



The State Bar of California

OPEN SESSION AGENDA ITEM SEPTEMBER 2020 AUDIT COMMITTEE III.A

DATE: September 15, 2020

TO: Members, Audit Committee

FROM: Linda Katz, Principal Analyst, Mission Advancement & Accountability Division

SUBJECT: Annual Update on Implementation of Audit Recommendations

EXECUTIVE SUMMARY

The State Bar has been audited numerous times over the past several years. The purpose of this agenda item is to update members of the Audit Committee on the implementation status of recommendations contained in each of those audits.

BACKGROUND

Every other year the State Auditor (Bureau of State Audits, or BSA) conducts an audit of the State Bar as required by subdivision (b) of Business and Professions Code section 6145. The reports produced by the State Auditor make recommendations for improvements to State Bar operations, policies and procedures. In addition to the statutorily mandated audits produced by the BSA, the Charter of the Audit Committee includes a schedule for additional audits to be conducted including an annual financial statement audit and an internal control audit every five years.¹ This agenda item provides an update on the status of implementation of recommendations included in audits that were not fully implemented as of last year's update to the Audit Committee:

- Bureau of State Audits Report 2017-30 (June 2017)
- Bureau of State Audits Report 2018-30 (April 2019)
- Moss Adams Internal Audit and Policy and Procedure Review (March 2018)
- Netxperts Cybersecurity Audit (December 2017)

¹ A complete list of the audits that the State Bar undertakes can be found in the *Board of Trustees Policy Manual*.

The State Bar periodically reports to the BSA on the status of recommendations made by the State Auditor. The following section of this report provides an update on the status of the audits listed above. As discussed below, most of the recommendations in each of these reports have been fully implemented or are in progress.

DISCUSSION

1. Bureau of State Audits Report 2017-030 (June 2017)

This audit focused on controls the State Bar uses to verify that its expenses are reasonable and appropriate; the report recommended changes to compensation practices and purchasing policies.

- Number of recommendations: 17
- Recommendations fully implemented: 16
- Recommendations partially implemented: 1

2. Bureau of State Audits Report 2018-030 (April 2019)

This audit was added to the normal every-two-year audit cycle by the Legislature and focused on the fee increase proposed by the State Bar. The report recommended changes to property management and discipline-related practices and procedures.

- Number of recommendations: 7
- Recommendations fully implemented: 3
- Recommendations with implementation in progress: 4

3. Moss Adams Internal Audit and Policy and Procedure Review (March 2018)

This internal audit focused on the State Bar's policies and internal controls; the report recommended changes to some of those policies and controls.

- Number of recommendations: 70
- Recommendations fully implemented: 68
- Recommendations with implementation in progress: 2

4. Netxperts Cybersecurity Audit (December 2017)

This internal audit comprised an overall network security assessment of the State Bar's networking infrastructure; the report recommended changes to improve security to that infrastructure.

- Number of recommendations: 45
- Recommendations fully implemented: 41
- Recommendations that require no action: 4

FISCAL/PERSONNEL IMPACT

None

AMENDMENTS TO RULES OF THE STATE BAR

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & OBJECTIVES

Goal: None - core business operations

RECOMMENDATIONS

None

ATTACHMENT(S) LIST

- A.** State Audit 2017-030 Recommendations Status Summary
- B.** State Audit 2018-030 Recommendations Status Summary

No.	Recommendation	Current Status
1	To better align its compensation practices with those of comparable agencies, the State Bar should update and formalize its salaries and benefits policies by continuing its negotiations with the union to transition represented employees to an eight-hour workday and a 40-hour workweek, and to implement new salary and job classifications.	Fully Implemented
2	To better align its compensation practices with those of comparable agencies, the State Bar should update and formalize its salaries and benefits policies by implementing an eight-hour workday and a 40-hour workweek, as well as new salary and job classifications, for its non-represented employees by July 2017.	Fully Implemented
3	To better align its compensation practices with those of comparable agencies, the State Bar should update and formalize its salaries and benefits policies by requiring a contribution rate to health care costs for non-represented employees that is equal to the contribution rate for represented employees by January 2018.	Fully Implemented
4	To better align its compensation practices with those of comparable agencies, the State Bar should update and formalize its salaries and benefits policies for executive employees hired on or after January 1, 2018, to require that contributions to post-retirement health care costs are at a rate equivalent to their contributions during employment at the State Bar.	Fully Implemented
5	To better align its compensation practices with those of comparable agencies, the State Bar should update and formalize its salaries and benefits policies by developing and adopting a formal policy by December 2017 to regularly compare staff compensation and benefits with those of comparable agencies.	Fully Implemented
6	To assign purchasing cards only to appropriate staff, ensure that the State Bar's records of employees' credit limits reflect those established with the bank, and to verify that staff use purchasing cards only for allowable and necessary expenses, the State Bar should immediately develop a policy that requires justification of the business needs for employees to receive purchasing cards, and use this policy to limit the number of staff issued a purchasing card.	Fully Implemented

State Audit 2017-030 Recommendations Status Summary

No.	Recommendation	Current Status
7	To assign purchasing cards only to appropriate staff, ensure that the State Bar's records of employees' credit limits reflect those established with the bank, and to verify that staff use purchasing cards only for allowable and necessary expenses, the State Bar should immediately restrict the use of purchasing cards to its original purpose, which was for low-dollar and frequently occurring purchases. For purchases above \$5,000, the State Bar should require the vendor to bill for payment.	Fully Implemented
8	To demonstrate its commitment to the board's prohibition of all State Bar spending on alcohol, the State Bar should immediately update its procurement manual to reflect this prohibition.	Fully Implemented
9	To ensure that its costs are reasonable and appropriate, the State Bar should update its meal and catering policy to align with the meal policy of the State's Executive Branch and should require individuals attending committee meetings for the State Bar to comply with standard meal per diem rates.	Partially implemented: The State Bar has adopted a travel and business-related expense policy that requires individual employee travel meal reimbursements and onsite catering costs to match the State's Executive Branch per diem rates. Since the separation of the Sections from the State Bar in January of 2018, the only meetings held off-site are related to the California Bar Exam. While every effort is made to arrange for catering at off-site events within these same per diem rates, it is not feasible to require this limitation in every situation.
10	To make certain that the costs for sections events are reasonable and prudent, the State Bar should require that the sections follow that State Bar's meal per diem and lodging rates, and require the sections to limit expenses for events to only those activities that are reasonable and necessary. For off-site events, the State Bar should require the sections to follow the State Bar's existing policy of providing written justification of a significant business need to hold the event off-site and obtain approval from the executive director or chief operating officer.	Resolved
11	To ensure that its lobbying expenses are reasonable and cover only allowable activities, the State Bar should revise the terms of its pending lobbying contract to require that the lobbyists provide sufficiently detailed invoices that support the amounts they bill for their services.	Fully Implemented
12	To ensure that it contracts only for appropriate and necessary services from outside law firms at a prudent rate, the State Bar should put its informal practice into a written policy regarding its assessment of the need for outside counsel, including whether the State Bar's attorneys can provide the specified legal services.	Fully Implemented

State Audit 2017-030 Recommendations Status Summary

No.	Recommendation	Current Status
13	To ensure that it contracts only for appropriate and necessary services from outside law firms at a prudent rate, the State Bar should put its informal practice into a written policy regarding its evaluation of the State Bar's past experiences with the law firms being considered.	Fully Implemented
14	To ensure that it contracts only for appropriate and necessary services from outside law firms at a prudent rate, the State Bar should put its informal practice into a written policy regarding its process to select the outside legal firms, including documentation of proposals from other prospective law firms and the costs it considers reasonable for the legal services.	Fully Implemented
15	To reduce its reliance on outside legal counsel, the State Bar should continue its efforts to hire staff to fill its remaining vacant attorney positions.	Fully Implemented
16	To increase transparency, the State Bar should disclose annually to the board a list of all contracts with outside law firms—including a description of the services provided, the need for such contracts, and the value and length of the contracts.	Fully Implemented
17	To better measure how well its attorney discipline program is meeting the State Bar's core mission to protect the public from attorney misconduct, the State Bar should, by December 2017, identify key goals and metrics for the attorney discipline system.	Fully Implemented

No.*	Recommendation	Current Status (One Year Response Submitted April 2019)
9	To enable it to effectively determine its budget, State Bar should continue to annually prepare five-year projections.	Pending: Due to a delay in implementation of a new Oracle financial system, the State Bar was unable to implement the forecasting tool in development of the 2020 budget. Staff is currently working to update the projections using Oracle Planning & Budgeting Cloud Services, which will be part of the 2021 Budget Development Process. Estimated Completion Date: March 2021
10	To ensure that it maximizes the revenue from its San Francisco building, State Bar should lease all available space and ensure that its leases reflect market rates.	Pending: The existing Floor 1 tenant pulled out of the deal to expand to Floor 3, due to a change in its business strategy. The State Bar's broker/property manager, was seeking new leasing opportunities for the Floor; those efforts are on hold at the moment due to the impact of the Coronavirus, which has generally caused the real estate market to slow down. Estimated Completion Date: Unknown
11	To ensure that it maximizes the revenue from its San Francisco building, in the event of any future staff growth, State Bar should avoid adding space by reducing its space allocations when practical to more closely match industry standards.	Partially Implemented: The State Bar completed a reconfiguration in its Los Angeles office to add two offices and 26 cubicles within its existing footprint. The State Bar has no plans to secure any additional space in other buildings, but will continue to accommodate future growth by reconfiguring its existing space in Los Angeles and San Francisco according to industry standards. The State Bar is also assessing its space usage in the San Francisco office to determine if it could further consolidate its operations and release one or more of its current floors for leasing to tenants. Estimated Completion Date: Ongoing
12	To further its ability to operate more efficiently and reduce the backlog of discipline cases, State Bar should develop benchmarks by December 2019 delineating the duration of each step in its investigations process.	Fully Implemented
13	To further its ability to operate more efficiently and reduce the backlog of discipline cases, State Bar should ensure consistency by December 2019 in the policy and guidance documents its staff follow when performing investigations work.	Fully Implemented
14	To further its ability to operate more efficiently and reduce the backlog of discipline cases, State Bar should use its performance measures and collected data going forward to evaluate its case processing goals and work with the Legislature to revise the 180-day statutory goal if necessary.	Pending: The State Bar will conduct a workload study for OCTC in 2020, to update the 2018 study of OCTC workload that estimated staffing needs required to meet the 180 day backlog standard. The 2020 workload study will take into account the changes to the work process necessitated by the implementation of the new case management system, and will develop case weights to reflect staffing needs based on caseload distribution. The study's findings regarding staffing needs will be assessed relative to resources available based on licensing fees, which will allow the State Bar to evaluate whether it is appropriate to work with the Legislature to revise the 180 day statutory goal. Estimated Completion Date: End of 2020
15	To better assess the security fund's revenue needs after 2020, State Bar should develop by August 2019 a methodology for estimating the payments that it is likely to make in a particular year. This methodology should consider the average length of time it will spend processing applications that are eligible for reimbursement and estimate the number of applications anticipated to become eligible for reimbursement during the course of that year.	Fully Implemented

*Only recommendations directed to the State Bar, and not those directed to the Legislature, are included in this table.