



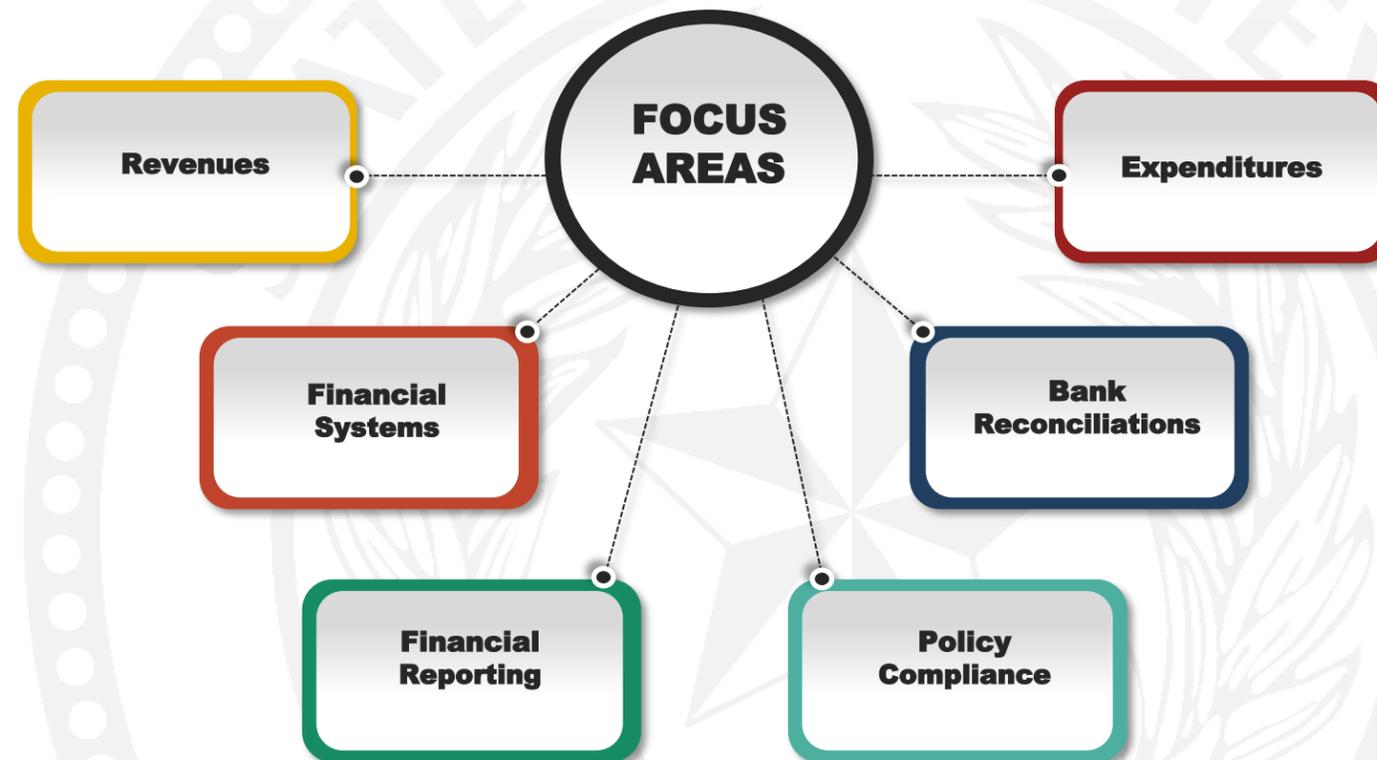
STATE BAR OF TEXAS

INTERNAL AUDIT OF SECTIONS

Scope Period: June 1, 2019 – August 31, 2020

Agenda

- ➔ Introductions
- ➔ Focus Areas
- ➔ Results Discussion
- ➔ Next Steps
- ➔ Q&A



Conclusion

Overall, the Sections have implemented sound controls and processes to protect their financial assets including segregations of duty controls.

Internal Control Rating

- ➔ Some Improvement Needed

Commendations

- 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.
- 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.
- We wish to recognize that almost all Sections (approximately 96.4 percent) are in full compliance with applicable requirements of the State Bar of Texas Board of Directors Policy Manual, the State Bar Rules and the State Bar Act. This is a commendable percentage knowing that the Sections are operated by volunteers.



Finding is:

- ⇒ Non-compliance
- ⇒ Internal Control Weakness

#	Finding	Recommendation
1	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.	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.
2	<p>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.</p> <p>Bank reconciliations for Sections which rely on SBOT for accounting services were completed within the 60-day maximum.</p>	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.
3	8 of 68 bank accounts (11.7 percent) have outstanding checks that remained uncleared which dated back to 2018 or earlier.	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	4 out of 47 Sections did not submit their financial policies to SBOT in FY20. 11 out of 47 Sections did not submit required budget documents to SBOT in FY20.	<ul 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.

Improvement is:

- ⇒ Enhancement to existing controls
- ⇒ Process efficiency

#	Improvement Opportunity	Recommendation
1	Financial reports are not always received from SBOT in a timely manner.	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.
2	Cash Reserves. Of the 47 sections: <ul style="list-style-type: none">• 4 had enough cash to cover ten (10) years of their three-year average of expenses;• 14 had enough cash to cover five (5) years of their three-year average of expenses;• 7 had enough to cover three years of their three-year average of expenses; and• 22 sections did not have enough cash to cover at least three (3) years of their three-year average of expenses.	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.
3	A review of Section compliance with their individual bylaws identified: Officer compositions for one of the 47 Sections did not comply with required officer composition per their respective bylaws.	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.
4	Not all Sections provide financial reports to members at each council meeting.	Financial reports should be provided at each Section's council meeting to provide transparency to officers and members.

Next Steps

- Issue reports to Sections.
- Be available to discuss findings if requested.
- Present final report at the Annual Board of Directors meeting.



Thank you for your support and assistance!

Questions?

