



State Bar of Texas Internal Audit Services

Follow-Up on Prior Audit Findings Report #18-003

February 8, 2018
As Prepared by
McConnell & Jones LLP



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.



February 8, 2018

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

Dear Audit & Finance Committee Chair:

Attached is Internal Audit Report #18-003 Follow-Up on Prior Audit Findings. This audit was performed as part of the approved FY 2017 Annual Internal Audit Plan.

We assessed the State Bar of Texas' (SBOT) implementation status of recommendations to address the seven findings noted in prior year's audit reports. We concluded that management has implemented corrective actions for all seven findings noted in the previous audit reports.

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) applied audit procedures to determine the implementation status of recommendations made in prior audit reports..

Conclusion

The State Bar of Texas and Texas Board of Legal Specialization (TBLS) management teams have implemented corrective action for all of the seven findings noted in previous audit reports. Details of the open findings are included below.

#1 – Payroll and Personnel	
Audit Objectives	To determine whether internal controls in place over payroll and personnel functions are appropriately designed.
Observation/Finding	There is no secondary review or periodic reconciliation of the 401(k) and 457 contributions made to the plans' service provider.
Recommendation	Not provided on annual report.
Management Response	The Finance Division will implement a periodic reconciliation of contributions made to the 401k and 457 plans to ensure that employee contributions deducted from payroll are applied properly to the employee's account.
Auditor Follow-Up Conclusion	Audit finding is considered closed with the recommendation implemented. Reconciliation is now performed on an annual basis.

#2 – Legal Specialization Internal Controls	
Audit Objectives	To determine whether internal controls in place over legal specialization are appropriately designed.
Observation/Finding	Not noted on annual report.
Recommendation	Auditor recommends consistent formal, timely and written documentation of actions taken by the Board of Directors.
Management Response	Written meeting minutes will be completed within one month following board meetings. The meeting minutes will document all actions taken by the Board of Directors.
Auditor Follow-Up Conclusion	Audit finding is considered closed with the recommendation implemented. Internal controls surrounding TBLS' ability to provide documentation of actions taken by Board of Directors is in place and operating as intended. Auditors reviewed the TBLS meeting minutes for June 2017

#2 – Legal Specialization Internal Controls

and August 2017 which were approved by board, as well as, the December 2017 meeting minutes which should be approved at the next TBLS board meeting. Auditors noted that each discussion point within the meeting minutes was detailed and gives the reader prospective on the topic discussed either in the body of the discussion topic or in the appendices section of the meeting minutes.

#3 – Legal Specialization Internal Controls**Audit Objectives**

To determine whether internal controls in place over legal specialization are appropriately designed.

Observation/Finding

Not noted on annual report.

Recommendation

Auditor recommends consistent documentation to confirm approval of applications by the Board of Directors, advisory commissions and the paralegal commission. This recommendation is based on review of 2015 applications.

Management Response

In addition to current documentation practice and procedures, procedures will be implemented to further document approval of applications by the Board of Directors, advisory commissions and the paralegal commission. Specifically, after the Board of Directors, advisory commissions and the paralegal commission have voted to approve or deny applications, each member of the Board of Directors and commissions will be required to confirm their vote by an email confirmation.

Auditor Follow-Up Conclusion

Audit finding is considered closed with the recommendation implemented.

TBLS has established an internal process for documenting results of applications. These processes were disseminated to TBLS staff by email from the Associate Executive Director of TBLS. Auditors reviewed the July 2017 meeting minutes in which results of the commissions and TBLS board were well documented to include approvals and denials of all applicants.

#4 – Legal Specialization Internal Controls**Audit Objectives**

To determine whether internal controls in place over legal specialization are appropriately designed.

Observation/Finding

Not noted on annual report.

Recommendation

Auditor recommends internal controls surrounding the PayPal account be improved to address the following: (a) current settings allow non-

#4 – Legal Specialization Internal Controls	
	referenced credits; (b) current settings allow credits to exceed original transaction amounts; and (c) login information is shared by two staff members with access to cash receipts and responsibilities/ capabilities to record cash receipts.
Management Response	TBLS will work with its contractor at the State Bar's Information Technology department to implement the recommended settings to the PayPal account.
Auditor Follow-Up Conclusion	<p>Audit finding is considered closed with the recommendation implemented.</p> <p>Auditors reviewed TBLS PayPal user access rights which is limited to two TBLS staff members and the IT staff member designated to assist with TBLS functions. Each individual possesses separate system login credentials. Also, internal controls related to PayPal settings/configuration have been updated to restrict 1) refunds on non-referenced credits, 2) credits exceeding original transaction amounts, and 3) reference transactions.</p>

#5 – Legal Specialization Internal Controls	
Audit Objectives	To determine whether internal controls in place over legal specialization are appropriately designed.
Observation/Finding	Not noted on annual report.
Recommendation	Auditor recommends internal controls surrounding the recording of examination grades be improved to address the following: (a) for one of auditor's twenty-two selections, the grade was improperly recorded; (b) approval of adjustments to examination grades is not formally documented on a consistent basis; (c) the approval on the final essay grade from an approved grader is not always formally documented; and (d) staff members have the capability to change individual examination scores. Items (a), (b) and (c) are based on the available documentation of specialization examinations administered in 2015.
Management Response	To ensure that examination grades are properly recorded, TBLS will implement policies and practices requiring (a) all examination grades entered into the database be reviewed and confirmed by a second TBLS staff member, and (b) consistent and thorough documentation of adjustments to grades that includes the reason for the adjustment and the authority approving the adjustment. (c) In addition, TBLS will require graders to confirm via email that the submitted scoring sheets correctly reflect the grades given by the grader. (d) TBLS has requested that the State Bar Information Technology department confirm that only two

#5 – Legal Specialization Internal Controls	
	specified TBLS staff members have the capability to change individual examination essay scores and remove all TBLS staff capabilities to change individual multiple choice uploaded answers.
Auditor Follow-Up Conclusion	<p>Audit finding is considered closed with the recommendation implemented.</p> <p>TBLS' examination scoring process requires that all examination scores that are within ten points of a passing grade undergo a process where the examination essay responses are reviewed in further detail by the graders on the relevant exam commissions. As a result, TBLS staff must have access to update the individual's grades for the essay part of the examination. Among the TBLS staff two individuals have access rights to update scores based on exam commission's re-evaluation of essay answers. Changes are formally documented in the TBLS database, including retention of scoring sheets and email to and from each exam commission confirming essay scores.</p> <p>TBLS has implemented practices to perform grade changes for the entire population of examinees rather than on an individual basis, as it relates to the multiple choice portion of the exam. Additional documentation which supports the reason for the grade change, such as an email thread between TBLS staff and exam commissions, are maintained in the database as well.</p>

#6 – Legal Specialization Internal Controls	
Audit Objectives	To determine whether internal controls in place over legal specialization are appropriately designed.
Observation/Finding	There is no documentation to show whether the Board of Directors or the paralegal commission approved the 2015 paralegal recertification applications.
Recommendation	Not noted on annual report.
Management Response	A policy and practice will be implemented to ensure that approval of paralegal recertification applications is documented in the minutes of Board of Directors meetings and via email with respect to approval by the paralegal commission.
Auditor Follow-Up Conclusion	<p>Audit finding is considered closed with the recommendation implemented.</p> <p>TBLS has established an internal process for documenting results of applications. This process applies to all applicants and these processes were disseminated to TBLS staff by email from the Associate Executive Director of TBLS. Auditors reviewed the July 2017 meeting minutes in a</p>

#7- Legal Specialization Internal Controls	
Audit Objectives	To determine whether internal controls in place over legal specialization are appropriately designed.
Observation/Finding	The application deadline policies are not strictly adhered to.
Recommendation	Not noted on annual report.
Management Response	<p>TBLS will implement a policy to allow staff to grant extensions of up to thirty days when an applicant supplies a written request showing good cause. TBLS personnel enter notes in the database reflecting the reasoning for extensions.</p> <p>Management will communicate with employees that all requests for extensions must be documented and maintained in applicant files. All applicants who have not met the requirements as of day thirty-one will be denied pursuant to TBLS policy.</p>
Auditor Follow-Up Conclusion	<p>Audit finding is considered closed with the recommendation implemented.</p> <p>TBLS has implemented an internal practice to grant extensions of up to thirty days when an applicant supplies a written request showing good cause. TBLS personnel enter notes in the database reflecting the reasoning for extensions. However, TBLS must retain flexibility to grant extensions for extenuating circumstances. For example, when the exam date falls within hurricane season in Texas and most recently affected many individuals who were scheduled to sit for a specialization exam.</p> <p>TBLS communicates with all individuals who have registered for the test and works to ensure options are communicated effectively, which the result may be rescheduling to the following year's test date, completing the exam at TBLS headquarters, or formal documentation to notify TBLS that the examinee no longer has the desire to sit for the exam.</p>