

*The following policy establishes requirements over financial processes within the Consumer & Commercial Law Section 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 the Consumer & Commercial Law Section Council on April 17, 2020 and is effective on May 1, 2020.*

## **Consumer & Commercial Law Section Internal Financial Controls Policy**

### **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 Section Executive Committee, in consultation with the current Council, shall draft the next year's proposed budget no later than 30 days prior to the Section Annual Meeting.
  - b. The section Council shall review and adopt the budget during the Section Annual Meeting in June.
  - 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 \$10,000 will require the Council to adopt an amended budget.
- 2.) The section will submit the adopted budget to the State Bar by July 15<sup>th</sup> of the fiscal year.

### **B.) ROLES AND PROCEDURES**

- 1.) Bookkeeping services, approval duties and second approval duties for sections' financial records will be separated into the following 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, sign and/or approve deposits and expenditures.
  - c. the "Second Approver" for expenditures over a designated amount or for payments issued to a check-writer.
- 2.) The person who performs the section's bookkeeping and reconciliation is not the person responsible for approving expenditures.
- 3.) If there is a significant change in circumstance or if the section changes bookkeepers, the section will evaluate and file an amended internal controls policy with the State Bar.

### **C.) BOOKEEPING DUTIES**

1. The State Bar Accounting Department is the bookkeeper for the Consumer & Commercial Law Section.
2. The bookkeeper will perform the following duties:
  - a) Issue checks.
  - 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 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.

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

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

- 1.) The Treasurer is the primary approver of section expenditures. The Treasurer must be a member of the Council with a fiduciary duty to the section.
- 2.) When an additional approval is required for any transaction, or the Treasurer is unavailable, the Secondary Approver or signor will be the Section Chair, or if the Section Chair is not available, the Chair Elect will be the Secondary Approver.
- 3.) The Treasurer will make reports to the Section Council at all Council meetings and to the Section at the Section Annual Meeting.
- 4.) The process of approving payment must comply with all of the controls listed below:
  - a. All invoices are approved in advance of payment by the Treasurer or chair through: email or text message. Documentation of approval is retained by the Section in accordance with the State Bar record retention policy.
  - b. Detailed transactions and checks are reviewed by the Council Executive Committee on a quarterly basis. Documentation of approval is recorded in the Executive Committee minutes and retained in accordance with the State Bar record retention policy.
  - c. All reimbursement requests or invoices made by a check signor require an additional approval in writing. Additional approval may be made by email or text message.

Documentation of approval is retained by the Section in accordance with the State Bar record retention policy.

- d. All payments over \$10,000.00 require additional approval in advance of payment by email or text from a Secondary Approver. 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 State Bar Accounting Department.
- 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.

#### **F.) PAYMENT OF EXPENSES AND INVOICES**

- 1.) A detailed invoice or contract is required for any payment. Money should not be paid to any person or company without adequate back-up and 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, airfare, or payments for subscription services, such as insurance, rent, software licenses, etc.
- 3.) 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 consistent with Chapter 521 of the Texas Business & Commerce Code.
  - a. Confidential data should not be collected unless absolutely necessary.
  - b. Credit card numbers should not be transmitted through unencrypted email.
  - c. All confidential information should be redacted before storage, or stored in a protected manner.
  - d. Access to bank accounts, credit card processing accounts, and financial records should be limited to the Council and essential users only.
  - e. Financial records, credit card information, and other sensitive information must be completely destroyed in a manner that ensures the information cannot be copied or duplicated.
  - f. Credit card 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 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 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. A significant budget variance is an item exceeds the budgeted amount by more than 10%. The Treasurer will include the results of such inquiries in the next report to the Section Council.
- 3.) An explanation should be provided to the State Bar of Texas accounting department for variances in excess of 15% (whether positive or negative) for audit purposes.
- 4.) Financial statements should be provided to the Council on a quarterly basis. The financial statements should include: 1) bank and investment statements, 2) a bank reconciliation, 1) an income statement that compares current year to prior year, 3) an income statement that compares current year to the approved budget, 4) a balance sheet.

#### **J.) FUND BALANCES**

- 1.) The recommended minimum fund balance for the section is one year of budgeted operating expenditures.
- 2.) 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.
- 3.) Any investments will comply with the Public Funds Investment Act.

- 4.) The section will carry a reserve of approximately two years of operating expenditures.
- 5.) 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 20%.

#### **K. REIMBURSEMENT POLICY**

The Section will reimburse Council members for reasonable and necessary out of pocket expenses incurred on behalf of the Section or while attending to Section business. To be reimbursed, expenses must meet all of the following criteria:

- a. Incurred for a Section business purpose;
- b. Written reimbursement request on the State Bar reimbursement form must be submitted to the Section Treasurer no more than 60 days after the expense was incurred;
- c. Reimbursement requests must be accompanied by itemized receipts;
- d. If an itemized receipt is not available, the reimbursement request must include a detailed explanation of the expense that includes a description of what was purchased, the person or entity that provided the product or service purchased, the amount of the expense; and, if not apparent, the business purpose for the expense;
- e. The expense must be necessary and reasonable.

The Section will not pay for personal expenses or for attendance at Section events by family members or travel companions. For example, if a Council member's spouse attends a meeting, the Section will reimburse the Council member's travel to the meeting, but the Section will not reimburse the spouse's travel. The Section will not pay for personal entertainment or tourist activities in conjunction with a meeting or event. Example: If the Council has a meeting in Galveston, the Council will not reimburse Moody Gardens admission for the Council member and his or her family.

Council members should be mindful that Section expenses are paid by Section dues, and we want to use members' dues responsibly. The following are guidelines regarding reasonableness of expenses:

- a. Miles driven in personal vehicles will be reimbursed at the current federal rate.
- b. Hotel expenses are reasonable if they are no more than 125% of the current federal rate for the city or if they are part of a block of rooms for which the Bar has negotiated a reduced rate. The Section will not pay for hotel suites unless the Council has approved the expense in advance, and the suite will be used for Section business such as a committee meeting or reception.
- c. The Section will pay for coach air travel. The Section will not pay for business class or first class airfare. Try to book travel at least a month in advance to get the best pricing.
- d. Council members should endeavor to use the federal per diem reimbursement guidelines for meals. Meals costs that are more than 125% of the federal guidelines may not be fully reimbursed. In general, breakfast should not exceed \$20, lunch should not exceed \$40, and dinner should not exceed \$80, including alcohol, tips, and room service fees.
- e. Rental cars are generally frowned upon. In most cities, taxis and ride share services are less expensive than rental cars. Use a rental car as a last resort.
- f. The Section will not pay for hotel amenities such as spa treatments or in room entertainment.

A Council member must return any expense overpayment to the Section Treasurer within 120 days.