



Communication of
Internal Control Related Matters

The State Bar of California

December 31, 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

To the Board of Trustees
State Bar of California

In planning and performing our audit of the financial statements of the business-type activity and the Trust for Post-Retirement Welfare Benefit Plan for Executive Staff Employees of the State Bar of California (the "State Bar"), as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State Bar's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given the limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We consider the following other matter to be a deficiency in the State Bar's internal control:

Senior Management Expense Report Review

Observation: During our inspection of several senior management expense reports, we noted instances where expense reports did not include documentation supporting the expense in compliance with the State Bar's travel and expense reimbursement policy.

Additionally, we noted the travel and expense reimbursement policy of the State Bar did not specify that expense reimbursement requests include information regarding the business purpose of the expense, nor that expense reports bear evidence of review and approval prior to issuance of payment.

Recommendation: We recommend that expense reimbursements be made only after ensuring that expense documentation is supplied, and approval is obtained, in accordance with State Bar policy.

We also recommend that the travel and expense reimbursement policy be strengthened to require inclusion of information regarding the business purpose of expenses and evidence of review, prior to payment, by an appropriate designated party, generally at a more senior level within the requester's departmental hierarchy.



Management's response: State Bar management agrees with the observation and recommendation. These issues were first addressed at the November 5, 2014 Audit Committee meeting. The staff recommended tightening up the State Bar's Travel Expenses Report and Purchasing Card review procedures on January 16, 2015. As such, the Audit Committee adopted a resolution to amend the Audit Committee's charter to specifically state within its financial oversight management's function to include a quarterly review of summary reports of all travel and business expenses for Senior Executives and members of the Board of Trustees. Beginning January 16, 2015, the Office of Finance has provided these quarterly summary reports for the Audit Committee's review. In addition, in January 2015, the Office of Finance amended the reporting guidelines in the Bar's 2015 Travel and Business-Related Expenses Policy and included language to instruct the Chief Financial Officer to forward any unresolved concerns directly to the Audit Committee chair as warranted. Management believes these policy changes and additional control procedures will remediate these issues.

The State Bar's written response to the other control matters identified in our audit, and described above, were not subject to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the State Bar and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Moss Adams LLP".

San Francisco, California
April 29, 2015