

AGENDA ITEM

III A January 16 2015

DATE: January 12, 2015

TO: Members, Audit Committee

FROM: Michael Colantuono, Chair
David Torres, Vice Chair

SUBJECT: Policy Recommendation to Authorize Audit Committee to
Conduct Quarterly Review of Management and Board Member
Expenses

EXECUTIVE SUMMARY

To ensure public confidence in the operations of the State Bar at all levels, the Audit Committee plans to seek ways to enhance oversight of the State Bar's contracting and expenditures. This agenda item recommends that the specific oversight functions of the Audit Committee include a quarterly review of travel and expense reimbursements for Senior Management and members of the Board of Trustees, as previously discussed at the Committee's November 5th meeting.

BACKGROUND

On November 5, 2014, the Audit Committee discussed implementing a policy as part of its oversight function to conduct review of the travel and expense reimbursements of members of the Board of Trustees and the State Bar's Senior Executives on a quarterly basis. No action was taken at that meeting; but direction was given for action at the Committee's next meeting. It is now time to take that action. Accordingly, the Audit Committee is asked to act and recommend the Board approve changes to the Committee's Charter to include this task as part of its financial management and oversight functions. Quarterly expense reviews will ensure specific ongoing fiscal oversight by the Audit Committee and will enhance both the Board's and the public's awareness of expenditures by the State Bar's Senior Management and Board members for travel and other business-related expenses. This will serve the Bar's commitment to transparency and accountability at both the staff and Board levels.

DISCUSSION

The charter of the Audit Committee is summarized in the Board Policy Book, tab 9, article 9, section 2. The charter includes the following provision:

B. Financial Management:

1. Review and evaluate Management's determination of the adequacy of the State Bar's system of internal controls and the extent to which recommendations made by external auditors have been implemented.
2. Review the results of the biennial performance audit conducted by the State Bureau of Audits.
3. Review reports of external auditors or consultants engaged for specific purposes.

Should the Audit Committee desire to add to its specific oversight function the responsibility to monitor the travel and other business expenses for the Senior Executives and Board Members, staff recommends that the charter of the Audit Committee be amended to include quarterly reviews of the reports prepared by the Office of Finance regarding Senior Executives' and Board Members' travel and expense reimbursements, which would include summaries of expenditures on:

- Senior Executive Team Purchase Card (P-card) reports;
- Senior Executive Team and Board of Trustees billings from the State Bar's account with the TravelStore, the authorized travel agency for use by Bar employees and volunteers;
- Senior Executive Team and Board of Trustees Expense Reports

A resolution to amend the charter as recommended would result in changes to the Board Policy Book as shown in Attachment A.

FISCAL / PERSONNEL IMPACT:

None

RULE AMENDMENTS:

None

BOARD BOOK IMPACT:

Tab 9, Article 9, Section 2.III.B

RECOMMENDATION

It is recommended that the Audit Committee adopt the following resolution.

PROPOSED AUDIT COMMITTEE RESOLUTION:

Should the Audit Committee concur with the staff recommendation, the following resolution would be in order:

RESOLVED, that the Audit Committee recommends that Board of Trustees amend the charter of the Audit Committee to specifically provide that its financial oversight management function include the quarterly review of summary reports of the travel and business expenses of the Senior Executives and of the members of the Board of Trustees.

AUDIT COMMITTEE

Section 1: Creation

The Board of Trustees created a “State Bar Audit Committee” to oversee the hiring and supervision of the financial auditors pursuant to Business and Professions Code §§ 6145 and 6222, which require that the State Bar submit a copy of its audited financial statements within 120 days of the close of the fiscal year to the Board, the Chief Justice of the Supreme Court, and to the Assembly and Senate Judiciary Committees.

Section 2: Charter for Audit Committee

I. Delegation of Authority to the State Bar Audit Committee

A. Charge: The State Bar Audit Committee is charged with the following responsibilities:

1. Selecting the independent auditor for the State Bar’s annual financial statement audit;
2. Monitoring the progress of the financial statement audit;
3. Evaluating the results of the financial statement audit;
4. Ensuring that control weaknesses and legal compliance violations identified in the course of the financial statement audit are promptly and effectively remedied;
5. Serving as a direct communications link between the Board of Trustees and the independent auditor; and
6. Monitoring the adequacy of the State Bar’s internal control structure on an ongoing basis.

B. Access to Information: The State Bar Audit Committee may request any independent auditor, expert, officer, trustee, agent or employee of the State Bar to appear before it to report on the financial condition of the State Bar and answer any questions the Committee might have, relating to the accomplishment of its responsibilities enumerated under section I.A.

II. Role and Responsibility of the State Bar Audit Committee

A. Oversight Scope Defined: The role and responsibility of the State Bar Audit Committee is oversight, not preparation or operation. State Bar Management is responsible for preparing the financial statements, governmental and other reports of the State Bar, for operating the State Bar, including its financial and

accounting systems, and for assuring compliance with applicable laws and with policies and procedures established by the Board. The outside auditors are responsible for auditing the financial statements and such other functions as they are specifically engaged to audit.

- B. Reliance on Management, Auditor, and Advisory Information: In carrying out its oversight function, the State Bar Audit Committee is not expected to provide expert or special assurance as to the State Bar's financial statements or professional certification as to the work of the State Bar's staff or of the outside auditors. In discharging their duties, the members of the State Bar Audit Committee may rely on information, opinions, reports or statements, including financial statements or other financial data, prepared or presented by officers, employees, internal or external counsel, public accountants, committees of the board duly designated with authority in particular areas, or other persons whom the member believes are reliable and competent in the matters presented, provided that in so relying the member is acting in good faith and with that degree of diligence, care and skill which ordinarily prudent the State Bar Audit Committee members would exercise under similar circumstances. The Chief Financial Officer is charged with presenting all material matters to the State Bar Audit Committee not satisfactorily resolved by State Bar Management, including expedient contact with the State Bar Audit Committee Chairperson when necessary.

III. Customary Activities of the State Bar Audit Committee

The following functions are appropriate common recurring activities of the State Bar Audit Committee in carrying out its oversight function.

A. External Audit:

1. Recommend appointment of the external auditors, taking into account the recommendation of the Executive Director and Chief Financial Officer, for approval by the full Board of Trustees.
2. Review and approve the annual audit scope and fees of the external auditors.
3. Evaluate the independence of the external auditors, including their recent or planned future engagement by the State Bar for non-audit services.
4. Evaluate the report of the external auditors regarding the results of the annual audit including, but not limited to:
 - a. The audited financial statements and management letter recommendations and Management's responses thereto.

- b. The adequacy of the State Bar's system of internal controls.
- c. Management's cooperation with the external auditors.
- d. The adequacy of the State Bar's accounting policies and practices, including the level of compliance with governmental regulations and with recent professional pronouncements and their impact on the financial statements.

B. Financial Management:

- 1. Review and evaluate Management's determination of the adequacy of the State Bar's system of internal controls and the extent to which recommendations made by external auditors have been implemented.
- 2. Review the results of the biennial performance audit conducted by the State Bureau of Audits.
- 3. Review reports of external auditors or consultants engaged for specific purposes.
- 4. Review quarterly the reports prepared by the Office of Finance on travel and business expenditures of the Senior Executives and members of the Board of Trustees.

C. Other Functions of the State Bar Audit Committee:

- 1. Provide advice and counsel to the Executive Director and Chief Financial Officer.
- 2. Perform such specific oversight functions as expressly requested by the Board of Trustees.

The Audit Committee is chaired by the Treasurer and should have the goal of including at least one public member of the Board of Trustees.

(Source: Board of Governors' Resolutions, October 2004, July 2005; Board of Trustees Resolutions July 2014, January 2015.)