

STATE BAR OF CALIFORNIA

Single Audit Reports

For the Year Ended December 31, 2022

THE STATE BAR OF CALIFORNIA
For the Year Ended December 31, 2022

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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Trustees
The State Bar of California
San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the State Bar of California (State Bar), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements, and have issued our report thereon dated April 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Bar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State Bar's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State Bar's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The State Bar's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini E O'Connell LEP". The signature is written in a cursive, flowing style.

Walnut Creek, California

April 28, 2023

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

To the board of Trustees
The State Bar of California
San Francisco, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the State Bar of California's (State Bar) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State Bar's major federal programs for the year ended December 31, 2022. The State Bar's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the State Bar complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the State Bar and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of State Bar's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the State Bar's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on State Bar's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the State Bar's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the State Bar's compliance with the requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the State Bar's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the State Bar as of and for the year ended December 31, 2022, and have issued our report thereon dated April 28, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

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Walnut Creek, California
September 25, 2023

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THE STATE BAR OF CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

<u>Federal Grantor/Pass-Through Grantor/Federal Program Name</u>	<u>Federal Assistance Listing Number</u>	<u>Grant Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Passed to Subrecipients</u>
U.S. Department of Treasury				
Passed through CalHFA Homeowner Relief Corporation				
COVID-19 Homeowner Assistance Fund Program	21.026	A21-016	\$ 3,750,202	\$ 3,680,001
Passed through Judicial Council of California				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	63356	26,346,449	25,999,994
Total U.S. Department of Treasury			30,096,651	29,679,995
Total Expenditures of Federal Awards			\$ 30,096,651	\$ 29,679,995

See accompanying notes to the schedule of expenditures of federal awards.

THE STATE BAR OF CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the State Bar of California (State Bar) under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the State Bar, it is not intended to and does not present the financial position, changes in net position, or cash flows of the State Bar.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the accompanying Schedule are presented using the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – PASS-THROUGH AWARDS

The State Bar receives federal award from pass-through agencies. The total amount of such pass-through awards is included on the Schedule of Federal Awards.

NOTE 4 – INDIRECT COST RATE

The State Bar has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance Section 2 CFR 200.414.

NOTE 5 – PASS-THROUGH TO SUBRECIPIENTS

The State Bar provided the following federal awards to subrecipients during the year ended December 31, 2022.

Name	Assistance Listing Number	Amount
California Advocates for Nursing Home Reform	21.026	\$ 150,000
California Rural Legal Assistance, Inc.	21.026	633,333
Housing and Economic Rights Advocates	21.026	666,667
Legal Access Alameda	21.026	233,333
Legal Aid of Sonoma County	21.026	266,667
Legal Aid Society of San Bernardino	21.026	266,667
Legal Aid Society of San Diego	21.026	266,667
Legal Assistance to the Elderly	21.026	300,000
National Housing Law Project	21.026	250,000
Public Counsel	21.026	396,667
Senior Advocacy Network	21.026	250,000
		\$ 3,680,001

THE STATE BAR OF CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

NOTE 5 – PASS-THROUGH TO SUBRECIPIENTS (Continued)

Name	Assistance Listing Number	Amount
Affordable Housing Advocates	21.027	\$ 50,000
Aids Legal Referral Panel	21.027	50,000
Alameda County Homeless Action Center	21.027	93,755
Alliance for Children's Rights	21.027	323,254
Asian Americans Advancing Justice - Los Angeles	21.027	487,231
Asian Pacific Islander Legal Outreach	21.027	63,025
Bay Area Legal Aid	21.027	631,717
Bet Tzedek Legal Services	21.027	637,797
California Advocates for Nursing Home Reform	21.027	147,348
California Indian Legal Services	21.027	427,366
California Rural Legal Assistance Foundation	21.027	147,348
California Rural Legal Assistance, Inc.	21.027	1,881,566
California Women's Law Center	21.027	147,348
Central California Legal Services	21.027	871,253
Centro Legal de la Raza	21.027	179,707
Child Care Law Center	21.027	147,348
Coalition of California Welfare Rights Organizations	21.027	147,348
Community Legal Aid SoCal	21.027	874,806
Community Legal Services in East Palo Alto	21.027	138,517
Contra Costa Senior Legal Services	21.027	50,000
Disability Rights California	21.027	2,132,929
Disability Rights Education and Defense Fund	21.027	147,348
Disability Rights Legal Center	21.027	188,236
Elder Law & Advocacy	21.027	108,375
Eviction Defense Collaborative	21.027	391,667
Family Violence Appellate Project	21.027	147,348
Family Violence Law Center	21.027	50,000
Greater Bakersfield Legal Assistance	21.027	353,018
Harriett Buhai Center for Family Law	21.027	134,018
Housing and Economic Rights Advocates	21.027	416,667
Immigrant Legal Resource Center	21.027	110,000
Inland Counties Legal Services	21.027	1,718,309
Inner City Law Center	21.027	870,330
Justice & Diversity Center of the Bar Association of San Francisco	21.027	95,113
Justice in Aging	21.027	347,348
LACBA Counsel for Justice	21.027	58,987
Law Foundation of Silicon Valley	21.027	199,349
Lawyers' Committee for Civil Rights	21.027	189,748
Legal Access Alameda	21.027	50,000
Legal Aid at Work	21.027	564,410
Legal Aid Foundation of Los Angeles	21.027	1,097,527
Legal Aid Foundation of Santa Barbara County	21.027	69,828

THE STATE BAR OF CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

NOTE 5 - PASS-THROUGH TO SUBRECIPIENTS (Continued)

Name	Assistance Listing Number	Amount
Legal Aid of Marin	21.027	\$ 170,000
Legal Aid of Sonoma County	21.027	393,796
Legal Aid Society of San Bernardino	21.027	472,851
Legal Aid Society of San Diego	21.027	575,927
Legal Aid Society of San Mateo County	21.027	57,859
Legal Assistance for Seniors	21.027	50,000
Legal Assistance to the Elderly	21.027	50,000
Legal Services for Children	21.027	50,000
Legal Services for Seniors	21.027	76,756
Legal Services of Northern California	21.027	870,793
Los Angeles Center for Law and Justice	21.027	283,333
McGeorge Community Legal Services	21.027	85,586
Mental Health Advocacy Services	21.027	50,000
National Center for Youth Law	21.027	147,348
National Housing Law Project	21.027	314,015
Neighborhood Legal Services	21.027	1,034,918
OneJustice	21.027	347,348
Public Advocates Inc.	21.027	241,619
Public Counsel	21.027	1,233,440
Public Interest Law Project	21.027	147,348
Public Law Center	21.027	772,967
Riverside Legal Aid	21.027	154,633
San Diego Volunteer Lawyer Program	21.027	179,239
San Luis Obispo Legal Assistance Foundation	21.027	241,667
Santa Clara County Asian Law Alliance	21.027	52,105
Senior Adults Legal Assistance	21.027	50,000
Senior Advocacy Network	21.027	50,000
Senior Citizens Legal Services	21.027	50,000
Social Justice Collaborative	21.027	50,000
USD School of Law Legal Clinics	21.027	356,236
Veterans Legal Institute	21.027	58,227
Watsonville Law Center	21.027	50,000
Western Center on Law and Poverty	21.027	147,348
Youth Law Center	21.027	147,348
Yuba-Sutter Legal Center for Seniors	21.027	50,000
		\$ 25,999,994
Total		\$ 29,679,995

THE STATE BAR OF CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

Section I Summary of Audit Results

Financial Statements

Type of report issued on whether the financial statements
were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiency(ies) identified that are not
considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major federal programs:

- ◆ Material weakness(es) identified? No
- ◆ Significant deficiency(ies) identified that are not
considered to be material weaknesses? None reported

Type of auditor's report issued on compliance with major
federal programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
21.026	COVID-19 Homeowner Assistance Fund Program
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A
and type B programs: \$902,900

Auditee qualified as a low-risk auditee? No

STATE BAR OF CALIFORNIA
Schedule of Findings and Responses
For the Year Ended December 31, 2022

Section II Financial Statement Findings

Finding 2022-001 – Significant Deficiency in Internal Control Over Financial Reporting Information Technology Program

Criteria:

Internal controls over financial reporting are reliant on effectively designed information technology (IT) controls. In that regard, an effectively designed IT control environment is one where an organization:

- a) develops, documents, and disseminates to appropriate personnel, policies that address purpose, scope, roles and responsibilities, management commitment, coordination among the State Bar departments and compliance; and procedures to facilitate the implementation of the policy and associated controls;
- b) periodically reviews and updates the current policies and procedures; and
- c) systematically monitors and evaluates its environment to ensure that policies and procedures are operating as designed.

Condition:

We noted that the Change Management Workflow policy was last updated on September 7, 2005. The policy does not reflect the current change management process at the Agency. Likewise, the Incident Response Plan was last updated on November 20, 2017. In addition, we were unable to obtain formally documented policy and procedures for:

- Provisioning Access
- Deprovisioning Access
- Periodic Reviews of User Access
- Backup Policy
- Procedures to monitors Oracle Fusion interfaces and resolve abnormal endings

In March 2023, we received the updated Change Management Workflow policy and Incident Respond Plan. In addition, management formally documented and provided the Provisioning and Deprovisioning procedures, and the Backup policy. The updated documentation will be assessed as part of the year ended December 31, 2023 audit procedures.

Cause and Effect or Potential Effect:

The State Bar's staffing and resources constraints have prevented the State Bar from reviewing and updating the Change Management Workflow; and formally documenting the access and backup policies.

Recommendation:

The IT Policies should be reviewed annually and updated as needed to verify that current policies and practices are documented in the IT Policies and communicated to those responsible for the State Bar's information systems. In addition, the State Bar should implement a process to ensure that its employees are knowledgeable of the policies by conducting regular training on the State Bar requirements and obtain written or electronic acknowledgement from personal of their responsibilities.

Management Response:

The views of responsible officials are set forth in the State Bar's Corrective Action Plan.

THE STATE BAR OF CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

**Finding 2022-002 – Significant Deficiency in Internal Control Over Financial Reporting
Annual Review of Access to Oracle Fusion and IT Administrator Access**

Criteria:

The State Bar has not formally documented and implemented a periodic review of user access to Oracle Fusion or user ids with IT Administrator and privileged access rights.

Condition:

A review of users with privileged access to Oracle Fusion and IT Administrator and privileged user ids was not performed during the year ended December 31, 2022.

Cause and Effect or Potential Effect:

The State Bar's staffing and resource constraints prevented the State Bar from conducting an annual review of users with access to Oracle Fusion, and user ids with IT administrator and privileged access rights since the processes have not been developed or established. The State Bar is at risk of personnel having unauthorized access to Oracle Fusion if job functions change and no longer require privileged access.

Recommendation:

The State Bar departments should perform an annual review of users with access to Oracle Fusion, and user ids with IT Administrator and privileged access to recertify that access is based on job requirements. Results of the review should be submitted to the body responsible for monitoring compliance with the State Bar policy.

Management Response:

The views of responsible officials are set forth in the State Bar's Corrective Action Plan.

Section III Federal Award Findings and Questioned Costs

None reported.

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MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2022

FINDING 2022-001—SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING INFORMATION TECHNOLOGY PROGRAM

MANAGEMENT RESPONSE:

The State Bar agrees with this recommendation. We acknowledge that we have fallen behind in updating or creating formal documentation for various I.T. policies and procedures, though we do believe that, in most cases, procedures that are currently in place are sufficient in practice, but must be more formally documented to provide greater assurance that they are consistently implemented and that the implementation can be more readily validated. Several of the items noted above were already updated or remediated during the course of the audit, and the State Bar's Office of Information Technology is undertaking a more comprehensive review of all I.T. policies and procedures, that will fully incorporate audit findings and other recent reviews, as well as updated industry best practices. An outside resource will be engaged to assist in this effort.

Targeted Completion Date: December 30, 2023

FINDING 2022-002 – SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING ANNUAL REVIEW OF ACCESS TO ORACLE FUSION AND IT ADMINISTRATOR ACCESS

MANAGEMENT RESPONSE:

The State Bar agrees with this recommendation and will implement the recommended process immediately. We do believe that, as a practical matter, the identified risk is low, as employees with IT administrator and privileged access rights to Oracle work in specialized functional areas and do not generally transfer to programmatic roles where such access would not be permitted.

Targeted Completion Date: November 30, 2023

THE STATE BAR OF CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2022

There were no audit findings nor questioned costs reported for the year ended December 31, 2021.