how much legal costs increase when they take certain actions, such as setting up a subsidiary or applying for a patent. If comprehensive data aren't entered into the matter-management system, a company could be ignorant of the legal costs associated with an activity.

For various reasons client groups may want the right to drill down for detail on the costs of individual matters, and they may want to let their own financial personnel have access to the database. This can create a few complications. If clients have this kind of access, they will have to think in turn about its security capabilities. You do not want nonlawyers seeing legally privileged information, and you do not want people who are not trained to enter data correctly into the matter-management system running amok in it. Most law departments allow clients outside of the department access to the matter-management system only sparingly, and only give them the ability to read the data in the system, not to change it.

The matter-management system also makes a difference to clients in terms of its ability to produce analytical reports. Ultimately, the system becomes a tool to help clients with productivity, prognostication, and problematic costs.

INFORMATION TECHNOLOGY SERVICES

Obviously, case-management software, as it is sometimes called, matters to corporatewide systems and technology groups (also called IT). This kind of software can run either on an internal server or an external platform. If the software runs in house, IT cares hugely about it. But if the law department chooses a package that runs on the vendor's server, some technical issues still remain for IT. Either way, IT has to provide resources for the matter-management system, such as hardware, training, and software support.

The IT department also cares whether the technical performance of the system meets the users' requirements. For geographically dispersed law departments, IT needs to pay attention to bandwidth and access. There has to be appropriate security for access to the sensitive legal information in the matter-management system. IT will want to know whether users have support and training that enable them to make appropriate use of the tool.

Also, the IT department may be asked to customize anything that relates to this software, such as an interface with the accounting system, customized reports, security permissions, or a single log-on system. IT may be called upon to integrate two systems, such as an electronic bill-review system and a matter-management system. The department may also develop a portal to do so or to connect the data in the matter-management system to other data. For IT, the important elements in a matter-management system are security and technical performance, including the backup procedures.

For the law firms whose work and invoices are reflected in a matter-management system, the issues are clear. At the mundane level, firms want to be paid correctly and promptly, so the software has to enable that bookkeeping. Beyond that, the

information stored in the matter-management system helps the law department evaluate the firm's performance. For that important reason, the software intrudes on its business. The cost data in the system may determine the fate of a firm, either helping the firm get more work or causing it to fall off in the volume of work.

Whether the matter-management software has an electronic-billing capability or the system obtains electronic bills through a third-party vendor, law firms must comply with the requirements for submission of electronic bills. The rules for invoice review in either variation quite definitely affect the law firm. Does the software bounce time records that log more than 10 hours in a day? Can unauthorized timekeepers slip through?

Law firms also care if the introduction of a software package forces them to enter uniform task-based management-system codes in their time entries. I can envision that someday, law firms will submit a bill-summary sheet that can be read electronically by the law department, much like the way SATs are scored electronically.

Choosing matter-management software is not an isolated effort by a company's lawyers. Each of these five groups—audit, accounting, IT, clients, and law firms—feels the effect of a matter-management system and expects it to serve its group's needs. The sometimes-complicated interplay and demands of these five groups means that selection and use of the software cannot be undertaken unilaterally by the law department. A capable matter-management system sits at the center of a web of needs and concerns.

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