

OPEN SESSION AGENDA ITEM

54-113 MARCH 2018 EXCOM ITEM III.E. F&P COMMITTEE ITEM III.A.

DATE: March 9, 2018

TO: Members, Finance and Planning Committee
Members, Board of Trustees

FROM: Kevin Harper, Interim Chief Financial Officer

SUBJECT: Board Book Amendments Re Budget Transfer Policy

EXECUTIVE SUMMARY

The Board Book currently calls for the Board to approve all budget transfers. Staff recommends that approval of certain budget transfers be delegated to staff with the Board of Trustees retaining authority to approve all budget revisions that increase expenditures and all transfers between Funds.

BACKGROUND

The Board Book Tab 4.1, Article 1, Section 1, Adoption and Amendment of Budget, states that “Any request for an interdepartmental cost-center transfer must be presented to the Board for approval, as an amendment to the adopted budget before the cost-center to benefit from the transfer incurs an expense in excess of its previously budgeted expenditure authority, except in the case of an emergency...”

Best practices typically have the Board retain authority to approve any budget revision that increases expenditures and certain high visibility transfers (e.g., above a specified dollar amount, or between certain business units), while delegating approval for most budget transfers to staff.

This agenda item recommends that the Board of Trustees revise its Board Book to require the following budget transfer authority:

- The Board of Trustees is required to approve all increases of budget spending and all transfers between funds.
- The Executive Director is authorized to approve budget transfers between Offices in the same fund.
- The Chief Financial Officer is authorized to approve budget transfers between cost centers within the same Office and same fund.
- Cost center managers are permitted to make budget transfers within their cost center without further authorization.

However, budget transfers between any State Bar cost centers, Divisions or Funds above \$250,000 will still require Board approval. All budget amendments that increase budgeted expenses will still require Board approval.

Other minor revisions to the same section of the Board Book are incorporated into this agenda items. Specifically:

- With the adoption of the Preliminary 2018 Budget on November 2, 2017, the Board approved eliminating the requirement for a three year forecast in the annual budget.
- Updated the name of the Budget Policies and Procedures Manual.
- Corrected a reference to another section of the Board Book.

The State Bar's Budget Policies and Procedures Manual will be updated to conform with these proposed revisions if adopted by the Board of Trustees.

DISCUSSION

This proposed revision to the Board Book allows the Board to continue to have oversight of all large budget transfers and all increases to budgeted expenses, while allowing staff to approve smaller budget transfers with appropriate management authorization.

Before the Board of Trustees for approval are proposed amendments to Tab 4.1, Article 1, Section 1 of the Board Book related to approval of budget transfers and amendments. Attachment A shows a clean version of the revisions and Attachment B shows a red-line version of these changes.

FISCAL/PERSONNEL IMPACT

None

RULE AMENDMENTS

None

BOARD BOOK AMENDMENTS

Main Section 4, Tab 4.1, Article 1, Section 1, Pages 2-3

STRATEGIC PLAN GOALS & OBJECTIVES

Goal: 1. Successfully transition to the “new State Bar”— an agency focused on public protection, regulating the legal profession, and promoting access to justice.

Objective: c. Implement and pursue governance, composition, and operations reforms needed to ensure that the Board’s structure and processes optimally align with the State Bar’s public protection mission.

Goal: 3. Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: d. Reallocate funds to support the discipline system based on expenditure review, revenue enhancement measures, implementation of the Bar’s reserve policy, and other reengineering efforts.

RECOMMENDATION

It is recommended that the Finance and Planning Committee and Board of Trustees approve the following resolution:

RESOLVED, that the Board Executive Committee recommend to the Board of Trustees amendments to the Board Book, Tab 4.1, Article 1, Section 1, as presented to the Board of Trustees this day and as contained in Attachments A and B, and authorize staff to make technical edits and corrections as needed.

ATTACHMENT(S) LIST

- A.** Proposed Amendments to Board Book Tab 4.1 (clean format)
- B.** Proposed Amendments to Board Book Tab 4.1 (red-line format)

Article 1 FISCAL**Section 1 Adoption and Amendment of Budget**

- (a) The Board of Trustees shall adopt, by resolution, an annual expenditure budget for each budgetary fund of the State Bar. The State Bar's expenditures are formally governed at the cost center level through the annual budget resolution adopted by the Board. The budget allocates spending authority within each fund across the departments of the State Bar. The Office of Finance shall ensure that the annual budget that it presents to the Board for adoption (a) is at the cost-center level, in compliance with the requirements of Business and Professions Code section 6140.1 and (b) reports variances by cost center between actual revenues and expenditures for the previous fiscal year and budgeted figures. Cost center refers to the departments of the State Bar and those units or other subdivisions within a department, whose managers are responsible for all its associated direct and indirect costs and for which budget authority is conferred by an adopted budget. For purposes of the budget, cost center units may include a combination of subunit data provided that a meaningful level of detail is provided to the Board.
- (1) The Office of Finance shall monitor expenditures and report to the Executive Director/CEO on expenditures incurred which are likely to cause the total expenditures of any fund to exceed its adopted budget. Departmental operations are expected to be managed within budgets and, when projected variances arise, these are brought to the immediate attention of the Executive Director/CEO and the Office of Finance. Each manager who has budget monitoring duties is responsible for ensuring that receipts and spending are within the approved budgetary authority and for the prudent use and safeguarding of State Bar funds. Corrective action is necessarily taken on a case-by-case basis, depending on the extent to which projected departmental variances impact overall expenditure authority at the department level.
- (2) The Office of Finance shall adopt, maintain, and adhere to its written Budget Policies and Procedures Manual, not inconsistent with the policies of the Board and to be included in the independent control review provided in Section 10. The Budget Policies and Procedures Manual shall include monthly reports to departments and Senior Executives and Managers that identify significant variances and potential impact upon cumulative year-end outcomes.

- (3) Variances are important in determining potential budget shortfalls and the need for corrective actions, including but not limited to, any intradepartmental transfer. Significant year-to-date variances need to be explained to the Office of Finance as soon as possible after the month end close. The definition of “significant” varies depending on the departmental budget size and nearness to year-end; generally, all deficits or any variances that may result in the over expenditure of a departmental budget as a whole for a calendar fiscal year shall be investigated, explained, and reported to the Board Audit Committee.
- (b) The Board of Trustees may, by resolution, amend any adopted budget, upon the recommendation of the Finance and Planning Committee. All budget transfers between funds and all increases of budgeted expenditures must be approved by the Board of Trustees except in the case of an emergency approved by the Chief Executive Officer after consultation with the President, Vice President, and Treasurer.
 - (1) In the event of a new program, an increase in service demands, or unforeseen and unanticipated expenditures in a department, those expenditures should be absorbed within the approved budget of the department.
 - (2) The Executive Director/CEO may approve a request for budget transfer of less than \$250,000 within the fund of a department, provided that the transfer will not result in the over expenditure of a fund as a whole.
 - (3) The Office of Finance may approve a request for budget transfer of less than \$250,000 between cost centers within the same fund and same department, provided that the transfer will not result in the over expenditure of a departmental budget as a whole.
 - (4) The manager of a cost center may transfer budgeted revenues and expenditures of less than \$250,000 within the same cost center without further approval provided that the transfer will not result in the over expenditure of the cost center as a whole.
 - (5) The Board of Trustees is required to approve any budget transfer of \$250,000 or more.
- (c)
 - (1) Budgets lapse at the end of each fiscal year, except as provided below for project budgets. When the Board of Trustees adopts a multi-year budget, it shall adopt distinct budgets for each fiscal year within the budget period for each budgetary cost center.

- (2) The Board of Trustees may adopt non-lapsing budgets for multi-year projects. Non-lapsing project budgets shall be identified as such in the adopting resolution.
- (d) The budgetary funds of the State Bar shall correspond to the accounting funds of the State Bar, as identified in Section 3, below, or to a combination of such funds. The relationship between budgetary funds and accounting funds shall be identified in the annual budget resolution.

(Source: Board of Governors' Resolution, July 1981, December 1993, March 1997, June 2000, September 2004, December 21, 2011; Board of Trustees Resolution, March 13, 2015.)

Article 1 FISCAL

Formatted: Hidden

Section 1 Adoption and Amendment of Budget

- (a) The Board of Trustees shall adopt, by resolution, an annual expenditure budget for each budgetary fund of the State Bar. The State Bar's expenditures are formally governed at the cost center level through the annual budget resolution adopted by the Board. The budget allocates spending authority within each fund across the departments of the State Bar. The Office of Finance shall ensure that the annual budget that it presents to the Board for adoption (a) is at the cost-center level, in compliance with the requirements of Business and Professions Code section 6140.1; ~~and (b) includes a proposed budget for the current and the following two calendar fiscal years; and (c) reports variances by cost center between actual revenues and expenditures for the previous fiscal year and budgeted figures. Based on availability of data, the cost center budgets of the following two fiscal years may contain less detail for some of the line item expense categories.~~ Cost center refers to the departments of the State Bar and those units or other subdivisions within a department, whose managers are responsible for all its associated direct and indirect costs and for which budget authority is conferred by an adopted budget. For purposes of the budget, cost center units may include a combination of subunit data provided that a meaningful level of detail is provided to the Board.
- (1) The Office of Finance shall monitor expenditures and report to the Executive Director/CEO on expenditures incurred which are likely to cause the total expenditures of any fund to exceed its adopted budget. Departmental operations are expected to be managed within budgets and, when projected variances arise, these are brought to the immediate attention of the Executive Director/CEO and the Office of Finance. Each manager who has budget monitoring duties is responsible for ensuring that receipts and spending are within the approved budgetary authority and for the prudent use and safeguarding of State Bar funds. Corrective action is necessarily taken on a case-by-case basis, depending on the extent to which projected departmental variances impact overall expenditure authority at the department level.
- (2) The Office of Finance shall adopt, maintain, and adhere to its written Budget ~~Monitoring~~ Policies and Procedures Manual, not inconsistent with the policies of the Board and to be included in the independent control review provided in Section 108. The Budget ~~Monitoring~~ Policies and Procedures Manual shall include monthly reports to departments and Senior Executives and Managers that ~~include benchmarks to allow the identification of~~ identify significant variances and potential impact upon cumulative year-end outcomes.

- (3) Variances are important in determining potential budget shortfalls and the need for corrective actions, including but not limited to, any intradepartmental transfer. Significant year-to-date variances need to be explained to the Office of Finance as soon as possible after the month end close. The definition of "significant" varies depending on the departmental budget size and nearness to year-end; generally, all deficits or any variances that may result in the over expenditure of a departmental budget as a whole for a calendar fiscal year shall be investigated, explained, and reported to the Board Audit Committee.

- (b) The Board of Trustees may, by resolution, amend any adopted budget, upon the recommendation of the Finance and Planning and Budget Committee. All budget transfers between funds and all increases of budgeted expenditures must be approved by the Board of Trustees except in the case of an emergency approved by the Chief Executive Officer after consultation with the President, Vice President, and Treasurer.

- (1) In the event of a new program, an increase in service demands, or unforeseen and unanticipated expenditures in a department, those expenditures should be absorbed within the approved budget of the department.

- (2) The Executive Director/CEO may approve a request for budget transfer of less than \$250,000 within the fund of a department, provided that the transfer will not result in the over expenditure of a fund as a whole.

Formatted: Indent: Left: 1.25", No bullets or numbering

- ~~(4)(3)~~ The Office of Finance may approve a request for intradepartmental budget transfer of less than \$250,000 between cost centers within the same fund and same of a department, provided that the transfer will not result in the over expenditure of a departmental budget as a whole.

Formatted: No bullets or numbering

~~Any request for an interdepartmental cost-center transfer must be presented to the Board for approval, as an amendment to the adopted budget before the cost-center to benefit from the transfer incurs an expense in excess of its previously budgeted expenditure authority, except in the case of an emergency approved by the Chief Executive Officer after consultation with the President, Vice President, and Treasurer.~~

Formatted: No bullets or numbering

- (4) The manager of a cost center may transfer budgeted revenues and expenditures of less than \$250,000 within the same cost center without further approval provided that the transfer will not result in the over expenditure of the cost center as a whole.

- ~~(2)(5)~~ The Board of Trustees is required to approve any budget transfer of \$250,000 or more.

Formatted: Indent: Left: 1.25", No bullets or numbering

- (c)
 - (1) Budgets lapse at the end of each fiscal year, except as provided below for project budgets. When the Board of Trustees adopts a multi-year budget, it shall adopt distinct budgets for each fiscal year within the budget period for each budgetary cost center.
 - (2) The Board of Trustees may adopt non-lapsing budgets for multi-year projects. Non-lapsing project budgets shall be identified as such in the adopting resolution.
- (d) The budgetary funds of the State Bar shall correspond to the accounting funds of the State Bar, as identified in Section 3, below, or to a combination of such funds. The relationship between budgetary funds and accounting funds shall be identified in the annual budget resolution.

(Source: Board of Governors' Resolution, July 1981, December 1993, March 1997, June 2000, September 2004, December 21, 2011; Board of Trustees Resolution, March 13, 2015.)