

YAVARDI

Governance Case Record Authority Breakdown During Billing and Reporting Transition

Document Type: Governance Case Record

Engagement Type: Discovery

Operational Domain: Private Practice Law Firm

Record Scope: Billing, Accounting, Reporting

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Record Status: Observational

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Engagement Context

This record documents conditions observed during a discovery engagement with a private litigation firm operating an insurance-driven practice.

At the time of engagement, the firm was executing a live transition affecting its billing, accounting, and financial reporting systems. Despite the transition, the firm continued issuing client invoices, closing monthly financials, and distributing partner compensation without interruption.

These activities carried legally and financially binding consequences. Client invoices created enforceable payment obligations. Financial reports informed partner compensation. Compensation distributions created immediate partner entitlements and downstream tax and accounting consequences.

Primary Incident Observed

Partner compensation was calculated and distributed based on financial reports later determined to be inaccurate.

As a result, partners received compensation in excess of amounts they were entitled to under corrected financial data. The overpayments were not identified until after the monthly close and after compensation had already been issued.

Correction required retroactive adjustment of partner compensation and reconstruction of historical financial records.

How the Overpayment Occurred

During the transition period, billing entries, expenses, deposits, and financial reports were processed across multiple systems operating in parallel.

No single system was designated or enforced as the authoritative source of record for:



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- billable activity,
- received payments,
- expense allocation, or
- compensation calculations.

When discrepancies occurred between systems, staff were required to manually determine which figures to trust. That determination relied on judgment, context, and informal verification rather than system-enforced authority.

Financial reports used for month-end close and partner compensation were generated before reconciliation was complete. Those reports were treated as final for compensation purposes despite unresolved discrepancies.

Authority and Approval Breakdown

Approval of billing and compensation outcomes was expected but not enforced through execution controls.

Invoice review and compensation approval occurred through conversation, email, and informal acknowledgment. No system captured:

- who approved the figures,
- in what capacity,
- at what point in time,
- based on which finalized data.

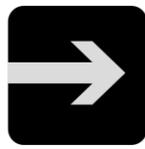
Once compensation was distributed, systems preserved only the payment outcome. They did not preserve the authority basis that permitted the payment to occur.

Conditions Documented During Discovery

- Financial staff identified discrepancies only after month-end close.
- Reports used for partner compensation were later found to contain incorrect data.
- Compensation distributions were issued before discrepancies were identified.
- Correction required retroactive reconstruction of billing, deposits, and reports across multiple systems.
- Reconstruction occurred while new billing and reporting activity continued.
- Administrative staff diverted time from current operations to historical correction.
- Some corrective work occurred outside normal operating hours to prevent recurrence in the next reporting cycle.

No Governance Characteristics Embedded in Execution

- Financial authority was implied rather than enforced.
- Approval existed as an expectation but was not captured at execution time.
- System behavior allowed legally consequential payments to execute without binding approval records.
- No durable record linked compensation outcomes to validated, finalized financial data.



Operational and Financial Consequences

- Partners were overpaid and required retroactive compensation adjustment.
- Confidence in financial reporting declined following discovery of inaccuracies.
- Month-end close became a reconstruction exercise rather than a validation exercise.
- Administrative workload increased materially during close cycles.
- Leadership attention shifted from oversight to remediation.
- Execution continuity depended on individual intervention rather than system governance.

Financial Exposure Indicators

- Compensation distributions issued based on incorrect reports.
- Retroactive compensation correction required.
- Delayed invoice issuance while discrepancies were resolved.
- Reduced realization within the intended reporting period.
- Increased reconciliation overhead due to parallel system operation.

Escalation Surface

Under partner dispute, client billing challenge, carrier inquiry, audit request, or tax review, the firm would be unable to produce contemporaneous records demonstrating that compensation and billing outcomes were authorized based on finalized, accurate data.

Resolution would rely on retrospective explanation supported by reconstructed records rather than execution-time evidence.

Risk Statement

Legally and financially consequential compensation distributions executed without an authoritative source of record and without preserved execution-time approval evidence.

Partner compensation was issued based on reports later found to be inaccurate. Authority to distribute funds could not be demonstrated through system records. Retrospective reconstruction substituted for execution-time governance.

This condition created material financial, fiduciary, audit, and insurance exposure.

Scope Limitation

This record documents conditions observed during a governance discovery engagement. It does not assert remediation actions, outcomes, or performance claims. Identifying details are intentionally anonymized.