

# Why Does it Take So Long to Bill? Service and Maintenance Billing Best Practices

**Dave O'Brien**

Mosley Glick O'Brien, Inc.



# How long does it take you to get your service and maintenance billings out?

- **Daily?**
- **Weekly?**
- **Monthly?**
- **Don't know?**
- **Too Long?**

# Why is Billing Important?

**Contractors are paid an average of 90 days after invoicing**

- **If it takes 30 or more days to bill, you are out the money more than 120 days**
- **It is estimated that contractors lose billions each year due to slow or missed billings**

# Why is Billing Important? (Cont.)

- **Time is money and cash flow is king in the construction industry**
- **Highly profitable service and maintenance jobs can keep cash flowing if billed timely**
- **The sooner you bill, the sooner you get paid**

# Why is billing such a problem?

## Biggest issues come from the billing process itself

- Everything must be documented
- Considerable room for errors
- Field labor does not do their part
- No management buy-in to the process
- There is no set process



# Why is billing such a problem? (Cont.)

## Biggest issues come from the billing process itself (continued)

- **Not a priority**
- **Manual process**
- **Too much paper**
- **Not enough time**



# Most Common Billing Problems and Solutions

## **PROBLEM: Miscoding, Incorrect or slow data entry**

- **Field labor codes time to wrong job**
- **Field labor does not include proper material used on job**
- **Field labor does not include subcontractors used**
- **Accounting is behind on entering invoices**
- **Material or subcontractor invoices are coded to the wrong job**

# Most Common Billing Problems and Solutions

## **SOLUTIONS: Miscoding, Incorrect or slow data entry**

- **Educate field labor**
  - Need to understand the importance of accurate paperwork
- **Provide field labor with proper tools for paperwork**
  - Electronic work tickets
  - Teach them how to use and why it is important



# Most Common Billing Problems and Solutions

## **SOLUTIONS: Miscoding, Incorrect or slow data entry, (cont.)**

- **Service manager should review all vendor invoices and code them to proper jobs**
  - **Needs to be done timely so accounting staff can enter**
- **Enter vendor invoices timely and ensure they are coded properly**
- **Service manager should review job cost reports**

# Most Common Billing Problems and Solutions

## **PROBLEM: Not collecting lien waivers**

- **Lien waivers show a vendor has been paid for materials or services used on a job**
- **When lien waivers are provided, owner can remit payment knowing the contractor won't file a lien on the property**
- **Not submitting lien waivers, when required by customer, will delay payment**

# Most Common Billing Problems and Solutions

## **SOLUTION: Not collecting lien waivers**

- **Understand which customers/projects require lien waivers to be submitted and build collection into process**
- **Submit lien waivers, if required, with the customer invoice**
  - **This will speed up the payment process**

# Most Common Billing Problems and Solutions

## **SOLUTION: Not collecting lien waivers, (cont.)**

- **Build collection of lien waivers into accounts payable process**
  - Mail waivers to be signed to vendor along with payment (use conditional waivers)
    - Easier for vendor because they do not have to research payment history
    - Sometimes person completing waiver is different from where payments are sent (make sure you are sending to proper person)
  - Follow up on lien waivers not returned

# Most Common Billing Problems and Solutions

## **PROBLEM: Accounting staff does not have time to bill**

- **Accounting staff is constantly “putting out fires”**
- **Accounting staff is behind and bills when there is time**
- **Accounting staff processes weekly payroll and pays bills, leaving minimal time for other tasks**

# Most Common Billing Problems and Solutions

**SOLUTION: Accounting staff does not have time to bill**

- **Make billing a priority**
- **Hire a dedicated staff person to handle service and maintenance billings**
  - **Position will pay for itself**
    - Person will be knowledgeable about service, job status, customers and the process
    - Less likely to have missed billings
    - Less likely to have billing errors
    - Invoices will go out timely

# Most Common Billing Problems and Solutions

**PROBLEM: Process is time-consuming, manual, and labor intensive**

- **Due to high volume but low dollar value of service and maintenance invoices, a manual process requires a lot of paper documentation and staff time**

# Most Common Billing Problems and Solutions

**SOLUTION: Process is time-consuming, manual, and labor intensive**

- **Use accounting software and convert to an electronic process as much as possible**
  - Accounting software with a service module helps to track job status, costs, and can be used to prepare invoices
  - Use accounting software to electronically attach vendor invoices to each job
- **Use electronic work tickets in the field and integrate them into the service module of the accounting system**



# Most Common Billing Problems and Solutions

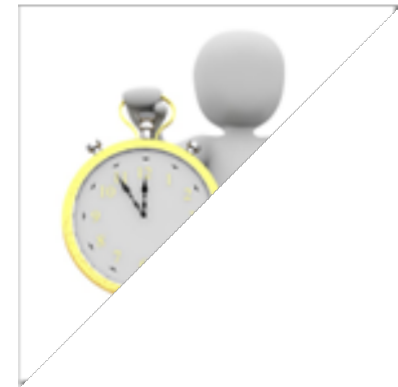
## **PROBLEM: No set time for billing**

- **No set deadline makes it easy to put off the task**
- **No set deadline makes it seem as if the task is not important**

# Most Common Billing Problems and Solutions

## **SOLUTION: No set time for billing**

- **Make billings a priority**
- **Set a deadline**
  - **Service billings should be done weekly after the weekly payroll has been posted (ex: every Friday)**



# Most Common Billing Problems and Solutions

**PROBLEM: No one verifies job cost is accurate before billing**

- **Having accurate cost records is especially important on time and material and cost-plus projects**
- **Billings that go out wrong have to be redone, creating more work, and increasing the payment cycle**
- **Customers will not be comfortable working with you if billings are always incorrect**

# Most Common Billing Problems and Solutions

**SOLUTION: No one verifies job cost is accurate before billing**

- **Service manager should make sure all costs, including payroll, have been entered, posted and coded correctly BEFORE billing process is started**
- **A review of job cost will cut down significantly on billing errors**
- **The service manager should review invoices before sending to the customer**

# Most Common Billing Problems and Solutions

**PROBLEM: Special forms and documentation are required for billing**

- **You wait until it's time to bill to determine what forms and documentation are needed**
  - **Delays billing while necessary documents are collected**
  - **If billing is sent without the required forms, it will be rejected by customer and payment will be delayed**

# Most Common Billing Problems and Solutions

**SOLUTION: Special forms and documentation are required for billing**

- **Build into the process to check contracts and purchase orders for billing requirements**
  - **Set up process BEFORE job starts to collect this information**
    - **example: photos required should be coordinated with field labor**
    - **example: lien waivers – request from vendors when invoices are paid**
    - **example: certified payroll reports – coordinate with payroll specialist BEFORE the job starts so it is captured the first payroll**
    - **example: signatures in the field at completion of job**

# Most Common Billing Problems and Solutions

**SOLUTION:** Special forms and documentation are required for billing, (continued)

- **Build into the process to check any contracts and purchase orders for billing requirements (continued)**
  - **Date billing is due**
  - **Where to send billing**

# Most Common Billing Problems and Solutions

**PROBLEM: Accounting staff does not know the job is done and ready to be billed**

- **Service department and accounting department do not understand each other**



# Most Common Billing Problems and Solutions

**SOLUTION: Accounting staff does not know the job is done and ready to be billed**

- **Billing is a team effort**
- **Weekly meetings to discuss job status and what can be billed**
- **Electronic work tickets**
  - **Include on work ticket a selection that “Job is Complete and Ready to Bill” and make sure field labor completes**

# Most Common Billing Problems and Solutions

**PROBLEM: Not all vendor or subcontractor invoices have been received so invoice amount cannot be determined**

- **Billing for time and material and cost-plus jobs rely on timely and accurate invoices from vendors and subs**
- **Many vendors and subs do not prioritize billings which makes your billing cycle longer**

# Most Common Billing Problems and Solutions

**SOLUTION: Not all vendor or subcontractor invoices have been received so invoice amount cannot be determined**

- **If the job is fixed price, do not wait for all invoices to come in; actual costs do not matter for billing; bill the agreed upon price**
- **Call vendors and subcontractors for invoices if they have not been received and the job is complete and ready to bill**
- **Have vendors and subcontractors email invoices so that they are received sooner**
- **Make sure vendor and subcontractor invoices are processed timely so job cost is accurate**

# Other Suggestions to Improve the Billing and Cash Receipts Process

- **Email invoices to customers**
  - Ensures invoices are received timely
  - Ensures invoices are received by the proper person
  - Automation means less work, reduces the chance of human error, and speeds up the process
- **Send invoices quickly while the work is still fresh in everyone's mind**

# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Keep invoices clear, but detailed**
- **Standardize invoices**
  - Requirements might differ from project to project but keep basic format uniform
- **If fixed price work, always reference the quote or estimate**
  - There should be no discrepancies between the invoice and the quote or estimate

# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Document everything**
  - Keep all receipts and timesheets
  - Helpful when disputes arise
- **Set short but reasonable payment terms**
  - You are not a bank!
  - Do not be afraid to ask for better payment terms

# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Understand your customer's internal approval process**
  - Do you send the invoice directly to Accounts Payable or does it need to go to the person who requested the work first?
- **Establish a billing process that ensures accurate invoices are sent on a timely basis**
  - Document the billing process in writing
- **Accept electronic and credit card payments – this speeds up the receipt of payment**

# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Include information required by the customer to process the payment request**
  - PO number
  - Job number
  - Approved time sheets
  - Certified payroll reports
  - Will be different for every customer
    - Find out requirements BEFORE beginning work



# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Train staff at all levels who are involved in the billing process, whether directly or indirectly**
  - **Billing is a team process**
    - **Field labor**
    - **Project managers**
    - **Service managers**
    - **Accounts payable specialists**
    - **Payroll specialists**
    - **Accounts receivable specialists**
    - **Billing specialists**
    - **Controller**

# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Regularly call on accounts not paid timely**
  - Assign this process to someone. Don't assume the PM or the Controller is handling
- **A schedule of past due accounts should be maintained listing:**
  - Customer
  - Amount past due
  - Age of past due amount
  - Summary of the discussions with the customer regarding when payment can be expected
  - This report should be reviewed with management at least monthly, if not weekly

# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Check credit reports of new customers**
- **Request advance payment from customers to offset required purchases before the job begins**
- **For larger service jobs, bill a portion up front to cover material purchases**
- **Process change orders immediately**
  - **May not apply to service work, unless larger service job**



# Other Suggestions to Improve the Billing and Cash Receipts Process, (cont.)

- **Evaluate customers**
  - **Some may not be cost-beneficial to do business with based upon:**
    - Documentation required
    - Requirements to get paid
    - Timeliness of payments
    - Minimal profit

# Contact Information



## **R. Dave O'Brien CPA, CGMA**

Mosley Glick O'Brien, Inc.

6455 Wheatstone Court

Maumee, OH 43537

(419) 861-1120 – office

(567) 703-8836 – direct

(419) 350-5750 – mobile

[dobrien@mgoinc.com](mailto:dobrien@mgoinc.com)