



# **State Bar of Texas Internal Audit Services**

## **State Bar Act and State Bar of Texas Policy Compliance Audit Report #18-002**

January 11, 2018

As Prepared by



*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.*

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February 27, 2018

Stat Bar of Texas  
Audit & Finance Committee  
1414 Colorado Street  
Austin, TX 78701

Dear Audit & Finance Committee Chair:

Attached is internal audit report #18-002 State Bar Act and State Bar Policy Compliance Audit report. This audit was performed as part of the approved FY 2017 Annual Internal Audit Plan.

We assessed the State Bar of Texas' (SBOT) compliance with Texas Government Code Chapter 81 State Bar, State Bar of Texas Rules and State Bar of Texas Board of Directors Policy Manual. The scope of our audit focused on SBOT's adherence to the procedures set forth in the State Bar Act, the State Bar Rules and the State Bar Board Policy Manual, and that controls over financial processes in the areas audited are designed properly and operating effectively. Our audit scope was focused on the following areas:

- ✓ Advertising Review
- ✓ Finance
  - Bank accounts relating to the processing of attorney membership dues, occupation tax, and legal services fees
  - Budgeting/Reporting
  - Cash Receipts
- ✓ Information Technology Management (General Controls)
- ✓ Membership
- ✓ Purchasing and Facilities
- ✓ Website (Accessibility, Content and Navigation)

We determined that the agency is compliant with the 50 requirements assessed. Management's internal controls for the reviewed processes are generally effective and working as designed. We discussed non-reportable opportunities to enhance internal controls and improve process efficiencies with management.

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

Sincerely,

Odysseus Lanier, CPA  
Partner

## 1.0 INTRODUCTION

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT) performed an internal audit of SBOT's compliance with Texas Government Code Chapter 81 State Bar, the State Bar Rules and the State Bar of Texas Board of Directors Policy Manual.

We performed this audit as part of the approved FY 2017 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.

### Objectives and Scope

The purpose of this audit was to assess SBOT's compliance with specific sections of the Texas Government Code Chapter 81 State Bar, State Bar Rules and the State Bar of Texas Board of Directors Policy Manual. In doing so, we also evaluated management controls in place to ensure that the agency's business risks are mitigated where possible and that resources are used efficiently.

This audit focused on specific sections of the Texas Government Code Chapter 81 State Bar, State Bar Rules and the State Bar of Texas Board of Directors Policy Manual related to the following functions and processes:

- ✓ Membership
- ✓ Advertising Review

- ✓ Finance
- ✓ Bank accounts relating to the processing of attorney membership dues, occupation tax, and legal services fees.
- ✓ Budgeting/Reporting
- ✓ Cash Receipts
- ✓ Information Technology Management (General Controls)
- ✓ Purchasing and Facilities
- ✓ Website (Accessibility, Content and Navigation)

The scope period was June 1, 2016 through November 30, 2017.

### Conclusion

We determined that the State Bar of Texas is compliant with the 50 requirements assessed. Additionally, management's internal controls for reviewed processes are generally effective and working as designed.

We identified best practice processes that SBOT has implemented which are discussed in the detailed assessment section of this report:

- ✓ SBOT's Membership Department promotes electronic billing (E-billing) for annual membership fees. As a result, the number of E-billing statements increased to over 34,000 in FY 2018 from 4,200 in FY 2016. Additionally, on-line payments have increased to 57 percent on FY 2018 from 50 percent in FY 2016.
- ✓ The SBOT procures the majority of its materials and services under the Comptroller of Public Accounts Procurement contracts. This saves SBOT resources, ensures compliance with State procurement requirements and increases efficiencies in the procurement process.

- ✓ The Information Technology Department facilitates management’s comprehensive annual review of all user access rights.
- ✓ The Information Technology Department contracts with a third party vendor to perform regular security testing of the agency’s network.
- ✓ The Information Technology Department contracts with a third party to monitor and report broken links on the SBOT website. Internal staff also monitor and update the website on a regular basis.

We identified non-reportable opportunities to enhance internal controls and improve process efficiencies which we discussed with management.

Figure 1 provides a summary of compliance requirements reviewed by SBOT function.

Function	Government Code	SBOT Rules	SBOT Policy	Total
Membership	5	3	2	10
Advertising Review	*	*	*	*
Finance	3	3	17	23
Purchasing and Facilities	3	0	12	15
Information Technology	1	0	0	1
<b>Total</b>	<b>12</b>	<b>6</b>	<b>32</b>	<b>50</b>

**Figure 1: Government Code and Policy Requirements Assessed**

\* The State Bar of Texas Disciplinary Rules of Professional Conduct defines legal advertisement requirements that must be followed by attorneys. The SBOT’s Advertisement Review Department has processes in place to review each advertisement for compliance with these requirements.

## Report Format

This report contains the introduction section which provides a summary of the audit

objectives and observations. This is followed by a detailed assessment section that provides a brief discussion of the audit procedures applied and a discussion of the observation(s) the compliance requirements in a table format along with our assessment of SBOT’s compliance with the specific requirement.

## Acknowledgement

We wish to thank all State Bar of Texas staff involved with the audit for their professionalism, openness and prompt responses to our requests. All staff contributed to the timely completion of this audit.



## 2.0 DETAILED ASSESSMENT

### Membership

The Texas Government Code Chapter 81 State Bar (State Bar Act), the State Bar of Texas Rules and the State Bar of Texas Board of Directors Policy Manual describes membership requirements for the agency to follow.

- 5** State Bar Act requirements
- 3** State Bar Rules requirements
- 2** State Bar of Texas Board of Directors Policy Manual requirements

Audit procedures applied to determine compliance with these requirements included:

- Conducted interviews and walkthroughs
- Reviewed written procedures
- Reviewed membership reports

**Figure 2** compares Texas Government Code Chapter 81 State Bar Requirements; **Figure 2A** compares the State Bar of Texas Rules requirements; and **Figure 2B** compares the State Bar of Texas Board of Directors Policy Manual requirements to SBOT’s processes and controls.

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
81.051 Bar Membership Required	Each person licensed to practice law in this state shall, not later than the 10th day after the person's admission to practice, enroll in the state bar by registering with the clerk of the supreme court.	
81.052 Membership Classes	(a) A bar membership is one of four classes: active, inactive, emeritus, or associate. (b) Each licensed member of the state bar is an active member until the person requests to be enrolled as an inactive member. (f) A person enrolled in law school in this state may be enrolled as an associate member.	
81.053 Status of Certain Membership Classes	(a) An inactive member may not practice law in this state, hold an office in the state bar, or vote in any election conducted by the state bar. (b) An emeritus member has all the privileges of membership in the state bar. (c) An associate member may not practice law, except as provided by rule promulgated by the supreme court, and may not hold office in the state bar or vote in any election conducted by the state bar.	
81.054 Membership Fees and Additional Fees	(a) The supreme court shall set membership fees and other fees for members of the state bar. The fees, except as provided by Subsection (j) and those set for associate members, must be set in accordance with this section and Section 81.024. (b) An emeritus member is not required to pay a membership fee for the year in which the member reaches the age of 70 or any year following that year. (e) The state bar by rule may adopt a system under which membership fees are due on various dates during the year. For the year in which a due date is changed, the annual fee shall be	

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
	<p>prorated on a monthly basis so that the member pays only that portion of the fee that is allocable to the number of months remaining before the new expiration date. An increase in fees applies only to fees that are payable on or after the effective date of the increase.</p> <p>(f) A person who is otherwise eligible to renew the person's membership may renew the membership by paying the required membership fees to the state bar on or before the due date.</p> <p>(g) A person whose membership has been expired for 90 days or less may renew the membership by paying to the state bar membership fees equal to 1-1/2 times the normally required membership fees.</p> <p>(h) A person whose membership has been expired for more than 90 days but less than one year may renew the membership by paying to the state bar membership fees equal to two times the normally required membership fees.</p> <p>(i) Not later than the 30th day before the date a person's membership is scheduled to expire, the state bar shall send written notice of the impending expiration to the person at the person's last known address according to the records of the state bar.</p> <p>(j) The supreme court shall set an additional legal services fee in an amount of \$65 to be paid annually by each active member of the state bar except as provided by Subsection (k). Section 81.024 does not apply to a fee set under this subsection.</p> <p>(k) The legal services fee shall not be assessed on any Texas attorney who:</p> <ul style="list-style-type: none"> <li>(1) is 70 years of age or older;</li> <li>(2) has assumed inactive status under the rules governing the State Bar of Texas;</li> <li>(3) is a sitting judge;</li> <li>(4) is an employee of the state or federal government;</li> <li>(5) is employed by a city, county, or district attorney's office and who does not have a private practice that accounts for more than 50 percent of the attorney's time;</li> <li>(6) is employed by a 501(c)(3) nonprofit corporation and is prohibited from the outside practice of law;</li> <li>(7) is exempt from MCLE requirements because of non-practicing status; or</li> <li>(8) resides out of state and does not practice law in Texas.</li> </ul>	
<p>81.115 Online Attorney Profiles</p>	<p>(a) The state bar shall create a profile of each attorney licensed by the state bar. The profile must:</p> <ul style="list-style-type: none"> <li>(1) include the information required by Subsection (b);</li> <li>(2) include the information described by Subsection (c) if that information is provided by the attorney to the state bar; and</li> <li>(3) be compiled in a format that permits the state bar to make the information contained in the profile available online to the public.</li> </ul> <p>(b) A profile must contain the following information on each</p>	

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
	<p>attorney:</p> <ul style="list-style-type: none"> <li>(1) the name of each law school attended and the date the attorney graduated;</li> <li>(2) the date the attorney became licensed to practice law in this state;</li> <li>(3) any specialty certification recognized by the state bar and held by the attorney;</li> <li>(4) the attorney's primary practice location;</li> <li>(5) any public disciplinary sanctions issued by the state bar against the attorney during at least the 10-year period preceding the date of the profile; and</li> <li>(6) any public disciplinary sanctions issued by an entity in another state responsible for attorney discipline in that state against the attorney during at least the 10-year period preceding the date of the profile.</li> </ul> <p>(c) The profile must contain the following information on an attorney if the attorney provides the information to the state bar:</p> <ul style="list-style-type: none"> <li>(1) other states in which the attorney is licensed to practice law;</li> <li>(2) the courts before which the attorney has been admitted to practice law;</li> <li>(3) whether the attorney provides any language translating services, including translating services for a person with impairment of hearing, at the attorney's primary practice location; and</li> <li>(4) whether the attorney's client service areas are accessible to persons with disabilities, as defined by federal law.</li> </ul> <p>(g) The state bar shall annually update the information contained in an attorney's profile. The state bar shall adopt a form that allows an attorney to update information contained in the attorney's profile. The form shall be made available on the Internet and in other formats as prescribed by rules adopted by the state bar. The state bar may adopt rules relating to the type and content of additional information that may be included in an attorney's profile.</p> <p>(h) For purposes of administering this section, the state bar may collect from each member of the state bar an annual fee of not more than \$10.</p>	

**Figure 2 Texas Government Code Chapter 81 State Bar Requirements Table - Membership** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT's compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

Section	State Bar of Texas Rules Requirement	SBOT Process(es) Meets Requirement
Article III Section 2. Enrollment in the State Bar	Within ten days of being admitted to practice law in Texas, a member must file with the clerk the enrollment form prescribed by the State Bar and pay all required fees.	
Article III Section 4.	All membership fees are payable at the time of enrollment as a member of the State Bar and annually on the first day of the State	

Section	State Bar of Texas Rules Requirement	SBOT Process(es) Meets Requirement
Membership Fees	Bar's fiscal year.	
Article III Section 6. Default in Payment of Fees or Assessments	If a member is in default of payment of membership fees or any assessment levied by the Court on the 30 <sup>th</sup> day after the due date, the clerk will promptly notify the member of the default. If the fees and assessments are not paid within 60 days after the notice of default is mailed, the defaulting member will automatically be suspended from the practice of law. Practicing law while suspended is professional misconduct and grounds for discipline.	

**Figure 2A State Bar of Texas Rules Requirements Table - Membership** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT's compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
3.01.01 Dues	Each attorney must pay dues as directed by the State Bar.  Changes or modifications of the annual dues shall be made only after a resolution proposing such changes is adopted by the Board, the resolution is approved by the Supreme Court, and a majority of the members of the State Bar voting approve the changes in a referendum called for that purpose. Current bar dues are: (A) \$68 per annum for each active member licensed less than three years. (B) \$148 per annum for each active member licensed at least three years but less than five years. (C) \$235 per annum for each active member licensed at least five years. (D) \$50 for each inactive member. (E) Each member seventy years of age or older is exempt from the payment of annual membership dues.	
3.01.02 Assessments	From time to time the members of the State Bar may be charged a special assessment in addition to dues. The charging of any such special assessment shall require the same approvals that are required for changes in dues.	

**Figure 2B State Bar of Texas Board of Directors Policy Manual Requirements Table - Membership** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT's compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

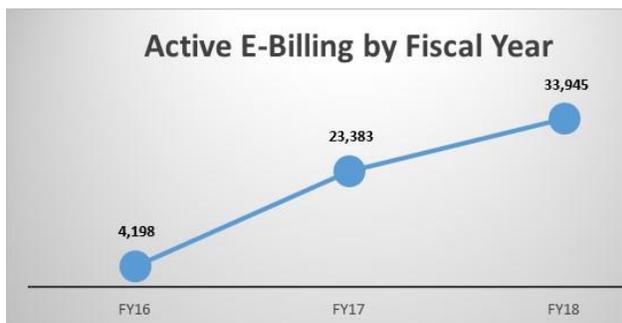
**Observations**

*Accomplishments*

Since FY 2016, the Membership Department has successfully increased the number of members enrolled in electronic billing (E-billing) for annual membership fees. The E-billing process is where SBOT staff sends an

email to members with their annual membership fee statement attached instead of physically mailing statements through U.S. mail. E-billing increased to over 34,000 in FY 2018 from 4,200 in FY 2016. As a result, the total number of statements mailed decreased by 15,804 from FY 2016 to FY 2018. Collection of fees through electronic

processing is more efficient in terms of processing and cost. This model is followed by many other professional membership organizations. **Figure 3** provides a graphic of the E-billing increase for FY 2016 through FY 2018.



**Figure 3 SBOT E-Billing by Year FY 2016 through FY 2018**

Source: Proposal for Mandated Online Payments - Appendix 2

The SBOT accepts member payments through four different methods:

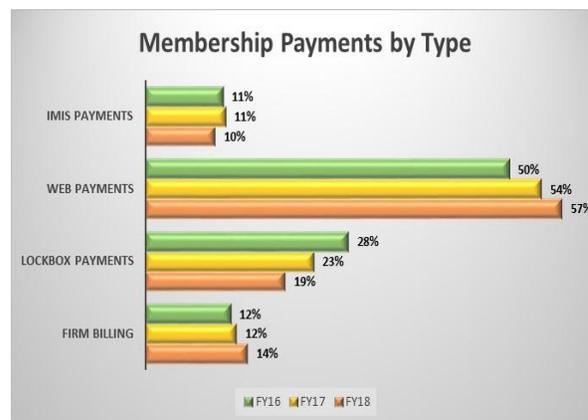
1. *IMIS - payments received by check or cash that were sent directly to the SBOT Membership Department.*
2. *Web payments made by credit card online.*
3. *Lockbox payments sent to the SBOT's check processing vendor to record the payments and reconcile payments on behalf of the SBOT.*
4. *Firm billing allows law firms to pay membership fees on behalf of their staff.*

In addition to increasing the number of members participating in E-billing, the percentage of membership payments received through the SBOT's web portal increased to 57 percent in FY 2018 from 50 percent in FY 2016. Internal controls are enhanced when

### Advertising Review

The State Bar of Texas Disciplinary Rules of Professional Conduct (TDRPC) Section VII describes attorney advertising and communications requirements.

members pay electronically on-line because the money transfers directly from the member's account to the SBOT's account with no human intermediary. **Figure 4** provides a graphic of the membership payment types from FY 2016 through FY 2018.



**Figure 4 Membership Payment Percentages by Type FY 2016 through FY 2018**

Observations

No reportable observations were noted for the membership related compliance requirements reviewed.

### Recommendation

No recommendations are made for the membership related compliance requirements reviewed.

### Managements Response

No management response is required.

The State Bar Act, the State Bar Rules and the State Bar of Texas Board of Directors Policy

Manual are silent on attorney advertising review requirements.

**O** State Bar Act requirements (Not Applicable)

**O** State Bar Rules requirements (Not Applicable)

**O** State Bar of Texas Board of Directors Policy Manual requirements (Not Applicable)

Audit procedures applied to determine compliance with the State Bar of Texas Disciplinary Rules of Professional Conduct requirements included:

- Conducted interviews and walkthroughs
- Reviewed advertising review activity reports
- Reviewed advertising review revenue reconciliations
- Reviewed the Advertisement/Written Solicitation Review Checklist – Revised Rules 09/2017 and compared it to the TDRPC Section VII requirements
- Reviewed the Advertising Review Committee meeting minutes for the November 13, 2017 and January 29, 2018 meetings
- Reviewed the Advertising Review Committee member roster

The Advertisement Review Department staff developed processes to follow when advertising reviews are requested. These processes include completion of the Advertisement/Written Solicitation Review Checklist – Revised Rules 09/2017 for each advertisement reviewed. This checklist ensures that staff are reviewing advertisements for compliance with TDRPC Part VII requirements.

### **Observations**

#### *Accomplishments*

We noted that the Advertising Review Department team is very customer service oriented and has a comprehensive documentation process for all advertising reviews. This includes a coversheet that indicates payment status and the review decision and the Advertisement/Written Solicitation Review Checklist – Revised Rules 09/2017. The Advertising Review Department staff also works closely with attorneys to inform them of the changes needed in their proposed advertisements.

#### *Opportunities*

No reportable observations were noted for the advertising review related compliance requirements reviewed. Processes are in place to ensure compliance with the State Bar of Texas Disciplinary Rules of Professional Conduct Section VII.

We noted that the current system used to track advertising review activity is a Microsoft Access Database with limited features. For example, the database does not accommodate electronic submission of advertising review requests and does not retain data to assign a fee to the advertising review application and a field for payment amount received. Therefore payments are tracked on the Lawyer Advertising and Solicitation Communications Application Form.

We noted that the Advertising Review Department staff reconciles the amount of money received for advertising reviews to the amount of money actually deposited in the bank. However, the Advertising Review Department staff do not reconcile the amount of money recorded in the database to the actual amount received. This reconciliation is important to ensure that the Advertising review database is complete and substantiates the money processed in Accounting.

### Recommendations

The SBOT is in the process of obtaining a new information system for the advertising review activity. We recommend that the SBOT include the ability to submit advertising review requests electronically and then have a feature to track the review status and decision. Additionally, all information associated with fees and payments, including credit card payments should be tracked in the system. Ideally, the system would have an interface that allows for electronic updates of all electronic payments received.

Once a new system is in place, the Advertising Review Department should implement processes to reconcile the amount of money received to the advertising review data base to ensure that the information in the database is complete. The reconciliation of cash received to the cash deposited should continue being performed.

### Managements Response

Management agrees with the audit finding. Advertising Review is in the process of implementing a new information system which will allow members to submit payments advertisements for review online. The new system will interface with the online portal to allow single entry of data. The fee per review will be calculated automatically.

Prior to the implementation of the new information system, Advertising Review has worked with Information Technology Department to develop additional reporting capabilities that allow the capture of credit card payments. All Advertising Review payments as entered in the database are reconciled with the funds collected and deposited.

### Budget and Finance

The State Bar Act and the State Bar of Texas Board of Directors Policy Manual describes budget and finance activity requirements for the agency to follow.

**3** State Bar Act requirements

**3** State Bar Rules requirements

**17** State Bar of Texas Board of Directors Policy Manual requirements

Audit procedures applied to determine compliance with these requirements included:

- Conducted interviews and walkthroughs
- Reviewed budget planning documents
- Reviewed bank account listings and authorized signatories
- Reviewed bank account reconciliations

**Figure 5** compares Texas Government Code Chapter 81 State Bar Requirements for finance related activities; **Figure 5A** compares the State Bar of Texas Rules requirements; and **Figure 5B** compares the State Bar of Texas Board of Directors Policy Manual requirements to SBOT’s processes and controls.

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
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Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
<b>Budget</b>		
81.022 Annual Budget; Public Budget Hearing	<p>(a) The executive director of the state bar shall confer with the clerk of the supreme court and shall supervise the administrative staff of the state bar in preparation of the annual budget.</p> <p>(a-1) In developing and approving the annual budget, the state bar and supreme court shall:</p> <ul style="list-style-type: none"> <li>(1) consider the goals and performance measures identified in the strategic plan developed under Section 81.0215; and</li> <li>(2) identify additional goals and performance measures as necessary.</li> </ul> <p>(b) The proposed budget shall be presented annually at a public hearing. Not later than the 30th day before the day the hearing is held, the proposed budget and notice of the time and place of the budget hearing shall be disseminated to the membership of the state bar and to the public.</p> <p>(c) The executive director shall preside at the budget hearing or, if the executive director is unable to preside, may authorize any employee of the administrative staff or any officer or director of the state bar to preside. Any member of the public may participate in the discussion of any item proposed to be included in the budget.</p> <p>(d) After the public hearing, the proposed budget shall be submitted to the board of directors for its consideration. The budget adopted by the board of directors shall be submitted to the supreme court for final review and approval. The board of directors, at a regular or special meeting, may amend the budget subject to approval by the supreme court.</p> <p>(e) After implementing a budget approved by the supreme court, the state bar shall report to the court regarding the state bar's performance on the goals and performance measures identified in the strategic plan developed under Section 81.0215. The state bar shall:</p> <ul style="list-style-type: none"> <li>(1) revise the goals and performance measures as necessary; and</li> <li>(2) notify the supreme court of the revisions.</li> </ul>	
<b>Finance</b>		
81.023 Audit; Financial Report	<p>(a) The financial transactions of the state bar are subject to audit by the state auditor in accordance with Chapter 321, Government Code. The state bar shall pay the expense of the audit. The auditor's report shall be published in the Bar Journal.</p> <p>(b) The state bar shall file annually with the supreme court, the governor, and the presiding officer of each house of the legislature a copy of the annual financial report prepared by the state bar under Section 2101.011.</p>	
81.017(b) Indebtedness, Liability, or Obligation	<p>The state bar may not create an indebtedness, liability, or obligation that cannot be paid from the receipts for the current year unless approved by referendum of all members of the state bar as provided by Section 81.024.</p>	

**Figure 5 Texas Government Code Chapter 81 State Bar Requirements Table - Finance** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT’s compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

Section	State Bar of Texas Rules Requirement	SBOT Process(es) Meets Requirement
Article V Section 1. Budget Committee	There shall be a budget committee, comprised of the president of the State Bar, the president-elect, the chairperson of the board, and two (2) or more members of the board of directors appointed by the president. The president or his designee shall be chairperson of this committee.	
Article V Section 2. Public Hearing on Budget	A public hearing shall be held each year to consider the State Bar’s proposed budget in accordance with the Act.	
Article V Section 3. Annual Budget	A. The budget committee shall consult with the executive director and the general counsel with respect to the annual budget for the State Bar for the fiscal year next after the committee’s appointment. The proposed budget shall be prepared and submitted to the board at its first quarterly meeting each calendar year, and shall be acted on by the board at such meeting. After adoption by the board, the budget shall be submitted to the Court for approval.  B. The budget may be amended by majority vote of the board at any regular or special meeting in order to meet any unforeseen contingency, subject to the Court’s approval.	

**Figure 5A State Bar of Texas Rules Requirements Table – Fiscal** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT’s compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
<b>Budget</b>		
3.02.01 Preparation (Annual Budget)	The Executive Director, in consultation with the President-elect and other members of the Budget Committee of the Board, shall prepare a proposed budget for the next Fiscal Year of anticipated operating revenues and operating capital expenditures.  The proposed budget shall be submitted to the Board for approval at the regularly scheduled second quarterly meeting of the Board.  The Executive Director shall submit the proposed budget to each Board Member not less than seven days prior to the second quarterly Board meeting.	
3.02.02 Publication	Upon approval by the Board at its second quarterly meeting, the budget shall be published in the next issue of the Texas Bar Journal and notice shall be given of a public hearing on the budget to be held prior to the next meeting of the Board.	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
3.02.03 Approval	<p>The budget, as revised, shall be submitted to the Board at its regularly scheduled third meeting.</p> <p>Upon approval by the Board, the budget shall immediately be submitted to the Supreme Court for approval.</p> <p>The annual budget for the TYLA shall be submitted to the Board and approved by a majority vote of the Board.</p>	
3.02.04 Budget Committee	<p>The Budget Committee of the Board shall be comprised of:</p> <ul style="list-style-type: none"> <li>(1) the President;</li> <li>(2) the President-elect;</li> <li>(3) the Chair;</li> <li>(4) the chair of the Audit and Finance Committee of the Board;</li> <li>(5) two or more members appointed by the President in consultation with the President-elect and the Chair (To the extent possible, the President shall consider continuity and experience with the State Bar budget process in making appointments pursuant)</li> </ul> <p>The President-elect shall be the chair of the Budget Committee.</p> <p>The Budget Committee shall have the duty to advise and assist the Executive Director in the preparation of the annual budget for the State Bar. As part of its review of the proposed budget, the Budget Committee shall review the programs, departments and projects to confirm that they further the State Bar's purposes and goals as stated in the State Bar Act, the State Bar Rules and the State Bar Strategic Plan.</p>	
3.02.05 Budget Amendments	<p>No budget amendment in a current Fiscal Year's budget shall be made without the approval of the Board and the Supreme Court.</p>	
3.02.04 Budget Committee	<p>The Budget Committee of the Board shall be comprised of:</p> <ul style="list-style-type: none"> <li>(1) the President;</li> <li>(2) the President-elect;</li> <li>(3) the Chair;</li> <li>(4) the chair of the Audit and Finance Committee of the Board;</li> <li>(5) two or more members appointed by the President in consultation with the President-elect and the Chair (To the extent possible, the President shall consider continuity and experience with the State Bar budget process in making appointments pursuant)</li> </ul> <p>The President-elect shall be the chair of the Budget Committee.</p> <p>The Budget Committee shall have the duty to advise and assist the Executive Director in the preparation of the annual budget for the State Bar. As part of its review of the</p>	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
	proposed budget, the Budget Committee shall review the programs, departments and projects to confirm that they further the State Bar's purposes and goals as stated in the State Bar Act, the State Bar Rules and the State Bar Strategic Plan.	
3.02.05 Budget Amendments	No budget amendment in a current Fiscal Year's budget shall be made without the approval of the Board and the Supreme Court.	
3.02.06(A) Minimum Reserves- <i>Designated General Operating Reserves</i>	<p>Minimum reserves will be recommended by the Budget Committee during the annual budget process after collaboration with the Audit and Finance Committee.</p> <p>The recommendation will be presented to the Board for approval.</p> <p>In setting the minimum reserves, the Board will take into account all known financial issues and matters facing the State Bar and will be guided by good business practices. The issues to be considered will include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>(1) level of stable revenue and expenditures;</li> <li>(2) major fixed and ongoing expenditures (payroll, mortgage, continuing education programs, lagging of reimbursements for cash outlays, etc.);</li> <li>(3) appropriate and adequate risk management programs to protect the State Bar (e.g., adequate insurance);</li> <li>(4) contingent liabilities known, disclosed and anticipated but not yet accrued;</li> <li>(5) strategic direction and plan for the State Bar is in place and being utilized to drive the State Bar;</li> <li>(6) stability of capital expenditures and programs;</li> <li>(7) last year's budget versus last year's actual contained no material unexplained variances;</li> <li>(8) prior reserves have been adequate to absorb unexpected and unplanned expenditures variances; and</li> <li>(9) growth plan, if relevant, is in place for the State Bar and is incorporated into current budget and strategy</li> </ul>	
3.02.06(B) Minimum Reserves- <i>Reserves Designations</i>	<p>Some specific areas for which reserves should be maintained, which must be considered each year during the budgeting and financial planning process.</p> <ul style="list-style-type: none"> <li>(1) Operating Expenditures</li> <li>(2) Litigation Expenditures</li> <li>(3) Capital Assets Replacement/Construction</li> <li>(4) New Programs and/or Research and Development</li> </ul>	
<b>Finance</b>		
3.04.01 Depositories of State Bar Fund	<p>Every 3 years, the State Bar's bank depository will be reviewed by the Audit and Finance Committee for reasonableness of fees and level of service.</p> <p>Following the 3-year review, the Audit and Finance Committee will make a recommendation to the Board that the then current bank depository be allowed to continue for</p>	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
	another 3 years, or that another bank depository be selected through an RFP process.	
3.04.03 Withdrawal and Disbursement of State Bar Fund	<p>The Board shall designate the employees of the State Bar who are authorized to sign checks for the withdrawal and disbursement of funds.</p> <p>These signatories shall include the Executive Director and Chief Financial Officer. The Executive Director's signature can be a facsimile on all checks. The Chief Financial Officer, or his or her designated representative, however, shall review each check before its distribution even though it bears the Executive Director's signature.</p>	
3.04.04 Securities	The Executive Director or the Chief Financial Officer of the State Bar are authorized to transfer, endorse, sell, assign, set over, and deliver any and all shares of stock, bonds, debentures, notes of indebtedness, or other securities now or hereafter standing in the name of or owned by the State Bar.	<p>Reviewed with the PFIA compliance internal audit performed in December 2017 and determined to be compliant</p>
3.08.02 Client Security Fund	(A) Purpose. The State Bar shall maintain and administer a Client Security Fund. The purpose of the Fund is to protect the integrity of the legal profession through discretionary grants to clients who have been harmed by their lawyers' dishonest conduct.	
3.08.03 Building Fund.	A permanent building or maintenance fund shall be established to maintain the Texas Law Center under the direction of the Board. Each year, the Budget Committee, in consultation with the Board Administration Committee and the Board Audit and Finance Committee, shall consider budgeting a transfer from the general fund to the building fund in such an amount so as to ensure that 80% to 100% of the annual capital equipment straight-line depreciation be transferred annually. All interest earned on the corpus within the building fund shall accumulate in the building fund.	
3.08.04 Annual Meeting Fund.	The receipt and expenditure of funds related to the annual meeting shall be accounted for and maintained as a separate fund. Expenses and revenues shall be reported in conformity with generally accepted accounting principles consistent with the approved budget for the annual meeting. Expenses shall be attributed to the same budget category as reported for the previous Fiscal Year's annual meeting.	
3.12.01 Fund Restrictions (Alcoholic Beverages)	None of the funds of the State Bar collected from mandatory dues may be used for the purchase of alcoholic beverages.	
3.12.02 Application	This policy does not apply to functions sponsored by individual sections based on their use of separate dues or to State Bar projects such as continuing legal education or other meetings for which a separate and specified fee is charged for the purchase and use of alcoholic beverages.	
5.01.06 Finances	(A) 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	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
	<p>Manual, applicable law, rules and regulations, to determine how its funds are invested and expended. The Board must approve the establishment or revision of any section dues.</p> <p>(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.</p> <p>(C) Books, Records and Reports. Each section shall maintain accurate financial books and records and have appropriate controls on the maintenance and disbursement of sections' 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. Each section also shall submit to the Executive Director by July 15 of each year a section budget for the current Fiscal Year.</p> <p>(D) Sales Tax. To the extent required by law, each section shall collect sales tax on goods or services that it sells, and timely each month, remit to the State Bar all sales tax collected during the immediately preceding month.</p>	

**Figure 5B State Bar of Texas Board of Directors Policy Manual Requirements Table - Finance** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT's compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

**Observations**

No reportable observations were noted for the finance related compliance requirements reviewed.

The SBOT maintains 33 different bank accounts (checking, savings and money market) for the 15 different funds it manages and provides financial reporting and bank

account reconciliations for the sections that have a total of 79 different accounts. **Figure 6** summarizes the bank accounts maintained or reconciled by the SBOT Finance Department.

Account Type	State Bar of Texas	Sections	Total
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Account Type	State Bar of Texas	Sections	Total
Checking	26	14	40
Savings/High Yield Savings	6	2	8
Money Market	1	46	47
CD	0	17	17
<b>Total Accounts</b>	<b>33</b>	<b>79</b>	<b>112</b>

**Figure 6 Summary of Bank Accounts Maintained or Reconciled by the SBOT Finance Department**

No reportable observations were noted for the budget and finance related compliance requirements reviewed.

**Recommendation**

No recommendations are made for the

budget and finance related compliance requirements reviewed.

**Managements Response**

No management response is required.

**Purchasing and Facilities**

The State Bar Act and the State Bar of Texas Board of Directors Policy Manual describes purchasing and facilities requirements for the agency to follow.

**3** State Bar Act requirements

**0** State Bar Rules requirements (Not Applicable)

**12** State Bar of Texas Board of Directors Policy Manual requirements

- Conducted interviews and walkthroughs
- Reviewed the FY 2017 and FY 2018 purchase order listing
- Reviewed the SBOT’s current contract listing
- Reviewed procurement card statements

**Figure 7** compares Texas Government Code Chapter 81 State Bar Requirements for purchasing and facilities related activities and **Figure 7A** compares the State Bar of Texas Board of Directors Policy Manual requirements to SBOT’s processes and controls.

Audit procedures applied to determine compliance with these requirements included:

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
81.015 Contracts	To carry out and promote the objectives of this chapter, the state bar may enter into contracts and do all other acts incidental to those contracts that are necessary or expedient for the administration of its affairs and for the attainment of its purposes.	
81.0151 Purchasing	The board of directors shall adopt guidelines and procedures for purchasing that are consistent with the guidelines and procedures in Chapters 2155-2158.  Purchases are subject to the ultimate review of the supreme court.	

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
	The state bar shall maintain reports on state bar purchases and shall make those reports available for review by the state auditor.	
81.016 Property	(a) The state bar may acquire by gift, bequest, devise, or other manner any interest in real or personal property. (b) The state bar may acquire, hold, lease, encumber, and dispose of real and personal property in the exercise of its powers and the performance of its duties under this chapter. (c) The property of the state bar is held by the state bar for the purposes set out in Section 81.012. If the state bar ceases to exist as a legal entity for any reason, all property of the state bar shall be held in trust by the supreme court for the attorneys of this state.	

**Figure 7 Texas Government Code Chapter 81 State Bar Requirements Table – Purchasing and Facilities** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT’s compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
<b>Purchasing</b>		
3.06.01 General (Acquisition of Goods and/or Services)	Purchases are subject to the ultimate review of the Supreme Court.  The State Bar shall maintain records on purchases and shall make those reports available for review by the state auditor.	
3.06.02 Capital Item	(A) A capital expenditure budget shall be presented to the Board along with the annual budget. (B) All purchases must be approved by the Executive Director or authorized designee. (C) A capital item is an item of furniture, fixtures or equipment with a cost of \$5000 or more. (D) Purchases of capital items costing \$5000 or more not included in the capital expenditure budget, must be approved by the Executive Committee. Items under \$5000 may be approved by the Executive Director or authorized designee. (E) The inventory of all capital items as defined in 3.06.02(C) shall be maintained by the State Bar accounting department. The inventory of furniture, fixtures, and equipment with a cost of less than \$5000 shall be maintained by the department responsible for the items. (F) The purchase of all capital items shall be made under existing Comptroller of Public Accounts Procurement contracts, except when, in the opinion of the Executive Director or authorized designee, it is not advantageous to the Bar to do so because of price, quantity, or quality considerations.	
3.06.03 Printing and Mailing	Purchases for printing and mailing shall be made under existing contracts between the Comptroller of Public Accounts Procurement Department and its vendors when the items desired meet the price, quantity, quality, and delivery date requirements.  If these requirements cannot be met by purchasing under the Comptroller of Public Accounts Procurement contract, then purchases may be made through other sources, after considering	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
	three competitive bids.  Any exception to the three bid rule must be approved by the Executive Director or authorized designee.	
3.06.04 Building Maintenance	All contracts for ground maintenance, building maintenance, elevator maintenance, janitorial services, water treatment chemicals, and window washing shall be awarded on a bid basis.	
3.06.05 Office Supplies	All items of office supplies that are on state contracts and that fit the needs of the State Bar in quantity and quality shall be purchased under the Comptroller of Public Accounts Procurement contracts.  Any exception must be approved by the Executive Director or his or her designee.	
3.06.06 Miscellaneous, Special, and Nonrecurring Items	Certain items to be purchased may be available only from one or two suppliers, so that three competitive bids cannot be obtained.  Also, certain items such as plaques, flowers, pictures, and so forth, may be available only from a single source. These items shall always be purchased on a "lowest and best" basis.	
3.06.07 Petty Cash Disbursals	Purchases from petty cash may be made when necessary or expeditious but shall not exceed \$50 per item.	
3.06.08 Purchase Order System	A purchase order shall be issued for any item costing more than \$500.  All purchase orders must be approved by the Executive Director or authorized designee.	
5.01.08 Contracts	All contracts for goods or services for a section must be reviewed by State Bar Legal Counsel and executed by a duly authorized signatory of the State Bar.	
<b>Facilities</b>		
3.11.02 Lease to Other Organizations (Texas Law Center)	(A) The State Bar may lease vacant available space in the Texas Law Center to other organizations whose primary activities involve the lawyers or the judiciary of Texas and other organizations determined by the Board.  (B) All tenants renting space at the Texas Law Center will be charged rent at cost as determined by the Board. At the time that leases are entered into, the Board will consider appropriating State Bar funds to subsidize the operations of some of its tenants, according to policies and procedures developed by the Board. All leases must be approved by the Board and space in the building will not be leased for a period longer than one year.  (E) Except for State Bar Officer, Board Committee, and Commission for Lawyer Discipline meetings, meetings in the Stewart Morris Board Room: shall only be scheduled for meetings having in excess of 12 participants; must have the approval of the Executive Director or Deputy Executive Director; food consumption, if any, must take place in the lobby; drinks are allowed as long as coasters are used; and AV equipment must be operated by a qualified staff member with staff time charged at \$30/hour.	
3.12.03	The storage of alcoholic beverages on premises owned or leased by	

Section	SBOT Policy Requirement	SBOT Process(es) Meets Requirement
Premises	the State Bar is prohibited.	
3.11.04 Use of Meetings Rooms	<p>3.11.04 Use of Meeting Rooms. The President, Executive Director and Deputy Executive Director are authorized to allow any law-related organization to meet in the Law Center on such terms and conditions as are deemed appropriate:</p> <p>(A) Meeting rooms on floors 1 and P1 shall be available for use by members of the State Bar, local bars and law-affiliated groups. These groups shall be booked on a first-come, first-served basis no more than seventy-five days in advance.</p> <p>(B) All meeting rooms in the Law Center shall be available for use by the State Bar Board, sections, committees and staff departments. Rooms may be reserved no more than one year in advance.</p> <p>(C) Meeting rooms scheduled on floors 3 – 6 may include non-staff members, but must be scheduled by staff and staff must be in attendance. Any staff member may schedule a meeting for any floor whether or not their office/work station is on that floor.</p> <p>(D) Food and drinks may be consumed in any meeting room except the Stewart Morris Board Room as specified below. Facilities staff will provide drink set-ups for meetings on floors P1 and 1. Meeting coordinators will be responsible for drink set-ups for meetings on floors 2-6. Soft drinks, bottled water and coffee packets may be obtained from the P1 supply store with advance notice of at least two hours.</p>	

**Figure 7A State Bar of Texas Board of Directors Policy Manual Requirements Table – Purchasing and Facilities** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT’s compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

**Observations**

No reportable observations were noted for the purchasing and facilities related compliance requirements reviewed.

*Accomplishments*

The SBOT procures the majority of its materials and services under the Comptroller of Public Accounts Procurement contracts for goods and services provided by the Comptroller. This saves SBOT resources, ensures compliance with State procurement

requirements and increases efficiencies in the procurement process.

**Recommendation**

No recommendations are made for the purchasing and facilities related compliance requirements reviewed.

**Managements Response**

No management response is required.

**Information Technology Management, Including Website**

The State Bar Act and the State Bar of Texas Board of Directors Policy Manual describes

information technology requirements for the agency to follow.

**1** State Bar Act requirement

**0** State Bar Rules requirements (Not Applicable)

**0** State Bar of Texas Board of Directors Policy Manual requirements (Not Applicable)

Audit procedures applied to determine compliance with these requirements included:

- Conducted interviews and walkthroughs

- Reviewed information system user access rights
- Reviewed the 3<sup>rd</sup> party vulnerability testing report
- Navigated the SBOT website
- Navigated through the SBOT membership portal

**Figure 8** compares Texas Government Code Chapter 81 State Bar Requirements for information technology related activities.

Section	Texas Government Code Chapter 81 State Bar Requirement	SBOT Process(es) Meets Requirement
81.038 Use of Technology	The board of directors shall develop and implement a policy requiring the executive director and state bar employees to research and propose appropriate technological solutions to improve the state bar's ability to perform its functions. The technological solutions must: (1) ensure that the public is able to easily find information about the state bar on the Internet; (2) ensure that persons who want to use the state bar's services are able to: (A) interact with the state bar through the Internet; and (B) access any service that can be provided effectively through the Internet; and (3) be cost-effective and developed through the state bar's planning processes.	

**Figure 8 Texas Government Code Chapter 81 State Bar Requirements Table – Information Technology** *The State Bar of Texas must have procedures, processes and controls to ensure compliance with the requirements. We assessed SBOT's compliance with these requirements. This table provides our assessment results. Items deemed to not be in compliance are discussed below.*

**Observations**

*Accomplishments*

We noted that the SBOT Information Technology Department implemented some of the technology industry's best practices. The Information Technology Department conducts annual user access audits. Information Technology Department staff provides each SBOT manager with a report listing all users of their respective system along with the user access rights. Managers are

required to review and sign off on the report along with providing suggested changes.

SBOT also contracts with a third party vendor to conduct regular penetration/security testing. The vendor provides SBOT with a report of the test results. SBOT Information Technology then reviews the report and takes necessary corrective actions.

Additionally, Regular reviews of the agency's website are completed to ensure that all links are functioning correctly.

The SBOT's member portal on the website is robust and easy to use. The member portal provides each member with a snapshot of their account status, any fees due and continuing education requirements status. It also provides convenient links to access additional information and resources.

*Observations*

No reportable observations were noted for the information technology and website related compliance requirements reviewed.

***Recommendations***

No recommendations are made for the information technology and website related compliance requirements reviewed.

***Managements Response***

No management response is required.