

OPEN SESSION AGENDA ITEM

SEPTEMBER 2018 AUDIT COMMITTEE III.A.

DATE: September 13, 2018

TO: **Members, Audit Committee**

FROM: Kevin Harper, Interim Chief Financial Officer

SUBJECT: **Review Risk Assessment**

EXECUTIVE SUMMARY

To assist the Audit Committee to meet its charge to oversee the State Bar's risk management and compliance efforts, staff has identified the risks that could keep the Bar from accomplishing its Mission. For each identified risk, staff has identified the procedures being used to manage it and concluded whether the risk is adequately mitigated. For those risks not adequately mitigated, staff has identified additional steps necessary to achieve that result.

BACKGROUND

The Audit Committee's charter charges the Committee with, among other things, overseeing the State Bar's risk management and compliance efforts. It also calls for the Committee to:

- Ensure the State Bar's vigilance in identifying, analyzing and addressing significant internal control structure vulnerabilities on an ongoing and continuous basis.
- Seek assurances from the senior management team on the effectiveness of risk management practices and controls.

To assist the Committee in accomplishing its charge, the Leadership Team brainstormed the risks that could keep the State Bar from accomplishing its Mission. The Leadership Team listed the primary controls and risk mitigation strategies that are already in place to manage those risks. It then concluded whether, in management's opinion, each risk is being adequately managed. For those risks that were deemed not adequately managed, the Leadership Team identified the additional tasks that are necessary and the additional funding, if any, necessary to adequately manage each risk.

DISCUSSION

The Leadership identified the following nine risks that could keep the State Bar from accomplishing its Mission. For each risk, the Table below shows whether the Leadership Team believes the risk is adequately managed or not.

Table 1
List of Significant Risks

	<i>Risks</i>	<i>Adequately Managed?</i>
1	Negative Outcome in High Profile Case (OCTC)	No
2	Interpretation of Janus Case (OGC)	Yes
3	Workplace Violence (General Services)	No
4	Natural Disaster (General Services)	No
5	Labor Strike (Human Resources)	Yes
6	Loss of Critical IT Functionality (IT)	Yes
7	Financial Fraud (Finance)	Yes
8	Legislative Changes (Mission Advancement & Accountability)	No
9	Non-compliance with Laws (Mission Advancement & Accountability)	No

Following is a description of each of the nine identified risks the risk mitigation processes and controls already in place and, for those risks not deemed adequately managed, a description of remaining additional tasks.

1. RISK – Negative Outcome in High Profile Case (OCTC)

Examples of this risk include declining to file a viable case for technical reasons and failure to secure appropriate discipline in a case. This risk is mitigated by reviewing the Major Case Designation Policy with managers and supervisors annually. Staff considers this risk not yet adequately mitigated. Staff will update its Major Case Designation Policy and provide training to managers and supervisors.

2. RISK – Interpretation of Janus Case (OGC)

In June 2018, the U.S. Supreme Court ruled that union bargaining unit members are not required to pay any fees to a union, despite the obligation of a union to represent both members and non-members. Staff is concerned that a future court decision could undermine an integrated bar's ability to collect mandatory licensing fees from members. Staff is monitoring related Supreme Court decisions and believes this risk is adequately managed.

3. RISK – Workplace Violence (General Services)

Examples of this risk include intruder/active shooter, disgruntled employee/active shooter and bomb threat. This risk is being managed via:

- Criminal history background checks for new employees;
- Uniformed, unarmed security guards on duty 24/7;
- Armed security guards (off-duty police officers) available by special request;
- Relationship in place with CHP for threat assessments/investigations;
- Package x-ray and metal detector screening for visitors;
- Security officer and building management staff procedures for threat response;
- Security officer and building management staff training on security procedures and workplace violence;
- Policies related to workplace safety and security; inappropriate treatment of the public or other employees; harassment and discrimination; drug- and alcohol-free workplace;
- Annual email reminder to employees to report incidents to 9-1-1, emergency hotline number, General Services and Human Resources; and

- Annual mandatory completion of online training modules for all Bar employees includes workplace violence.

Staff believes this risk is not yet adequately managed. Staff will conduct a threat assessment using vendor specialists and will train managers and supervisors on recognizing and reporting threats.

4. RISK – Natural Disaster or Comparable Event Impacting Physical Facilities (General Services)

Examples of this risk include earthquake, fire, flood/storm surge, and critical building system failure. This risk is being managed via:

- Security officer and building management staff procedures for emergency response;
- Security officer and building management staff training on emergency response;
- Annual mandatory completion of online training modules for all Bar employees includes emergency response;
- Annual fire drill;
- Periodic inspections by fire marshal;
- Emergency food and supplies stored onsite;
- Uninterruptible power supplies/generator for critical equipment;
- Insurance coverage in place; and
- Preventive maintenance and capital improvement program in place for building systems.

Staff believes that this risk is not yet adequately managed. Staff will develop a Continuity of Operations Plan with assistance of vendor specialist. This plan will include a communications plan for public, employees, vendors and stakeholders; short-term logistics and recovery plan with identification of alternative worksites and plan for SF/LA cross-coverage; longer term recovery plan; and periodic staff training.

5. RISK – Labor Strike (Human Resources)

Examples of this risk include labor strike and related labor activities that disrupt/discourage tenants and visitors. This risk is being managed via MOU provisions that prohibit strikes, work stoppages and picketing during the term of the MOU and development of a preliminary Continuity of Operations Plan for Labor Strike. Staff believes this risk is adequately managed.

6. RISK – Loss of Critical Information Technology System Functionality and/or Loss of Data (I.T.)

Examples of this risk include loss or corruption of data due to physical damage, failure of IT hardware, electronic security compromise (e.g., system hack, disgruntled employee), and technical change implemented without proper vetting/testing (e.g. human error). This risk is being managed via hardware maintenance and redundancy, and following documented system policies and procedures which have been recently audited in the Bar's biannual cybersecurity audit. Staff believes this risk is adequately managed.

7. RISK – Financial Fraud (Finance)

Examples of this risk include theft of cash receipts, misappropriation of vendor checks, and incorrectly routed wire transfer payments. This risk is being managed via financial internal controls including segregation of duties, positive pay, lockbox, reducing cash collections,

reviews and authorizations, variance analysis and analytic review and audits. These controls are reviewed annually by the Bar's independent auditors and in more detail during its recent internal controls audit which is conducted every five years. Staff believes this risk is adequately managed.

8. RISK – Legislative Changes (Mission Advancement and Accountability)

Examples of this risk include the State Legislature passing new laws that impose new burdens on the State Bar and the Bar failing to secure a licensing fee at all or a licensing fee increase. Staff believes this risk is not adequately mitigated. Staff will improve ongoing communications with stakeholders.

9. RISK – Non-Compliance with Statute and Rule (Mission Advancement and Accountability)

Examples of this risk include the recent determination that the State Bar was out of compliance with a statute requiring a contractual relationship with the Department of Justice for subsequent notification of arrest purposes. This risk is being managed by a comprehensive review of all statutes and rules applicable to the State Bar to document and track all compliance requirements. Staff believes that the review that is underway will be adequate to manage this risk.

FISCAL/PERSONNEL IMPACT

None. The additional costs necessary to manage risks is being included in the 2019 Budget.

RULE AMENDMENTS

None

BOARD BOOK AMENDMENTS

None

STRATEGIC PLAN GOALS & OBJECTIVES

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

Objective: a: Improve productivity through performance accountability, training, and professional development.

RECOMMENDATION

None

ATTACHMENT(S) LIST

None