

State Bar of Texas Guidelines on
Sections Financial Internal Controls Policy

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These guidelines provide fundamental principles of financial internal controls and include a sample policy to assist sections when drafting, adopting, or updating their own financial policies. The guidelines will help ensure compliance with the State Bar's Board Policy Manual and our audit requirements. Our goal is to provide a starting point for sections so you can implement your own financial policies that meet minimum security, confidentiality and audit criteria; define various roles; and define procedures for handling section finances. It is recommended that section policies include minimum (or better) standards for internal controls as defined in these guidelines. This document is intended to provide flexibility to accommodate various section structures. As always, the State Bar's finance division is available to help as you work through your finance policies.

REFERENCE SECTION

BOARD POLICY MANUAL

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 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.

(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.

(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. **(Emphasis added).** 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. *(Note: The procedures referred to in this paragraph are attached as **Attachment A**).*

(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, along with a report listing the price, quantity and description of the goods or services so sold in such detail as the State Bar accounting department reasonably may require to ensure compliance with applicable law, rules and regulations. The Audit and Finance Committee of the Board shall adopt, in consultation with the Council of Chairs and subject to the approval of the Board, procedures for the sections to report sales tax information to the State Bar for inclusion in the State Bar's monthly sales tax report filed with the State Comptroller's Office.

(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. **(Emphasis added).** 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 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 electronic format prescribed by the accounting department of the State Bar shall be borne by the section.

(F) Inclusion in Bylaws. Each section shall include the provisions of this Section 5.01.06 as part of its bylaws.

Fundamental Principles of Internal Controls

- 1) *Section council should adopt a budget each year that sets forth both expenditures and revenue targets. A policy should also define what action should be taken if there is a significant deviation from an adopted budget (e.g. filing an amended budget).*
- 2) *Sections should implement segregation of duties within their financial processes. A fundamental principle of internal control is to segregate duties so that no one person has the ability to initiate, execute, record, reconcile, and review a single transaction from beginning to end. Specifically, the role of bookkeeping preparation and the role of review/approval of financial transactions should be separated and defined. The review process should include routine, close monitoring of section revenues and expenditures.*
- 3) *Sections should adopt policies that ensure timely and accurate financial transactions and reporting is occurring. A policy should require bookkeeping ledgers, bank reconciliations, deposits, disbursements, and financial reports to be completed in a timely manner and contain sufficient detail to allow for an adequate review and monitoring.*
- 4) *Sections should adopt policies that protect their assets. Access to bank accounts, investments, etc. should be limited, but should involve more than one person. Secure handling and storage of credit card information should be required. High-risk practices should be prohibited such as writing a blank signed check for expenses or payments processed in advance of services or payments without appropriate supporting documentation.*
- 5) *Sections should adopt a policy that specifies the minimum level of communication required between the governing section council and State Bar leadership. If the section writes its own checks and handles its own books, the section council should require that full financial information including financial statements be provided monthly to the State Bar and no less than quarterly to council members. The financial statements should contain:*

- a. *an income statement that compares current year to prior year and compares current year to the current approved budget,*
 - b. *a balance sheet;*
 - c. *a bank reconciliation for each bank or investment account detailing outstanding checks;*
 - d. *a bank and investment statements; and*
 - e. *and the bookkeeping ledger.*
- 6) *Sections should ensure their bookkeeping complies with Generally Accepted Accounting Standards. Revenues should be recognized when earned and expenses should be recognized when a liability is incurred.*
 - 7) *Sections should provide the State Bar with their adopted financial internal control policies that meet the minimum requirements in these guidelines.*

Three Models for Section Finances and Compliance with Audit

Currently, there are three models for the sections to manage their finances and interact with the State Bar. Regardless of which model is used, financial policies should be developed and implemented using best practices as provided in the sample policy.

- 1) *The section fully utilizes the State Bar's Accounting Services and the State Bar handles all deposits, bill payments, and the creation of all ledgers, bookkeeping and financial statement preparation.*
- 2) *The section retains full control of its finances (including checking accounts and investments) but utilizes the State Bar's Accounting Services for paying bills (with State Bar funds) and making deposits. The State Bar provides all bookkeeping and financial statement services. The section is invoiced monthly and reimburses the State Bar for funds expended on the section's behalf.*
- 3) *The section retains full control of its funds, i.e. it pays its own bills, makes deposits, keeps current books and financial statements. The section provides all of the appropriate information to the State Bar on a monthly basis so that the State Bar is in compliance with record keeping requirements and the annual audit. The State Bar provides financial reports to the section chair and treasurer from the information received from the section.*

*The following sample policy is intended to be used as a template for all three section models. The gray highlighted text identifies information that should be determined by each section. The minimum standards are identified by *asterisks*. If the section needs any assistance, has questions on these guidelines, or would like help developing their own policy, please call the State Bar's finance division director, Tracy Jarratt, at (512) 427-1481.*

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The following policy establishes requirements over financial processes within **Section name** that ensure appropriate controls are in place for the maintenance and disbursement of section funds in accordance with Board Policy Manual Section 5.01.06. This Section Internal Control Policy was adopted by **Section Name** council on **XX/XX/XX** and is effective on **XX/XX/XX**.

XYZ Section Internal Financial Controls Policy Adopted Month, XX, 20XX

A.) BUDGET

- 1.) Section council shall adopt a budget each fiscal year that provides detailed projected expenditures and revenue.* This budget may be amended, if necessary.
 - a. The **Chair Elect or Vice Chair**, in consultation with the current council, shall draft the next year's proposed budget by (choose an appropriate date).
 - b. The section council shall review and adopt the budget during its **XXX meeting**.
 - c. If a significant deviation from a budget occurs, as defined by a variance in excess of **\$2,500/5,000** (recommended thresholds for small/large section) an explanation should be presented to the full council. A variance in excess of **\$10,000/20,000** (suggested) will require the council to adopt an amended budget.
- 2.) The section will submit the adopted budget to the State Bar by July 15th of the fiscal year.*
- 3.) All budgeted expenditures must comply with the State Bar's purposes and mission and with the limitations set by Section 81.034 of the State Bar Act, Keller v. State Bar of California, 496 U.S. 1 (1990), and McDonald v. Longley, 4 F.4th 229 (5th Cir. 2021).

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 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.) BOOKEEPING DUTIES

1. The bookkeeper will perform the following duties:

- a) Issue checks and invoices to be approved and signed by the treasurer, State Bar signor, or other signor.
- b) Pay invoices 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 according to Generally Accepted Accounting Standards. Revenues should be recognized when earned and expenses should be recognized when a liability is incurred.
- 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 chair and treasurer 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 (choose one) SBOT accounting department, section contracted bookkeeper, other named position.

D.) TREASURER DUTIES

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

- 1.) The treasurer (and primary approver of section payments) must be a member of the council with a fiduciary duty to the section. *

- 2.) When an additional approval is required for any transaction, that secondary approver or signor will be the chair/other officer/describe
- 3.) The process of approving payment must comply with one or both of the controls listed below:
 - a. All invoices are approved in advance of payment by the treasurer or chair through (choose all that apply): additional check signature, email approval, or _____ (other accepted method). Documentation of approval is retained.
 - b. All invoices are approved after preparation of the books through review of detailed transactions by (choose or describe) treasurer/chair/entire council. Documentation of approval is retained.
- 4.) All payments over \$X,XXX require additional approval in advance of payment by choose method Documentation of approval is retained.
- 5.) All reimbursement requests or invoices made by a check signor require a additional approval by second signature/an email approval. Documentation of approval is retained. *

E.) 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 (Choose or describe) Section Treasurer/Chair/SBOT Controller/SBOT Finance Director/Section Bookkeeper.

If the section bookkeeper is a check signor, there must be an additional approval of the expenditure by email/additional check signature. * Documentation of the additional approval is retained.
- 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 signature/a second approval should be required for all checks over \$_____.

F.) 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, such as 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.
 - 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. A second approval, if the requestor is a signor on the bank account.
 - d. Explanation for any lost receipts or requests that do not have back-up documentation.

G.) DEPOSITS

- 1.) 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. *

H.) CONFIDENTIAL DATA

- 1.) All confidential data must be protected. *
 - a. Credit card numbers should not be transmitted through email.
 - b. All confidential information should be redacted, or stored in a protected manner.
 - c. Access to bank accounts, credit card processing accounts, and financial records should be limited to the council and essential users only.
 - d. Care is required in the destruction of credit card and other sensitive information to ensure that the information cannot be copied or duplicated..
 - e. 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

I.) FINANCIAL REPORTS AND RECONCILIATIONS

- 1.) Checks and deposits must be reconciled in the section's bookkeeping system within recommended 30 days but no more than 60 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 recommended 30 days but no more than 60 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 should be provided by the council on a monthly/quarterly 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.*

J.) 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 \$150,000. Any investment policy strategy will protect the section's principle 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 one to five years of operating expenditures, or \$XXXX.
- 3.) If the section determines the need to reduce its reserve, the negative spending shall be budgeted to specific projects within the section's budget and shall not reduce the corpus by more than XX% per year.

K.) REIMBURSEMENT POLICY

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