



State Bar of Texas
Internal Audit Services

AN INTERNAL AUDIT OF:

Sections Financial
Controls and Processes

Report No. 21-003

February 8, 2021

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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February 3, 2021

Mr. Alistair Dawson
State Bar of Texas
Audit & Finance Committee
1414 Colorado Street
Austin, TX 78701

Dear Audit & Finance Committee Chair:

Attached is Internal Audit Report #21-003 Sections Financial Controls and Processes Audit. This audit was performed as part of the approved Annual Internal Audit Plan.

Our review showed that, overall, the Sections have implemented sound controls and processes to protect their financial assets including segregations of duty controls.

We assessed the Section's internal controls, processes and compliance with the State Bar of Texas Board of Director's Policy Manual and determined that the majority of Sections had adequate internal controls and were in compliance; however, some Sections need some improvement in their compliance with polices. Additionally, management's internal controls for some Sections also need some improvement to enhance their effectiveness.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Ira Wayne McConnell, CPA

Partner

Audit Report Highlights

Sections Financial Controls and Processes Audit

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT) performed this internal audit as part of the approved Annual Internal Audit Plan.

Audit Objectives and Scope

The purpose of this audit was to assess the State Bar of Texas' Sections' management controls and processes in place to protect their financial assets and provide accurate financial information.

The audit scope period was June 1, 2019 – August 31, 2020.

Audit Focus

- Revenue generation activities, collection methods and recording process.
- Financial systems, databases and spreadsheets used to record Section financial transactions.
- Financial reports generated and distributed to Section members and SBOT.
- Compliance with applicable regulations and SBOT policies.
- Bank reconciliation timeliness and review.
- Expenditures authorization, compliance with policies, and recording accuracy.

Audit Conclusions

This is the first audit that focused primarily on the Sections. There are 47 Sections, and their combined revenues were \$3,737,661 for June 1, 2019 through May 31, 2020. Sections had a combined bank balance of \$7,499,906 on May 31, 2020.

Our review showed that, overall, the Sections have implemented sound controls and processes to protect their financial assets including segregations of duty controls.

Other notable findings:

- SBOT had instituted new State Bar of Texas Guidelines on Sections Financial Internal Controls Policy to provide guidelines for fundamental financial internal controls to assist the sections when drafting, adopting, or updating their own financial policies. These guidelines were implemented in June 2020.
- Most Sections have updated their written financial policies, procedures and submitted required budgets to SBOT to reflect the new guidelines noted above
- Sections have processes in place to ensure that transactions are authorized, supported, and recorded in an accurate and timely manner.
- SBOT provides Sections with training and guidance annually as well as throughout the year.

SBOT's responsibilities and expectations for Sections are defined in the State Bar of Texas Board of Directors Policy Manual, the State Bar Rules and the State Bar Act. We wish to recognize that almost all Sections (approximately 96.4 percent) are in full compliance. This is a commendable percentage knowing that the Sections are operated by volunteers. We identified opportunities to further define expectations in some of these requirements. We noted that approximately 3.6 percent of the Sections are not in compliance with some of the current requirements.

Internal Control Rating

Some Improvement Needed.

What Did We Recommend?

1. Update the State Bar of Texas Board of Directors Policy Requirements to include a policy requiring a SBOT financial officer be listed as an authorized signatory on all Section bank accounts including investments when a Section is under provisional status.
2. Work with Sections who exceed the 60-day maximum to complete bank reconciliations to identify and resolve the causes. Perform additional research on reconciling items over 60 to 90 days, to resolve issues as soon as possible.
 - a. Void outstanding checks that meet state escheat criteria and submit the unclaimed funds to Texas Comptroller of Public Accounts.
3. Require all Section Treasurers to provide reasons to Section Representatives to the Board as to why they are unable to provide a completed annual budget by the July 15th deadline. SBOT should consider and implement consequences for Sections not meeting policy requirements.
 - a. For Sections who fail to provide monthly financial packages, the Section Representatives to the Board should work with Section Treasurer to understand the underlying cause. If unable to resolve causes and offending Sections fail to provide packages more for than three (3) consecutive months, it may warrant placing the Section under provisional status by the Section Representatives to the Board.

The remaining recommendations are improvement opportunities for management to implement best practices.

Number of Findings/Opportunities by Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	3	3
Improvement Opportunities	0	0	4	4



We wish to thank all employees and Section representatives for their openness and cooperation. Without this, we would not have been able to complete our review.

INTRODUCTION



McConnell & Jones LLP (MJ) performed an internal audit of the Section's financial controls and processes.

We performed this audit as part of the approved FY 2021 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE



The purpose of this audit was to assess management controls and processes in place to protect each Section's financial assets, provide accurate financial information and comply with applicable State Bar of Texas' (SBOT) policies.

We focused on management's controls and business processes in place to ensure the Sections:

- ✓ are practicing sound fiscal management of their funds,
- ✓ have adequate internal controls and segregation of duties over their revenues, disbursements, bank accounts and accounting systems,
- ✓ are ensuring compliance with applicable financial related policies,
- ✓ have adequate controls in place for opening and closing bank accounts
- ✓ have adequate controls in place for reconciling bank accounts to their financial system/records, including segregation of duties and appropriate reviews, and
- ✓ have the required composition of leadership members.

We also reviewed SBOT policies to determine if they include adequate fiscal management policies and criteria for Sections to follow.

As such the audit focused on the following processes:

- ✓ Revenue generation activities, collection methods and recording process.
- ✓ Expenditure authorization, recording and compliance with policies.
- ✓ Financial systems, databases and spreadsheet security used to record Section financial transactions.
- ✓ Financial reports generated and distributed to Section members and SBOT.
- ✓ Bank reconciliation timeliness and review.
- ✓ Compliance with applicable regulations and policies.

The audit scope period was June 1, 2019 – August 31, 2020.

COMMENDATIONS

This is the first internal audit that focused primarily on the Sections' processes. SBOT staff have worked with Sections to provide guidance on internal controls and processes that should be in place to ensure that their financial assets are protected. While this report provides areas for improving internal controls and additional improvement opportunities to consider, overall, this audit's results are good and demonstrate the diligence that Sections have when it comes to protecting the financial assets of its members.

We understand that Section officers are volunteers and that financial controls require conscious effort and time to follow. The time and effort that has gone into solidifying and formalizing the internal controls into written policies and procedures lays a solid foundation for others to follow. We commend all Sections for their efforts in this endeavor.

We wish to point out some of the internal controls and processes that Sections have established to protect their financial assets. These include, but are not limited to:

- ✓ Ensuring adequate segregation of duties exist for financial transactions.
- ✓ Ensuring that transactions are authorized, supported, and recorded in an accurate and timely manner.
- ✓ Developing written policies and procedures for their finances which future officers can follow.
- ✓ Updating authorized signatories on bank accounts when there is a change of officers.

Additionally, we noted in our conversations with Section Treasurers and officers that they desire and strive to do what is right for their Section and protection of the financial assets.

FINDING VS IMPROVEMENT OPPORTUNITY

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

CONCLUSION AND INTERNAL CONTROL RATING



*This audit identified findings that resulted in an overall internal control rating of **Some Improvement Needed**. Exhibit 1 describes the internal control rating.*

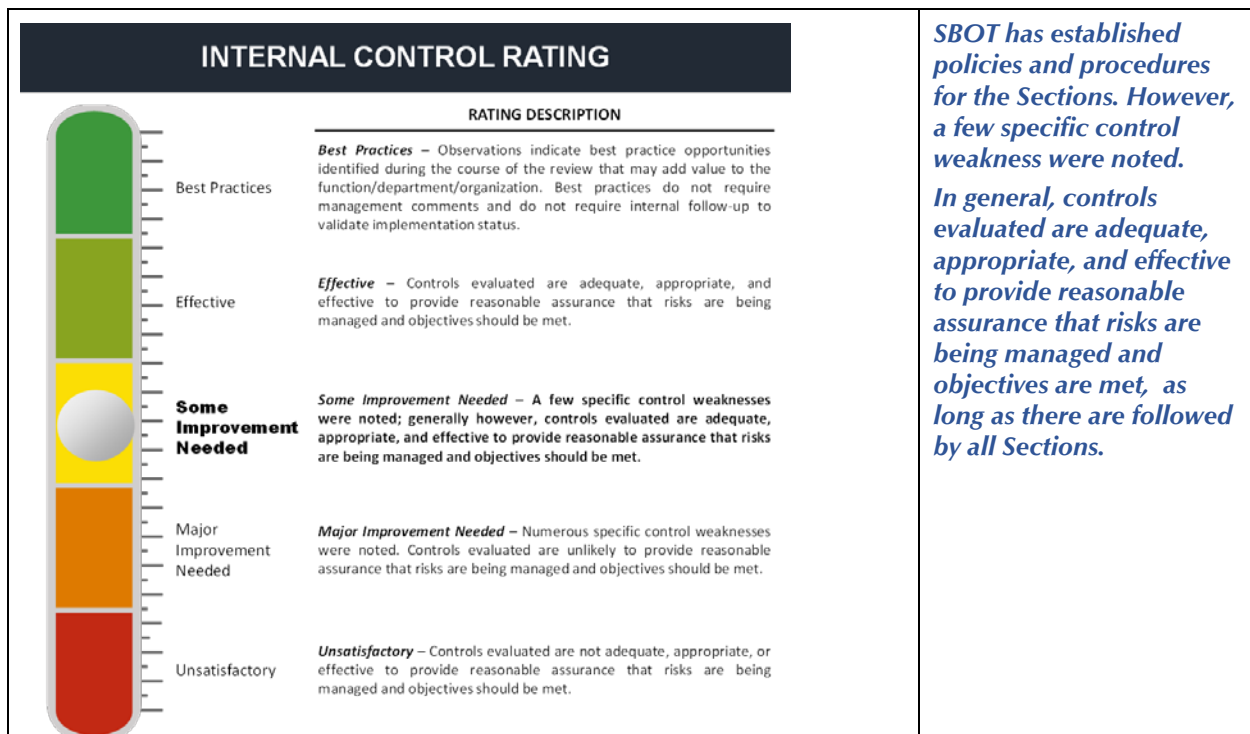


Exhibit 1: Internal control rating description.

Background

The State Bar Act, the State Bar Rules and the State Bar of Texas Directors Policy Manual define the Sections' responsibilities for their finances. While each Section is independent of the State Bar of Texas, with its own officers, bylaws, and bank accounts, they use SBOT's Tax Identification number and are not required to file individual tax returns.

There are 47 different Sections. A Section is comprised of lawyers who practice in similar legal specialties. Each Section is designed to offer closer association between attorneys engaged in specialized fields of law thus providing an opportunity to share professional experiences.

Sections generate revenue from membership dues, events, continuing legal education opportunities, facilitating conferences, and speaking engagements. Sections had combined revenues of \$3,737,661 for June 1, 2019 through May 31, 2020. Sections had a combined bank balance of \$7,736,306.48 on May 31, 2020.

Compliance Requirements

Exhibit 2 provides a summary of the 13 compliance requirements included in the State Bar of Texas Board of Directors Policy Manual (June 2020) that were deemed applicable to the Sections. We wish to recognize that the majority of Sections (approximately 96.4 percent) are in full compliance. We identified opportunities to further define expectations in some of these requirements. We noted that approximately 3.6 percent of the Sections are not in compliance with some of the current requirements.

SBOT Board of Directors Policy Manual (June 2020) Sections	No. of Requirements
Requirements and Restrictions	2
Finances	7
Depositories and Investments	1
Books, Records and Reports	1
State Bar Assistance to Sections	1
Composition	1
Total	13



Exhibit2: Summary of compliance requirements






OBSERVATION AND RISK RATING SUMMARY



Exhibit 3 provides a summary of our improvement opportunities noted. See the business objective section of this report for a discussion of all issues identified, recommendations, and management responses.

Our assessment resulted in three (3) control weaknesses and four (4) opportunities for improvement for management to consider.

Number	Observation	Risk Rating
1	<p>Safeguarding Section Financial Assets <i>Business Objective 1 (Low Risk)</i></p> <ul style="list-style-type: none"> Survey responses from some Section Treasurers and Chairs indicated the financial packages were received late by a month or two. Interviews with SBOT Finance Director and Controller identified that a SBOT officer is not always listed on as an authorized signatory on all Section banking and investment accounts. This precludes SBOT from the ability to protect the agency’s Section funds if Section officers do not comply with State Bar Board Policy Requirements and/or are under provisional or review status. <p>A review of the recently implemented State Bar of Texas Guidelines on Sections Financial Internal Controls provides direction for Sections to maintain a minimum fund balance and maintain a reserve of approximately one – five years of operating expenditures. It additionally provides guidance for the Sections on reducing their reserves.</p> <p>Using a three-year average of expenses (FY18-FY20), a review of the bank balances highlighted several Sections with large bank balances which appear to exceed three (3) years of expenses that could be required for economic down turns or other unforeseen events. Of the 47 sections:</p> <ul style="list-style-type: none"> Four (4) had enough cash to cover ten (10) years of their three-year average of expenses; Fourteen (14) had enough cash to cover five (5) years of their three-year average of expenses; Seven (7) had enough to cover three years of their three-year average of expenses; and Twenty-two (22) sections did not have enough cash to cover at least three (3) years of their three-year average of expenses. <p> Recommendation:</p> <ul style="list-style-type: none"> Update State Bar Board Policy Requirements to include a policy requiring a SBOT financial officer be listed as an authorized signatory on all Section bank accounts including investments when a Section is placed under provisional status. <p>Opportunities for Improvement</p> <ol style="list-style-type: none"> To address financial packages provided late to Sections on time, the Finance Division should look for root cause(s). If the Finance Division realizes they will be unable to provide finance packages timely, they should notify the Sections in advance that the package will be late. Suggest Sections update their bylaws or financial policies to maintain a safety net of cash equal to a minimum of three (3) years’ worth of expenses, if not stated. Consider updating financial policies to more state a maximum corpus to be maintained. 	

Number	Observation	Risk Rating
2	<p>Policy Compliance Business Objective 3 (Low Risk)</p> <p>A review of Section compliance with their individual bylaws identified:</p> <ul style="list-style-type: none"> Officer compositions for five (5) of the 47 Sections did not comply with required officer composition per their respective bylaws. <p>Note: As of February 10, 2021, we were provided documentation showing four (4) of the Sections had now filled their required officer positions.</p>  <p>Improvement Opportunity</p> <p>For those Sections that do not have the required officer/council composition, SBOT Section Representatives to the Board should determine root cause for lack of required officers/council members. If the Sections do not intend to fill these positions, they should update their bylaws accordingly.</p>	
3	<p>Bank and Investment Account Reconciliations Business Objective 4 (Low Risk)</p> <p>A review of the Section bank and investment account reconciliations highlighted the following:</p> <ul style="list-style-type: none"> Sections that utilize a CPA or bookkeeping service to manage their accounting activities exceeded the maximum 60 days to complete and/or submit bank reconciliations in June and July. The average days for the SBOT Finance Division to reconcile these accounts were 75.5 days and 69.9 days, respectively for June and July. This is not meant to imply that the Sections had not completed their reconciliations timely, only that they had not submitted them to SBOT prior to the 60 days. In August, these accounts were within the 60-day maximum with an average 40.1 days to reconcile. Bank reconciliations for Sections which rely on SBOT for accounting services were completed within the 60-day maximum. Eight (8) of 68 bank accounts (11.7 percent) have outstanding checks that remained uncleared which dated back to 2018 or earlier.  <p>Recommendations:</p> <ol style="list-style-type: none"> 1a. Work with Sections who exceed the 60-day maximum to identify and resolve causes for delayed bank account reconciliations (exceeding 60 days). Perform additional research on reconciling items over 60 to 90 days, to resolve issues as soon as possible. 1b. Update policies to void outstanding checks that meet escheat criteria: the property has remained unclaimed for at least three years (one year for wages) and there has been no contact with the owner during the abandonment period. Issue a check to the state of Texas for the individuals and amounts. 	
4	<p>Financial Reporting and Budgets Business Objective 5 (Low Risk)</p> <p>A review of the Sections compliance with financial reporting and budgeting requirements identified:</p> <ul style="list-style-type: none"> Seven (7) out of 47 Sections did not submit their financial policies to SBOT in FY20. 	


Number	Observation	Risk Rating
	<ul style="list-style-type: none"> Eleven (11) out of 47 Sections did not submit required budget documents to SBOT in FY20. Three (3) out of 44 Section officers surveyed stated their financial reports are not provided to Section council members at each meeting.  <p>Recommendations:</p> <ol style="list-style-type: none"> Require all Section Treasurers provide reasons to SBOT accountants as to why they are unable to provide a completed budget by the July 15th deadline. SBOT should consider and implement consequences for Sections not meeting policy requirements. For Sections that fail to provide monthly financial packages, Section Representatives to the Board should work with Section Treasurer to understand underlying cause. If unable to resolve causes and offending Sections fail to provide packages more than three (3) consecutive months, it may warrant placing Section under provisional status by the Section Representatives to the Board. <p>Improvement Opportunity:</p> <p>Financial reports should be provided at each Section’s council meeting to provide transparency to officers and members.</p>	

Exhibit3: Observation and Recommendation Summary

Risk Rating and Suggested Corrective Action Timing Legend:

Priority:  Low: < 12 months  Medium: 6- 12 months  High: < 6 months

Business Objectives, Risks, Findings and Management Response



This section of the report provides a summary of applicable business objectives, risks, and controls in place to ensure that SBOT Sections’ financial processes protect their assets, provide accurate financial reports, and comply with applicable policies. Each table also includes our assessment of internal controls for the respective business risk, our recommendations to address deficiencies noted, or opportunities to enhance current controls and management’s response.

1 BUSINESS OBJECTIVE: Safeguarding Section Financial Assets

Business Objective	To establish and implement processes and internal controls that ensure the Sections’ financial assets and funds are safeguarded from potential misuse or misappropriation.
Business Risk	<ul style="list-style-type: none"> Sections may not have controls in place to safeguard their financial assets and funds. Financial transactions may be performed without review, supporting documentation, or approval from appropriate levels.

1 BUSINESS OBJECTIVE: *Safeguarding Section Financial Assets*

Management Controls in Place

- Written financial policies and procedures exist that require receipts, invoices, or other documentation to be submitted and retained for all expenditures and reimbursements.
- All expenses and reimbursements are required to be authorized by the Section Treasurer or Chair prior to payment.
- All approvals are provided to SBOT accountants via email by Section Treasurers or Chairs before disbursement of funds for those Sections for which SBOT issues checks.
- SBOT maintains a list of the current authorized bank signers for each Section.
- SBOT Membership Department collects membership dues. The Finance Division receives other deposits on behalf of the Sections and notifies the Section once a deposit has been made for those Sections for which SBOT performs accounting services.
- Sections that utilize professional bookkeeping or CPA services (other than SBOT) have their Section Treasurer or Chair verify funds and make same day deposit.
- SBOT Finance Division performs monthly reconciliations of all Section accounts for which they provide accounting services.
- During interviews, all Section Treasurers that utilize professional bookkeeping or CPA services stated that their Sections checkbook and financial records are stored in a locked and secure location in home or office.

Control Tests

- Interviewed key process owners.
- Conducted an electronic survey to Section officers.
- Performed walkthroughs of processes.
- Prepared schedule of transactions and tested for authorization and supporting documentation agreement.
- Created a policy compliance matrix.

Control Assessment / Findings

Some Improvement Needed

- An SBOT financial officer is not always listed as an authorized signatory on Section bank accounts including investments for those Sections that manage their own accounts. This precludes SBOT from the ability to protect the agency's Section funds if a Section does not comply with the Texas State Bar Directors Policy Manual requirements and are under provisional status.
- A review of the recently implemented State Bar of Texas Guidelines on Sections Financial Internal Controls provides direction for Sections to maintain a minimum fund balance and maintain a reserve of approximately one – five years of operating expenditures. It additionally provides guidance for the Sections on reducing their reserves.

Using a three-year average of expenses (FY18-FY20), a review of the bank balances highlighted several Sections with large bank balances which appear to exceed three (3) years of expenses that could be required for economic down turns or other unforeseen events. Of the 47 sections:

- Four (4) had enough cash to cover ten (10) years of their three-year average of expenses.
- Fourteen (14) had enough cash to cover five (5) years of their three-year average of expenses.
- Seven (7) had enough to cover three (3) years of their 3-year average of expenses.

1 BUSINESS OBJECTIVE: *Safeguarding Section Financial Assets*

	<ul style="list-style-type: none"> Twenty-two (22) sections did not have enough cash to cover at least three (3) years of their 3-year average of expenses.
<p>Recommended Actions</p>	<ol style="list-style-type: none"> 1. Include a policy in the State Bar of Texas Directors Policy Manual that require Sections to include a SBOT financial officer be listed as an authorized signatory on all Section bank accounts including investments once a section is placed under provisional status. <p>Opportunities for Improvement</p> <ol style="list-style-type: none"> 1. Suggest Sections update their financial policies to maintain a safety net of cash equal to a minimum of three (3) years’ worth of expense. Consider updating financial policies to more state a maximum corpus to be maintained. 2. Identify causes for financial packages are late; if not able to address timely, notify the Sections in advance that the package will be late.
<p>Management Response and Action Plan</p>	<p>Management agrees with the auditor’s recommended actions. The State Bar’s Policy Manual Sub-committee in consultation with the Section Representatives to the Board will consider this recommendation and, consider if revisions to the Board Policy Manual are needed.</p> <p>The State Bar’s Finance Division will implement a monthly communication to the Sections providing updates on the financial packet status, including an estimated revised date the section can expect the financial packet, and the reason for the delay. Due to multiple projects occurring during the testing period of this audit, June, July, and August, the financial packets are typically delayed by 30 days because of the change in leadership, budgeting, audit, and year-end closing processes that occur during these months.</p>

2 BUSINESS OBJECTIVE: *Internal Controls and Segregation of Duties*

<p>Business Objective</p>	<p>To ensure Sections have appropriate and effective internal controls and segregation of duties (SOD) over their revenues, disbursements, bank accounts, and accounting systems.</p>
<p>Business Risk</p>	<ul style="list-style-type: none"> Adequate segregation of duties may not exist within the financial system. Individuals may have access to the checkbook, bank account and financial system that do not have a need based upon their responsibilities. Sections may lack adequate control over financial records.
<p>Management Controls in Place</p>	<ul style="list-style-type: none"> Sections that are supported by SBOT Finance team / accountants: <ol style="list-style-type: none"> a. Section Treasurers forward support with approval to pay to SBOT. SBOT Section accountants review documents and review each other’s work and forward accounts payable to process payment. b. SBOT accountants verify all receipts and make sure amounts match reimbursement requests and amounts are approved by Treasurer. c. Their checkbooks are locked up within the SBOT cashier area. Sections that utilize professional bookkeeping or CPA services (other than SBOT) have their own procedures for maintaining their checkbooks and financial documents.

2 BUSINESS OBJECTIVE: *Internal Controls and Segregation of Duties*

	<ul style="list-style-type: none"> Sections that utilize professional bookkeeping or CPA services (other than SBOT) have the Treasurer review invoices and reimbursement requests before approving disbursement of funds by bookkeeper or accountant.
Control Tests	<ul style="list-style-type: none"> Interviewed key process owners of Sections that utilize professional bookkeeping or CPA services and SBOT Controller. Tested a sample of transactions. Prepared Segregation of Duties matrix to highlight responsibilities. Performed financial system and access testing.
Control Assessment / Findings	Internal Controls are Effective.
Recommended Actions	None.
Management Response and Action Plan	None required.

3 BUSINESS OBJECTIVES: *Sections Policies & Compliance with SBOT Requirements*

Business Objective	<p>To ensure Sections' have comprehensive, documented, and updated fiscal management policies and procedures in place and that the policies comply with applicable policies set by the SBOT.</p> <p>To establish controls and processes that ensure compliance with the respective policy.</p> <p>To ensure each Section has the required composition of leadership members.</p>
Business Risk	<ul style="list-style-type: none"> Sections may not have enough leadership positions filled to maintain segregation of duties. Sections may not comply with the State Bar of Texas Board of Directors Policy Manual as of June 2020. Sections may not develop and/ or submit adopted policies to SBOT Finance Division for their respective Section.
Management Controls in Place	<ul style="list-style-type: none"> Sections provide SBOT required monthly package (reports) that includes operating information, budgets, and financial policies. Package also includes statement of revenue and expenditures, balance sheet, bank reconciliations, detailed trial balance, and support on expenses paid. Sections have individual bylaws that contain information on the required leadership composition. Sections hold annual elections for their leadership.
Control Tests	<ul style="list-style-type: none"> Compared current SBOT policies to current processes of the Sections. Reviewed State Bar of Texas 2021 Volunteer and Staff Guide as well as Sections Divisions to each Section's bylaws officer listing.

3 BUSINESS OBJECTIVES: *Sections Policies & Compliance with SBOT Requirements*

	<ul style="list-style-type: none"> Compared each Section officer listings to the required officers per each Section’s bylaws. Conducted electronic survey to Section officers.
Control Assessment / Findings	<p>Internal Controls are Effective. Opportunity for Improvement A review of Section compliance with the State Bar of Texas Board of Directors Policy Manual (June 2020) and their individual bylaws identified: Officer compositions for five (5) of the 47 Sections did not comply with required officer composition per their respective bylaws. Note: As of February 10, 2021, we were provided documentation showing four (4) of the Sections had now filled their required officer positions.</p>
Recommended Actions	<p>Opportunity for Improvement For those Sections that do not have the required officer/council composition, SBOT Section Representatives to the Board should determine root cause for lack of required officers/council members. If the Sections do not intend to fill these positions, they should update their bylaws accordingly.</p>
Management Response and Action Plan	None required

4 BUSINESS OBJECTIVE: *Sections Bank Reconciliations*

Business Objective	To ensure the financial records of each Section’s business activities reconcile to their related bank balances.
Business Risk	<ul style="list-style-type: none"> Unusual or unexpected transaction that might be fraud related may not be identified. Potential mismanagement of funds may not be identified timely. Potential negative cash balances may not be addressed leading to overdraft fees and non-sufficient funds (NSF) checks.
Management Controls in Place	<ul style="list-style-type: none"> Reminders are sent to Section officers to ensure the financials reports and documents are submitted timely to SBOT. Section Treasurers are responsible for providing SBOT Finance Division with required monthly package. SBOT Finance Division prepares monthly bank reconciliations and sends to all Section Treasurers and Chairs for their review.
Control Tests	<ul style="list-style-type: none"> Reviewed bank reconciliations for timeliness and reconciling items. Verified reconciliation accuracy and timeliness. Performed walkthrough of the reconciliation process with SBOT Controller.
Control Assessment / Findings	<p>Some Improvement Needed A review of the Section bank and investment account reconciliations, 68 in total, highlighted the following:</p>

4 BUSINESS OBJECTIVE: *Sections Bank Reconciliations*

- The Finance Division exceeded the maximum 60 days to complete bank reconciliations for Sections that utilize a CPA or bookkeeping service to manage their accounting in June and July. Their average days to reconcile their accounts were 75.5 days and 69.9 days, respectively. In August, these accounts were within the 60-day maximum with an average 40.1 days to reconcile. It should be noted that these accounts may have been reconciled by the section prior to the Finance Division completing the reconciliation. All Sections that utilize SBOT accounting services were completed within the 60-day maximum.
- Eight (8) of 68 bank accounts (11.7 percent) have outstanding checks that remained uncleared which dated back to 2018 or earlier.

Recommended Actions

- 1a. Work with Sections who exceed the 60-day maximum to identify and resolve causes for delayed bank account reconciliations (exceeding 60 days). Perform additional research on reconciling items over 60 to 90 days, to resolve issues as soon as possible.
- 1b. Update policies to void outstanding checks that meet escheat criteria: the property has remained unclaimed for at least three years (one year for wages) and there has been no contact with the owner during the abandonment period. Issue a check to the state of Texas for the individuals and amounts.

Management Response and Action Plan

Management agrees with the auditor’s recommended actions. The State Bar’s Finance Division will further strengthen its communication to Sections regarding the timeliness of bank account reconciliations and financial statement distribution. The Finance Division will implement an escalated communication system to follow up with sections for requested information as needed.

The Finance Division will assist the Sections to clear outstanding checks by providing guidelines to Sections.

5 BUSINESS OBJECTIVE: *Sections Financial Reporting and Budgets*

Business Objective

To implement processes and internal controls that ensure the Sections financial records are complete, accurate and provided as stated policy.
 To implement processes and controls that ensure each Section prepares an annual budget and that the budget is shared with Section members and SBOT.

Business Risk

- Sections may not develop and submit their annual budget to their members and/or SBOT Finance Division.
- Sections may not submit their financial records and reports to SBOT Finance Division in a timely manner.

Management Controls in Place

- Per the State Bar of Texas Board of Directors Policy Manual Sections 5.01.06 (C) Books, Records and Reports and Finances 5.01.06 (E), all section budgets are due no later than June 15th.
- Per the State Bar of Texas Board of Directors Policy Manual Section 5.01.05 Finances (G), all Sections are required to provide copies of all investment statements and bank statements, copies of cleared checks, a bank reconciliation for each account, a detailed general ledger of recorded transactions, and financial statements, to SBOT each month.



5 BUSINESS OBJECTIVE: Sections Financial Reporting and Budgets	
	<ul style="list-style-type: none"> SBOT’s Finance Division tracks when each Section submits their financial reports and budgets. All Sections are required to maintain and provide to the SBOT Finance Division written copies of financial policies that contain required accounting processes and adequate internal controls over the Section’s finances.
Control Tests	<ul style="list-style-type: none"> Tested compliance with SBOT Policies. Prepared schedule of budget submissions. Performed walkthrough of the SBOT Finance Division’s Section financial reports and budgets receipt tracking processes.
Control Assessment / Findings	<p>Some Improvement Needed</p> <p>A review of the Sections’ compliance with financial reporting and budgeting requirements identified:</p> <ul style="list-style-type: none"> Eleven (11) of 47 Sections have not developed and submitted their budgets for FY 20 and nine (9) out of 47 Sections have not developed or submitted their budgets for FY 21. Three (3) out 44 section officers surveyed stated their financial reports are not provided to Section council members at each meeting.
Recommended Actions	<p>1a. Require all Section Treasurers provide reasons to SBOT accountants as to why they are unable to provide a completed budget by the July 15th deadline. SBOT should consider and implement consequences for Sections not meeting policy requirements.</p> <p>1b. For sections that fail to provide monthly financial packages, Section Representatives to the Board should work with Section Treasurer to understand underling cause. If unable to resolve causes and offending Sections fail to provide packages more than three (3) consecutive months, it may warrant placing Section under provisional status by the Section Representatives to the Board.</p> <p>Opportunity for Improvement</p> <p>Financial reports should be provided at each Section’s council meeting to provide transparency to officers and members.</p>
Management Response and Action Plan	<p>Management agrees with the auditor’s recommended actions. The State Bar’s Finance Division will work with the Section’s Department and the Section Representatives to the Board to communicate on a routine-basis the status of budget submissions or non-compliance matters.</p>







Appendix A – Sections Compliance Requirements




This section of the report provides an overview of the compliance requirements for Sections.

State Bar of Texas Board of Directors Policy

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
5.01.04 Requirements and Restrictions (A) Bylaws	(1) Section bylaws must remain in compliance with the State Bar Act, the State Bar Rules, this Policy Manual, state and federal law, and any other applicable action of the Board. Each section must strictly follow the procedures and provisions of its bylaws. (2) Section bylaws must include: (a) a statement of the section’s mission and purpose(s); (b) a provision prohibiting the section, its council, or its members from speaking, writing, or acting on behalf of the State Bar without prior approval in accordance with the Board policies and procedures; (c) a provision requiring the section comply with State Bar financial policies and procedures and supply information to the State Bar sufficient to participate in the State Bar’s annual audit(s); (d) a provision that no revisions of the section’s bylaws shall be effective unless and until the revisions are approved by the Board; (e) provisions restating the restrictions set forth in section 5.01.04; and (f) provisions restating the requirements set forth in section 5.01.05.	
5.01.04 Requirements and Restrictions (E) Meetings.	(1) Organizational Meeting. Each section shall conduct an organizational meeting of the full council prior to October 1 of each State Bar Fiscal Year. (2) Annual Membership Meeting. Subject to any government restrictions or the policies or directives of the State Bar or Board, each section shall hold at least one, in-person annual membership meeting at a time determined by its council and at a place within Texas or by any virtual method that allows for membership interaction. Notice of such annual meeting shall be provided to each member of the section no later than 30 days prior to the annual meeting. At each annual meeting of a section, the section leadership shall: (a) deliver a report to the section membership regarding the section’s activities over the preceding year; (b) deliver a financial report on the section’s income and expenditures in detail along with a report on any audit covering the section’s finances; and (c) conduct an election for officers and council members for terms certain. The section shall notify the Executive Director or its designee of the election results or its presumptive council slate no later than August 15 of each fiscal year. (3) Notice. Each section shall give notice of all council and membership meetings to the President, President-elect, Executive Director, or their designated representative(s), and the section’s Board Advisors.	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
5.01.05 Finances	(A) Sound Fiscal Fiduciary Management. Sections shall practice sound fiscal fiduciary management, which requires operating in a fiscally-sound manner by establishing and abiding by financial policies that contain appropriate accounting processes and adequate internal controls over section finances. Each section shall manage its finances in a manner that ensures the integrity of the funds entrusted by its members and allows for the inclusion of section activities in the State Bar’s audit process.	
5.01.05 Finances	(B) Financial Policies and Procedures. Each section shall maintain and provide to the State Bar Accounting Department written copies of financial policies and procedures that contain required accounting processes and adequate internal controls over the section’s finances to ensure the integrity of the funds entrusted by its members and allow for the inclusion of section activities in the State Bar’s audit process. The section’s council must: (1) amend the financial policies and procedures if those policies and procedures change; and (2) each year, affirm to the State Bar Accounting department that the financial policies and procedures on file are current and accurate when submitting the section’s budget.	 Finding 3 Business Objective 3
5.01.05 Finances	(C) Audits. Sections shall participate in the State Bar of Texas annual financial audit or other internal audits as approved by the Board Audit and Finance Committee and shall supply timely and complete responses to any inquiries or requests during an audit.	
5.01.05 Finances	(D) Section Dues and Other Fees. Each section is authorized to collect membership dues and other funds from its activities and, subject to the other provisions of this Policy Manual, applicable law, rules, and regulations, is authorized to determine how its funds are invested and expended. Any revision in section dues must be submitted to the Board for consideration and action prior to implementation.	
5.01.05 Finances	(F) Depositories and Investments. Section funds must be invested consistent with State Bar investment policy as set forth in Section 3.05 of this Policy Manual. Each section shall deposit its funds into either a branch of the State Bar banking depository, or an alternative banking depository meeting the requirements of the investment policy as set forth in Section 3.05 of this Policy Manual.	
5.01.05 Finances	(G) Books, Records, and Reports. On a monthly basis, each section shall provide the State Bar Accounting Department with: (1) copies of all investment statements and bank statements that include copies of cleared checks; (2) a bank reconciliation for each account; (3) a detailed general ledger of recorded transactions; and (4) financial statements, if independently prepared, as soon as possible	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
	but no later than 30 days after receipt. Sections shall retain all financial records and reports necessary to sufficiently demonstrate the implementation of its policies and internal controls and shall make these records available to the State Bar if requested.	
5.01.05 Finances (E)	Budget. Each section shall provide a detailed budget to the State Bar Accounting Department on or before July 15 of each Fiscal Year. The section budget must include all anticipated revenues and expenditures for the upcoming fiscal year.	 <p>Finding 3 Business Objective 3</p>
5.01.06 (B) Depositories and Investments	Section funds must be invested consistent with State Bar investment policy as set forth in Section 3.05 of this Policy Manual. Each section shall deposit its funds into either a branch of the State Bar banking depository, or an alternative banking depository meeting the requirements of the investment policy as set forth in Section 3.05 of this Policy Manual.	
5.01.06 (C) Books, Records and Reports	Each section shall maintain accurate financial books and records and have appropriate controls on the maintenance and disbursement of section funds, all in a fashion that permits the inclusion of the Sections’ financial information in the State Bar’s financial statements and audit. Each section also shall provide to the State Bar such financial information as may be required for compliance with the requirements for the independent financial and/or internal audits of the State Bar as required by applicable law, rules, and regulations. To this end, the Audit and Finance Committee of the Board, in consultation with the State Bar’s external auditors and the Council of Chairs, shall adopt, subject to approval by the Board, procedures for Sections to report financial information for inclusion in the State Bar’s financial statements and audit. These procedures may include requirements for delivery to the State Bar accounting department, on a basis as often as monthly, of copies of depository and investment statements and transaction histories for disbursements and deposits. Each section also shall submit to the Executive Director by July 15 of each year a section budget for the current Fiscal Year.	 <p>All Sections are in compliance with this policy except for providing their budget to Executive Director by July 15. Since these have already been address in 5.01.05 Finances (E), we will not count them here.</p>
5.01.06 (E) State Bar Assistance to Sections	For each section supplying the required monthly financial information of the section, the accounting department of the State Bar shall prepare and provide to the treasurer of the section, a monthly and year-to-date section financial report and a monthly cash and investment account reconciliation. Upon request, the accounting department of the State Bar shall be available to work with the bank and the treasurer of the section to facilitate the submission of the financial information to the State Bar. Additionally, any section may elect to have the State Bar manage section funds, including depositing dues, managing operating expenses, issuing checks, and preparing financial reports and	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
	<p>budgets. The State Bar will provide assistance to Sections under this Subsection 5.01.06 at no charge to Sections, except that expenses incurred in providing financial information in a format other than an electric format prescribed by the accounting department of the State Bar shall be borne by the section.</p>	
<p>5.02.02 Composition</p>	<p>The Section Representatives to the Board Committee consists of six members, one of whom represents Sections with 500 members or less, two of whom represent Sections with 501 to 2,000 members, and three of whom represent Sections with over 2,000 members. A committee member must belong to at least one section of the size that he or she represents. No committee member shall be disqualified simply because of a change in section size. Each committee member should become familiar with issues of concern to the Sections that he or she represents.</p>	