

November 17, 2017

Mr. Tim Mountz
State Bar of Texas Audit & Finance Committee
1414 Colorado Street, 3rd Floor
Austin, TX 78701

Dear Mr. Mountz and Audit & Finance Committee Members:

Thank you for the opportunity to partner with you to provide your State Bar of Texas' internal audit services in accordance with the Request for Proposals issued on September 25, 2017. This engagement letter outlines:

- our understanding of the internal audit services to be performed;
- the procedures we would perform to provide the services; and
- the proposed labor categories, estimated costs, and timetable to perform the services.

OVERALL UNDERSTANDING

The State Bar of Texas is a public corporation and an administrative agency of the judicial department of government. We understand that the State Bar of Texas requires turnkey internal audit services for the fiscal year ending May 31, 2017, with the option of four (4) subsequent fiscal years. McConnell & Jones LLP (MJ) will provide these services in accordance with the Request for Proposal requirements and our proposal response. We will execute the State Bar of Texas' internal audit program in accordance with all applicable professional standards such as Generally Accepted Government Auditing Standards (GAGAS), AICPA Statements of Auditing Standards and Statements for Attestation Engagements, and the International Professional Practice Framework promulgated by The Institute of Internal Auditors.

We will functionally report to the Audit & Finance Committee of the Board of Directors (Audit & Finance Committee) and administratively report to the Executive Director and Finance Division Director.

MJ will complete the following audits for Fiscal Year 2017 to comply with the internal audit procedures, as outlined in the State Bar's Internal Audit Plan for 2015-2018, which was approved by the Audit and Finance Committee of the Board of Directors on April 9, 2015. Each audit will evaluate internal control effectiveness; assess compliance with applicable statutes and policies; and identify potential process improvement opportunities. The audits include:

1. Compliance audit of the State Bar of Texas' adherence with the Public Funds Investment Act (PFIA).
2. Compliance audit of the State Bar of Texas' adherence to the procedures set forth in the State Bar Act and the State Bar Board Policy Manual, and that controls over financial processes in the area under audit are designed properly and operating effectively.

The scope of this audit is limited to the following areas as set forth in the State Bar's Internal Audit Plan:

- Advertising Review

- Finance - Bank accounts relating to the processing of attorney membership dues, occupation tax, and legal services fees
- Finance - Budgeting/Reporting
- Finance - Cash Receipts
- Information Technology Management
- Membership
- Purchasing and Facilities
- Website

MJ will review the implementation of recommended improvements from the 2016 internal audit and report on the implementation status of those recommended improvements. MJ will prepare written audit reports for each audit completed as required by the Texas Internal Audit Act in accordance with the specifications of the Office of the State Auditor of Texas. We will present the audit reports to the Audit & Finance Committee in addition to the full Board of Directors (when requested), the Executive Director and the Finance Division Director.

ENGAGEMENT APPROACH

MJ proposes to perform each audit in the following three stages:

- **Planning** - Our team will work with State Bar of Texas staff during the planning phase of each audit to ensure that the audit is executed according to expectations. Planning will also include speaking with the respective business process owner to gain an understanding of processes, risks and concerns.
- **Execution** - Our team will complete each audit according to their assignments, activities and deliverables established during the planning phase. Execution activities include conducting interviews, deploying electronic surveys, reading policies and procedures and documentation review.

Each audit will be driven by data analytics where possible to provide 100 percent audit coverage of the business controls. We will sample exceptions identified from the data analytics. We will also develop business process maps that identify the respective function's key processes, controls, and control gaps.

We will provide the Finance Division Director with a copy of the business process maps compiled for each audit.

- **Reporting** - We will deliver a draft and final report with background, which includes the audit objectives, scope and methodology, and observations and recommendations using the report format established in the planning phase. We will also present the final reports to the Audit & Finance Committee in addition to the Board of Directors (when requested), the Executive Director and the Finance Division Director.

BUDGET

MJ understands that cost containment and sound stewardship of public funds are crucial to the State Bar of Texas. Our budget reflects estimated costs to perform the requested internal audit services for FY 2017. **These costs are not to exceed \$36,260.00.** Should unforeseen

events such as insufficient documentation, lacking or corrupt electronic data, and non-responsiveness to requests occur, we will immediately notify the Finance Division Director and provide options for the State Bar of Texas to proceed. The FY 2017 proposed budget is reflected below. We understand from the Request for Proposals that the four-year audit plan will be performed under a separate engagement. Therefore, these costs are not included in the summary below.

FY 2017 Annual Audit Plan Budget

Staff Level	Rate	Total Hours	Total Cost
Partner	\$260.00	3	\$520.00
Director	\$195.00	42	\$6,630.00
Manager	\$146.00	60	\$7,592.00
Sr. Auditor	\$102.00	100	\$10,200.00
Staff Auditor	\$85.00	98	\$8,330.00
Total		303	\$36,260.00

We provide a summary of the estimated budget for the four (4) optional years below. These costs will be further refined upon approval of each annual audit plan.

Estimated Fees FY 2018 - FY 2021

Staff Level	FY 2018	FY 2019	FY 2020	FY 2021
Partner	\$ 265.20	\$ 270.50	\$ 275.91	\$ 281.43
Director	\$ 198.90	\$ 202.88	\$ 206.94	\$ 211.07
Manager	\$ 148.92	\$ 151.90	\$ 154.94	\$ 158.04
Sr. Auditor	\$ 104.04	\$ 106.12	\$ 108.24	\$ 110.41
Staff Auditor	\$ 86.70	\$ 88.43	\$ 90.20	\$ 92.01
Total Hours	281	300	281	300
Total Estimated Fees	\$ 36,949.50	\$ 37,203.66	\$ 38,442.26	\$ 38,706.69

We will invoice the State Bar of Texas on a time and materials basis. Should the State Bar of Texas desire additional services we will provide the services at the same rates identified in the budgets above.

I will serve as engagement partner and Darlene Brown will serve as Director and your daily point of contact. Darlene has more than 18 years' business experience in leading internal audits, SOX Section 404 compliance testing, internal control evaluation, operational performance reviews, and business process reviews. She has oversight responsibility for our co-sourced and outsourced internal audit services in the private and public sectors.

ENGAGEMENT TIMETABLE

MJ anticipates beginning the assigned FY 2017 audits in November 2017, and completing all audits no later than February 28, 2018.

MJ

DISPUTES AND CLAIMS

Parties to this engagement agree to attempt to negotiate the settlement of any disputes arising from this engagement. The parties further agree that, before resorting to arbitration or litigation, they will submit any dispute arising from this engagement to mediation by presenting a written request for mediation to the other party to the engagement.

Any dispute regarding this engagement will be governed by the laws of the State of Texas without regard to the conflict of laws or provisions thereof. The parties agree that any legal action will be taken in the State or Federal courts in Travis County, Texas.

The State Bar may terminate this engagement at any time by providing written notice of termination to MJ. In the event of such termination, The State Bar will provide compensation to MJ on a time and materials basis for all services rendered prior to termination.

If you are satisfied with the engagement terms, please sign both copies of the engagement letter and return one copy to our office. We are excited about the opportunity to partner with you. Please contact me at (713) 968-1603 if you have any questions or require additional information.

Sincerely yours,

Odysseus Lanier, Partner


Accepted

11/22/17
Date

Mr. Tim Mountz
Chair of the State Bar of Texas Audit & Finance Committee