



AIA Best Practices: Collections quandary: Managing accounts receivable

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Summary

If you only talk to clients about outstanding invoices once in a while, it will feel awkward each time you approach the subject. However, if talking to the client about outstanding invoices is part of the normal project update conversations, the client comes to expect it, anticipate it, and may even be prepared to address it (with a check, hopefully). Accounts receivable management (or less affectionately called “collections”) is essentially an extension of client-relationship management. How a firm applies that reality in its practice and procedures is as varied as the individual characteristics of the firm.

What follows is an approach that one company successfully uses (the typical invoice is paid between 30 and 45 days). The approach works, not because this is how everyone might do “collections,” but because it is consistent with the personality and priorities of the firm.

Regular weekly meetings: Recognizing importance

Every week at 10 a.m., a group of administrative assistants, project managers, sector leaders and corporate staff, including the CEO, gather on a conference call to discuss accounts receivable. Of first importance is that it occurs regularly and without exception. That is not to say everyone attends each meeting. Nevertheless, the session still occurs and each office, each sector, and each staff level is represented. Updates from the previous meeting are expected.

While some professionals may not like accounting, mention that it is a meeting about collections and interest can really wane. For these reasons, the firm includes the following elements during each week:

- The goal of the meeting is not to publicly chastise individuals. Goals include working as a group to understand the barriers that hold up individual client/project payments, determining appropriate steps, and holding one another accountable for follow-up.
- Meetings last no more than a half-hour. Most of the session consists of updates and coordination.
- The discussion follows a set agenda: take attendance; review the last week’s receipts; review updates on specific accounts; and end the meeting. Note: Some people attend via telephone.
- Not all the firm’s staff are required to attend, but during the week the information and guidance provided are communicated throughout the organization so everyone is aware of assigned responsibilities.

Weekly summary of success: Celebrating success

Most firms celebrate a new sale or the completion of a project well done. When it comes to accounts receivable management, the focus may be on the negatives. For this reason, the weekly meetings start off with a focus on the previous week's receipts. During the review, the firm highlights and celebrates those receipts that were significant, either because of size, age or challenge.

Accounts/Receivable (A/R) report: Setting priorities and providing feedback

Standard A/R reports are great if you simply want an alphabet or numeric listing, but do not set priorities and highlight problems. For this reason, a custom A/R report in Excel pulls data directly from the accounting system and sorts the data by predefined priorities.

These key elements of the report make it useful as an accounts receivable management tool:

- Data are sorted in an order that puts a priority on the oldest and largest invoices. Excluding current invoices, projects in the top 20 in both age and total balance are listed as “critical.” Projects in the top 20 for one category, but not both, are listed as “hot.” Invoices not on either top 20 list but 90 days outstanding are listed as “caution.” Projects with an outstanding invoice from the previous month, but none older, are listed as “watch.” The projects that only have invoices not past due are listed last.
- Using Excel’s data-linking functions, the data are always current. When receipts are processed, or invoices issued, the report is updated.
- In addition to the regular accounting data, notes are added to the current report using an Access database for tracking “A/R notes.” The A/R report pulls the most recent note and displays it on the report so everyone can see the most recent step(s) taken and the date it was done.

Two-pronged approach: Sharing responsibility

Successful project management requires the project team working together with client teams to achieve a common goal. Accounts receivable management is no different. Project managers (PMs) discuss the status of outstanding invoices with client PMs. Administrative assistants call the clients' accounting department seeking payment status updates. Corporate staff call client accounting, contract management, and on occasion PMs, to work through challenges to invoice payment. The key is to engage all concerned parties in both organizations to make sure outstanding invoices do not become a barrier to successful project completion.

A/R notes database: Simplified documentation

Good records track history and progress. The process of keeping this documentation can be easy, simple and practical. Some accounting software products' A/R modules often are neither simple nor practical.

To fill the gap, the firm created a simple Access database that is accessible over the web. An individual can type in a project number or pull it from a drop-down list. After typing their initials and a brief status note, the system time and date stamps the note. No need for search engines, categorizing or coding each note with a specialty flag, or extraneous fields to complete. All past notes can be viewed and the data can be linked to the custom A/R report.

Eliminate barriers: Focusing on results

Based on experience, the quickest and most efficient method for managing collections is to identify and overcome the barriers that hold up client payments.

When the weekly conference call is held, discussions are about the barriers holding up client payments and how to resolve them. For example:

- If a client's accounting department cannot get a copy of the invoice from its project manager, email a copy to the accounting department.
- If the client's approval process is encumbered with delays because documents sit on busy desks, track the progress and stay in contact with the next approving manager until the paperwork gets approved.
- If the contract has a pay-when-paid provision and the client has not been paid, give support to help client get paid.

The key is not to be satisfied simply having a reason for the delay, but working to make the reason no longer valid.

Unashamed requests for updates: Maintaining professionalism and corporate image

Architects work in a service industry, so it is natural to be sensitive to client needs. That is a good trait, and those who have it are best rewarded. However, we are also professionals, so strive to both act as such and be treated as such.

Professionals communicate. Regular communication with clients regarding project updates is a natural occurrence of the project process. A reasonable part of that communication, addressing the status of outstanding invoices, is straightforward to add.

Professionals expect accountability. Architects are expected to be held accountable to industry standards. It is appropriate that we also hold our clients accountable for sound and ethical business practices. That means clients approve the invoice when they promise approval. That means clients follow through on commitments to investigate an invoice with their accounting department to ensure the check is issued by the date promised.

Accountability measures may include:

- a charge interest or sometimes a "late fee"

- the removal of a discount
- the addition of a premium if the client does not get a discount
- a retainer if pricing is too competitive
- an upfront payment applicable to the last invoice

Firms are not collection agencies, but do have to collect fees. The manner in which this is accomplished reflects the professionalism to which we adhere and the importance placed on clients. After all, accounts receivable management is essentially an extension of client-relationship management and key to a firm's survival.

About the contributor

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