

## AGENDA ITEM

### III.B. JULY 2017

**DATE:** July 13, 2107

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

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

**SUBJECT:** Proposal from Moss Adams – Policies and Procedures Review & Internal Control Review

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#### EXECUTIVE SUMMARY

According to the State Bar's Board Book (Tab 4.1, Section 10), "*beginning in 2015 and every five years thereafter, a review of the State Bar's budget and fiscal control policies and procedures shall be conducted by an independent consultant under the oversight of the Board Audit Committee*". The last internal control review was conducted by Sjoberg Evashenk consulting Inc. in 2010. In 2015, staff initiated an internal control review, but it was postponed due to the special State audit and a series of financial reviews. Staff recommends that the internal control review be conducted in 2017. The work scope of this internal control review will also include a review of the State Bar's financial policies as well as selected cyber security policies. The total estimated service fee is \$150,000 . A request for related funding has been included in the budget amendment agenda item going before the Board as JUL 142. The cost will be allocated out to individual programs based on direct operating expenses.

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#### DISCUSSION

Subsequent to the lease-related embezzlement discovered in 2008, the State Bar initiated an internal control review in 2010. This internal control review was conducted by Sjoberg Evashenk consulting Inc. and the primarily focus was the internal control procedures governing the core financial operating cycles: Payroll, Accounts Payable, Cash Receipt & Accounts Receivable, Procurement and Budgeting. The 2010 internal control review concluded that the State Bar's internal control procedures were strong, with a few minor recommendations related to procurement and corrective actions which were implemented subsequent to the review.

In March 2015, after the acquisition of the Los Angeles building and the former Executive Director's foreign travel in 2011 to 2014, the Board adopted a policy requiring the State Bar to conduct an internal control review every five years. The State Bar's Board Book (Tab 4.1, Section 10) states:

*"beginning in 2015, and every five years thereafter, a review of the State Bar's budget and fiscal control policies and procedures shall be conducted by an independent consultant under the oversight of the Board Audit Committee".*

In 2015 staff initiated an internal control review, but the Board agreed to postpone it due to the special State audit and a series of financial reviews, which included fund structure, indirect cost allocation, inter-fund and inter-loan policy and reserve policy, taking place at that time. In 2016, there was another delay due to uncertainties related to the no Fee Bill status. In late 2016, staff recommended that the internal control review be conducted upon the completion of the State performance audit in the summer of 2017. The scope of work has been expanded to include a review of the Bar's financial policies and procedures, as well as selected cyber security policies.

The total estimated service fee is \$150,000. A request for related funding has been included in the budget amendment agenda item going before the Board as JUL 142. The cost will be allocated out to individual programs based on direct operating expenses.

### **FISCAL/PERSONNEL IMPACT**

Budget increase in professional service fees for \$150,000 in the 2017 budget.

### **RULE AMENDMENTS**

No rule amendment necessary.

### **BOARD BOOK IMPACT**

None.

### **BOARD GOALS & OBJECTIVES**

State Bar's adopted 2017-2022 Strategic Plan Goals and Objectives – Goal 3: Improve fiscal and operational management, emphasizing integrity, transparency, accountability and excellence.

### **BOARD COMMITTEE RECOMMENDATIONS**

The Audit Committee recommends that the Board of Trustees approve the following resolution:

**RESOLVED**, that the Board of Trustees approve the attached internal control review proposal from Moss Adams and instruct staff to begin the process in 2017.

### **ATTACHMENT(S) LIST**

- A.** Moss Adams' Proposal – Policies & Procedures Review and Internal Control Review