

The State Bar of California

RiskScan

Internal Control Assessment



February 28, 2009

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The State Bar of California

RiskScan - Internal Control Assessment

SCOPE AND APPROACH

The purpose of the RiskScan internal control assessment was to perform an independent high-level scan for significant weaknesses in the State Bar's internal controls over its major financial processes (cash receipts, cash disbursements/procurement, payroll, budgeting, grants, treasury and financial reporting). The tasks we performed were as follows:

1. Entrance conference with State Bar management and Audit Committee Chair to:
 - Finalize project scope;
 - Obtain policies and procedures, budgets, financial statements, organization charts, department goals, management compensation structure, and other relevant source documents;
 - Agree on timing and communication protocols;
 - Identify appropriate personnel to interview and schedule interviews;
2. Reviewed policies and procedures, budgets, financial statements, organization charts, department goals, management compensation structure, and other documents;
3. Interviewed 25 State Bar management and staff employees involved in the major financial processes to gain an understanding of policies, procedures, objectives, risks, controls, historical issues, and perceived problems;
4. Gathered and reviewed additional documentation as necessary to supplement and verify information gained from interviews;
5. Analyzed results of interviews and document reviews, and researched best practices;
6. Identified significant weaknesses in the State Bar's internal controls and developed recommendations for improvement;
7. Wrote draft internal audit report;
8. Met with the Audit Committee and management to review the draft report and to discuss other non-significant weaknesses;
9. Revised report and issued final version.

BACKGROUND

Most organizations use the COSO internal control framework when assessing the adequacy of their internal controls. COSO is the Committee of Sponsoring Organizations of the Treadway Commission. It is composed of representatives of the American Institute of Certified Public Accountants, the American Accounting Association, the Institute of Internal Auditors, the Institute of Management Accountants and the Financial Executives Institute.

COSO defines internal control “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.”

The COSO framework is composed of five interrelated components:

Control Environment – The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the organization’s people; management’s philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. The chief executive officer is ultimately responsible and should assume “ownership” of the system. More than any other individual, the chief executive sets the ‘tone at the top’ that affects the integrity and ethics and other factors of a positive control environment.

Risk Assessment – Every organization faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks to achievement of objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions continue to change, mechanisms are needed to identify and deal with the risks associated with change.

Control Activities – Control activities are the policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address risks to achievement of the organization’s objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information and Communication – Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information that makes it possible to run and control the organization. They deal not only with internally generated data, but also information about external events, activities and conditions. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must understand their own role in the internal control system, as well as how individual activities related to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

Monitoring – Internal control systems need to be monitored—a process that assesses the quality of the system’s performance over time. Monitoring can be accomplished through a combination of ongoing monitoring activities and separate evaluations. Ongoing monitoring activities can occur in the course of operations via regular management and supervisory activities. The scope and frequency of separate evaluations depends on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

Following is a summary of State Bar cash received by source in 2008 (in millions):

Mandatory membership dues	\$65.4
Voluntary dues/donations	2.5
Penalties	1.3
Application fees	8.7
Moral Character Determination	3.7
Legal Services Trust Fund (IOLTA)	22.8
Sections membership fees	4.7
Investment income	4.0
Grants	12.7
AB 145 filing fees	6.1
Advertising	1.0
Seminars and workshops	1.5
Rental income	1.1
Affinity Programs – insurance	2.1
Other	<u>11.7</u>
Total 2008 revenues	<u>\$149.3</u>

Of this total revenue, approximately 65% was received via lockbox, 25% via credit card, 2% via electronic funds transfer and 8% via check.

FINDINGS AND RECOMMENDATIONS

Mailed Cash Receipts

Of the State Bar's 2008 annual revenues of \$149 million, approximately 65% is received through a lockbox, 25% via credit card and 2% via electronic funds transfers. The remaining approximate 8% is received via checks through the mail. Several of the State Bar's cash collection sources have high risk of loss because the revenues are not invoiced and are hard to predict in amount, such as:

- Affinity programs (insurance sponsorship fees) – approximately \$1.9 million per year
- CalBar journal classified ads (display ads are invoiced through the Office of Finance) – approximately \$90,000 per year
- Meeting and workshop registration fees – approximately \$2.4 million per year

Key controls related to handling of checks through the mail are:

- Immediate restrictive endorsement
- Immediate creation of initial accounting record
- Timely deposit of checks into bank
- Two persons opening mail

The mailroom only opens mail that they cannot determine where to route. Mail is opened at every division. Most divisions do not have two people opening the mail and most do not have restrictive endorsement stamps. The checks are frequently not delivered to the Office of Finance for deposit in a timely manner. For example, checks for ethics classes received in San Francisco are forwarded without being restrictively endorsed to Los Angeles for posting to member accounts; they are then forward back to the Office of Finance in San Francisco for depositing. There is no written policy that makes it clear that checks should be delivered to the Office of Finance daily and some divisions hold checks for several days.

Recommendation

The State Bar should consider centralizing the opening of mail. Mailroom employees should open all mail, remove all checks and make a log of incoming checks. The log should be made available on a shared drive or intranet site so that all divisions can see checks. Prior to centralizing, a test should be performed to determine what information is needed on the check log to allow proper account coding of cash receipts. It may be necessary to scan or photocopy all checks to assure proper account coding, or for research or audit trail reasons. If the State Bar decides not to centralize opening of mail in the mailroom, then each division should be required to centralize their own mail opening, with the same procedures as described herein.

Budget

Governmental budgets serve three essential purposes: 1) to set public policy, 2) to act as a legislative control on taxing and spending by the executive branch, and 3) to serve as a

financial planning tool. The State Bar's budgetary process does not accomplish the second and third purposes well.

The State Bar prepares an annual budget. Each division prepares budgets for each of its business units and submits to the Office of Finance for summarization by service area, by fund and for the comprehensive organization-wide budget. This budget is reviewed by the Executive Director, Deputy Executive Director, Chief Financial Officer, and Planning, Program Development and Budgeting Committee, and is approved by Board of Governors.

According to the State Bar's budget resolution, the budget is adopted at the fund level. This means that a budget violation occurs only if the fund is overspent in total. Although the Office of Finance primarily monitors the budgets at the business unit level, there is no general agreement about whether managers should be held accountable for budget compliance at the service area level, business unit level, account level, or division level. Consequently, the State Bar does not use budget blocks as an internal control over paying an invoice or purchase order in excess of budgeted amounts.

Purchase orders are required whenever a commitment of funds is made for goods or services, unless charged to a purchasing card. Purchase orders are not linked to budgets. If a purchase order amount is exceeded, the division is asked to write a memo to justify the overage, but there is no comparison of the revised amount to the budget. Similarly, the budget vs. actual comparisons by division available from the PeopleSoft financial system do not include encumbrances (purchase orders or other commitments) along with actual expenditures when comparing to budgeted amounts.

Division budgets are prepared assuming that all authorized positions will be filled at some point during the year. Due to position vacancies, most divisions have never overspent their budget in total. The cushion built into the budgets for unfilled positions creates an environment where the budget is not effective as an internal control component.

Divisions are not held accountable for budget compliance. The reports that are generated from the PeopleSoft accounting system are hard to access and hard to read. For both these reasons, division managers and staff do not routinely access the system and do not perform adequate budget to actual comparisons. As a result, there is limited ability for management to revise planned spending when revenues fall below amounts estimated during budget preparation.

Recommendation

State Bar management should define and communicate the level of budgetary control managers are responsible for meeting. Divisions should be held accountable for budget compliance by monitoring their budget to actual results on a regular basis. Since costs for salaries and benefits are monitored and managed on a State Bar-wide level, division managers and business unit managers should be accountable for non-personnel costs. The Office of Finance should establish

budget blocks and a mechanism to link purchase orders to the budget. The Office of Finance should conduct training for all managers on budget vs actual analysis and accessing reports available in the PeopleSoft system.

Payroll System

The PeopleSoft payroll and human resources system used to process payroll is not functioning effectively. Random errors often occur in areas such as state disability insurance calculations, year to date balances, payroll deductions, and tax table rates. Most payroll periods, State Bar employees must "work around" the system and prepare manual adjustments to get correct outcomes.

The Office of Information Technology engaged a consultant to assist with resolution of ongoing payroll system issues, as well as to assist with the annual open enrollment employee self-service process. Fees paid to this consultant for the period October 2007 through February 2009 were over \$200,000. The State Bar outsourced its payroll through February 2005 at a cost of approximately \$2,500 per month. Payroll providers such as ADP, Paychex and Wells Fargo offer payroll, tax and benefits administration services at a modest cost.

Recommendation

The State Bar should invest sufficient resources to identify and fix the PeopleSoft payroll system errors. Alternatively, the State Bar should perform a cost/benefit analysis related to outsourcing of payroll. Benefits of outsourcing may include saving a significant portion of the consultant's costs and immediate access to a sophisticated, reliable and user friendly system. Costs of outsourcing may include integrating the payroll provider's information into the PeopleSoft financial system.

Travel and Expense Reimbursements

The Sections office in the Member Services Division provides educational services for attorneys seeking to enhance their professional skills and abilities. Services provided to Sections members include up-to-date information and skills development opportunities in their chosen areas of practice. Because Sections services are fully funded by voluntarily dues, there is disagreement over whether their expenditures must comply with the State Bar's travel and business expense policy. The Board Book states that "Travel and related expenses incurred by a Section Representative shall be borne by the Section he or she represents, subject to the policies and procedures of the State Bar for expense reimbursement. Examples of expenses frequently incurred that do not comply are:

- Sections committee members host dinners and pre-meeting social events. These expenses are often significant in amount with no readily obvious business purpose
- Sections chairs buy gifts in amounts as high as several hundred dollars for outgoing Sections committee members.

- The State Bar pays for alcoholic beverages served at meetings and events

Recommendation

Sections should be required to comply with the State Bar's travel and business expense reimbursement policy. Alternatively, State Bar management should develop and the Board of Governors should adopt a separate policy related to Sections travel and expense reimbursement. In addition, the State Bar should consider providing to Section members periodic financial reports showing how Sections members' voluntary fees are used.

Policies and Procedures

Generally the State Bar's policies and procedures are thorough and documented. The Office of Finance has policies and procedures for most of its significant processes including procurement, accrued liabilities, accounts payable, cash receipts, capital assets, general accounting, investments, payroll, petty cash, member billing and travel/expense reimbursements. The Executive Director's Office produces Administrative Advisories (covering such topics as acceptance of gifts and drug-free workplace) and Executive Advisories (covering such topics as purchasing cards and cost containment measures). The State Bar has also established several policies and procedures in a document referred to as the "Board Book".

These policies, procedures and advisories are not adequately communicated to employees. The Finance policies and procedures have not been distributed outside the Finance Division, they have not been codified into a manual, they are not available through an intranet site or shared drive, and there has been no training related to their implementation. The advisories are distributed to employees when they are written and are not codified into a manual; although they are posted to a shared drive, they are not easy to find due to lack of organization of the shared drive.

Procurement policies and procedures are codified into a General Procurement Manual which was updated in February 2009. This revised manual has not been distributed nor related training scheduled.

There are no written procedures for several key areas in which divisions are responsible, including grants and budget management.

Recommendation

The State Bar should prepare an electronic version of both a financial policies and procedures manual (including procurement) and an administrative manual. These manuals should be made available on an intranet site or shared drive to all employees and publicize their availability; the shared drive should include a table of contents and search capabilities to make them user friendly. Training should be provided to employees on all policies, procedures and advisories that are key to their responsibilities. Existing financial policies and procedures should be inventoried and supplemented as necessary.

Risk Assessment

COSO identifies risk assessment as a key element of an effective internal control structure. The State Bar's independent auditors, Macias, Gini & O'Connell, recommended in their Report to the Board of Governors dated April 15, 2008 that the State Bar formalize a comprehensive risk assessment plan. Although the State Bar has begun a risk and control project facilitated by Kevin W. Harper CPA & Associates, to assess risks related to the State Bar's major business processes (cash receipts, disbursements/procurement, payroll, budget, treasury, grants and financial reporting), it has not conducted an organization-wide risk assessment.

Recommendation

The State Bar's senior management should perform an identification and assessment of all the key risks affecting the State Bar's ability to meet its business objectives, safeguard its assets, operate efficiently and effectively, and comply with laws and regulations. They should implement a process to monitor the effectiveness of related controls and identify new risks as they arise. Major risks to be considered may include State oversight of regulatory vs. professional association activities, fraud loss, backlog of discipline cases and expenses growing faster than revenue increases authorized by State.

Code of Conduct

Codes of conduct have become more common in governments the last few years since the Enron debacle and the Sarbanes Oxley Act. The purpose of a code of conduct is to broadly disseminate the rules of expected behavior to an organization's employees. Communication of ethical behavior is essential in developing appropriate business practices. The State Bar has no written code of conduct or ethics policy. Although some of the State Bar's Administrative Advisories and Executive Advisories are related to behavior, there is no comprehensive training or written communications to employees regarding ethical expectations.

Recommendation

The State Bar should develop a written code of conduct that is applicable to all employee levels and aligned with existing policies and procedures. The Agency should also implement training or a process for communicating ethical behavior to employees.

Internal Audit

COSO states that "Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an organization, an internal audit function often plays a significant monitoring role."

The State Bar had an internal audit function that was disbanded approximately ten years ago. The previous internal audit function was considered ineffective, slow and not insightful. However, an internal audit function can assure compliance with key internal controls, be assigned to analyze areas of Audit Committee or Board interest, assist in sharing best practices between divisions and locations, and provide training on risk and control matters.

Local governments frequently have difficulty maintaining an effective internal audit function over time because:

- Qualified internal auditors are difficult to hire
- It is difficult to provide a career path for an auditor
- A small internal audit staff may not have technical expertise to conduct specialized audits (e.g. audits of information technology or litigation)
- It is difficult to provide supervision and mentoring of internal auditors

Recommendation

The State Bar should establish an internal audit function, which should report directly to the Audit Committee. An internal audit mission and procedures should be developed. The State Bar should determine whether to hire or outsource the internal audit function.

Training

Employees are the largest asset of the State Bar. Approximately \$72 million of its annual \$149 million budget is spent on salaries and benefits. The State Bar spent \$146 thousand in 2008 on seminars and outside training; this represents approximately \$270 per person. In-house training was conducted in 2008 by the Deputy Executive Director for all management personnel and by the Office of Information Technology on various topics on an as-needed basis.

Employees manage the State Bar's objectives, risks and controls; handle significant amounts of cash receipts; perform complex analysis; interpret laws, regulations and contract provisions; utilize new technology; and work together as a team. Employees need to be involved in continual training to stay current on laws, industry standards and technology affecting their areas. Training also enhances employees' efficiency, effectiveness and morale. The State Bar has no formal staff training program for its employees. There is little cross training to assure there is a backup for each significant task.

Recommendation

The State Bar should develop a formal training program for all its employees. This program should include for each employee:

- Assessment of the skills and knowledge needed to perform his/her job at a high level of competency

- Assessment of the current skills of the individual
- Identification of various development opportunities in the areas needed, including self-study, internal training, external conferences, college courses, personal development seminars, etc.
- Commitment between individual and mentor on which development opportunities will be scheduled
- Adequate funding of the training program
- Tracking of the individual's training progress
- Positive feedback and/or reward to individuals fully participating in the program

The staff training program should also ensure that more than one employee is trained for each key job in the event of turnover or other unavailability of employee.

The Offices of Finance, Information Technology and Human Resources should work together to develop and deliver to the divisions meaningful training related to use of administrative resources. Such training should include procurement, handling cash receipts, expense reimbursement, budgeting and accessing PeopleSoft.

Decentralized Billing

Under the State Bar's decentralized billing practices, operating some divisions issue invoices and collect payments directly from outsiders. Some of these divisions that prepare bills do not provide copies to the Office of Finance. Therefore the Office of Finance cannot review the accuracy and timeliness of the bills.

If billing and collection duties are not adequately segregated, an employee could steal a check and hide the theft by discarding the invoice or otherwise manipulating the accounting records. Internal control procedures concerning authorizing, invoicing, reviewing, collecting and processing of revenue and cash receipts in the operating divisions have not been reviewed/audited to ensure there is adequate segregation of incompatible duties.

The State Bar has many revenue sources for which invoices are not prepared and the expected amount of collections is difficult to predict. Any cash received that is unanticipated has greater risk of being stolen and not detected in a timely manner. Whenever possible, an expected amount of cash to be collected should be determined and reported to a different person or department. This allows easier identification of losses when actual cash collected is less than expected amounts. Expected cash receipts can be determined from invoices sent out, contracts, historical trends or informed projections.

Recommendation

As much as possible, billing of State Bar revenues should be centralized by preparing the invoices online using the PeopleSoft billing module. All invoices must have instructions to mail payments only to the State Bar address shown on the invoice. Note that certain programming and training will be required to make the billing module usable in a decentralized manner.

The Office of Finance should identify all invoicing that is being done by operating divisions (e.g., sales of member lists, CalBar Journal classified ads). The Office of Finance should develop written billing policies and procedures for operating divisions. An audit of the divisions' billing procedures should be conducted periodically to ensure they are being followed.

"Business Expense" Accounts

The State Bar's ten senior executives and each of the sixteen Sections in the Member Services Division each have \$2,500 budgeted in a discretionary account called "business expense". The State Bar Travel and Business Related Expense policy states that "Senior Managers may budget for 'Business Expenses' (account code 40570). The amount in this account is determined by the Executive Director annually during the budget planning process and is to be funded with non-mandatory fee revenues. This account is to be used at the Senior Managers' discretion in the course of their duties to cover applicable business expenses for themselves and others. Reasonable expenses charged to this account and approved by the appropriate manager are exempt from this State Bar Travel and Business-Related Expense policy and its Catered Meals Guidelines. Please note that no reimbursement will be made against the Business Expense Account unless there is a sufficient amount budgeted in the account to cover the expenses. Any Pcard charges that default to any other account must be reallocated to a budgeted 40570 account during the statement review period and reconciled before the annual fiscal close."

This policy authorizes senior managers to spend limited amounts on expenses that are otherwise outside the policies of the State Bar. In practice, these business expenses are frequently used for purchasing alcohol at State Bar functions, hosting events at homes of Sections volunteers and giving gifts to Sections volunteers. In addition, when employees or volunteers make non-complying purchases that are questioned by the Office of Finance, the expenditures frequently get reclassified to the business expense account. The amounts budgeted in the Sections business expense accounts frequently gets overspent without any budget blocks or other accountability.

Recommendation

The State Bar should refrain from using "business expense" accounts or other purchasing mechanisms that do not provide definitive guidance related to inappropriate expenditure of public funds. If the need for these accounts is determined to be necessary, the State Bar should expand the existing policies and procedures to describe the types of disbursements allowed and unallowed,

maximum amounts per transaction and per year, and distribution of related expenditure reports to the Chief Executive Officer, Chief Financial Officer and Audit Committee.

Segregation of Duties

An essential internal control is that employees with access to assets should not also have access to accounting records. Inadequate segregation of these duties can lead to a situation where an employee can steal an asset and hide the theft by manipulating the accounting records. Examples of State Bar employees having access to both accounting records and assets are as follows:

- Member Services collects cash from members and has security access to post adjustments and waivers and make adjustments to member collections
- Member Billing handles checks received from members and has security access to post waivers of member collections
- Any currency collected in San Francisco is given to the payroll clerk, who also has access to accounting records
- The accounting clerk who prepares the bank deposit also has access to accounting records
- Divisions prepare invoices to outside parties and collect the related cash (see Decentralized Billing finding above)

Employees in the Office of Finance generally have access to accounting records; therefore they should not have access to assets (e.g., unendorsed checks received, currency, signed checks prepared).

Recommendation

The Office of Finance should identify all cases wherein State Bar employees have access to both assets and accounting records. In each of these cases, such duties should be adequately segregated. If, due to the State Bar's relatively small staff size, duties cannot be fully segregated by division, then it is important to assure that (1) duties are segregated by individual within the division and (2) the lack of full segregation is communicated to division management, the Chief Executive Officer, the Chief Financial Officer and the Audit Committee.

Client Security Fund

The Client Security Fund (CSF) collects approximately \$6.5 million per year from dues and pays approximately \$5 million per year to clients who are defrauded by their attorneys. CSF employees request checks of up to \$50,000 from the Office of Finance via a memo signed by two CSF employees. Payments over \$5,000 require the signature of both the Chief Trial Counsel and the CSF Director; payments below \$5,000 require the signature of both the Chief Trial Counsel and CSF senior administrative director. No other supporting documentation is required for CSF

payments. The Office of Finance normally requires contracts or settlement agreements to support such check requests. This procedure for CSF has been in place for a number of years and appears to be based on CSF's reluctance to provide confidential information to the Office of Finance. Once the checks are prepared, they are returned to CSF for distribution.

Recommendation

Policies and procedures over CSF payments should be developed. Checks prepared by the Office of Finance should be mailed instead of returned to the requesting division. If it is determined that check requests should continue without providing settlement agreements to the Office of Finance, then a recurring internal audit of CSF payments should be scheduled.

OTHER CONTROL ISSUES

The following internal control issues were noted during the RiskScan that were not considered significant weaknesses in internal control. However, they are issues that are worthy of consideration by management for attention and improvement. Such issues will also be considered during the Internal Control Improvement Process beginning in February 2009. These following issues are grouped by major financial process; issues that relate to all processes are classified as "control environment":

Control Environment

- Most mission-critical IT applications are on AS400, which is no longer supported by the vendor
- The shared drive is not used to share information across all divisions because it is not organized
- There is no prioritized list of systems improvement requests from the Office of Information Technology that user divisions can monitor
- IT has no business analysts to help divisions understand and coordinate implementation of technology improvements
- An IT strategic plan has been developed, but not yet adopted and funded
- There is no transparent link between administrative overhead divisions pay and the services they receive
- Administrative services departments do not proactively provide customer service to other divisions
- The Office of Information Technology is the only administrative services division that conducts customer service surveys. Other surveys should include purchasing, accounting, payroll, human resources and budgeting
- There is inconsistent interpretation of what reviews should be performed before signing as approver (e.g. for authorizing purchasing card reports, travel expense reimbursement requests, timesheets, cash balancing forms)
- There is no record retention policy

Cash Receipts

- Cash in San Francisco is picked up by courier for deposit to the bank only twice per week
- Member Billing procedures don't cover waivers and amendments
- The employee in the Office of Information Technology who knows how to maintain Member Billing's Koala system does not have a backup
- Checks that the lockbox cannot process are not restrictively endorsed

Cash Disbursements/Procurement

- Vendor checks are sometimes returned to requester instead of being mailed to vendor by the Office of Finance
- Duplicate payments are possible if divisions submit duplicate receipts under both purchasing card and travel reimbursement or purchase order process
- Division employees are not clear when they should use a purchase order, contract or purchasing card
- A new Procurement Manual has been written but not approved and distributed
- The purchasing card program has not been audited even though this is a Recommended Practice by the Government Finance Officers Association
- There is inadequate automation (purchase requisitions and travel reimbursements are manual, are circulated for approval through interoffice mail, and require duplicate data entry)
- Division employees are generally unfamiliar with how to see status of purchase requisitions online and don't know they can go online to see the status of a vendor payment or employee reimbursement
- Ten vendor contracts have been negotiated, purchase orders issued, purchases made, without the contract yet executed by the vendor
- There is evidence of employees working around the requirement for higher levels of authorization for purchase requisitions above limits of \$5,000, \$15,000 and \$50,000. For example, during 2008, there were 17 purchase orders in the amounts of either \$4,999 or \$4900; there were 4 in the amount of \$4,999 and one at \$49,999
- Three contractors in Office of Operations are allowed to purchase building maintenance parts and supplies; they are not issued a purchasing card, but share one issued in the name of the director
- There is no standard boilerplate vendor contract pre-approved by General Counsel
- Divisions do not consistently use the State Bar's travel agent
- Employees and volunteers frequently don't attach adequate documentation to purchasing card and travel reimbursement requests
- Accounting for multiple member bills paid on one check cannot be processed by lockbox
- For vendors that won't accept purchasing cards, divisions use purchase orders even for small amounts

Payroll

- Employees submit time on manual timesheets which requires duplicate entry by payroll employees

- There is inconsistent calculation and lack of written policy regarding compensation for employees in circumstances that are not addressed in the bargaining agreements (e.g., holiday pay to employees on leave of absence, over-time for employees with alternative work schedule, vacation and sick accrual for part-time employees)
- The PeopleSoft payroll system does not generate a single report that provides all the information necessary for reporting to CalPERS and Standard Reliance Insurance Company.
- Consistent late submission of timesheet revisions risks calculating payroll incorrectly or missing bank direct deposit deadlines.

Budget

- The budget is prepared at the business unit (i.e. cost center) level and there are 299 business units
- Some budget transfers and adjustments are prepared at the business unit level but not needed
- Definitions of general ledger accounts are not clear enough to assure consistent account coding

Financial Reporting

- Journal entries are appropriately authorized but the accuracy of data input is not reviewed
- The PeopleSoft report writing tool is not easy to understand, so it is not being used to generate reports useful to management

Treasury

- The Accounting Manager is an authorized signer for authorizing purchases and sales of securities (two signatures are required)
- No cash flow projections are prepared