

# ENGINEERING INDUSTRY ROUNDTABLE

Billing and Closing Best Practices



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# AGENDA

- ⦿ Improving the monthly closing process and producing timely financial information
- ⦿ Best Practices to Billing and Collections



# REALITY IN TODAY'S ECONOMY

1. Quote - "The most valuable commodity I know of is information." Michael Douglas (aka - Gordon Gekko, Wall Street)



- The BEST professional services firm are those that can close the month within 3-5 business days.
- Within 3-5 days you should know: did we make money and if not , what needs to be done to get back on track.
- The BEST Companies use the accounting department as a resource.

## 1. CASH IS KING -

- Most firms wait until they are in trouble until that revamp their billing and collection processes AND
- For firms that have "sound" billing / collection processes....there is still room for improvement



# MONTHLY CLOSING BEST PRACTICES

- ◉ Time tracking
- ◉ Managing Vendor Costs
- ◉ Project Review Process
- ◉ Utilizing a monthly closing checklist



# TIME TRACKING

- ◎ Have daily time reporting policy in place:
  - Why?
    1. Lost billable hours - Most people can't remember what they had for breakfast, let alone remember what they did 1-2 weeks prior
    2. Cuts down on CHASING staff for time
    3. Provide MORE timely information (daily, weekly and monthly)
  
- ◎ Electronic – All employees should be able to enter time online and from a remote location.
  
- ◎ Should be tracked per employee, by level and for each discipline.
  
- ◎ Finance should focus on utilization trends:
  - Compared with prior year
  - Against current year plan
  - To best of class



# TIME TRACKING

- ◎ Finance should be meeting with Management to review the impact of utilization trends:
  - Not enough work in the pipeline
  - Overstaffing
  - Seasonality in the business
  - Lack of ability to schedule / plan
  
- ◎ Billable hour goals should be communicated to employees at their annual review.
  - Define as a key metric in employee's compensation package



# MANAGING VENDOR COSTS

- ◎ All incoming invoices should go directly to the accounting department and assigned an anticipated payment date (Scanning technology)
  
- ◎ Generate an AP report with the following information:
  - Vendor name
  - Invoice number
  - Scheduled payment date
  - Invoice date
  - Amount due
  - Project name
  
- ◎ Analyze this AP report on a weekly basis



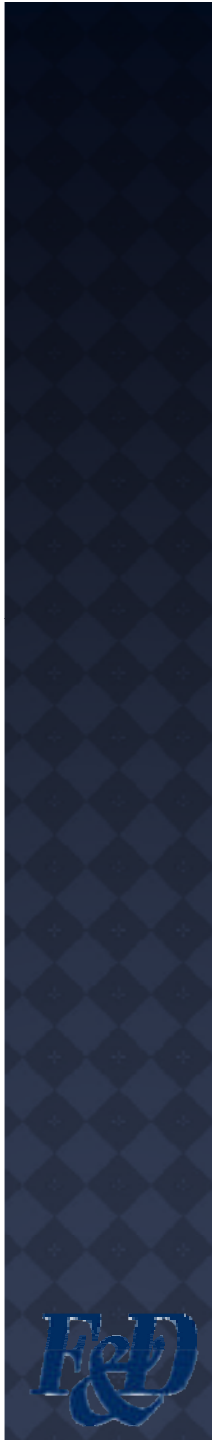
# MANAGING VENDOR COSTS

- ◎ Hard deadlines should be established with all subconsultants
  - Embed in contracts
  - Communications at kick off meeting
  - Discussed with accounting at monthly interim project meeting
  
- ◎ Subconsultants should adhere to a closing schedule (see attached)



# MONTHLY CLOSING CALENDAR

	<u>Old Month</u>		<u>New Month</u>	
	20-25	26-31	1-3	3-5
All payroll submitted / posted		X		
Project Review Meetings	X	X	X	
Collect / post vendor payables	X	X	X	
Post recurring adjusting entries	X	X		
Generate / proof revenue recognition			X	
Sent draft bills to PM's			X	
Finalize Client Billings				X
Post recurring adjusting entries			X	
Issue / release financial statements				X



# PROJECT MEETINGS – OBJECTIVES

Finance, Project Managers and PIC's work jointly to proactively manage each project's financial performance:

- Identify and reverse negative trends early
- Identify scope creep; notify client and request change order(s)
- Maximize use of resources, i.e. staff and consultants
- Creates a system of checks and balances
- ***HOLDS EVERYONE ACCOUNTABLE!!***



# PROJECT MEETINGS – THE STEPS

- ◉ PM/PIC must review and/or update the percent complete of each respective project EACH week.
- ◉ Finance provides the key metrics, detailed information and notes from the last project meeting to the PM/PIC (in advance of the meeting)
- ◉ Finance will take a “first pass” review of the project and will develop questions on the project.
- ◉ Finance and PM/PIC will use project meeting to address questions or discuss anything relevant (that finance should know) relative to the specific project.



## PROJECT MEETINGS – THE BENEFITS

- ◎ Better project information
- ◎ More timely information - provides the project team with the ability to proactively react to PROBLEMS.
- ◎ Greater ACCOUNTABILITY (someone is always watching)
- ◎ Ultimately, more profitable projects = more firm profits



# BILLING AND COLLECTION BEST PRACTICES

- ◉ Facts about A/E billing and collections
- ◉ Customer / Project Acceptance
- ◉ Project Set-up
- ◉ Billing Process
- ◉ Collection Process
- ◉ Projecting Project Cash Flows and Understanding the “Cash Gap”



# FACTS ABOUT A/E COLLECTIONS

- ⦿ 4 out of 5 A/E firms wait until the end of the fiscal month to bill clients
- ⦿ The average firm takes five days to mail invoices after they are generated
- ⦿ The median average collection period for A/E firms has been around 80 days the past several years
- ⦿ Only 48% of A/E firms charge interest on late payments



# FACTS ABOUT A/E COLLECTIONS

- ⦿ For Project Managers AND Principals – the billing/collection process is their LEAST favorite thing to do.
  - Book in outlook recurring
- ⦿ Most firms feel that asking to be paid for services rendered is WRONG and may hurt the relationship with the client
- ⦿ Many firms are not utilizing technology appropriately in the billing/collection efforts.
- ⦿ In general, most firms do not put enough TEETH into this process. The tone needs to be set at the top and those non-conformers must be held ACCOUNTABLE.



# CUSTOMER ACCEPTANCE

- ◉ Create a checklist for “flagging” potential problem clients.
- ◉ Clients in trouble may be dishonest about their situation (especially today)
- ◉ Use Dun & Bradstreet, Nexis and Hoovers
- ◉ What was past history with your firm?
- ◉ Check references – what is their history with other firms

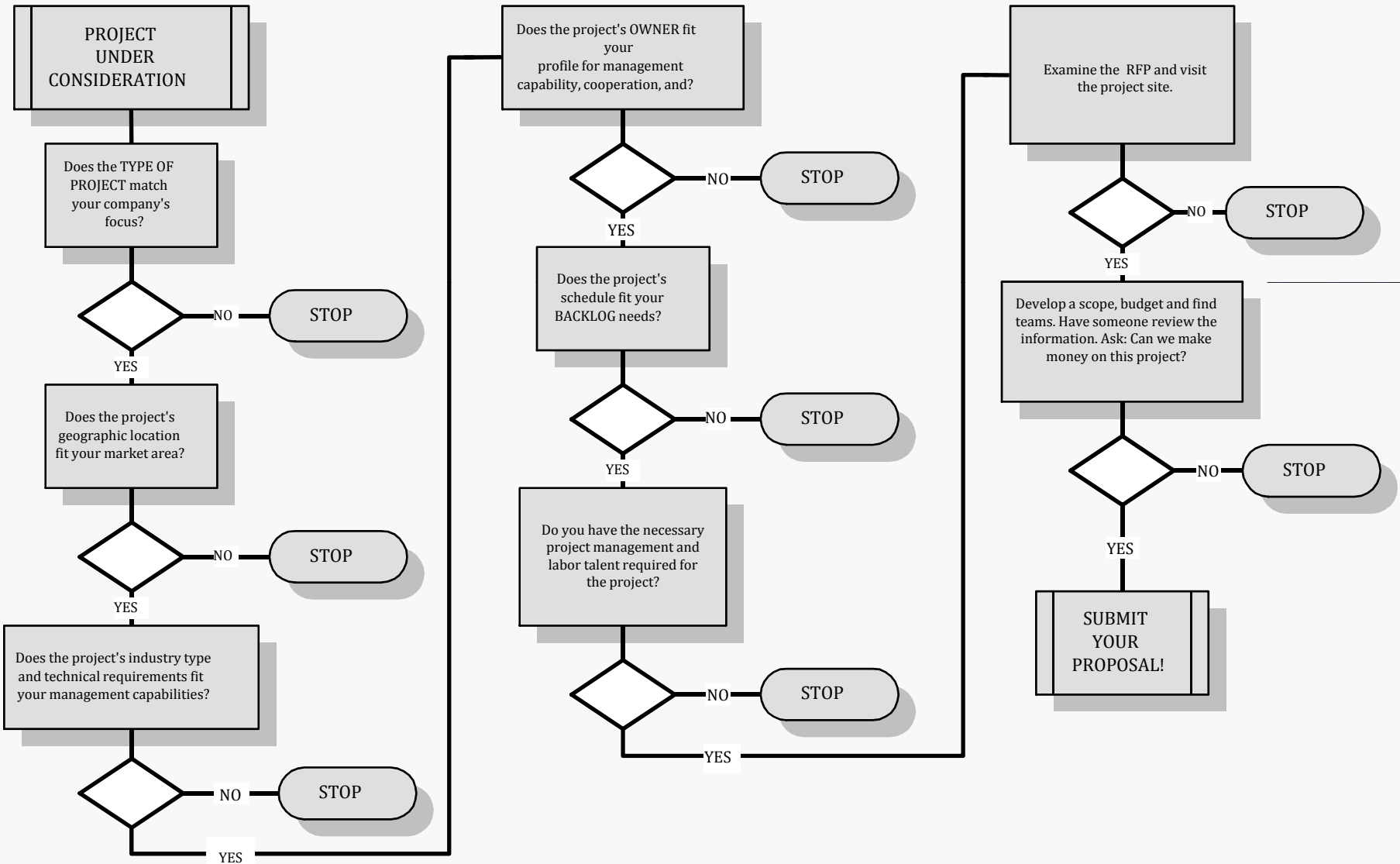


# PROJECT ACCEPTANCE

- ⦿ Create a checklist for accepting new projects. (See attached)
- ⦿ Does the firm have the expertise to complete the work (core competency)?
- ⦿ Is the work priced appropriately? If not, is there a strategic reason for accepting the project?
- ⦿ Discounting up front (to win work) can lead to declining profitability
- ⦿ Perform due diligence on the project team if subconsultants are involved
  - Ask for financial statements, overhead rates and/or tax returns
- ⦿ Sometimes the BEST projects are the ones that you didn't WIN.



# FLOW CHART of ACTIVITIES and DECISION POINTS



# PROJECT SET-UP

- ◉ Along with establishing a budget, schedule and scope – define the payment schedule.
  - Do not start work without a signed contract or LOI that clearly states the payment schedule
  
- ◉ Billing terms should be clear in contracts and invoices – if its not, make sure this issue gets resolved before work is started
  - Develop a standard terms as a starting point
  - Have accounting review billing and payment terms up front
  
- ◉ Add electronic notes to the project in the accounting system (i.e. customer prefers detailed backup along w/invoice.)
  
- ◉ Have a “kick off” meeting to ensure EVERYONE is on the same page.



## BEST PRACTICES – BILLING PROCESS

- ⦿ Document the billing process (via flowchart, narrative, etc.) and stick to it!
- ⦿ Set firm goals – i.e. All invoices in the mail by 5th day following month end
- ⦿ Stagger or rotate the billings process to send of invoices out interim points throughout the month.
- ⦿ PM/PIC's need to keep project budgets (% complete) updated weekly. Project meetings will “flush out” the issues prior to billing.
- ⦿ Finance to send PM/PIC electronic draft invoices.
- ⦿ Finance to use deadlines when distributing draft invoices.



## BEST PRACTICES – BILLING PROCESS

- ◎ Finance, PM's and PIC to utilize the software system to track specific notes, details, etc.
- ◎ Finance should perform a FINAL review of all jobs billed and flag any WIP not billed.
- ◎ Ensure invoices are mailed. (These should be sent electronically when possible.)
- ◎ Focus on the last 10%. These are usually the clients that require the most detail, projects with out-of-scope work or other issues. Put the time into getting these OUT.



## BEST PRACTICES – BILLING PROCESS

- ⦿ Create a formal process for dealing with out-of-scope requests from clients
- ⦿ Out-of-scope requests should be handled immediately and every PM should have a set of “Out-of-scope Request Forms”
  - Train them on how these should be used without alienating the client
- ⦿ Bills need to be clear, concise and leave no room for confusion



## BEST PRACTICES – COLLECTION PROCESS

- ⦿ Always collect advanced installments or retainers when possible (especially on new clients and clients in risky markets)
  
- ⦿ Don't wait until an invoice is 60 days old to call for payment.
  - Large invoices may warrant a “warm” call by the PM/PIC right away.
  
- ⦿ Finance can handle “low hanging fruit” – i.e. missing copies of invoices, paperwork issues, etc.
  
- ⦿ Keep notes on past due accounts in system and document all correspondence with customers.



## BEST PRACTICES – COLLECTION PROCESS

- ⦿ Use email correspondence (along with telephone) when reaching out to clients
  
- ⦿ Have a dual correspondence approach:
  - Finance – contacts A/P or accounting
  - PM/PIC – contacts the PM responsible for approving the invoice or with project oversight
  
- ⦿ Finance needs to involve PM/PIC immediately when there are payment issues relative to quality of work, out-of-scope billings and/or billings above fixed fees.
  
- ⦿ Set-up automatic “flags” to PM/PIC’s when invoices hits certain number of days.



## BEST PRACTICES – COLLECTION PROCESS

- ⦿ Apply finance/interest on delinquent accounts
- ⦿ Send out monthly statements (should be clear and easy to follow)
- ⦿ Finance should have A/R status meeting with PM/PIC's at least bi-weekly. (Preferably every week.)
- ⦿ Establish and monitor A/R performance goals with PM/PIC's.



# BEST PRACTICES – COLLECTION PROCESS

- ⦿ Consider use of collection agency or attorney in certain instances.
- ⦿ Cross train accounting staff on collection efforts.
- ⦿ Publish DSO metrics to ALL PM/PIC's
- ⦿ Entire project team should be involved on the collection correspondence.
  - Establish a protocol at the beginning of a project



# PROJECTING PROJECT CASH FLOWS

- ◎ Many (about 40%) of A/E firms do not perform regular cash flow forecasting
- ◎ Cash flow reports should be looked at weekly (4-8 weeks in advance)
  - These reports should be distributed each week
- ◎ There should be consequences in the event that a PM/PIC is behind on cash flows:
  - Project is shut-off in the system (team cannot continue to charge time to project)
  - **PM/PIC's compensation package should be directly linked to billing / collection metrics. \*\*\***



# UNDERSTANDING THE CASH GAP

	<u>Actual</u>	(10-Day Change) <u>Revised</u>	+ / - <u>Cash Position</u>
Annual Revenues	\$ 25,000,000	\$ 25,000,000	
# of Days	365	365	
Cash Per Day	\$ 70,000	\$ 70,000	
<u>Cash "GAP"</u>			
Days WIP Outstanding	10 *	10	
Days A/R Outstanding	75 *	65	
Less Payables	<u>(14) *</u>	<u>(14)</u>	
<b>Total Days Out of Pocket</b>	<b><u>71</u></b>	<b><u>61</u></b>	
<b>Total Cash Impact</b>	<b><u>\$ 4,970,000</u></b>	<b><u>\$ 4,270,000</u></b>	<b><u>\$ 700,000</u></b>

\* Number of days from when the work is performed by the Company's staff.



# QUESTIONS

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