Expense and Cost Recovery Systems

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When referencing "Extract – Transform – Load" (ETL) operations in a law firm, this is either Data Forensics (for investigation), e-Discovery (for litigation), or Expense/Cost Recovery (for accounting and billing).

Long gone are the days when a legal secretary, law clerk, paralegal or even an attorney manually creates disbursements on a client's bill for costs or expenses. Automating the processes that take electronic data from vendor bills and equipment ("Extract"), pass it through a set of business rules ("Transform") and generate accounts receivable entries ("Load"). This is the primary function of an Expense and Cost Recovery System (ECRS) which include programs, scripts and databases designed to improve the cash flow of businesses and organizations by automating the movement of data between cost recovery systems, electronic billing from vendors, and accounting systems.

An ECRS reduces the amount of a user's manual effort -- and an administrator's decision making -- required to exchange data between a law firm's vendors and its clients. Relying on an ECRS will minimize delays between the capture of cost transactions and electronic billing for various expenses as well as processing automatically into accounting databases.

Once costs are added to accounting, detailed transactions from an ECRS may be summarized to higher-level totals for single lines on invoices, statements and bills. However, the detailed transactions usually remain in the ECRS database for any required detailed reports. Retaining the detail transactions minimizes the number of records that need to be loaded into accounting, but still allows access to the detail for auditing purposes, or for justifying expenses to clients.

System Overview

- Retention of Detailed Cost Transactions
- Capture and Correction (C&C)
- Automated Data Exchange
- User Criteria
- Rate Structures
- Multi-Level Phone Numbers
- Validation Criteria
- Multiple File Transfer Methods
- Export/Import Options
- Reporting

Retention of Detailed Cost Transactions

An ECRS usually includes a database, set of tables or flat files to retain detailed transactions received from cost recovery systems that control devices such as photocopiers, telephone switches, fax systems, and electronic billing for services such as messenger services, overnight delivery, credit cards, legal research, etc. so forth.

Capture and Correction (C&C)

Although a completely automated ECRS – without any human intervention – might be desirable, as long as people incur the costs ("make the transaction") and people create and transmit the electronic bills, some action is always going to be necessary on the part of a firm's employees. In C&C, the "capture" phase is the input or action initiated by a person working, ultimately, for the firm's client, and the "correction" phase is the sometimes necessary response by either the same person or an accounting employee dealing with "kick outs", exceptions or downright rejections based on a mistake made during the capture phase. An ECRS normally receives and retains all transactions from the source system or electronic bills. This includes valid transactions where all data is correct and invalid transactions that have invalid or missing elements. (Note: an ECRS can accept transactions into its database that have all fields valid or a minimum number of valid data elements.) Interactive portions of some ECRS packages allow review, updating and correction of individual costs.

Transactions with invalid data in some columns are held for subsequent correction, transformed based on "business rules" or rejected dictated by both industry and individual company policy. Only transactions considered valid may be moved along to be loaded into a business' accounting application. The ECRS might include an on-line function to easily review and correct detailed cost transactions prior to passing them on. Reviewing and correcting transactions already in the system is much easier and faster than the traditional method used by non-ECRS practices such as printing out rejections and then manually entering them directly in the billing application.

Non-ECRS processes typically import valid transactions only and generate an exception list of the invalid transactions. The exception list is then printed and distributed to users who correct the invalid data elements by annotating the report. When the annotated reports are completed and returned to the billing or accounting department, the entire transaction must be manually input into the billing system. Using an ECRS eliminates this costly and time-consuming procedure.

Transactions received into an ECRS are identified with information about the source used to create the cost (i.e. telephone, photocopier, delivery service, outside reproduction, etc.) and the employee who created the transaction. An on-line correction feature can allow users to display the transactions for which they are responsible, and to easily correct invalid transactions (e.g. invalid dates, time of day, etc.) so they can be processed into billing. Security features are sometimes available to control access by the user to only those transactions they are directly or indirectly responsible for correcting   (e.g. a secretary responsible for a department, supervisor managing sales reps, etc.).

Automated Data Exchange

In is a typical installation that utilizes cost recovery systems and electronic billing, there is a dedicated server to support the billing system (Host); a Local Area Network (LAN) to support user applications such as word processing, graphics, document management, spreadsheets; and cost recovery devices used to input data such as user id, client and matter codes, etc. The accounting server and the cost recovery systems are usually connected to the LAN, and data must be transferred on a regular basis between each of the accounting server and the cost recovery systems.

An ECRS often provides the ability to schedule tasks on both the accounting and vendor servers setup on the local area network (LAN). Individual tasks may be run at timed intervals separately, or grouped into packets. Scheduled tasks may include extracting validation information from the accounting server to transferring validation information onto vendor systems to updating a validation tables on the ECRS (including employee IDs, accounting codes and cost-types). In addition, transferring cost transactions from the LAN to the accounting server and processing cost transactions into the billing system are the main ETL steps. Transaction processes are normally automated minimizing supervisory overhead and reducing delays getting transactions into billing.

User Criteria

Multiple Employee Identifiers - Employees can be recorded in an ECRS so that they may have an unlimited number of identifiers that are used with third party systems to associate them with transactions and/or types of transactions. Identifiers may include telephone extensions, photocopy IDs, cell phone numbers, calling card codes, service account codes, login IDs, and credit card numbers.

Employee-Assigned Accounts - Personal accounts should be established for each employee. These accounts will receive invalid transactions (i.e. incorrect or missing data elements) that are not corrected and loaded within a company-defined grace period. In addition, employee IDs are sometimes mapped to a general ledger account number.

Active/Inactive Status Criteria – Better, or higher-level, ECRS applications will retain employee records forever and honor hire and fire dates. This permits a business to enable or disable users based on these dates, which is particular useful for temporary and recurring employees (summer replacements, temporary help, etc.).

Authorized Access Control System - Access rights (viewing or editing) may be established by user and cost type. This permits a company to control who may have access to users' transactions. For example, a paralegal may be able to correct only his or her transactions, while a secretary may be allowed to correct transactions for more than one attorney. A sales supervisor might be able to see all of the phone calls his/her reps make, but only be able to write off reproduction (copy, print, scan) costs for those same subordinates.

Rate Structures

Firms usually set variable rates or costs for their employees and for specific clients or categories of clients (i.e. pro bono, non-profit, government, bankruptcy, etc.). The criteria for these rates are often count-based (pages, copies, duration, etc.) and they are applied before charges are loaded into the billing system. Rates may be established by cost type, or may allow multiple rates based on count volumes within a single transaction. For example, a business may charge its clients $.20 for each copied page for the first 10 copies, and then $.15 per copy for each additional copy.

Multi-Level Phone Numbers

Number Rules – A company may set various levels of acceptance and rejection of telephone numbers found in long distance, local and fax calls. This feature, along with the ability to associate descriptions for these numbers using self-built or purchased telephone geographical tables, provides the ability to identify calls by the full number, area code and prefix, or area code alone, making it easier to identify the location called. The better ECRS will allow for custom input of business names at the exchange (XXX-XXX) and number levels (XXX-XXX-XXXX).

Number Accounts – If a phone number or range of phone numbers can often be related to a specific account among a firm's clients, some ECRS programs can automatically identify that account with the call to be then charged during the processing of call transactions into the billing system.

Validation Criteria

Validation Rules - The firm may establish different criteria for exporting validation data, importing cost transactions, and modifying or correcting client account numbers. Allowing different criteria at different points in the processing and exchange of data provides a greater degree of flexibility. For example, new or pending accounts may be extracted from the billing system and sent to external cost recovery system(s) so that costs incurred for those accounts may be pre-identified. However, cost transactions for the new or pending accounts may not be able to get loaded into accounts receivable until they are formally added to the accounting database (i.e. after a contract is signed).

Validation Accounts - A firm may set specific clients, or groups of accounts, to be processed into the billing system in separate batches. Accounts might be selected by client, by location, by sales rep, or by transaction type (i.e. telephone, fax, etc.).

Multiple File Transfer Methods

Moving data between the application server and the LAN is simplified with an ECRS through support for a broad variety of file transfer methods, including serial communications, modem, diskette, or tape for devices not directly connected to the LAN, or for processing electronic bills from vendors.

For devices directly connected to the LAN, or available over the Internet, other transfer methods are available, including industry standard File Transfer Protocol (FTP) and NFS, which is software that allows your LAN to recognize disk drives on the application server as if they were mounted on the LAN server. This permits the direct copying of files from one system to another.

Export/Import Options

Export Data - Rules may be established for creating validation tables that match each of the requirements of your respective third-party vendors (i.e. photocopies, fax, shipping charges, etc.). These rules control the data elements extracted, and the criteria for extraction, including all clients, customer locations, employee IDs, phone extensions, corporate offices, etc. The validation tables may be produced at any time on demand, or they be created using scheduled tasks or task lists.

Import Data - Various options may be established to monitor the movement of data from cost recovery systems and electronic bills. Transactions from unidentified users, accounts or pieces of equipment (i.e. those not defined in the ECRS) will normally be held for re-testing, rather than automatically stored in the ECRS tables. Notification of these transactions may be sent via E-mail or screen display to users that have the responsibility to manage these transactions. The reasoning behind such procedures is that vendors – even the largest national vendors – may include transactions not truly belonging to a certain company or may send an entire file or electronic bill to the wrong business. This sort of pre-validation will prevent purging of ECRS tables and, possibly, clean-up in the A/R or billing system.

Transactions with missing or invalid company account codes are typically written into an ECRS database while notifying appropriate users of their need to be corrected. These transactions are not loaded into accounting until they are corrected or altered. Finally, invalid formats and specific data may be excluded from loads into the billing system, and data received in unacceptable formats may be pre-processed or filtered to create files acceptable for passing through the ECRS.

Reporting

Depending on the options selected for processing transactions, an ECRS can be used as a powerful application to centralize the recording and reporting of all costs. It eliminates the need to access different systems and applications in order to obtain cost reporting information by user, office, client or account. Since the detailed cost transactions are stored and retained in the ECRS, reporting on detail and summary level would always be available. Reports can be generated by user, by account, by client or even by type of cost transaction. Options can also include the ability to select un-loaded, loaded both statuses of transactions, as well as to select by one or more transaction types, such as photocopy, fax, postage, etc. Detailed lists of this nature are particularly useful when a business is required to submit cost justifications to clients or customers.

Summary

An ECRS allows a company to use one comprehensive solution for managing cost recovery. Combining a fully functional Expense and Cost Recovery System dramatically reduces the administrative overhead and improves the efficiency of recovering firm costs and expenses. With an ECRS, a business is provided with a single focus point of support for small and large firms with a diverse set of cost tracking devices and expenses.