

# STATE BAR OF TEXAS

## Internal Audit Services

AN INTERNAL AUDIT OF

## Membership

Report No. 23-003

May 9, 2023

*This report provides management with information about the condition of risks and internal controls as a specific point in time. Future changes in environmental factors and actions by personnel may impact these risks and internal controls in ways that this report cannot anticipate.*

## Report Highlights

### Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the State Bar of Texas (SBOT) performed this internal audit as part of the approved FY 2023 Annual Internal Audit Plan.

### Audit Objectives and Scope

To assess management's controls and processes in place that ensure the Membership Department processes attorney suspensions and reinstatements in accordance with State Bar Rules and policies, maintains complete and accurate attorney member records, and ensures that on-line profiles are accurate. We also assessed controls in place for the collection of annual dues, recording and reconciling membership payments and accounts, and reporting accuracy.

The audit scope period was FY 2022-23.

### Audit Focus

- Member account data accuracy and completeness.
- Attorney administrative suspension processes.
- Revenue Collections – invoicing, collections, past due accounts, and reporting.
- Refund process.
- Member status reports.
- Prior audit findings.

*We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.*



*Thank you!*

### Audit Conclusions

Our audit procedures applied to management's controls and processes surrounding SBOT's Membership processes, including the maintenance of attorney records, collection of annual dues, recording and reconciling membership payments and accounts, and reporting accuracy are generally effective. Additionally, we noted that the following processes demonstrated best practices:

- Assessment of late fees,
- Projecting membership revenues,
- Receipt and reconciliation of membership payments,
- Calculating membership growth trends,
- Notifying members of the collection of membership fees, and
- Addressing potential issues in member data and collections.

### Internal Control Rating

Generally Effective with Best Practice Processes.

### What Did We recommend?

We made no recommendations related to internal controls.

### Number of Findings/ Opportunities by Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0
Improvement Opportunities	0	0	2	2

Pursuant to Standard 9.61 of the U.S. Government Accountability Office's Government Auditing Standards, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

## Introduction

We performed this audit as part of the approved FY 2023 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.

This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Pursuant to Standard 9.61 of the U.S. Government Accountability Office's Government Auditing Standards, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of the Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

## Objective, Conclusion, and Internal Control Rating

The purpose of this audit was to assess management's controls and processes in place that ensure the Membership Department processes attorney suspensions, and reinstatements in accordance with State Bar Rules and policies, maintains complete and accurate attorney member records, and ensures that on-line profiles are accurate. We also assessed controls in place for collection of annual dues, recording and reconciling membership payments and accounts, and reporting accuracy.

As such we focused on the following processes:

- Member account data accuracy and completeness.
- Attorney administrative suspension processes.
- Revenue Collections – invoicing, collections, past due accounts, and reporting.
- Refund process.
- Member status reports.
- Prior audit findings.

The scope period was fiscal year 2022-23.

This audit identified findings that resulted in an overall internal control rating of: **Generally Effective with Best Practice Processes.**

**Exhibit 1** describes the internal control rating.

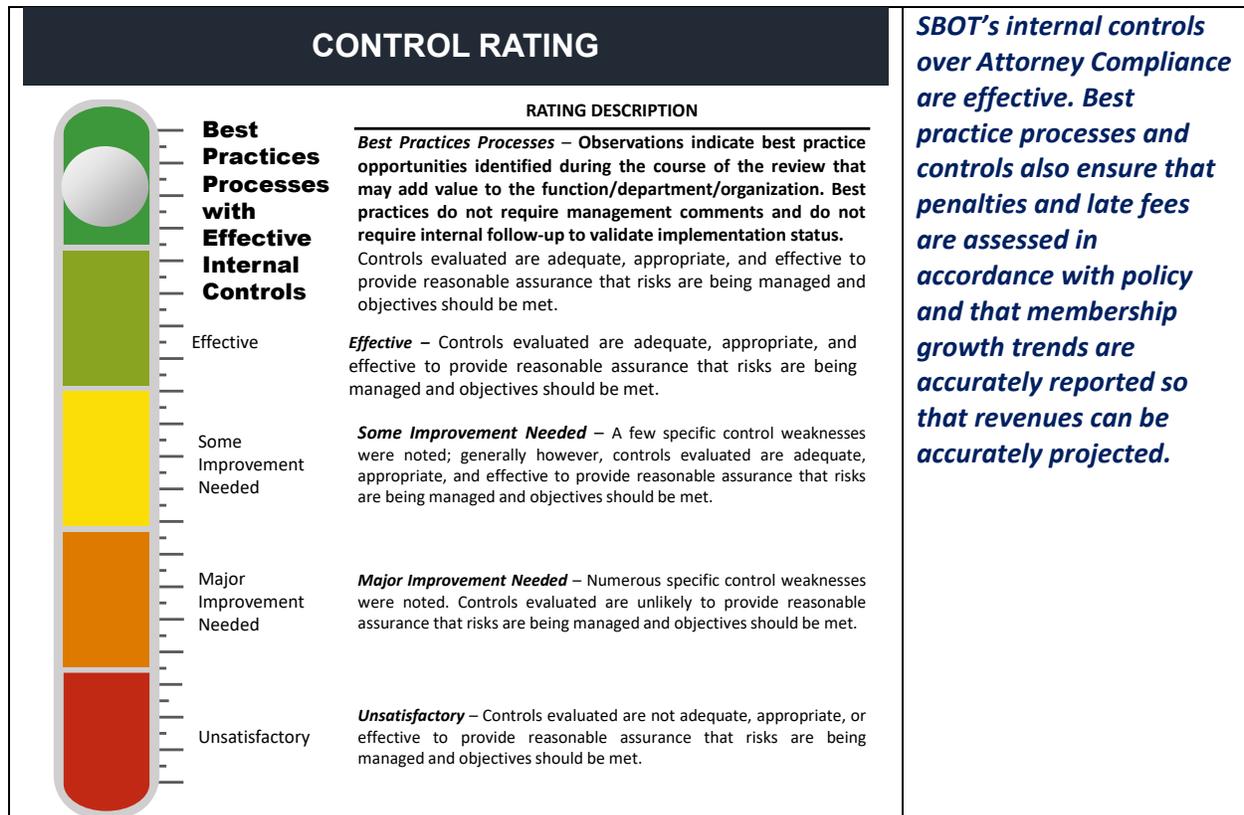


Exhibit 1. Internal control rating description.

## Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

## Findings and Risk Rating Summary

Residual risk is Internal Audit’s rating of the remaining risk or likelihood of a negative event occurring with the internal controls and processes in place.

Exhibit 2 provides a summary of our audit observations. See the findings and management response section of this report for a discussion of all issues identified recommendations and management responses.

Focus Area Statement	Residual Risk Rating	Control Effectiveness	Recommendation
1. Does SBOT validate that member account data and profiles are accurate and complete?	Low	Generally Effective <u>Opportunity for Improvement</u> The Primary Practice Location field on the State Bar Member Profile web page displays nothing for users who have indicated	Configure the State Bar Member Profile web page to display something to the effect of “Retired, not practicing, in non-law related employment, or unemployed” to explicitly

Focus Area Statement	Residual Risk Rating	Control Effectiveness	Recommendation
		that they have no primary practice location, which may cause confusion as to whether that information was being considered and maintained, per the State Bar Act.	indicate that the 'Primary Practice Location' requirement has been considered and documented in compliance with the State Bar Act.
2. <i>Are penalties and late fees assessed in accordance with policy?</i>	Low	Generally Effective with Best Practices	None
3. <i>Are membership dues' projections that are provided to Finance based on an appropriate methodology?</i>	Low	Generally Effective with Best Practices	None
4. <i>Are processes in place to ensure payments received are reconciled (PayPal, bank deposits, member accounts, and the accounting system), in an accurate and timely manner?</i>	Low	Generally Effective with Best Practices	None
5. <i>Are processes in place to ensure that member status is accurately captured and reported in member growth trends so that revenues can be accurately projected?</i>	Low	Generally Effective with Best Practices	None
6. <i>Are controls and processes in place to ensure all refunds are reviewed, authorized, supported with documentation, and accurately recorded?</i>	Low	Generally Effective	None
7. <i>Does SBOT have processes to notify</i>	Low	Generally Effective with Best Practices	None

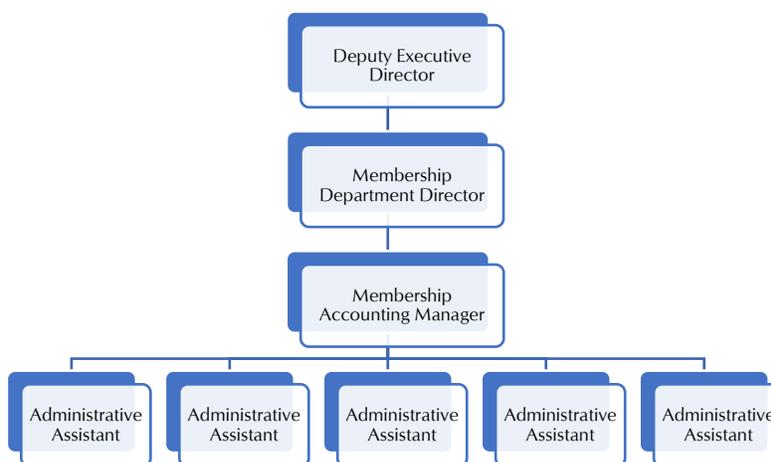
Focus Area Statement	Residual Risk Rating	Control Effectiveness	Recommendation
<i>members that membership dues will be collected and notifies members who have past due accounts or will be suspended?</i>			
8. <i>Are adequate separation of duties in place between the collection, recording, and reporting of membership dues received?</i>	Low	Generally Effective	None
9. <i>Does SBOT have reports to address potential issues in Member data and collection issues?</i>	Low	Generally Effective with Best Practices	None
10. <i>Are policies and procedures for attorney suspensions formally documented, reviewed, and updated on a regular basis?</i>	Low	Generally Effective	None
11. <i>Do attorney administrative suspension practices and processes followed by staff comply with State Bar Rules and policies?</i>	Low	Generally Effective  <u>Opportunity for Improvement</u> Membership collects documentation containing member credit card information that requires manual redaction, which introduces the risk that such information could be missed and stored in plain text.	Consider processing reinstatements such that SBOT would determine the amounts owed, provide the member an invoice of all charges, and require payment through the payment portal.
12. <i>Are attorney administrative suspension cases fully documented?</i>	Low	Generally Effective	None

Focus Area Statement	Residual Risk Rating	Control Effectiveness	Recommendation
13. Have prior audit findings been addressed?	Low	Generally Effective	None

**Exhibit 2. Summary of Internal Audit Findings and Recommendations.**

## Background

The State Bar of Texas Membership Department (Membership) manages member profile information, processes payments for membership dues including penalties and late fees for administrative suspension reinstatements. Additionally, Membership is responsible for calculating membership dues' projections for estimating future revenues. **Exhibit 3** provides the Membership Department organizational chart.



**Exhibit 3. Membership Department organizational chart.**

Attorney profile information is collected and updated through their State Bar online profiles at [texasbar.com](https://texasbar.com). Per Govt. Code 81.115, Texas Bar members are required to update their profiles every year, even if there are no changes, to confirm and certify that the member profile information is still accurate.

Membership dues payments utilizing credit cards are submitted through SBOT's online payment portal and are processed by PayPal. Membership dues payments made by check are batched, recorded, and deposited by separate Membership personnel. Payment batches are reconciled daily to ensure that all checks and credit card transactions are recorded and posted in the bank account appropriately. Requested refunds are processed by Membership personnel with approval from the Chief Financial Officer.

Penalties and late fees are assessed in accordance with Govt. Code §81.054 when Texas lawyers request reinstatement. Per Govt. Code §81.054, membership expires for members who do not pay membership fees by the established due date (June 1 of each year). Attorneys with expired membership for less than 90 days are charged one and one half (1-1/2) times their normally required membership fees. Attorneys with expired membership for less than one year but more than 90 days are charged two (2) times their normally required membership fees. After one year, attorneys with expired memberships must pay dues for the year of reinstatement as well as any prior years' dues. The following is an overview of Membership activities as of March 2023:

**111,641** Active attorneys

**19,353** Inactive attorneys

**\$21.44 million** in membership fees collected (FY 2021-22).

**\$21.61 million** in membership fees projected for FY2022-23 collection.

**\$202,313** in penalties collected in (FY21-22).

**\$258,189** in penalties projected for FY2022-23 collections.

**0.87% growth** in membership fees FY 2021-22.

**0.76% growth** in membership fees projected through end of FY 2022-23.

## Detailed Findings and Management Response



*This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.*

### Business Objective #1: Membership Account Data Completeness and Accuracy

#### Focus Area Statement

Does SBOT validate that member account data and profiles are accurate and complete?

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes to ensure that member account data and profiles are complete and accurate.

**Control Rating:** Generally Effective.

#### Finding Narrative:

State Bar of Texas maintains member account data and profile information per the requirements established in the State Bar Act (Tex. Govt. Code §81.115). This information is provided by attorneys to SBOT through the SBOT website, texasbar.com. Upon account creation and through account information updates, members are required to provide all required information and to certify that all account and profile information is accurate. The member account creation and update forms on texasbar.com enforce input validation checks to ensure that all required information has been provided and that the attorney has certified the accuracy of all provided information.

<b>Criteria:</b>	Tex. Govt. Code §81.115.
<b>Effect/Risk/Impact:</b>	Processes may not exist or may be ineffective for validating member account data which may result in inaccurate or incomplete profiles.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>Inquired of management to determine the processes in place to ensure that member account data is complete and accurate.</li> <li>Inspected member profiles for a sample of 30 members to determine whether member account data was complete and accurate.</li> <li>Inspected the 'Update Attorney Profile &gt; Primary Practice Location' form on texasbar.com to determine whether input validation was applied to force</li> </ol>

	<p>members to provide a location or to check a box to assert that they do not have a "Primary Practice Location."</p> <p>4. Inspected the 'Update Attorney Profile' web form to determine whether attorney members must certify the accuracy of all provided information.</p>
<b>Management Controls in Place:</b>	<p>1. Data input validation checks are applied to member data to ensure all required information is collected and maintained.</p> <p>2. The web form used to enter and update attorney profile information requires attorney members to certify that all information provided is true and accurate and notifies members that they are responsible for updating inaccurate information.</p>
<b>Findings /Opportunities:</b>	<p><u>Findings:</u></p> <ul style="list-style-type: none"> <li>No findings were noted.</li> </ul> <p><u>Opportunity for Improvement:</u></p> <ul style="list-style-type: none"> <li>The Primary Practice Location field on the State Bar Member Profile web page displays nothing for users who have indicated that they have no primary practice location, which may cause confusion as to whether or not that information was being considered and maintained, per the State Bar Act.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<p><u>Opportunity for Improvement:</u></p> <ul style="list-style-type: none"> <li>Configure the State Bar Member Profile web page to display something to the effect of "Retired, not practicing, in non-law related employment, or unemployed" to explicitly indicate that the 'Primary Practice Location' requirement has been considered and documented in compliance with the State Bar Act.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #2: Assessment of Penalties and Late Fees****Focus Area Statement**

3. Are penalties and late fees assessed in accordance with policy?

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure penalties and late fees are assessed in accordance with policy.

**Control Rating:** Generally Effective with Best Practices processes.

**Finding Narrative:**

SBOT assesses penalties and late fees in accordance with Tex. Gov. Code §81.054 and State Bar Rules. Specifically, members with expired memberships must pay 100 percent of their annual membership fees and are assessed a penalty of 50 percent of their membership fees for 90 days following expiration (September 1 through November 30). Starting on December 1, an additional 50 percent of the membership fees are assessed as a penalty, equaling two times their normally required annual membership fees.

**3. FOCUS AREA: ASSESSMENT OF PENALTIES AND LATE FEES**

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>Tex. Govt. Code §81.054.</li> <li>Texas State Bar Rules Article III Section 6. Default In Payment of Fees or Assessments.</li> </ul>
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3. FOCUS AREA: ASSESSMENT OF PENALTIES AND LATE FEES	
	<ul style="list-style-type: none"> <li>Texas State Bar Rules Article XII Section 8. Compliance (MCLE).</li> </ul>
<b>Effect/Risk/Impact:</b>	Penalties and late fees may not be assessed in accordance with policy.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>Inquired of management to determine the process in place to assess penalties and late fees.</li> <li>Inspected Tex. Govt. Code §81.054. Membership Fees and Additional Fees to determine the established requirements for the assessment of penalties and late fees.</li> <li>Inspected the Texas State Bar Rules to determine additional requirements for the assessment of penalties and late fees.</li> <li>Inspected the SBOT Summary of Dues Amounts document to determine the established amounts for penalties and late fees assessed to determine whether those amounts agreed with the established requirements.</li> <li>Inspected documentation for a sample of 30 administrative suspension reinstatements to determine whether the penalties and late fees for those suspensions and reinstatements were appropriate according to the established policy and schedule.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>Annual membership dues are automatically added to member account balances in iMIS.</li> <li>Texas State Bar Rules have established penalty and late fee requirements in accordance with Tex. Govt. Code §81.054.</li> <li>The Membership Department has created procedure documentation to provide personnel guidance in assessing penalties and late fees.</li> <li>Membership retains support documentation for reinstatements and the assessment of late fees and penalties.</li> <li>Reinstatements, along with penalties and late fees assessed are subject to approval by the CFO.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #3: Membership Dues Projections****Focus Area Statement**

*Are membership dues projections that are provided to Finance based on an appropriate methodology?*

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure Membership dues' projections that are provided to Finance are based on appropriate methodology.

**Control Rating:** Generally Effective with Best Practices processes.

**Finding Narrative:**

The Membership Department has implemented a process to develop membership dues projections by applying a five-year average growth rate of revenue from membership. The calculated average growth rate is then multiplied by the previous year's revenues to determine projected revenues for the upcoming year.

Other fees and penalties are not expected to follow a growth trend like membership dues. Therefore, a rolling five-year average of other fees and penalties are used to project the upcoming year. The Membership Department Director also considers and documents assumptions made in the calculation, rationale for any adjustments made, and consideration of qualitative elements that are expected to potentially impact the projections.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>State Bar Rule Article V. Fiscal, Section 3. Annual Budget</li> <li>Membership Dues Projections Procedure</li> </ul>
<b>Effect/Risk/Impact:</b>	Membership dues' projections that are provided to Finance may not be based on an appropriate methodology.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>Inquired of management to determine how they ensure dues' projections are based on an appropriate methodology.</li> <li>Inspected the Membership Dues Projections procedure document to determine if the process for performing membership dues projections ensures those projections are based on an appropriate methodology.</li> <li>Inspected the Membership Dues by Amount from Reconciliations FY 2020-21 worksheet reconciled and provided by the Accounting Department to determine the underlying numbers used in the Membership Department's Membership Dues Projection worksheet for FY 2022-23.</li> <li>Inspected the Dues Projection Calculation worksheet for FY 2022-23 to determine whether projections were based on an appropriate methodology for the FY 2022-23 projection.</li> <li>Inspected the Membership Dues by Amount from Reconciliations FY 2021-22 worksheet reconciled and provided by the Accounting Department to determine the underlying numbers being used to develop the Membership Department's Membership Dues Projection worksheet for FY 2023-24.</li> <li>Inspected the Dues Projection Calculation worksheet for FY 2023-24 to determine whether projections were based on an appropriate methodology for the FY 2023-24 projection.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>Membership bases projections on actual prior-year revenue amounts from reconciled worksheets provided by the Accounting Department.</li> <li>Membership uses an Excel spreadsheet designed specifically to calculate relevant information, such as rolling five-year averages and growth rates.</li> <li>Membership documents the assumptions made in the calculation and their consideration of potential events that may have impacted revenues in prior years, items that may impact revenues in future years, and other qualitative considerations.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>None made.</li> </ul>

#### Management Response:

No response is required because controls are generally effective.

### ***Business Objective #4: Reconciliation of Payments Received***

#### Focus Area Statement

Are processes in place to ensure payments received are reconciled (PayPal, bank deposits, member accounts, and the accounting system), in an accurate and timely manner?

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain processes and management controls that ensure payments received (PayPal, bank deposits, member accounts, and the accounting system) are reconciled in an accurate and timely manner.

**Control Rating:** Generally Effective with Best Practices processes.

**Finding Narrative:**

SBOT performs near-daily reconciliations of membership payments by comparing PayPal reports and Bank Account transaction summaries to iMIS records to ensure that all member accounts are up-to-date and accurate. Supporting documentation for the reconciliations are maintained in shared folders to ensure accountability.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>Govt. Code §81.054</li> <li>Revenue and Accounts Receivable Transactions Policy</li> </ul>
<b>Effect/Risk/Impact:</b>	Processes may not exist or may be ineffective to ensure payments received are reconciled (PayPal, bank deposits, member accounts, and the accounting system), in an accurate and timely manner.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>Inquired of management to determine the processes in place to ensure payments received are reconciled in an accurate and timely manner.</li> <li>Inspected the Paid Thru Report reconciliation procedure document to determine the established requirements for performing daily payment receipt reconciliations in an accurate and timely manner.</li> <li>For a sample of 30 reconciliations performed, inspected documentation to determine whether all membership payments were reconciled in an accurate and timely manner.</li> <li>Inspected policies and procedures related to Accounting Department reconciliations to determine the established requirements for performing monthly membership dues reconciliations.</li> <li>For a sample of two monthly Accounting Department deposit reconciliations performed, inspected documentation to determine whether all membership payments were reconciled in an accurate and timely manner.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>Membership has created a reconciliation procedure document to provide personnel in performing reconciliations.</li> <li>Membership performs payment reconciliations on a near-daily basis to ensure that all member accounts are up-to-date and accurate.</li> <li>Membership retains documentation for all reconciliations performed to ensure accountability.</li> <li>Membership staff research differences to resolve discrepancies when found.</li> <li>The Accounting Department performs monthly reconciliations to ensure that the transaction batch source documentation matches the deposited amounts in the bank and the recorded amount in the accounting system of record (iMIS).</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

## **Business Objective #5: Membership Growth Trend Reporting**

### **Focus Area Statement**

*Are processes in place to ensure that member status is accurately captured and reported in member growth trends so that revenues can be accurately projected?*

### **Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure member status is accurately captured and reported in member growth trends so that revenues can be accurately projected.

**Control Rating:** Generally Effective with Best Practices processes.

### **Finding Narrative:**

SBOT has implemented processes to ensure that member status is accurately captured and updated as needed. Membership status reports are reviewed monthly and used in growth trend analysis for use in the membership dues revenue projection.

To verify membership status, the Membership Department Director generates a monthly report to flag membership standings that do not match the attorney's status in the system of record. If this report reveals any inconsistencies, the Membership Department Director researches and remediates the issue. Additionally, membership status reports are generated and reviewed monthly to monitor changes in membership numbers and status. These reports are used in growth rate calculations which are then used to develop membership dues projections for the following year.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>State Bar Rule Article V. Fiscal, Section 3. Annual Budget</li> <li>Membership Dues Projections Procedure</li> </ul>
<b>Effect/Risk/Impact:</b>	Processes may not exist or may be ineffective to ensure member status is accurately captured and reported in member growth trends so that revenues can be accurately projected.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>Inquired of management to determine the process in place to ensure member status is accurately captured and reported in member growth trends so that revenues can be accurately projected.</li> <li>Inspected the Membership Department Director's scheduled Outlook reminder to run and review the 'Inconsistent Status/Standings' report to determine how membership status is monitored and corrected as needed.</li> <li>Inspected an example 'Inconsistent Status/Standing' report to determine whether any records with inconsistent status and standing existed.</li> <li>Inspected an example of the Membership Department Membership by Status (Attorneys Only) report used to monitor member status to ensure that growth trends can be accurately projected.</li> <li>Inspected growth rate calculations used in membership dues projections to determine whether member status was used in dues projection.</li> <li>Inspected membership data collection and validation processes to determine whether member processes are in place to ensure data is complete and accurate.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>Membership tracks member status (active, inactive, suspended, etc.) in iMIS.</li> <li>Monthly membership summaries are reviewed to monitor aggregated membership status numbers.</li> </ol>

	<ol style="list-style-type: none"> <li>3. Member status in iMIS is automatically updated when changes to the member's standing are made or payments run past due.</li> <li>4. Monthly reports are reviewed to ensure the member's standing record and status are consistent.</li> <li>5. Data input validation checks are applied to member data to ensure all required information is collected and maintained.</li> <li>6. The web form used to enter and update attorney profile information requires attorney members to certify that all information provided is true and accurate and notifies members that they are responsible for updating inaccurate information.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #6: Refund Processing Procedures****Focus Area Statement**

*Are controls and processes in place to ensure all refunds are reviewed, authorized, supported with documentation, and accurately recorded?*

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure all refunds are reviewed, authorized, supported with documentation, and accurately recorded.

**Control Rating:** Generally Effective.

**Finding Narrative:**

SBOT has developed and implemented processes and controls to ensure refunds are reviewed, authorized, supported with documentation, and accurately recorded. Specifically, requests for refunds are stored in the shared drive on SharePoint and processed as when requested.

When processing refund requests, Membership personnel note the reason and amount for the refund then provide the request to the Chief Financial Officer for approval. Once approved, credit card refunds are sent to another Membership associate, who creates a refund payment batch and processes the transaction. For check refunds, Membership personnel complete an inter-departmental check request for Accounts Payable, who process the check refund. Refund support documentation is maintained in SharePoint and refund transaction records are stored in iMIS for accountability.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Govt. Code §81.054</li> <li>• Revenue and Accounts Receivable Transactions Policy</li> <li>• Processing Payments Procedure</li> <li>• Check Refunds Procedure</li> </ul>
<b>Effect/Risk/Impact:</b>	Controls and processes may not exist or may be ineffective to ensure all refunds are reviewed, authorized, supported with documentation, and accurately recorded.

<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of management to determine the processes in place to ensure refunds are reviewed, authorized, supported with documentation, and accurately recorded.</li> <li>2. Inspected the Check Refunds procedure document to determine the established requirements for processing refunds.</li> <li>3. For a sample of 17 refunds, inspected documentation to determine whether the refund was reviewed, authorized, supported with documentation, and accurately recorded.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. Membership has created procedure documents to provide personnel guidance in processing refunds.</li> <li>2. Refunds are reviewed and documented by Membership personnel to determine the reason and amount for the refund.</li> <li>3. Refunds are approved by the Chief Financial Officer prior to payment.</li> <li>4. SBOT has separated the duties of recording the refund, reviewing, and approving the refund, and processing the refund payment.</li> </ol>
<b>Findings /Opportunities:</b>	<p><u>Finding:</u></p> <ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	None made.

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #7: Member Notifications****Focus Area Statement**

*Does SBOT have processes to notify members that membership dues will be collected and notify members who have past due accounts or will be suspended?*

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure members are notified when membership dues will be collected, when member accounts are past due, and when members will be suspended.

**Control Rating:** Generally Effective with Best Practices processes.

**Finding Narrative:**

Membership fees are due annually at the start of the State Bar of Texas fiscal year, June 1, as required by the State Bar Rules. Renewal notifications are sent to members 30 days before membership fees are due each year (on or before May 1). Sixty (60) days after membership fees are due, on July 30, a reminder notification is sent to members whose accounts are past due. On September 1, the 90<sup>th</sup> day after membership fees are due, a dues suspension notification is sent to all members whose accounts continue to be past due.

The Membership Department Director tracks the dates notifications are required, as well as the actual dates notifications in Microsoft Planner. Prior to being sent, notifications are reviewed and approved by Legal Counsel, the Communications Director, and the Deputy Executive Director. Once the notifications have been approved, the Membership Department Director requests a list of active and inactive attorneys from Information Technology. The notifications are then sent to all valid recipients through the Higher Logic member engagement platform.

Mailed notifications are similarly reviewed and approved prior to being processed by a mailing house, who work with the Membership Department Director to verify the list of active members and the contents of each notification. The mailing house also provides transaction receipts for each mailing, which indicate the dates on which the mail was sent and how many pieces of mail were generated for the transaction.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Tex. Govt. Code §81.054.</li> <li>• Texas State Bar Rules Article III Section 6. Default in Payment of Fees or Assessments.</li> </ul>
<b>Effect/Risk/Impact:</b>	<p>Processes may not exist or may be ineffective to ensure members are notified when:</p> <ul style="list-style-type: none"> <li>• Membership dues will be collected.</li> <li>• Member accounts are past due.</li> <li>• Members will be suspended.</li> </ul>
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of SBOT management to determine the processes in place to ensure members are notified for the relevant events.</li> <li>2. Inspected the Texas "State Bar Act" to determine the requirements for notification associated with membership fees.</li> <li>3. Inspected the FY2022-23 and FY2023-24 notification schedules used by the Membership Department to ensure that notifications are sent out in a timely manner.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. SBOT has assigned responsibility for sending notifications out to the Membership Department Director.</li> <li>2. Membership notifications are reviewed and approved by Legal Counsel, the Communications Director, and the Deputy Executive Director.</li> <li>3. The Membership Department Director has developed and implemented a notifications spreadsheet denoting all relevant notification requirements.</li> <li>4. The Membership Department Director uses the notifications spreadsheet to track when notifications were sent.</li> <li>5. Emailed notifications are retained to ensure accountability.</li> <li>6. SBOT uses a mailing house to process mailed notifications. The mailing house and Membership work together to review member lists and notification proofs to ensure notifications are sent to all active members.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

#### Management Response:

No response is required because controls are generally effective.

### **Business Objective #8: Separation of Duties**

#### Focus Area Statement

*Are adequate separation of duties in place between the collection, recording, and reporting of membership dues received?*

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure separation of duties for the collection, recording, and reporting of membership dues received.

**Control Rating:** Generally Effective.

**Finding Narrative:**

Separation of duties is maintained for the collection, recording, and reporting of membership dues received, through the assignment of responsibilities for the processing of payments and refunds and the configuration of roles within the iMIS Membership Management system.

<b>Criteria:</b>	State Bar of Texas Information Technology Division Policies and Procedures Guide
<b>Effect/Risk/Impact:</b>	Separation of duties may not be defined or may not be enforced to separate collection, recording, and reporting of membership dues received.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of the IT Division Director to determine how separation of duties are enforced in iMIS.</li> <li>2. Inquired of the Membership Division Director to determine how separation of duties are enforced in practice.</li> <li>3. Inspected the list of duties assigned to the Membership Department to determine responsibilities for collection, recording, and reporting of membership dues assigned to Membership.</li> <li>4. Inspected the Membership organization chart to determine the responsibilities for collection, recording, and reporting of membership dues assigned to individual Membership staff.</li> <li>5. Inspected the iMIS Security Access to determine the privileges assigned to all Membership personnel.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. SBOT has assigned responsibility for the collection, recording, and reporting of membership dues to separate individuals in the Membership Department.</li> <li>2. iMIS privileges have been configured to provide separation of duties between Membership staff.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #9: Member Data and Collection Issue Reporting****Focus Area Statement**

*Does SBOT have reports to address potential issues in Member data and collection issues?*

**Business Risk Rating (Residual): Low**

**Business Objective:** To implement and maintain management controls and processes that ensure potential member data and collection issues are addressed and reports to monitor member data and collection issues exist and are effective.

**Control Rating:** Generally Effective with Best Practices processes.

**Finding Narrative:**

SBOT has implemented a process to ensure that member data issues are resolved through the review of aggregated membership data reports and by flagging and resolving members with inconsistent status or standings between member profile data and the accounting system of record. Membership dues collections are processed annually for all members or at the time of reinstatement after an individual member's suspension. Failure to pay those dues and assessed penalties results in continuation of that suspension.

<b>Criteria:</b>	Tex. Govt. Code §81.115.
<b>Effect/Risk/Impact:</b>	Potential member data and collection issues may not be addressed because reports to monitor member data and collection issues may not exist or may be ineffective.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of management to determine the process for handling member data and collection issues and what reports are generated and used to monitor this process.</li> <li>2. Inspected an example of the Membership Department Membership by Status (Attorneys Only) report used to monitor member data and collection issues to determine whether member data is effectively monitored to ensure collection.</li> <li>3. Inspected the Membership Department Director's scheduled Outlook reminder to run and review the "Inconsistent Status/Standings" report to determine how membership data issues are identified in support of membership dues collection.</li> <li>4. Inspected an example "Inconsistent Status/Standing" report to determine whether any records with inconsistent status and standing existed.</li> <li>5. Tested member data collection processes to determine how SBOT ensures that member account data is complete and accurate.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. Data input validation checks are applied to member data to ensure all required information is collected and maintained.</li> <li>2. The web form used to enter and update attorney profile information requires attorney members to certify that all information provided is true and accurate and notifies members that they are responsible for updating inaccurate information.</li> <li>3. Annual membership dues are automatically added to member account balances in iMIS. Dues that are not collected result in suspension. Suspensions are processed at the time the attorney requests reinstatement.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

### ***Business Objective #10: Attorney Administrative Suspension Policies and Procedures***

**Focus Area Statement**

*Are policies and procedures for attorney suspensions formally documented, reviewed, and updated on a regular basis?*

**Business Risk Rating (Residual):** **Low**

**Business Objective:** To implement and maintain management controls and processes for attorney suspensions which are formally documented, reviewed, and updated on a regular basis.

**Control Rating:** Generally Effective.

**Finding Narrative:**

SBOT has developed and implemented procedure documentation to establish a process for handling attorney administrative suspensions and reinstatements. Specifically, attorneys are suspended for non-payment of membership fees, failure to meet Minimum Continuing Legal Education (MCLE) or Texas Center for Legal

Ethics (TCLE) educational requirements. If an attorney has met all MCLE and TCLE requirements, reinstatements are processed by Membership to determine the amounts of membership and other fees owed. Once those amounts have been paid, the reinstatement is reviewed, approved, and processed.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Tex. Govt. Code §81.054.</li> <li>• Texas State Bar Rules Article III Section 6. Default In Payment of Fees or Assessments.</li> <li>• Texas State Bar Rules Article XII Section 8. Compliance (MCLE).</li> </ul>
<b>Effect/Risk/Impact:</b>	Policies and procedures for attorney suspensions may not be formally documented, reviewed, and updated on a regular basis.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of management to determine whether policies and procedures for processing attorney suspensions were formally documented, reviewed, and updated on a regular basis.</li> <li>2. Inspected the General Reinstatements procedure document to determine whether the policies and procedures for processing attorney suspensions and reinstatements are documented, reviewed, and updated on a regular basis.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. Membership has developed a procedure document to provide personnel guidance on the processing of administrative suspension reinstatements.</li> <li>2. Administrative suspension and reinstatement procedures are updated frequently in the Membership Department's instance of OneNote.</li> </ol>
<b>Findings /Opportunities:</b>	No findings were noted.
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

#### Management Response:

No response is required because controls are generally effective.

### **Business Objective #11: Compliance of Attorney Administrative Suspension Practices**

#### Focus Area Statement

*Do attorney administrative suspension practices and processes followed by staff comply with State Bar Rules and policies?*

**Business Risk Rating (Residual):** Low

**Business Objective:** To implement and maintain management controls and processes that ensure SBOT's attorney administration suspension practices and processes comply with State Bar Rules and policies.

**Control Rating:** Generally Effective.

#### Finding Narrative:

SBOT process suspensions based on one of three criteria: (1) failure to pay membership fees, (2) failure to meet Minimum Continuing Legal Education (MCLE), and (3) failure to meet Texas Center for Legal Ethics (TCLE) requirements. In accordance with the applicable State Bar Rules, suspensions for failure to pay are processed automatically after 90 days of non-payment following the annual membership fees due date. MCLE and TCLE requirements are reviewed by separate departments and updated in the accounting system of record accordingly.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Tex. Govt. Code §81.054.</li> <li>• Texas State Bar Rules Article III Section 6. Default In Payment of Fees or Assessments.</li> <li>• Texas State Bar Rules Article XII Section 6. Minimum Educational Requirements.</li> <li>• Texas State Bar Rules Article XII Section 8. Compliance.</li> </ul>
<b>Effect/Risk/Impact:</b>	SBOT's attorney administration suspension practices and processes may not comply with State Bar Rules and policies.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of management to determine the processes in place to process suspensions and reinstatements.</li> <li>2. Inspected the State Bar of Texas Rules to determine requirements for administrative suspension.</li> <li>3. Inspected documentation of suspension and reinstatement of a sample of 30 members to determine whether SBOT's administrative suspension practices and processes complied with State Bar Rules and policies.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. Membership has developed a procedure document to provide personnel guidance on the processing of administrative suspension reinstatements.</li> <li>2. Administrative suspension and reinstatement procedures are updated frequently in the Membership Department's instance of OneNote.</li> <li>3. Suspensions for failure to pay are processed automatically after 90 days of no payment following the annual membership fees due date.</li> <li>4. Reinstatements are subject to approval by the CFO.</li> <li>5. Membership retains support documentation for all reinstatements. Support documentation includes the amounts authorized, the amounts posted, and the CFO's approval.</li> </ol>
<b>Findings /Opportunities:</b>	<ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #12: Attorney Administrative Suspension Documentation****Focus Area Statement**

*Are attorney administrative suspension cases fully documented?*

**Business Risk Rating (Residual):** Low

**Business Objective:** To implement and maintain management controls and processes to ensure attorney administrative suspension cases are fully documented.

**Control Rating:** Generally Effective.

**Finding Narrative:**

SBOT membership department retains and documents their attorney administrative suspension cases sufficiently to determine how much is owed by the attorneys and how much payment was remitted on the attorney's behalf.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• Tex. Govt. Code §81.054.</li> <li>• Texas State Bar Rules Article III Section 6. Default In Payment of Fees or Assessments.</li> <li>• Texas State Bar Rules Article XII Section 8. Compliance (MCLE).</li> </ul>
<b>Effect/Risk/Impact:</b>	Attorney administrative suspension cases may not be fully documented.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inquired of management to determine whether attorney administrative suspension cases are fully documented.</li> <li>2. Inspected documentation for a sample of 30 administrative suspension reinstatements to determine whether those suspensions and reinstatements were fully documented.</li> </ol>
<b>Management Controls in Place:</b>	<ol style="list-style-type: none"> <li>1. Membership has developed a procedure document to provide personnel guidance on the processing of administrative suspension reinstatements.</li> <li>2. Administrative suspension and reinstatement procedures are updated frequently in the Membership Department's instance of OneNote.</li> <li>3. Suspensions for failure to pay are processed automatically after 90 days of no payment following the annual membership fees due date.</li> <li>4. Reinstatements are subject to approval by the CFO.</li> <li>5. Membership retains support documentation for all reinstatements. Support documentation includes the amounts authorized, the amounts posted, and the CFO's approval.</li> </ol>
<b>Findings /Opportunities:</b>	<p><u>Finding:</u></p> <ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul> <p><u>Opportunity for Improvement:</u></p> <ul style="list-style-type: none"> <li>• Although redacted, collecting and storing documentation with credit card information from members may introduces risks to the confidentiality of member data.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<p><u>Opportunity for Improvement:</u></p> <ul style="list-style-type: none"> <li>• Rather than collecting credit card numbers from members in credit card authorization forms, consider providing members an invoice of all charges and require payment through the payment portal.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.

**Business Objective #13: Remediation of Prior Audit Findings****Focus Area Statement**

*Have prior audit findings been addressed?*

**Business Risk Rating (Residual):** Low

**Business Objective:** To implement and maintain management controls and processes to ensure that prior audit findings, that management has agreed to, have been addressed.

**Control Rating:** Generally Effective.

**Finding Narrative:**

SBOT follows a formal process for the review and approval of entity-wide policy, such as the State Bar Rules, and has decentralized the creation of operating procedures to the various departments. The Membership Department has consolidated their operating procedures in a shared OneNote notebook that serves as a living repository for all the department's operating procedures.

<b>Criteria:</b>	<ul style="list-style-type: none"> <li>• <i>Compliance with Statute and Policies Internal Audit Report (19-002).</i></li> </ul>
<b>Effect/Risk/Impact:</b>	Prior audit findings may not have been addressed or only partially addressed.
<b>Control Test(s):</b>	<ol style="list-style-type: none"> <li>1. Inspected the Compliance with Statute and Policies Internal Audit Report (19-002) to determine the prior audit findings, recommendations, and management responses.</li> <li>2. Inquired of management to determine whether prior audit findings have been addressed or partially addressed.</li> <li>3. Inspected Membership Department procedure documentation.</li> </ol>
<b>Management Controls in Place:</b>	<ul style="list-style-type: none"> <li>• SBOT follows a formal process for the review and approval of entity-wide policy, such as the State Bar Rules.</li> <li>• Operating procedures are developed and documented by Membership personnel.</li> <li>• Membership operating procedures are available on a shared OneNote notebook, which serves as a living repository for procedure documentation.</li> </ul>
<b>Findings /Opportunities:</b>	<p><u>Finding:</u></p> <ul style="list-style-type: none"> <li>• No findings were noted.</li> </ul>
<b>Root Cause:</b>	<ul style="list-style-type: none"> <li>• Not applicable.</li> </ul>
<b>Recommended Actions:</b>	<ul style="list-style-type: none"> <li>• None made.</li> </ul>

**Management Response:**

No response is required because controls are generally effective.