

More Policy Focused Budget Document

With \$140 million in revenues and almost 600 employees, the State Bar is a sophisticated, complex organization. Other similar “enterprise fund” governmental agencies in California with reputations for being well-managed prepare budget documents in accordance with the CSMFO and GFOA criteria for excellence. For example, the San Diego County Water Authority, after adjusting for water purchases, is very similar in scope to the State Bar; and like the State Bar, is largely staffed by professionals. Below is a link to its most recent Budget:

<http://www.sdcwa.org/sites/default/files/files/finance-investor/Budget/Budget1617.pdf>

The Water Authority’s Budget includes a Budget Message that highlights key financial issues, significant accomplishments in the past year and major goals and projects for the coming year; and most importantly, the linkage between goals and resources in the Budget. It also includes descriptions of its operating programs and resource allocations, capital improvement plan, staffing information, key fiscal policies and financial summaries.

As noted above, the State Bar has a solid foundation in place for preparing a Budget that meets industry “best practices.” Both the CSMFO and GFOA have award programs that recognize excellence in preparing budget documents based clearly identified criteria. The following are links to their programs:

CSMFO: <http://www.csmfo.org/about/programs/budget-awards>

GFOA: <http://www.gfoa.org/budgetaward>

Even if the State Bar decides not to submit its budget for review under these award programs, preparing its budget with the “checklist” in mind will result in a stronger, more transparent document that links goals with resources in accordance with industry “best practices.” (The CSMFO checklist is provided in Appendix F.1 and the GFOA’s is provided in Appendix F.2.)

Preparation of Comprehensive Annual Financial Report (CAFR)

The State Bar prepares “Basic Financial Statements” as part of its annual independent audit. As noted above, this meets GAAP requirements and the State Bar receives a “clean” audit opinion regarding its financial statements. Moreover, the State Bar’s audited financial statements include supplemental schedules for each of its finds, which is greater disclosure beyond what GAAP requires.

That said, many progressive governmental agencies prepare a “Comprehensive Annual Financial Report” (CAFR) that goes beyond the minimum required “basic financial statements” and includes a transmittal memorandum discussing key results and future outlook, supplemental schedules and long-term fiscal trends (typically ten years) such as revenues, expenditures and debt obligations.

While not required under GAAP, many enterprise-fund agencies include budget and actual comparisons in their CAFR as supplemental information as well. Again, the Water

FUND ACCOUNTING REVIEW

Authority's CAFR provides a good example of what the State Bar should consider moving towards. Below is a link to the Water Authority's most recent CAFR:

http://www.sdcwa.org/sites/default/files/files/finance-investor/CAFR/CAFR2014_FINAL.pdf

Again, both the CSMFO and GFOA have award programs that recognize excellence in financial reporting based on clearly identified criteria. The following are links to their programs:

CSMFO: <http://www.csmfo.org/about/programs/cafr-awards>

GFOA: <http://www.gfoa.org/coa>

Even if the State Bar decides not to submit its financial statements for review under these award programs, preparing them with the CSMFO/GFOA criteria in mind will result in greater transparency in presenting the State Bar's financial results of operations in accordance with industry "best practices."

RECOMMENDATIONS

Use of Fund Accounting

The State Bar is appropriately using fund accounting in accordance with generally accepted accounting principles (GAAP) in recording and presenting its financial transactions. According, there are no specific recommendations on this focused issue. However, as part of the comprehensive reserve analysis underway, the State Bar should consider whether all of its program funds are needed and consolidate them where appropriate.

Interfund Transactions

As discussed above, during the course of this review, this issue has been fully addressed, resulting in the Board's adoption of a comprehensive policy on interfund transfers and loans.

Reserves

Development of comprehensive reserve policy is underway and planned for Board approval in October 2015. Work on the reserve policy should continue in accordance with the tasks and schedule that have already been identified.

Budget

The State Bar should strongly consider preparing its Budget document in accordance with CSMFO and GFOA excellence criteria.

Financial Reporting

Annual Reporting. As previously recommended by the State Bar Treasurer, the State Bar should strongly consider preparing its audited financial statements as a Comprehensive Annual Financial Report in accordance with CSMFO and GFOA excellence criteria. The State Bar should also consider including budget versus actual comparisons in the CAFR’s supplemental schedules. Once the reserve policy has been adopted, the State Bar should also consider including supplemental schedules that show changes in reserves and ending position for the year.

Interim Reporting. Along with the detail currently provided, the State Bar should consider including some “punchy narrative” that summarizes in a reader-friendly fashion how the State Bar is doing financially, any challenges ahead and strategies for addressing them.

SUMMARY

This report was prepared to assess the State Bar’s use of fund accounting in appropriately segregating earmarked resources. It concludes that the State Bar is appropriately using fund accounting in accordance with generally accepted accounting principles in recording and presenting its financial transactions.

It also surfaced “other matters,” most notably concerns regarding interfund transactions and reserves. Concurrent with work on this fund accounting assessment, interfund transfers and loans have been addressed via the Board’s adoption of a comprehensive policy on this matter in July 2015; and significant progress has been made in developing a comprehensive reserve policy for the Board’s consideration in October 2015.

I appreciate the opportunity to serve the State Bar and its 250,000 members in making this assessment, as well as working closely with State Bar staff on the interfund transfer and loans policy and development of a comprehensive reserve policy.

APPENDIX

- A. Workscope and Methodology
- B. Summary of State Bar Funds (Excerpt from Audited Financial Statements)
- C. Overview of Fund Accounting Principles
- D. Interfund Loans and Transfers Policy
- E. State Bar Reserve Analysis
- F. Budget Excellence Criteria
 - 1. California Society of Municipal Finance Officers
 - 2. Government Finance Officers Association of the United States and Canada
- G. Consultant Qualifications

