



Legal Department Financial Management - Budgeting & Accrual Techniques

Perspectives from Industry Experts:
Chemtura Corporation

Part 2



INTRODUCTION

Financial management may not be part of the core curriculum at law schools, but it is very much an important part of the legal profession ... especially for legal departments aligned with public and private businesses. To handle some of the more critical aspects of financial management, legal departments increasingly rely on Enterprise Legal Management (ELM) solutions. These software-based systems, like LexisNexis® CounselLink®, are often equipped with advanced financial and accounting features for e-billing, invoice processing, budget and accrual tracking, analytics and a variety of reports on legal spend and department performance.

Even with these capabilities, legal departments do not always use the same approaches to complete financial tasks required in their business operations. These points of difference and commonality were captured during a recent industry panel on Financial Management – Budgeting & Accrual Techniques to highlight real world conditions and common practices in government and corporate sectors.

Those perspectives are being shared in a multi-part series, the second of which features David Voelpel, an Office Manager with Chemtura Corporation – a multi-billion dollar producer of specialty chemicals and polymer products for global markets. A core part of his responsibilities involve keeping track of all financial data and budgeting for a legal department with 14 attorneys. Although most legal operations center on company regional headquarters in Middlebury, CT, the worldwide activities of Chemtura also include attorneys in China, Brazil and Switzerland.

COMMENTARY

Q: Organizations approach budgeting in different ways; how is the process handled at Chemtura and how detailed are the operations?

A: D. Voelpel – Just to clarify my role in the overall process, the legal department budgeting activity runs through me, and we track all the outside counsel financial data through our CounselLink solution ... which the company has been using since 2006.

At a macro level, our budgeting starts with the finance department setting a target. From a practical standpoint, we begin at a more grassroots matter level. Each attorney looks at all their active matters and builds a budget using Excel®. In turn, I'll do a roll-up as those budgets are returned to me. If we come within the macro number provided by the finance department, everyone is happy. If we don't come within the target, I'll work with the general counsel, look at who submitted which elements, discuss what our objectives are for the coming year and we'll go back to different functional areas for better explanations and more detail.

Some functional areas, such as litigation, will involve consultations with law firms to build the budget. Other areas, like commercial that involves contract work, won't require much back and forth communication about the budget. When our attorneys reach out or hire outside counsel in these areas, they set the expectations because they know how much money is available to spend; that's the focus of the communication.

Q: Are you doing budgets for every matter? That seems like a lot of detail to track.

A: D. Voelpel – We are building budgets for every matter, but the overall volume is manageable; collectively, we probably have about 800 matters. Once we get the approval for 100% of the outside counsel budget, we internally put budget details into CounselLink; we don't ask the law firms to do that.

The process is relatively simple with budget details collected on an Excel spreadsheet. Usually during October, we'll do an annual budget and talk through the process in a review with our attorneys. I don't collect the details, but I'm certain our litigation attorneys do when they're building their budget components and talking to law firms that will bill against those totals. Our lawyers pay close attention and understand the budgets well; they don't want to hear from the general counsel when they go over. To minimize surprises, the attorneys will get a monthly report showing spend versus budget.

As most people know, attorneys don't favor the financial side of this process, especially when we're doing annual budgets for each matter. Since we submit budgets to finance broken down by month, the simple approach up until a few years ago was to take the annual total and divide the number by 12. Now, we're being measured more closely by month, and attorneys are asked to submit a more thoughtful quarterly budget that builds up to the annual total. If they know more money is going to be spent in the first quarter, they'll budget that way because we're going to be held to that.

I've worked with my General Counsel to look at a few years of historic trends to really see how we spend money throughout the year. Interestingly, we've found the allocation is usually 22% in the first quarter, 24% in the second, 22% in the third, and then a bigger 32% spike at the end of the year. We suspect the numbers follow this logical sequence: activity isn't high at the beginning of the year, people are getting back into the swing of things after getting through the year end; things start to pick up by the second quarter; activity drops again in the third with summer months and vacations; by the fourth quarter, our business clients are reaching out to our attorneys a little bit harder to meet their annual commitments.

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Q: As the work gets done and real invoices come in, most departments prepare some kind of variance report to track the numbers and manage the process. What are you doing at Chemtura?

A: D. Voelpel – There are lots of reports that get prepared, but two tools I use regularly to keep track of where we are include a pivot table and a Matter Details spreadsheet.

(See the samples at the end of this document using hypothetical data.)

Pivot tables are fairly common, but I walk my general counsel through this report every month. The left-hand column lists individual attorneys and reflects the first quarter budget target, actual spend and the positive or negative variance calculation. Going across the spreadsheet columns, you can see different functional areas the attorney may be responsible for, as well as the associated targets and spend in each area. Usually, my general counsel will look at the bottom line for each functional area as the first thing.

Depending on whether the variance is above or below budget, the questions will begin and we can drill down into the individual numbers to find answers. Overall, the report allows us to stay on top of the budget and make appropriate decisions as the year goes on. Every quarter, we also do a reforecast; it doesn't go into CounselLink, but the numbers do get submitted to finance. In total, they won't be any higher than our overall budget, but we may shift dollars around on the chart. If there was a big hit in litigation, we may go to the commercial group and "borrow" some of that money for the rest of the year.

The report and review process occurs every month; any reforecasting is done on a quarterly basis. Attorneys receive the pivot table and a detailed report on their individual matters ... which are used to build the pivot table. For the most part, all the data is pulled from CounselLink and I manually add a couple of fields we wanted to highlight.

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Q: There are several different fields in CounselLink to pull spend data from for a report; how do you approach the situation?

A: D. Voelpel – What works for me is pulling a report based on a “billed less discounts and taxes.” It probably gets me closest to the actual spend number I need from a reporting standpoint, and to give my attorneys their year-to-date numbers.

I’ll also base the data on the invoice sent date. Let me give you an example. To get the first quarter numbers, I have to look at the invoices in CounselLink – whether they’re already approved or still pending – and I have to consider if we accrued for any of those invoices the previous year. The spreadsheet listing has a column called “accrual reversals” which captures estimates we booked in 2013 even though the invoices weren’t in CounselLink. Now, we have to account for the invoices and deduct for the earlier accrual. At the end of the day, my CounselLink report has to match my finance report. That’s why the invoice sent date is key for me; it’s the critical field I use when I pull spend data.

When you scroll across the detail spreadsheet to the right, you’ll reach yellow columns that will indicate any reforecasting. Around mid-March – as we approach the end of the first quarter – we’ll reach out to the attorneys and say, “Okay, here’s what you spent.” The intent is to see where we’re going with this matter or group of matters and find out if adjustments are needed. This spreadsheet is my working tool. It’s 600-800 matters deep, and the data is pulled right out of CounselLink and plugged into the spreadsheet.

The pivot table has a different purpose and looks at category rollups in a different way. But, if you have a question about the dollar amounts, you can double-click on a number and a new spreadsheet will open up showing you exactly what makes up that number. While I’m very comfortable in Excel, my attorneys are starting to catch on to using the tools more and more.

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Q: Do you pull all your budget and accrual data from CounselLink?

A: D. Voelpel – No; the budget details get collected from the attorneys and, in turn, entered onto the spreadsheet. We do put the budget information into CounselLink which delivers a worthwhile extra benefit. As attorneys get close to their budget totals, they receive an automatic threshold email which gives them a heads-up: “Hey, you’re at 50% of your budget and it’s only March.”

I get a lot of good feedback from my attorneys that they appreciate the heads-up. They all receive the monthly reports, but in all honesty, I don’t know how much time they spend looking at it. The CounselLink automatic email is a real nice extra touch. So, what works for us is operating in a kind of hybrid mode: using CounselLink functionality for some of the management features, and doing other reporting offline in Excel®.

Q: Some companies face timing difficulties getting invoice data into the system, which really affects the accuracy of variance reports. What is Chemtura doing to compensate for that?

A: D. Voelpel – Just about every law firm has you waiting at least a month to get invoices delivered for the previous month’s services. That’s one reason why we rely on the invoice sent date in pulling some of our reports. We do go out to the law firms quarterly, and we’re also using the accrual module in CounselLink to capture that data now. Running a year-to-date report involves capturing the invoices in CounselLink and adding the accrual estimates that the law firms have provided. Those two numbers equal my year-to-date, which should include unbilled services.

One of the instructions we give law firms for accrual estimates is to provide figures for invoices not in CounselLink as of a certain date. For example: “Provide us unbilled services through March 31st, for invoices not uploaded into CounselLink by March 27th, because on March 28th I’m running a spend report to see what’s in CounselLink.” It’s a way to overcome the timing issue that has worked for us when finance and accounting are asking for the numbers.

Q: Since the accrual feature is relatively new, are there any tips you can offer about incorporating it into your processes?

A: D. Voelpel – In my opinion, it's probably the best feature that CounselLink has rolled out recently and the efficiencies are really helpful. Instead of reaching out to all my attorneys and they reach out to individual law firms and partners to collect accruals, now it's done through me with basically one push of a button.

Certainly, there's a training curve involved and some firms get with the process faster than others. The best tip I can offer is, send an email before you roll out the accrual budget module to your law firm contacts. Give them a heads-up that it's coming, and allow them to ask questions and resolve issues before you're in the crunch of trying to collect all the numbers.

The process saves a lot of time. We now have detailed information and it's all in CounselLink, so we know who provided what if we need to go back and check on accruals. We've been using it for three quarters and started out small with 60 firms. At the end of the most recent quarter, we were up to 88 which is about 90% of our total firm count.

Q: With monthly budget targets, do you reach out to firms for accruals on a monthly or quarterly basis?

A: D. Voelpel – In my interpretation, accruals represent unbilled legal services and we ask for that information from firms on a quarterly basis. That said, I do have to submit a monthly accrual to my accounting department. On non-quarter-ending months, it involves invoices that are in CounselLink that haven't been approved; and, I do account for the variance of the previous month's accrual versus the current one if invoices haven't come in yet that should have. It's actually just a very basic calculation.

Q: One final question: Is "sandbagging" an issue, where people submit budgets that are bigger than needed to avoid variance issues?

A: D. Voelpel – Just from variance reports, it's easy to see when something is out of alignment and a matter budgeted at \$100,000 starts coming in at \$10,000. With our process, it's ultimately the attorneys who are responsible and they have to answer to the general counsel. If the faulty number came from a firm, by now they realize they better not be sandbagging. In our environment, it's just as bad to be way under budget as it is to be over since you're taking resources away from where they might be needed.

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Appendix

Figure 1.

Pivot Table Budget Summary Sample: Chemtura

Click image to access full table

2014 Legal Budget? Geo Region Budget Division					
Row Labels	Corporate	Employment	Environmental	Insurance/Risk Mgt	Intellectual Property
CHMT Attorney A					
1Q 2014 Budget	\$5,000	\$6,160			
3/31/14 Actuals	\$17,437	\$30,850			
Variance 1Q Actual v Budget	\$12,437	\$24,690			
CHMT Attorney B					
1Q 2014 Budget	\$16,800	\$4,400	\$144,980		
3/31/14 Actuals	\$18,087	\$29,992	\$135,029		
Variance 1Q Actual v Budget	\$1,287	\$25,592	(\$9,951)		
CHMT Attorney D					
1Q 2014 Budget	\$36,600				
3/31/14 Actuals	\$20,771				
Variance 1Q Actual v Budget	(\$15,829)				
CHMT Attorney E					
1Q 2014 Budget				\$5,500	
3/31/14 Actuals				\$118,027	
Variance 1Q Actual v Budget				\$112,527	
CHMT Attorney F					
1Q 2014 Budget					
3/31/14 Actuals					
Variance 1Q Actual v Budget					
CHMT Attorney G					
1Q 2014 Budget					
3/31/14 Actuals					
Variance 1Q Actual v Budget					
CHMT Attorney H					
1Q 2014 Budget	\$6,000	\$8,668			
3/31/14 Actuals	\$11,378	\$0			
Variance 1Q Actual v Budget	\$5,378	(\$8,668)			
CHMT Attorney I					
1Q 2014 Budget					\$405,055
3/31/14 Actuals					\$261,601
Variance 1Q Actual v Budget					(\$143,454)
CHMT Attorney J					
1Q 2014 Budget		\$118,800			
3/31/14 Actuals		\$179,476			
Variance 1Q Actual v Budget		\$60,676			
CHMT Attorney K					
1Q 2014 Budget	\$67,325	\$39,028			
3/31/14 Actuals	\$26,024	\$3,027			
Variance 1Q Actual v Budget	(\$41,301)	(\$36,001)			

Figure 2.

Matter Details Budget Sample: Chemtura

Click image to access full table

Matter Id	Matter Name	PIC	3/27/14 Pending Invoices in CL	3/27/14 Approved Invoices in CL	3/31/14 YTD
2833112	Matter 22	CHMT Attorney A	\$0	\$0	\$0
2833105	Matter 23	CHMT Attorney A	\$0	\$0	\$0
2833109	Matter 24	CHMT Attorney A	\$0	\$0	\$0
2833107	Matter 25	CHMT Attorney A	\$0	\$0	\$0
3526598	Matter 26	CHMT Attorney A	\$0	\$0	\$0
3004903	Matter 27	CHMT Attorney A	\$0	\$0	(\$3,623)
909181	Matter 29	CHMT Attorney A	\$0	\$0	\$0
4574267	Matter 30	CHMT Attorney A	\$0	\$9,049	\$0
4886198	Matter 31	CHMT Attorney A	\$6,368	\$3,951	\$18,419
823535	Matter 32	CHMT Attorney A	\$0	\$0	\$0
823534	Matter 33	CHMT Attorney A	\$0	\$0	\$0
823536	Matter 34	CHMT Attorney A	\$0	\$0	\$0
823744	Matter 35	CHMT Attorney A	\$0	\$0	\$0
2764708	Matter 36	CHMT Attorney A	\$0	\$0	\$0
823742	Matter 37	CHMT Attorney A	\$0	\$0	\$0
1915088	Matter 38	CHMT Attorney A	\$0	\$0	\$0
2399922	Matter 39	CHMT Attorney A	\$0	\$0	\$0
2108725	Matter 40	CHMT Attorney A	\$0	\$0	\$0
2108752	Matter 41	CHMT Attorney A	\$0	\$0	\$0
2108760	Matter 42	CHMT Attorney A	\$0	\$0	\$0
823729	Matter 43	CHMT Attorney A	\$0	\$27,954	\$24,577
4348413	Matter 44	CHMT Attorney A	\$0	\$0	\$0
4558504	Matter 45	CHMT Attorney A	\$0	\$0	\$6,273

About David Voelpel



DAVID VOELPEL holds the title of Office Manager within the Law Department and has worked at Chemtura Corporation for 14 years. In addition to managing the global legal budget, he drives process improvement initiatives with the use of technology, including, but not limited to: a matter management system, an e-billing system, a document management system, and the use of EDI (electronic data interchange) feeds between matter management, e-billing and SAP systems. Prior to Chemtura, he worked in the law department at Union Carbide for 13 years. David earned a Bachelor of Science degree in Business Management from Central Connecticut State University.

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