

December 3, 2020

To Management and the Board of Directors  
State Bar of Texas  
1414 Colorado Street, 3rd Floor  
Austin, TX 78701

In planning and performing our audit of the financial statements of State Bar of Texas (the State Bar) as of and for the year ended May 31, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

We consider the following deficiency in the State Bar's internal control to be a material weakness:

*Restatement of beginning net position*

The State Bar restated beginning net position of the government and business-type activities to correct a material misstatement of deferred outflows related to Postemployment Benefits Other Than Pensions (OPEB). The error reported was in OPEB related contributions made after the measurement date, which resulted in an understatement of deferred outflows in prior year financial statements for the government and business-type activities in the amounts of \$2,503,370 and \$159,796, respectively. The existence of such a material restatement indicates that the State Bar's system of controls did not properly detect and/or prevent such an error. Management should examine the adjustments required and address any inherent limitations in its internal control system, and modify accordingly.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any issues that would require communication as a significant deficiency, however, a significant deficiency may still exist. Our audit did, however, reveal other areas for improvement, which we bring to your attention below.

*Decentralized operations*

Although all financial information is compiled at the State Bar's main office, the information gathered for the financial statements is created and provided by multiple sections and divisions at various locations. Internal controls exist to protect State Bar's assets, however, the implementation of those controls is subject to how effectively management can enforce compliance with the State Bar's policies and procedures upon its sections and divisions. We noted the following instances during our audit procedures in which the decentralized nature of operations caused noncompliance with internal control policies or misstatements:

The State Bar's internal purchasing guidelines require amounts over \$5,000 to have at least three vendor quotes, with purchases over \$10,000 requiring open bid offers from 3 vendors in some instances. For purchases \$25,000 and above, a public request for proposal (RFP) is to be performed if the purchase cannot otherwise be made under an existing Comptroller of Public Accounts procurement contract. We noted instances during the year ended May 31, 2020 where no evidence was maintained that proper procurement steps, including public RFP, was properly performed. In general, proper procurement documentation was maintained by purchasing but less so when the procurement was made by other departments. We recommend management in all departments be required to document the procurement process and retain all relevant documentation in accordance with internal policy. Additionally, the State Bar may consider evaluating its policies to provide clear guidance on documentation required for sole source contracts, or other exceptions to the purchasing guidelines.

During the course of the audit, we also noted that one of the sections and divisions approved an amendment to a vendor contract without receiving formal approval from the State Bar's legal department. While the misstatement caused by this oversight was not material, it creates a heightened risk of fraud and improper financial reporting. We recommend that management reinforce existing policies and procedures related to financial reporting to ensure better communication among the divisions, proper compliance, and documentation of internal controls.

This communication is intended solely for the information and use of management, the Board of Directors, others within the State Bar, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Weaver and Tidwell, L.L.P.*

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