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MEMORANDUM

TO: Audit Committee
State Bar of California

FILE NO: 99904.1008

FROM: Michael G. Colantuono,
State Bar Treasurer

DATE: July 13, 2015

CC: President Holden

RE: Recap of 2014–2015 Year and Provisional Work Plan for 2015–2016

I write to report on our accomplishments for the year and to outline pending tasks the Committee will face in the coming year. I will be happy to discuss these with you at our July 16th meeting. Thank you for the opportunity to serve as your Treasurer. Thank you for your contributions to a successful year!

1. COMPLETED ITEMS

- a. **Annual fiscal audit.** Moss, Adams provided an “unmodified” opinion, indicating the highest assurance they can give that our financial statements fairly present the Bar’s fiscal position. Kudos to Christine Wong and Finance staff for accomplishing a clean audit given short staffing and other significant demands on their time.
- b. **Quarterly expense report review.** As you know, we initiated quarterly review of expense reports of Bar management staff and Trustees. In the CFO’s absence, the Treasurer also approves the CEO’s expenses. These functions will continue next year.
- c. **OPEB Trust Oversight Committee.** This committee needs to meet at least once this year even though its workload was greatly reduced when we transferred our OPEB assets to CalPERS. OPEB refers to “other post-employment benefits” and refers to retiree medical benefits. The bar has a trust fund to cover this future cost which CalPERS now manages.

- d. **Cost allocation plan.** At the Committee's request, staff is reviewing of our cost allocation plan to address changes made necessary by the move to the new LA building and to address concerns raised by the Sections. The President will decide whether this remains an Audit Committee function.
- e. **Reserve policy.** A proposed policy will be on the Board agency for July 24th. Subsequent Board work will be required to clarify the purposes of existing funds and to determine if all 24 budgeted funds still serve the needs of the Bar. This policy may be the responsibility of the Planning & Budget Committee.
- f. **LA building close-out.** In light of the State Audit, staff is reviewing the accounting for the LA Building to confirm the choices made and to ensure fair allocation of costs among programs.
- g. **Expense reimbursement policy; President's allowance.** President Holden asked Trustee Fox and me to review the Bar's policy for reimbursement of travel and other expenses of management staff and Trustees. The Executive Director has accepted our few recommendations to strengthen the policy. The Board adopted our recommended changes to the President's Allowance.
- h. **457 plan.** As Treasurer, I serve on the committee which oversees operation of the supplemental retirement program (the government version of a 401k) that we make available to our employees. That involves approval of loans and other distribution requests by plan participants and monitoring of the performance of the mutual funds available to our employees for investment. We have placed some funds on "watch" lists this year due to management changes and marginal performance. We also keep an eye out — with professional guidance from our advisors — for "style drift" and other fund performance concerns.
- i. **Asset management plans.** We are reviewing our asset management plans for the LA and San Francisco buildings to ensure we adequately

maintain them, plan for major capital needs, and put vacant space to use. This work will continue next year.

- j. **Public records policy.** The Board is expected to adopt a proposed rule to allow public access to Bar records — including financial records — at our July 24th meeting. This will have significant effect on our financial management practices and the Committee should review progress next year to provide appropriate oversight of new policies and practices. This might be a task for the P&B Committee.
- k. **Fund accounting.** Bill Statler will be reporting to P&B and the Board regarding his recommendations to maintain and refine our fund accounting practices. This item should be complete this year.
- l. **Mid-year budget review.** We reinvigorated the Board’s policy to review the budget at mid-year, accomplished a cost-center-level budget for Board review for the first time in many years, and will review budget-to-actual variances for the first time at our July 23rd P&B meeting. This is a significant improvement in our financial governance. P&B and Audit should maintain these practices in coming years, although it is most likely a P&B function.
- m. **Minority outreach in contracting.** In concert with P&B and with leadership from David Torres and Jim Fox, we are reviewing our contracting policy to see what we can do to encourage contracting with disadvantaged businesses consonant with the restrictions of Prop. 209. This project should be completed this year.

2. TASKS FOR NEXT YEAR.

- a. **Annual fiscal audit / CAFR.** Whether this is performed by the State Auditor; Moss, Adams; or some combination of the two, managing that audit will be a core responsibility of the Committee next year. The Committee may also wish to discuss with the CEO and CFO whether the Bar wishes to enhance its fiscal reporting by preparing a Comprehensive Annual Financial Report. This includes the audited financial statements in a fuller, more accessible document disclosing essential information about

the Bar's finances. While not mandated by government accounting rules, it is a "best practice" and enhances the Bar's fiscal credibility.

- b. **Implementing the State audit.** The President has assigned the State Auditor's recommendations to three other Committees. However, this Committee's charge includes the State Audit: "Review the results of the biennial performance audit conducted by the State Bureau of Audits." I recommend the Committee include in its work plan a task to monitor the implementation of the State Audit's recommendations to ensure at least one committee is monitoring the process as a whole.
- c. **State Bar Access & Education Foundation.** This year's fiscal audit reports the financial activity of this foundation, a non-profit entity created in the last few years to accept tax-deductible donations to support the work of the Bar. Bar management staff is reviewing whether it is necessary to maintain the existence of this entity and I recommend the Committee monitor that decision.
- d. **Quarterly expense report review.** This process of publicly reviewing the expenses of Trustees and Bar senior management will continue.
- e. **OPEB Trust Oversight and 457 Plan Committees.** The Treasurer serves ex officio on these committees, so it will be useful to maintain them on the Audit Committee work plan for tracking purposes.
- f. **Cost allocation plan.** As noted above, staff is reviewing the Cost Allocation Plan. The President will decide if this is an Audit Committee responsibility next year.
- g. **Reserve policy.** Although a policy is expected to be adopted at the Board's July 24th meeting, work to refine the purposes and number of our budget funds will continue next year. It may be a P&B project, an Audit project, or a shared project.
- h. **LA building close-out.** If the review described above is not completed this Board year, it will be a work item for the Audit Committee next year.

- i. **Asset management plans.** The Board will review and oversee asset management plans for the SF and LA buildings in the coming year. This may be a P&B work item.
- j. **Public records policy.** The policy the Board is expected to adopt July 24th will have significant effect on our financial management practices. The P&B or Audit Committee should ensure appropriate oversight as new policies and practices are developed.
- k. **Oversight of discipline audit function.** The State Audit recommends changes in the reporting function of the Audit & Review Unit in OCTC. Although President Holden assigned the RAD Committee to consider this recommendation, proposals include tasking this Committee with a role. Accordingly, next year's work plan should account for that possibility.
- l. **Internal controls review.** The Board directed our Committee to oversee an independent review of our internal controls; a review last performed by Kurt Sjoberg in 2009. Staff has asked this be deferred to the Fall to assist staff during a time of high work volume and low staff.
- m. **Treasury policy.** The Committee may wish to review the Bar's policy governing the standards for investment of liquid assets. State law requires annual review of such policies by local governments. Although the Bar is not subject to that standard, it is a "best practice."