



THE STATE BAR OF CALIFORNIA

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Date: July 2, 2009 **Item IV. A**

To: Audit Committee

From: Office of Finance

Subject: Implementation of Recommendations in Risk Scan Internal Control Assessment - Update

Background:

In November 2008, the Audit Committee contracted with the firm of Kevin Harper, CPA & Associates to perform an independent high level scan for weaknesses in the Bar's internal controls over its major financial processes. Mr. Harper presented the results of his review to the Committee at its May 2009 meeting. Staff also presented management's comments and proposed action plan to address the recommendations outlined in Mr. Harper's report.

Following the presentation, the Committee voted to accept certain changes and clarifications that Mr. Harper proposed to management's action plan. This memo will provide the Committee with management's revised action plan and an update on its implementation of the risk scan's recommendations.

Revisions to Management's Action Plan:

Several additional tasks and clarifications have been added to management's action plan. By category, these revisions include:

Policies and Procedures (page 7 of management's action plan):

- 5b. *The Executive Director's office will index existing administrative advisories into an administrative manual that will be available on the Bar's intranet. The addition of this task fully addresses Mr. Harper's recommendations that the Bar's policies and procedures are available to all employees on the Bar's intranet site.*

Risk Assessment (page 8 of management's action plan):

- 6b. *The Senior Executive Team has global responsibility for performing a risk assessment and will work together to identify key risks to the Bar, match controls to mitigate those risks, and identify areas of potential exposure to*

the Bar. This item has been added to clarify the approach that management will take to perform this overall risk assessment.

Internal Audit (page 10 of management's action plan)

- 8a. *The Audit committee has adopted an outsourced internal audit function.* This change acknowledges the Committee's decision to adopt an outsource internal audit function rather than adopt management's proposal to use business process re-engineering approach.

Business Expense Accounts (page 12 of management's action plan)

- 11b. *Finance will establish a regular reporting cycle for business expense costs. The Deputy Executive Director and the Chief Financial Officer will regularly review business expense.* This task identifies the individuals who will be responsible for reviewing business expenses.

Segregation of Duties (page 13 of management's action plan)

- 12b. *Finance will review employee access to the Bar's financial systems and verify that proper segregation of duties exists.* This is an additional task recommended by Mr. Harper.

Status of Recommendations:

Target dates have been established for the 41 individual tasks identified in management's action plan. To date, management is on track to complete the tasks within their individual target date. The specific tasks and the status of each begin on page 25 of the action plan.

Next Steps:

Staff will provide regular updates of the status of management's action plan at each Audit Committee meeting.