

AGENDA ITEM

JULY 144 #1
BUSINESS ITEM III.B

DATE: July 21, 2016

TO: Members, Board of Trustees
Members, Planning & Budget Committee

FROM: Christine Wong, Chief Financial Officer

SUBJECT: State Auditor Recommendations Status Updates

EXECUTIVE SUMMARY

On May 12, 2016, the California State Auditor completed an audit of the State Bar and issued a report with recommendations (<http://www.bsa.ca.gov/pdfs/reports/2015-047.pdf>). Updates regarding progress in implementing these recommendations is due at three intervals from the release of the report: 60 days, six months, and one year. The first status update was due July 11, 2016; a summary of that update is provided below.

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| Recommendation #1 To reduce the length of time that victims of dishonest lawyers must wait for reimbursement from the Client Security Fund, the State Bar should continue to explore fund transfers, member fee increases, and operating efficiencies that would increase resources available for payouts. | Response #1 <i>Work-in-Progress:</i> The 2017 attorney fee bill contains specific provisions regarding such an assessment of the Client Security Fund; that work is to be completed by the end of March 2017. <i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i> |
| Recommendation #3 To ensure that it maximizes its cost-recovery efforts related to the Client Security Fund, the State Bar should adopt a policy to evaluate annually the effectiveness of the various collection methods it uses to recover funds from disciplined attorneys. | Response #3 <i>Work-in-Progress:</i> The State Bar will adopt such a policy by the end of 2016; the policy may call for a biennial, instead of annual, review. |
| Recommendation #4 To reduce the risk of errors in financial reporting, | Response #4 <i>Implemented:</i> Staff has updated fiscal policies and |

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| <p>the State Bar should update its procedures to include guidance on detailed steps that staff should take to prepare financial statements and to ensure that the statements are accurate and complete.</p> | <p><i>added guidance and steps for financial statement preparation (Attachment A- General Accounting Policy, Section VII). In addition, to ensure the accuracy and consistency of financial reporting, staff has developed a report template to automatically roll up revenue and expenditure categories for financial reporting.</i></p> |
| <p>Recommendation #5</p> <p>To reduce the risk of errors in financial reporting, the State Bar should update its procedures on management's review and approval of financial statements.</p> | <p>Response #5</p> <p><i>Implemented: Staff has updated fiscal policies and incorporated this procedure (Attachment A, Sections VI and VII). In the revised policies, all quarterly financial reports and annual financial statements are required to be reviewed and approved by the Chief Operating Officer before presenting to the Board and filing with the Legislature.</i></p> |
| <p>Recommendation #6</p> <p>To increase the transparency and comparability of its financial information, the State Bar should limit significant changes in its indirect cost reporting.</p> | <p>Response #6</p> <p><i>Implemented: In February, the Board adopted an updated Cost Allocation Plan (CAP). This CAP clearly identifies all support cost centers, indirect cost pool and allocation bases which will limit any significant changes in future indirect cost allocation and reporting.</i></p> |
| <p>Recommendation #7</p> <p>To increase the transparency and comparability of its financial information, the State Bar should clearly disclose any changes in its accounting practices.</p> | <p>Response #7</p> <p><i>Implemented: Significant changes in accounting practices are disclosed in the State Bar's 2015 audited financial statement. Staff also updated General Accounting Policies to include this required procedure for future financial reporting.</i></p> |
| <p>Recommendation #8</p> <p>To increase the transparency and comparability of its financial information, the State Bar should disclose the reasons for any significant changes to program costs.</p> | <p>Response #8</p> <p><i>Work-in-Progress: Explanations regarding significant changes to program costs are included in the 2015 audited financial statement. Staff also updated General Accounting Policies to include this required procedure for future financial reporting. The State Bar's 2017 budget submission</i></p> |

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| | <i>will reflect full implementation of these new disclosure practices.</i> |
| <p>Recommendation #9</p> <p>To ensure that it accounts appropriately for information technology project costs and their related funding sources, the State Bar should develop a reasonable method for allocating information technology project costs.</p> | <p>Response #9</p> <p><i>Work-in-Progress: IT project costs have been tracked properly and separately in the existing Oracle financial system. Staff also reconciled and corrected the issues related to inter-fund transfers and mingling of restricted and unrestricted funds/resources in previous years. Staff is still working on a cost allocation plan for future information technology project costs, and expects to complete this effort by 9/30/2016.</i></p> |
| <p>Recommendation #10</p> <p>To ensure that it accounts appropriately for information technology project costs and their related funding sources, the State Bar should apply its new cost-allocation method to the costs of its Technology Improvement Fund.</p> | <p>Response #10</p> <p><i>Work-in-Progress: Once implemented, the cost-allocation method for IT projects will be applied.</i></p> |
| <p>Recommendation #11</p> <p>To ensure it informs stakeholders of conditions that may affect its policy and programmatic decisions, the State Bar should document the assumptions and methodology underlying its budget estimates.</p> | <p>Response #11</p> <p><i>Work-in-Progress: Budget assumptions and methodology for deriving same will be fully documented in the Bar's 2017 budget submission.</i></p> |
| <p>Recommendation #12</p> <p>To ensure it informs stakeholders of conditions that may affect its policy and programmatic decisions, the State Bar should concisely present its budget assumptions and methodology in the final budget document it provides to its board and the Legislature.</p> | <p>Response #12</p> <p><i>Work-in-Progress: Budget assumptions and methodology for deriving same will be fully documented in the Bar's 2017 budget submission.</i></p> |
| <p>Recommendation #13</p> <p>To make certain that its budget documents conform to the requirements in state law and that they are comparable to prior budgets, the State Bar should establish a process for ensuring that budget documents conform to the requirements in state</p> | <p>Response #13</p> <p><i>Work-in-Progress: To ensure the consistency and completeness of budget document preparation, staff developed a checklist which identifies all criteria and elements that need to be included in the annual budget document. Staff will implement</i></p> |

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| law. | <i>these changes when preparing the 2017 State Bar budget.</i> |
| <p>Recommendation #14</p> <p>To make certain that its budget documents conform to the requirements in state law and that they are comparable to prior budgets, the State Bar should update its budget policies to require supplementary schedules and narratives for any budget in the year in which the State Bar implements changes to the presentation of its budget.</p> | <p>Response #14</p> <p>Implemented: <i>Staff has updated the Budget Policies and Procedures Manual (Attachment B- Budget Policy and Procedures Manual, Section II) and developed a checklist to include required supplementary schedules and narratives regarding budget changes for future budget documents presented to the Board and submitted to the Legislature.</i></p> |
| <p>Recommendation #15</p> <p>To ensure that the State Bar's board can make informed decisions about its consultant's recommendations regarding budgeting and financial reporting, the State Bar should analyze the costs and benefits of implementing its consultant's recommendations about budgets and present this analysis to its board for consideration.</p> | <p>Response #15</p> <p>Implemented: <i>The Board will consider the cost-benefit analysis at its July 22 meeting.</i></p> |
| <p>Recommendation #16 for Legislative Action</p> <p>To make certain that the Legislature is not limited in its ability to set member fees, the Legislature should require the State Bar to notify or seek its approval when the State Bar plans to pledge its member fee revenue for a period that exceeds 12 months or overlaps fiscal years.</p> | <p>Response #16</p> <p>Work-in-Progress: <i>The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i></p> |
| <p>Recommendation #17</p> <p>To ensure that it retains appropriate supervision and control over the State Bar's financial affairs, the board should establish a policy that includes a description of the parameters for the creation of nonprofit organizations limiting such organizations to the purposes consistent with the law and the State Bar's mission.</p> | <p>Response #17</p> <p>Work-in-Progress: <i>The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this</i></p> |

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| | <i>recommendation with the Board of Trustees.</i> |
| <p>Recommendation #18</p> <p>To ensure that it retains appropriate supervision and control over the State Bar's financial affairs, the board should establish a policy that includes a description of the board's oversight role in relation to the State Bar's nonprofit organizations.</p> | <p>Response #18</p> <p><i>Work-in-Progress: The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i></p> |
| <p>Recommendation #19</p> <p>To ensure that it retains appropriate supervision and control over the State Bar's financial affairs, the board should establish a policy that includes requirements to make sure that the board reviews and approves all documents the State Bar uses in the creation and use of a nonprofit organization, including original and amended bylaws as well as agreements between the State Bar and the organization.</p> | <p>Response #19</p> <p><i>Work-in-Progress: The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i></p> |
| <p>Recommendation #20</p> <p>To ensure that it retains appropriate supervision and control over the State Bar's financial affairs, the board should establish a policy that includes requirements ensuring that the board reviews, approves, and monitors regularly the budgets and other financial reports of any nonprofit organizations.</p> | <p>Response #20</p> <p><i>Work-in-Progress: The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i></p> |
| <p>Recommendation #21</p> <p>To ensure that it retains appropriate supervision and control over the State Bar's financial affairs, the board should establish a policy that includes requirements that the State Bar develop policies and procedures to prevent the mingling of its funds and any nonprofit organization's funds.</p> | <p>Response #21</p> <p><i>Work-in-Progress: The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i></p> |

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| <p>Recommendation #22 for Legislative Action</p> <p>To improve its oversight of the State Bar's financial affairs, the Legislature should require the State Bar to disclose the creation of and use of nonprofit organizations, including the nonprofits' annual budgets and reports on their financial condition explaining the sources and uses of the nonprofits' funding.</p> | <p>Response #22</p> <p><i>Work-in-Progress: The 2017 fee bill includes provisions which eliminate the State Bar's ability to establish nonprofits, rendering this recommendation moot.</i></p> <p><i>If related provisions are not ultimately included in the final fee bill, staff will revisit this recommendation with the Board of Trustees.</i></p> |
| <p>Recommendation #23</p> <p>To ensure that the compensation it provides its executives is reasonable, the State Bar should include in the comprehensive salary and benefits study that it plans to complete by October 2016 data for the salaries and benefits for comparable positions in the state government's executive branch.</p> | <p>Response #23</p> <p><i>Implemented: The State Bar's contract with CPS HR Consulting, the contractor performing the classification and compensation analysis, has been amended to include executive branch salaries.</i></p> |
| <p>Recommendation #24</p> <p>To ensure that the compensation it provides its executives is reasonable, the State Bar should revise its policy for housing allowances and relocation expenses to align with the requirements in the state law that are applicable to managerial employees.</p> | <p>Response #24</p> <p><i>Work-in-Progress: Staff has completed research with regard to housing allowances and reimbursement of relocation expenses for state employees. With respect to relocation expenses, staff is working with the Office of the General Counsel to incorporate in to Executive Rules. With respect to housing allowances, no applicable state provisions have been identified pursuant to staff research.</i></p> |