

**REAL ESTATE, PROBATE & TRUST LAW SECTION**

**State Bar of Texas**

**Internal Financial Controls Policy**

**As Adopted**

**\_\_\_\_\_, 2020**

## **REPTL INTERNAL FINANCIAL CONTROLS POLICY**

### **A. BUDGET**

1. The Council shall adopt a budget each fiscal year that provides detailed projected expenditures and revenue. This budget may be amended, if necessary.
  - a. The Treasurer, in consultation with the other officers and the Financial Guru (if any), shall draft the next year's proposed budget by the January meeting. The Treasurer may request an initial working draft of the budget from the Bookkeeper.
  - b. The Council shall review the budget during its January meeting and adopt the budget during its April meeting.
  - c. If a significant deviation from a budget occurs, as defined by a variance in excess of \$5,000, an explanation should be presented to the full council. A variance in excess of \$20,000 will require the Council to adopt an amended budget.
2. The section will submit the adopted budget to the State Bar by July 15 of the fiscal year.

### **B. DEFINING ROLES AND PROCEDURES**

1. Bookkeeping services, approval duties and second approval duties for sections' financial records will be separated into distinctly defined roles:
  - a. the 'Bookkeeper' who is a provider of bookkeeping services as described below.
  - b. the 'Treasurer,' who is authorized to supervise and review bookkeeping services and authorize and/or approve deposits and expenditures.
  - c. the "Financial Guru,' who may assist the Treasurer in supervising and reviewing bookkeeping services and may advise the Treasurer regarding the approval of deposits and expenditures. This policy does not require the appointment of a Financial Guru, but allows for it if the Council deems advisable.
  - d. the person designated as an additional approver for expenditures over a designated amount or for payments issued to the Treasurer.
2. The person who performs the section's bookkeeping and reconciliation must not be the same person responsible for approving expenditures.

### **C. BOOKKEEPER DUTIES**

1. The Bookkeeper will perform the following duties:

- a. Issue checks and process invoices to be approved and signed by an authorized signor.
- b. Ensure invoices are paid within two weeks of receiving the invoice.
- c. Obtain approval on all payments as established in these policies.
- d. Deposit revenue within three business days of receipt.
- e. Keep accounting books on a cash basis. Revenues should be recognized when received and expenses should be recognized when paid.
- f. Reconcile bank and investment accounts by the end of the month following the reporting month.
- g. Prepare financial reports by the end of the month following the reporting month.
- h. Retain all documentation, such as invoices, approvals, reports, etc. according to the records retention policy.
- i. Calculate and pay sales tax.
- j. Collect W-9 forms for all contracted services.
- k. Provide State Bar with financial reports in a timely manner.
- l. Provide section officers with financial reports in a timely manner.
- m. Protect the confidentiality of and access to section financial information.
- n. Provide financial information or complete other duties as required.
- o. Communicate yearly with State Bar auditors.
- p. Provide explanation on budget-to-actual variances.

2. The provider of bookkeeping services responsible for the duties described in this section will be the section contracted Bookkeeper.

#### **D. TREASURER DUTIES**

The Treasurer reviews and monitors finances through the following activities and/or meets the following criteria:

1. The Treasurer shall be the primary approver of section payments, and must be an elected officer of the section with a fiduciary duty to the section.

2. When an additional approval is required for any transaction, the secondary approver or signor will be the Chair or the Chair-Elect.

3. Primary (and if applicable, additional) approval of all invoices as provided above must be given in advance of payment, and shall be established through check signature, email approval, or approval during Council or officer meetings and documented in the minutes of such meeting. Documentation of approval is retained.

4. A payment of up to \$2,500 to a person other than the Treasurer may be approved by the Treasurer, acting alone. All payments over \$2,500 and all payments to the Treasurer require additional approval as provided above. Documentation of approval is retained.

#### **E. FINANCIAL GURU ADVISORY ROLE**

The Financial Guru, if any, should be a past Council member or officer with longstanding familiarity with the section's finances and operations, and shall serve without compensation. The Financial Guru may provide the following assistance to the Treasurer and Bookkeeper:

1. The Financial Guru may advise the Bookkeeper regarding the appropriate classification of section revenue and expenses among the budgeted categories.

2. The Financial Guru may advise the Bookkeeper regarding the form and content of reports to be submitted to the State Bar and the officers, consistent with the requirements of this policy.

3. The Financial Guru may advise the Treasurer regarding the section's policies and past practices for the approval of expenses.

4. The Financial Guru may advise the Treasurer and the Bookkeeper regarding the preparation of budgets.

#### **F. BANK ACCOUNTS AND CHECK WRITING**

1. At least two individuals are required signors on the bank account at all times. The authorized signors on the checking, savings, or investment accounts are the current section Treasurer, Chair, and Chair-Elect. The section Bookkeeper and Financial Guru shall not be check signors.

2. Checkbooks should be physically secured at all times. Checks should be written in sequential order and a record retained of all checks written or voided. Checks should be dated at the time the check was written and should be recorded on the same date. No post or pre-dated checks are allowed.

3. Blank checks or checks made out to "cash" are prohibited. A second approval is required for all checks over \$2,500, by second signature, email approval, or approval during council or officer meetings and documented in the minutes of such meeting.

## **G. PAYMENT OF EXPENSES AND INVOICES**

1. A detailed invoice and/or contract is required for any payment. Money should not be paid to any person or company without appropriate and detailed back-up and/or documentation. An invoice should contain the following information:

- a. Vendor name and address
- b. Itemized description of the goods or services provided
- c. Total amount billed
- d. Period of time for which the services will be/were rendered
- e. Terms of payment for late fees or discounts for early payment (if applicable)
- f. Due date
- g. Invoice number and date
- h. Itemized fees

2. Vendors shall not be paid in advance of full completion of the contracted services with the exception of reasonable advance deposits, payments for subscription services, payments for ongoing services, insurance, rent, software licenses, etc.

3. Any payment should meet the following criteria:

- a. The expenses are reasonable and necessary.
- b. The expenses have been budgeted.
- c. The goods and services have been received (subject to section 2 above).
- d. Contracted terms have been met.

4. Reimbursement requests should contain the following information:

- a. Completed reimbursement request form, signed by requestor. (An electronic signature is acceptable).
- b. Itemized receipts and invoices.
- c. Explanation for any lost receipts or requests that do not have back-up documentation.

## **H. DEPOSITS**

All money or checks received by the section should be deposited within three business days of receipt. Immediately upon receipt, the Bookkeeper should stamp the check “for deposit only” and the bank account number of the section. Associated invoices or other supporting documents demonstrating the reason the deposit was collected should be attached to the check/deposit slip and retained for audit purposes and/or customer inquiries.

## **I. CONFIDENTIAL DATA**

All confidential data must be protected.

1. Credit card numbers should not be transmitted through email.

2. All confidential information should be redacted, or stored in a protected manner.
3. Access to bank accounts, credit card processing accounts, and financial records should be limited to the Council, officers, and essential users only.
4. Care is required in the destruction of credit card and other sensitive information to ensure that the information cannot be copied or duplicated.
5. Automated controls will be established with any credit card processor so that refunds may only be made to the credit card originally charged, and the refund cannot exceed the original payment.

## **J. FINANCIAL REPORTS AND RECONCILIATIONS**

1. Checks and deposits must be reconciled in the section's bookkeeping system within 30 days. The reconciliation should also note all outstanding deposits and checks. All checks or deposits that are outstanding for longer than three months should be reviewed for resolution. Voided and/or reissued checks should also be reported to the State Bar's section accountant in the regular monthly documentation.

2. The Treasurer should use monthly budgets, financial statements, and historical financial records to investigate significant variances, whether positive or negative. Inquiry should be made on projects with excessive costs.

3. Financial statements, bank reconciliations, bookkeeping ledgers, and bank statements that include check images will be provided to the State Bar within 30 days. Financial statements should contain:

- a. an income statement that compares current year to prior year, and compares current year to the approved budget;
- b. a balance sheet;
- c. a bank reconciliation for each bank or investment account (including outstanding checks);
- d. a bank and investment statement which includes check images; and
- e. the bookkeeping ledger.

4. Financial statements will be provided by the council on a monthly basis. The financial statements should include an income statement that compares current year to prior year, and compares current year to the approved budget and a balance sheet. The inclusion of a bank reconciliation and bank and investment statement in the financial report is recommended but not required.

## **K. FUND BALANCES**

1. A minimum fund balance for the section is defined as one year of budgeted operating expenditures. The section Council will evaluate an investment strategy when the section fund balance exceeds \$500,000. Any investment policy strategy will protect the section's

principal while producing the best yield for the section in accordance with the Public Funds Investment Act.

2. The section will carry a reserve of approximately two years of operating expenditures, or \$600,000 based on the 2019-2020 budget year and adjusted on an annual basis.

3. If the section determines the need to reduce its reserve, the excess spending shall be allocated to specific projects within the section's budget and shall not reduce the corpus by more than 10% per year.

#### **L. Reimbursement Policy**

The section has developed a reimbursement policy which is attached to this financial policy.