

# **AGENDA ITEM**

## **ITEM III.A NOVEMBER 2016**

**DATE:** November 17, 2016

**TO:** Members, Audit Committee  
Members, Board of Trustees

**FROM:** Christine Wong, Chief Financial Officer

**SUBJECT:** Moss Adams 2016 Audit Contract Renewal

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### **EXECUTIVE SUMMARY**

This agenda item is submitted to request approval to renew the State Bar's financial audit contract with the firm Moss Adams, LLP. Based on the results of a Request for Proposals in 2013, Moss Adams was awarded an initial three year contract in December of 2013 for a total amount of \$400,000 for a period of three years. This audit service contract is expiring on December 31, 2016, with two optional one-year extensions. Staff recommends a contract amendment to extend the audit contract for two years for 2017 and 2018.

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### **BACKGROUND**

Pursuant to California Business and Professions Code § 6145 requires the State Bar to contract with an independent national or regional public accounting firm to audit its financial statements each fiscal year. The statute requires a copy of the audit and financial statement to be submitted to the State Bar's Board of Trustees and to the specified public officials within 120 days of the close of the State Bar's fiscal year, which is the calendar year. Any audit of the State Bar's financial statement must be completed no later than April 15<sup>th</sup> of each year.

To meet the requirements, the State Bar issued a Request for Proposal (RFP) seeking separate bids for financial audit services in December 2013. After a comprehensive review of the proposals, the contract was awarded to Moss Adams, LLP for a period of three years with two optional one-year extensions. This contract is expiring on December 31, 2016.

## **AUDIT SCOPE AND CONTRACT AMENDMENT**

The original scope of work for the financial audit services contract included the annual audit of the State Bar's financial statement in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accounts, as well as a special examination of the State Bar's Statement of Expenditures of Mandatory Membership Fees. This audit is required by the United State Supreme Court's decision in *Keller v. State Bar of California*, 496 U.S. 1 (1990), which held that the State Bar must prepare each year an audited statement of its major categories of expenses showing that no mandatory bar dues were used for political or ideological activities not "necessarily or reasonably incurred for the purpose of regulating the legal profession or improving the quality of legal services available to the people of the State." Based on the existing scope of work in the contract, the engaged audit firm is required to issue two auditor's reports for the financial statement and the Mandatory Member Fees Statement.

During the contract renewal process, staff reviewed the existing work scope and the specific requirements described under Business and Profession Code § 6145:

*"the audit should examine the receipts and expenditures of the State Bar and the State Bar sections, to ensure that the receipts of the sections are being applied, and their expenditures are being made, in compliance with subdivision (a) of Section 6031.5, and that the receipts of the sections are applied only to the work of the sections".*

To fulfill the requirement, staff recommends that an examination should be added to the scope of work to cover the revenues and expenditures of all Sections programs and a separate deliverable is necessary to provide adequate assurance to this legislative requirement.

## **RECOMMENDATION**

Staff recommends a contract renewal to extend the audit services with Moss Adams for two years through 2018. In addition, to fulfill the specific requirement under B&P code sections 6145 and 6031.5, staff recommends a contract amendment to revise the scope of work to include an examination of the revenues and expenditures of all Sections programs and a separate deliverable is necessary.

## **FISCAL/PERSONNEL IMPACT**

Require Budget Provision for Audit Fees for approximately \$203K per year for 2017 and 2018.

## **RULE AMENDMENTS**

N/A

## **BOARD BOOK IMPACT**

N/A

## **RECOMMENDATION**

Staff recommends that the Board approves and authorizes staff to renew the audit service contract with Moss Adams, LLP for two additional years and to execute contract amendment to expand the audit work scope to include an examination of revenues and expenditures of all Sections program with separate deliverable.

## **PROPOSED BOARD RESOLUTION:**

Should the Board concur with the Audit Committee's recommendation, the following resolutions would be in order:

**RESOLVED**, that upon the recommendation of the Audit Committee, the Board hereby approves and authorizes staff to renew the audit services contract with Moss Adams, LLP for additional two years through 2018.

**FURTHER RESOLVED**, that for the contract renewal, the Board approves and authorizes staff to execute an amendment to expand the audit work scope and include an examination of revenues and expenditures of all Sections programs with separate deliverable to comply with Business and Professional Codes § 6145 and 6031.5.