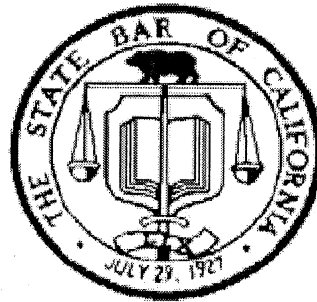


**The State Bar of California**

**Cash Receipts Process**  
**Internal Control Self-Assessment**



July 2, 2009

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DRUM

# The State Bar of California

## Cash Receipts Process

### Internal Control Self-Assessment

#### ENGAGEMENT OVERVIEW

We were engaged to identify and implement a process for State Bar personnel to assess the adequacy of internal controls for each of the State Bar's major business processes:

- Receipts;
- Procurement/disbursements;
- Payroll;
- Budgeting;
- Grants;
- Treasury; and
- Financial reporting.

A key element of our engagement is to educate key personnel in identifying risks to the State Bar, understanding how internal controls help the State Bar manage those risks, and understanding their role in those control procedures.

Our professional services have been commissioned by the Board of Governors' Audit Committee. We are reporting to the Audit Committee and to Laura Chick, Chair of the Audit Committee, in particular.

Our contract with the State Bar contemplated review of the seven major business processes listed above. A fee quote was provided only for the first business process (the review of the cash receipts process that is the subject of this report). The contract specified that scope and fees for the subsequent six business processes would be agreed upon after completion of the cash receipts process so that we could jointly consider revising the scope and/or approach. The contract specifically stated that "Phase 3 work for the remainder of the State Bar's business processes will be discussed at the conclusion of the cash receipts portion of phase 3, and will be addressed in a subsequent contract amendment."

#### SCOPE AND APPROACH

We have completed the internal control improvement project related to the first of these business process—the State Bar's cash receipts process. This report summarizes the actions taken and the recommended improvements to the process. The recommendations included in this report are the consensus opinions of the Task Force participants. The participants are the State Bar's "employee experts" related to the cash receipts process. They spend significant time understanding the State Bar's cash receipts process,

problems and controls. With the issuance of this report, the Task Force's recommendations are transmitted to senior State Bar management for their consideration.

The tasks our firm performed related to the cash receipts internal control self-assessment project 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;
  - Obtain a list of the State Bar's cash collection locations and responsible parties and other necessary source documents;
  - Agree on timing and communication protocols;
  - Schedule interview with appropriate personnel;
2. Interviewed State Bar accounting and other key personnel responsible for collecting, recording, depositing and reconciling receipts and in other business process areas to gain an understanding of existing objectives, risks and controls;
3. Worked with staff to identify Christine Wong, Accounting Manager, as the Receipts Process Owner;
4. Worked with staff to identify personnel to participate in the Receipts Task Force (see page 4 for a list of the participants);
5. Prepared Risk Map of the State Bar's objectives, risks and controls related to the Receipts process (see Appendix C);
6. Prepared flow chart of the State Bar's Receipts process (see Appendix E);
7. Provided training to the Process Owner regarding her responsibilities during and between Task Force meetings;
8. Prepared for each Receipts workshop, including handouts, invitations, room setup. Workshops included:
  - Training for Task Force members on risk and control;

- Overview of purpose of the Task Force and their role as a member;
  - Overview of the organization-wide Receipts process;
  - Review and revise preliminary Risk Map
  - Prioritize identified risks;
  - Discuss controls related to largest risks;
  - Develop action plans to improve processes;
9. Facilitated each Receipts workshop. Shared facilitation responsibility with the Receipts Process Owner as she became familiar with the workshop approach and process;
  10. Summarized and distributed minutes and action plans from each cash receipts workshop;
  11. Developed report containing overview of cash receipts internal control self assessment project, summary of risks identified by the Task Force, prioritization of those risks, overview of cash receipts process, and recommended improvement plans. Reviewed this draft report with the Task Force and submitted to senior management.

## **AMOUNT AND TYPE OF CASH RECEIPTS**

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.

## COMPOSITION OF TASK FORCE

The Task Force was selected with the following objectives in mind:

- All departments having significant cash receipts should be represented on the Task Force;
- Accounting, Information Technology and Member Billing must be represented;
- The individuals most knowledgeable about the State Bar's cash receipts process should be included;
- Task Force membership must have sufficient organizational credibility that if they agree upon needed improvements, there is a high likelihood the remainder of the State Bar would agree.

The Task Force was composed of the following individuals:

Name	Department
Barrientos, Debbie	Admissions
Bermudez, Pat	Office of General Counsel
Crabe, Kathy	Member Services Center
Cunningham, David	California Bar Journal
Ewert, Justin	Lawyer Assistance Program
Hamilton, Cathy	Information Technology
Hull, Doug	State Bar Court
Jagodzinski, Gerry	Legal Services Trust Fund
Knitter, Linda	Special Admissions
Lee, Robert	Trust Fund
McPhail, Robert	Member Services Center
Nar-Ho, Karen	Member Billing Services
Rice, Marsha	Office of General Counsel
Robledo, Kristina	Sections Education & Meeting Services
Wong, Christine	Finance

Yap, Sunly	Operations
Yung, Betty	Client Security Fund

## OVERVIEW OF WORKSHOPS

The Task Force met six times between February 2009 and May 2009. The first meeting was a full day and other meetings were ½ day.

The guiding principle of the Task Force was that each member was responsible for understanding the State Bar-wide cash receipts process well enough to participate in all parts of the Task Force's discussions. This assured that at the end of the project, there are several employees around the State Bar that understand the process and can serve as trainers and resources for all matters related to cash receipts.

First, during the workshops, our firm provided training on internal controls over cash receipts. The discussion included the COSO internal control framework, preventive vs. detective controls, and discussed the most important controls over receipts, including:

- Dual custody opening mail;
- Endorse checks;
- Initial accounting record;
- Deposit timely and intact;
- Issue pre-numbered receipts;
- Accountability for cash drawers;
- Segregate duties (billing, collection, accounting);
- Bank reconciliations;
- Create expected amount for comparison; and
- Encourage reporting impropriety, employees feel watched.

Second, the Task Force reviewed the State Bar's cash receipts process to gain a shared understanding about how receipts are currently processed. The flowchart of the cash receipts process is included on the last page of Appendix E.

Third, the Task Force identified and agreed upon the State Bar's objectives related to the cash receipts process. Specifically, the objectives were determined to be:

- Deposit cash timely;
- Record cash collections accurately and consistently; and
- Minimize cash delivered directly to State Bar (maximizing collections via online, lockbox, etc.).

Fourth, the Task Force brainstormed the risks the could keep the State Bar from meeting each of these objectives listed above. Specifically, the Task Force identified the following key risks:

- Inadequate staff training (on written procedures, communications, systems, etc.)

- Checks misdirected, held and/or lost
- Inadequate segregation of duties
- Inadequate automation (IT support, automate Daily Cash Receipt Summary (DCRS))
- Inconsistent processing and account coding by departments
- Lack of reasonableness tests of revenue
- System crash
- Inadequate staffing
- Employee embezzlement / lack of integrity
- Staff resistance
- Lack of accountability / lack of performance measures
- Inadequate supporting documentation
- Account coding errors
- Miscoding by online providers
- Seasonal receipts processing requirements exceed staffing availability
- Lack of timely courier pick-up
- Inadequate / inconsistent departmental policies and procedures
- No second review of DCRS
- Inconsistent procedures for delivering checks and DCRS

Fifth, the Task Force discussed each risk to gain a shared understanding of their impact on the State Bar. They selected the risks that they believed most jeopardized the State Bar's ability to meet its cash receipts objectives. The first six risks shown in the above list are the ones they agreed were the most significant.

Sixth, the Task Force discussed each the six most significant risks to understand the history of that risk at the State Bar, understand the consequences when that risk occurs and understand the controls that are currently in place to mitigate those risks. They then prioritized each of the six significant risks based on the frequency that risk occurs and the severity to the State Bar when it occurs. See Appendix A for a summary of the history, consequences and controls related to each of the six most significant risks. See Appendix B for a graph of the six key risks prioritized by severity and frequency. See Appendix C for a risk map related to the six key risks.

Seventh, the Task Force agreed upon improvements that were needed for each of the six major risks. A Task Force member was appointed for each of the improvement plans to further review feasibility and develop a detailed implementation plan (see Appendix D). The high level improvement plans recommended by the Task Force and the responsible Task Force members are:

- Risk 1 - Inadequate staff training (on written procedures, communications, systems, etc.)
  1. Make cash receipts procedure and Oracle user manual easily accessible on intranet – Christine Wong

2. Annually distribute Administrative Advisory stressing the need to follow cash receipts procedure – Christine Wong
  3. Sections and MIS automate collection for MCLE tests - Kristina Robledo
  4. Negotiate with bank to deposit all lock box checks immediately – Christine Wong
  5. Update cash receipts procedure based on input from workgroup – Christine Wong
  6. Cash receipts Task Force and Finance review and update cash receipts procedure annually – Christine Wong
  7. Provide centralized mandatory training of all cash handlers – Christine Wong
  8. Provide centralized mandatory Oracle training of all “Bar Managers” and establish process for providing ongoing Oracle training as requested by any user – Christine Wong
- Risk 2 - Inadequate segregation of duties
    1. Centralize billing through Oracle Accounts Receivable module – Christine Wong
    2. Identify and develop reconciliation plans for independent accounting systems (e.g., Koala/George, Revenue Results)– Cathy Hamilton
    3. Assure no individual both collects and bills the same revenue – Christine Wong
  - Risk 3 - Checks misdirected, held and/or lost
    1. Meet with Steve Mazer and Liz Avila to identify misdirected mail problem and request proposed improvement/solutions – Bob McPhail
    2. Regular report from Finance to departments and senior management showing progress of each department in getting checks deposited next day - Christine Wong
  - Risk 4 - Inadequate automation (IT support, automate Daily Cash Receipt Summary (DCRS))
    1. Make fillable Finance forms available on the intranet – Christine Wong
    2. Develop process for IT to maintain an up-to-date list of planned system improvements within expected dates and make available to all users – Cathy Hamilton
    3. Of amounts not collected electronically, determine collection method – Robert Lee

4. Install credit card machine in Finance; notify departments of the availability of credit card machine/form in Finance – Christine Wong
- Risk 5 - Inconsistent processing and account coding by departments
    1. Develop process for continual feedback to employees who provide inaccurate codes – Christine Wong
    2. Add description of each account to the master chart of accounts and make it available on Oracle using the “Print Chart of Accounts” feature – Christine Wong
  - Risk 6 - Lack of reasonableness tests of revenue
    1. Develop written procedures for reasonableness tests of revenue, including which revenue sources to test, size of variance needing explanation, methods for developing expectations, report formats – Christine Wong
    2. Accounting provide training to departments regarding analyzing revenue – Christine Wong
    3. Departments analyze revenues for reasonableness monthly and send reports to Finance – Christine Wong

In addition to the recommended improvement plans shown above, the Task Force determined that several needed improvements could easily be implemented by revising the State Bar’s written procedures and assuring that the staff training recommended herein comprehends the new procedures. Specifically, the draft of the revised State Bar cash receipts procedure included in Appendix E includes the following proposed revisions:

- Added the State Bar's cash receipts objectives to deposit cash timely, to record cash collections accurately and to minimize cash delivered directly to State Bar;
- Added manager’s and staff’s responsibilities for proper documentation, authorization, timely reporting and submission, accurate allocation, and reconciliation;
- Revised direction that cash be submitted to Finance within one business day of receipt instead of three business days;
- Added requirement that all unidentified checks received via mail be forwarded to Finance within one business day;
- Added requirement that a written exemption from Finance be obtained when a department believes two people opening mail is not cost beneficial;

- Appended the cash receipt process flow chart.

## APPENDIX A KEY RISKS - HISTORY, CONSEQUENCES, CONTROLS

HISTORY	CONSEQUENCES	CONTROLS	RANK
<p><b>RISK # 1</b> <b>Inadequate staff training (on written procedures, communications, systems, etc.)</b></p> <ul style="list-style-type: none"> <li>○ Lack of communication; everyone not on same page</li> <li>○ Each department has own rules and procedures</li> <li>○ Don't know formal rules of Finance; each dept passes their own P&amp;P to next person</li> <li>○ No sharing of policies and procedures</li> <li>○ Important to have all departments do it the same way (i.e. one dept has 2 checks per week vs. other with hundreds)</li> <li>○ Minimal procedures should be communicated from Finance</li> <li>○ Inadequate knowledge on accessing system</li> <li>○ Peoplesoft – no training but was just given a manual</li> <li>○ Previously, training was scheduled but prior to it, IT requested documentation on training. IT hired consultant &amp; Finance gave info but there was no followup</li> <li>○ Finance handles training on case by case basis</li> <li>○ Errors occur because of new employees</li> </ul>	<p>Inefficiency (waste of time)</p> <p>Risk of loss/fraud</p> <p>Delays in depositing</p>	<p>Dept training</p>	<p>Frequency = 78/16 = 4.9</p> <p>Severity = 94/16 = 5.9</p>

**HISTORY**

**CONSEQUENCES**

**CONTROLS**

**RANK**

**RISK # 2**

**Checks misdirected, held and/or lost**

<ul style="list-style-type: none"> <li>○ Mailroom misdirects mail</li> <li>○ Inattention by employee causes delays</li> <li>○ Checks stuck in interoffice envelope</li> <li>○ Members pay several fees on one check</li> <li>○ Vendors have only one payee account/ address</li> <li>○ Checks are held when account coding is unknown</li> <li>○ Vendors send check to wrong address</li> <li>○ Checks are held if refund may be necessary</li> <li>○ Slow manual processing of a check paying for multiple members</li> <li>○ Checks are held while processing status changes</li> <li>○ Member Billing checks that cannot be processed by lockbox are sent to SF then back to bank</li> <li>○ Multiple handling of checks in Member Billing</li> <li>○ Seasonal volume of Cal Bar Journal and Sections checks delays processing</li> <li>○ Absence of employee delays processing</li> <li>○ Small departments don't send checks to Finance right away</li> <li>○ Lack of documentation on checks</li> <li>○ Sheer volume</li> </ul>	<ul style="list-style-type: none"> <li>○ Delays in depositing</li> <li>○ Poor member service</li> <li>○ Time to find check</li> <li>○ Lost interest revenue</li> <li>○ Risk of theft</li> <li>○ Inaccurate financial statements</li> </ul>	<ul style="list-style-type: none"> <li>○ Finance written procedures</li> <li>○ Member will complain</li> <li>○ Finance follow-up/ reviews</li> <li>○ Reasonableness tests of some revenue</li> <li>○ Processing directions provided to members</li> </ul>	<p>Frequency = 87 / 17 = 5.1</p> <p>Severity = 99 / 17 = 5.8</p>
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**HISTORY**

**CONSEQUENCES**

**CONTROLS**

**RANK**

**RISK # 3**

**Inadequate segregation of duties**

<ul style="list-style-type: none"> <li>○ Rental billing fraud</li> <li>○ Small programs</li> <li>○ No centralized receivable system</li> <li>○ Inadequate training/orientation</li> <li>○ No dual opening of mail</li> <li>○ Member Services handles checks and makes the initial accounting record</li> <li>○ Refunds can be generated by check handlers</li> <li>○ Accounting clerk making deposit has access to accounting records</li> <li>○ Individual employees can both bill and collect</li> <li>○ Unbilled revenues can be collected by a single employee</li> <li>○ No segregation of currency handling</li> </ul>	<ul style="list-style-type: none"> <li>○ More processing errors</li> <li>○ Risk of fraud/loss</li> <li>○ Manipulation of accounting records</li> <li>○ Minimizing cash delivered to State Bar reduces risks</li> </ul>	<ul style="list-style-type: none"> <li>○ Finance issues receipts for currency</li> <li>○ Members will call if they are suspended/payment not received</li> <li>○ 90% collected through lockbox/credit card</li> <li>○ Physical inventory of petty cash</li> <li>○ Written procedures from Finance</li> <li>○ Approvals required (especially refunds)</li> <li>○ Reconciliations performed</li> <li>○ Accounting reviews for existence of approval</li> <li>○ Accounting reviews account coding</li> <li>○ Finance performs reasonableness tests for some revenues</li> <li>○ Year-end analysis and audit preparation</li> </ul>	<p>Frequency = 96 / 17 = 5.6</p> <p>Severity = 101 / 17 = 5.9</p>
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**HISTORY**

**CONSEQUENCES**

**CONTROLS**

**RANK**

**RISK # 4**

**Inadequate automation**

<ul style="list-style-type: none"> <li>○ Lack of centralized billing system</li> <li>○ Lack of audit trail</li> <li>○ Lack of segregation of billing and collection duties</li> <li>○ Inadequate protection of member credit card information</li> <li>○ Lack of shared member database</li> <li>○ Inefficient member service</li> <li>○ Multiple billing of members</li> <li>○ Complicated fee statement</li> <li>○ Complicated allocation of member revenue</li> <li>○ Manual DCRS increases risk of error</li> <li>○ Inadequate training on Oracle</li> <li>○ Transparency of IT priorities</li> <li>○ 4 online payment systems</li> <li>○ 4 departments not on online payment systems</li> </ul>	<ul style="list-style-type: none"> <li>○ Poor customer service</li> <li>○ Inaccuracies and inefficiencies</li> <li>○ Potential loss of revenue</li> <li>○ Increase risk of loss when checks are received</li> <li>○ Delay of financial reporting</li> </ul>	<ul style="list-style-type: none"> <li>○ Manual processing</li> </ul>	<p>Frequency = 108 / 17 = 6.4</p> <p>Severity = 118 / 17 = 6.9</p>
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**HISTORY**

**CONSEQUENCES**

**CONTROLS**

**RANK**

**RISK # 5**

**Inconsistent processing and account coding by departments**

<ul style="list-style-type: none"> <li>○ Chart of accounts not shared</li> <li>○ Incorrect account number on pre-printed forms</li> <li>○ Cost center changed without department being notified</li> <li>○ Inconsistent object code across departments</li> <li>○ Not known where to record checks received</li> <li>○ Chart of account descriptions not intuitively obvious</li> <li>○ Inconsistent policy across departments</li> <li>○ Lack of consistent practices across departments</li> <li>○ Lack of written procedure</li> <li>○ Manual mapping of online banking account codes</li> </ul>	<ul style="list-style-type: none"> <li>○ Inaccurate financial statement/cash balances</li> <li>○ Lost revenue</li> <li>○ Delay in depositing</li> <li>○ Extra manpower to clear miscoding</li> <li>○ Inaccurate budgetary information</li> <li>○ Risk of checks being held</li> <li>○ Reduced customer service</li> </ul>	<ul style="list-style-type: none"> <li>○ Departments review codings</li> <li>○ Finance department reviews codings</li> <li>○ Review of monthly transaction registers</li> <li>○ Review of budget actual</li> <li>○ Customer complaints</li> </ul>	<p>Frequency = 92 / 17 = 5.4</p> <p>Severity = 83 / 17 = 4.9</p>
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**HISTORY**

**CONSEQUENCES**

**CONTROLS**

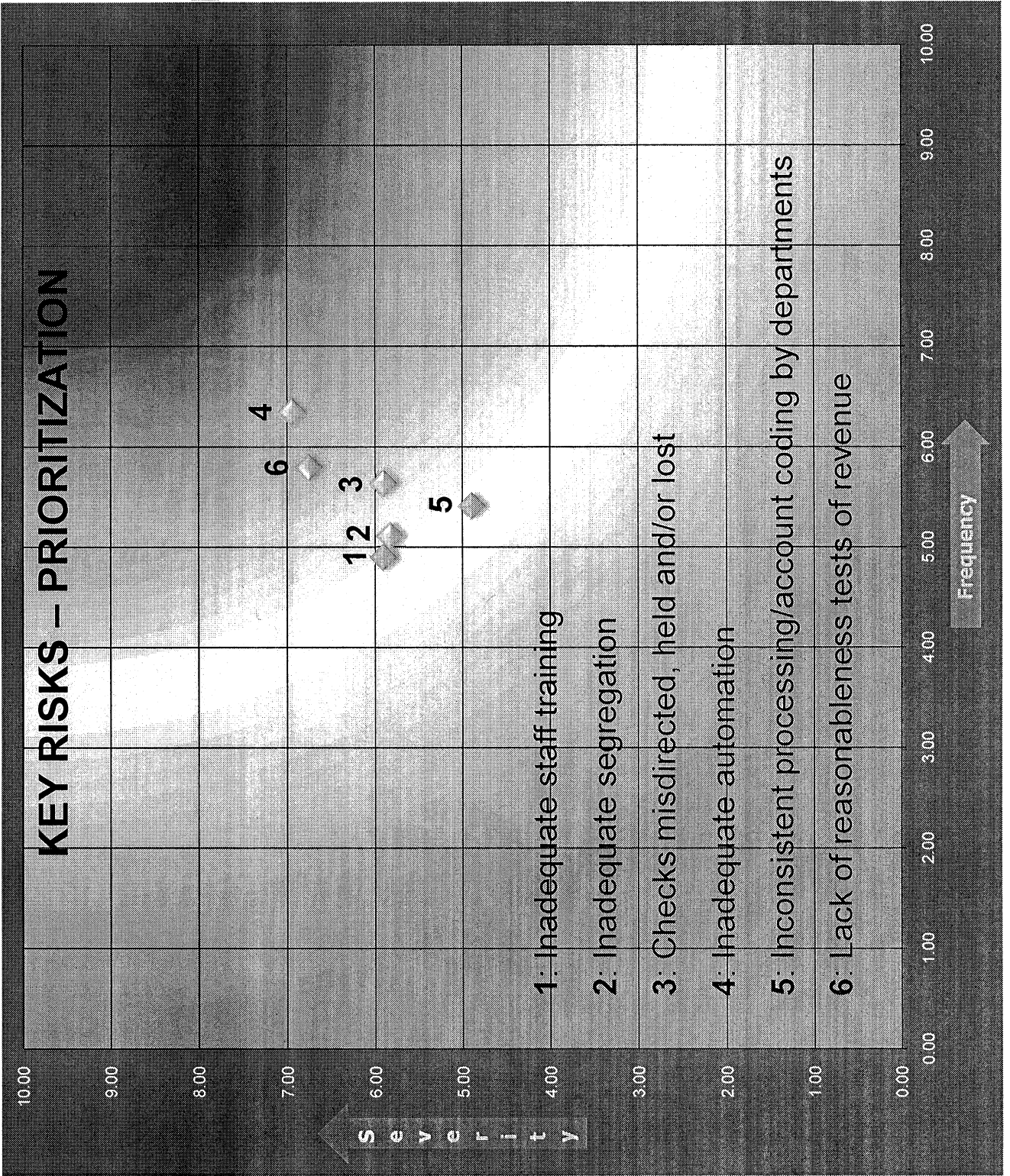
**RANK**

**RISK # 6**

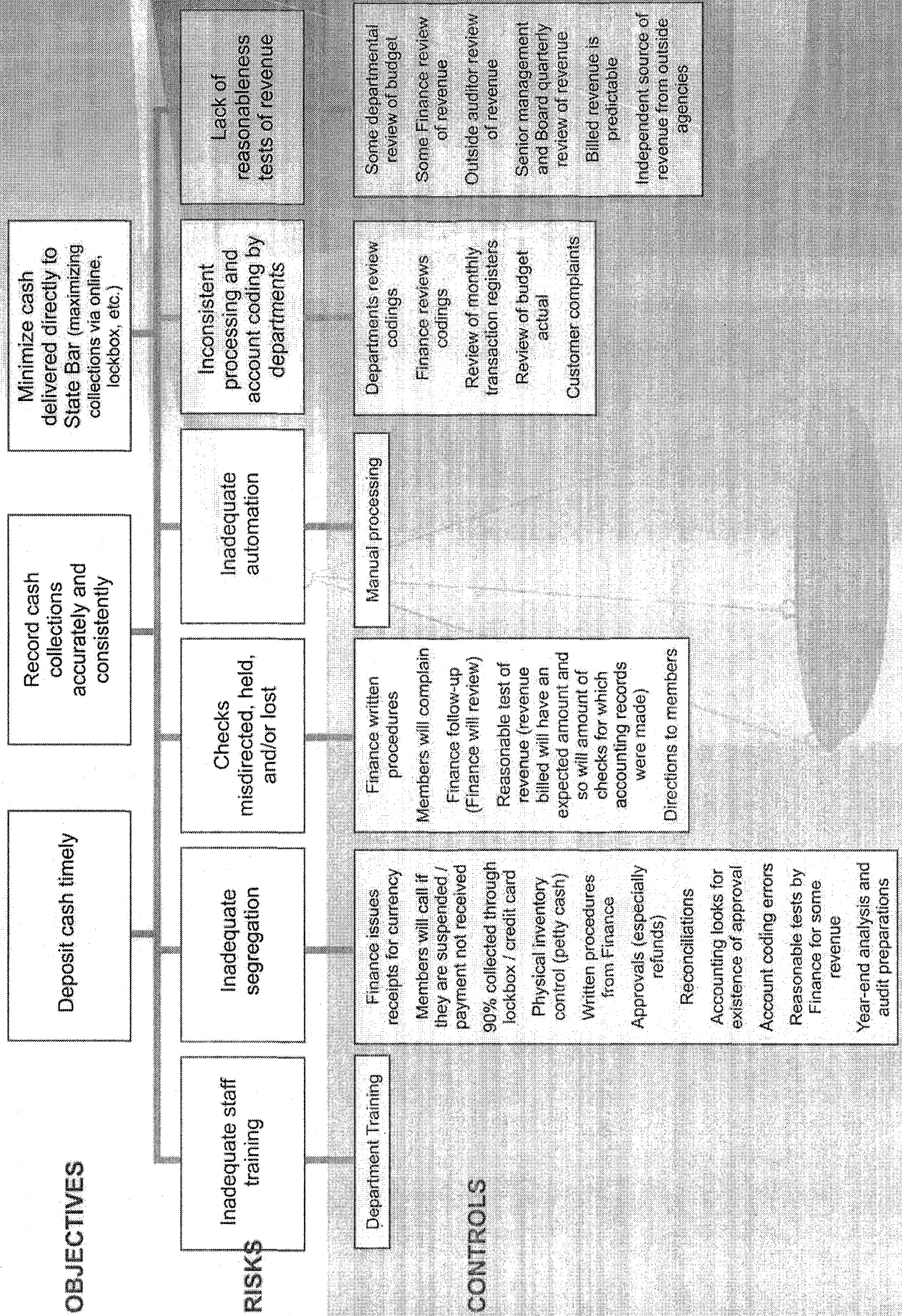
**Lack of reasonableness tests of revenue**

<ul style="list-style-type: none"> <li>○ Lack of priority by departments</li> <li>○ Performed by untrained staff or not done</li> <li>○ Unpredictable revenue amounts</li> <li>○ Lack of consensus on appropriate security access to Oracle</li> <li>○ No guidelines</li> <li>○ Reliance on outside agencies</li> <li>○ Lack of integrated online systems between Finance and Member Billing</li> <li>○ Lack of detail/knowledge of detail from Oracle for revenue breakdown</li> <li>○ Inconsistent department procedure for reasonable testing</li> <li>○ Lack of training</li> </ul>	<ul style="list-style-type: none"> <li>○ Uncollected revenue</li> <li>○ Inability to recognize missing revenues</li> <li>○ Inaccurate financial statement,</li> <li>○ Inaccurate forecasting</li> <li>○ Inability to assess program performance</li> </ul>	<ul style="list-style-type: none"> <li>○ Some departmental review of budget</li> <li>○ Some Finance review of revenue</li> <li>○ Outside auditor review of revenue</li> <li>○ Sr. Mgmt and Board quarterly review of revenue</li> <li>○ Billed revenues are predictable</li> <li>○ Independent source of revenue from outside agencies</li> </ul>	<p>Frequency = 93 / 16 = 5.8</p> <p>Severity = 108 / 16 = 6.8</p>
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# APPENDIX B



# APPENDIX C KEY RISKS – RISK MAP



## **APPENDIX D IMPROVEMENT IMPLEMENTATION PLANS**

### **Risk #1 – Inadequate Staff Training**

- 1. Make cash receipts procedures and Oracle user manual easily accessible on intranet – Christine Wong (December 2009)**
  - Finance has finalized cash receipt policies and procedures
  - Finance will consult IT for updated Oracle user manual ready for publishing
  - Finance will coordinate with IT to publish policies and procedures, and Oracle user manual on the Bar's Intranet
  - Finance will test the web pages on the Intranet
  - Make final announcement to Bar employees of Policies & Procedures, and user manual on Intranet
- 2. Annually distribute Administrative Advisory stressing the need to follow cash receipts procedure – Christine Wong (August 2009)**
  - Finance requests Bob Hawley to prepare and distribute Administrative Advisory
- 3. Sections and MIS automate collection for MCLE tests – Kristina Robledo**
  - Automation of the MIS MCLE test collection fee is scheduled for the 2<sup>nd</sup> quarter of 2010.
- 4. Negotiate with bank to deposit all lock box checks immediately – Christine Wong**
  - Finance visited Wells Fargo lock box site, gain understanding of the processing instructions **(Done)**
  - Finance will schedule meeting with membership billing, and make suggestion to change procedures to eliminate checks sending back to SF office to the lock box site **(Done)**
  - Finance will meet with Wells Fargo lock box manager; discuss the proposed changes to procedures **(Done)**
  - Finance will work with in-house counsel (OGC) to update the Wells Fargo lock box agreement with final changes **(October 2010)**
- 5. Update cash receipts procedure based on input from workgroup – Christine Wong (Done)**
  - Cash Receipt Policies and Procedures are updated with changes

6. **Cash receipts workgroup and Finance review and update cash receipts procedure annually – Christine Wong (December 2009)**
  - All Accounting Policies and Procedures will be reviewed and updated in December prior to the beginning of a fiscal year
7. **Provide centralized mandatory training of all cash handlers – Christine Wong (December 2009)**
  - Meet with SET and decide training scope (technical and procedural training, monitoring review and analysis, etc), size (cash receipt handlers, managers, new hires, or all employees, etc.).
8. **Provide centralized mandatory Oracle training of all “Bar Managers” and establish process for providing ongoing Oracle training as requested by any user – Christine Wong (December 2009)**
  - Meet with SET and decide training scope (technical and procedural training, monitoring review and analysis, etc), size, and attendees (cash receipt handlers, managers, new hires, or all employees, etc.), and calendar.

**Risk #2 – Inadequate Segregation of Duties**

1. **Centralize billing process through Oracle accounts receivable module – Christine Wong**
  - Finance centralized tenants billing function in Oracle AR module. **(Done)**
  - Meeting with other departments with decentralized billing system (Royalty fees, Label printing, LAP loan repayments, etc), and determine feasibility of centralizing billing process. **(September 2010)**
  - Consult IT and contract with Oracle consultant to implement the centralized AR module. **(June 2010)**
  - Finance is testing AR module. **(June 2010)**
  - Finance meets with managers from the billing units and discusses procedural changes and policies updates. **(June 2010)**
  - Implement centralized AR module. **(June 2010)**
2. **Identify and develop reconciliation plans for independent accounting systems (Koala/ George, Revenue Results) – Cathy Hamilton**
  - No action is planned as yet. Senior management is currently prioritizing IT projects already in process or under consideration. This task will be evaluated along with the overall prioritization project.

3. **Assure no individual both collects and bills the same revenue – Christine Wong (December 2009)**

#### **Risk #3 – Checks Misdirected, Held and/or Lost**

1. **Meet with Steve Mazer and Liz Avila to identify misdirected mail problem and request proposed improvements/solutions – Bob McPhail (December 2009)**
  - Schedule meetings with Steve Mazer and Liz Avila
2. **Regular report from Finance to departments and senior management showing progress of each department in getting checks deposited next day – Christine Wong (December 2009)**
  - Finance staff selects DCRS samples, and tracks check date and deposit date, and identify late deposit.
  - Finance compiles report, and notifies receiving department and identify causes of delay.
  - Document data for management review.

#### **Risk #4 – Inadequate Automation**

1. **Make fillable Finance forms available on the intranet – Christine Wong (Done)**
  - Finance complete electronic forms for Bar employees
  - Finance publish the electronic forms on the Bar's intranet
2. **Develop process for IT to maintain an up-to-date list of planned system improvements within expected dates and make available to all users – Cathy Hamilton (September 2010)**
  - No action plan is currently planned. Senior management staff is in the process of evaluating and prioritizing IT projects in process and under consideration.
3. **Of amounts not collected electronically, determine collection method – Robert Lee (December 2009)**
  - Query departments to determine each department's revenue items not collected electronically.
  - Summarize results and submit to Christine Wong and Cash Receipts Task Force.

4. **Install credit card machine in Finance; notify departments of the availability of credit card machine/form in Finance – Christine Wong (March 2010)**
  - Contact Wells Fargo Bank to install a credit card machine in Finance.
  - Inform individual departments and the Cash Receipt workgroup when the credit card machine is ready.
  - Discuss with department managers regarding reporting and reconciling processes.

#### **Risk #5 – Inconsistent Processing and Account Coding by Departments**

1. **Develop process for continual feedback to employees who provide inaccurate codes – Christine Wong (December 2009)**
  - Finance staffs identify incorrect GL coding from DCRS and other accounting documents or forms
  - Finance contacts individuals, identifies causes of miscoding, and provide assistance for correction
2. **Add description of each account to the master chart of accounts and make it available on Oracle using the “Print Chart of Accounts” feature – Christine Wong (March 2010)**
  - Finance will draft an “Account Codes Manual,” providing standardized definitions of revenue and expense account codes, accommodating, to the degree possible, existing departmental practices.

#### **Risk #6 – Lack of Reasonableness Tests of Revenue**

1. **Develop written procedures for reasonableness tests of revenue, including which revenue sources to test, size of variance needing explanation, methods for developing expectations, report formats – Christine Wong (March 2010)**
  - Finance has contracted with an outside contractor to develop a Budget-to-Actual Variance Report and track items with variances defined by management
  - Finance will follow up with departments for explanation and causes of variances
  - Accounting provide training to department analyzing revenue – Christine Wong
2. **Departments analyze revenues for reasonableness monthly and send reports to Finance – Christine Wong (March 2010)**

**STATE BAR OF CALIFORNIA**  
**Cash Receipt Policies & Procedures**  
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**THE STATE BAR OF CALIFORNIA**  
**Office of Finance**  
**Cash Receipt**  
**Policies and Procedures**

<b>Effective Date:</b> 01/01/08	<b>Approval:</b> CFO	<b>Number:</b> FINCR09
<b>Supersedes:</b> NA	<b>Date of Issuance:</b> 01/01/08	<b>Section:</b> Accounts Receivable
<b>Revision No:</b> NA	<b>Subject:</b> Cash Receipt	

**I. POLICY STATEMENT**

This Policy provides uniform procedures and guidelines to all departments within the State Bar for the collection, custody, reporting and deposit of cash receipts. The term, "Cash" as referenced in this policy, is deemed to include coins, currency, checks, e-checks, cashier's checks, travelers checks, money orders, and direct bank deposit remittance receipts. The procedures have been established to encourage an effective administration and internal control of cash handling operations to meet the State Bar's objectives: to deposit cash timely, record cash collections accurately and consistently, and minimize cash delivered directly to State Bar (i.e. maximizing automated cash collections via online, and lockbox, etc.).

**II. AUTHORITY AND RESPONSIBILITY**

The Office of Finance has the authority and responsibility for establishing, and enforcing the policies and procedures for all cash receipt activities. In carrying out these duties, the Office of Finance is responsible for proper security and accountability of all cash receipts, providing technical assistance to departments regarding management of cash receipt, proper revenue recognition policies and procedures, reconciling of accounting records and performing periodic audits.

Office of Finance relies on individual departments for assistance in carrying out the cash receipt function and ensuring the established control procedures are in place. It is the responsibility of the managers and staff of the receiving departments for proper documentation, authorization, timely reporting and submission, accurate allocation, reconciliation, and record retention of all cash receipts in accordance with the established policies and procedures.

Under the circumstances when this policies and procedures are not feasible or practical to the receiving department from a cost-benefit standpoint, the receiving department is required to obtain an exemption from the Office of Finance prior to change of a procedure.

### III. PROCEDURAL GUIDELINES

#### **A) Checks Received in Mail:**

A Daily Cash Receipts Summary form should be completed to transmit checks received to Office of Finance in San Francisco, or to Administration Services in Los Angeles within the one business day. Procedures below are for offices and personnel who regularly receive cash:

1. The tasks of opening the mail shall be divided between two persons, working in the presence of each other. Under the circumstance when this procedure is not feasible from a cost-benefit standpoint, the receiving department is required to obtain an exemption from the Office of Finance prior to change of a procedure.
2. Checks received shall be restrictively endorsed to the account of the State Bar immediately after opening the mail by stamping the back side of the check using a stamp with the following language:

PAY TO THE ORDER OF  
WELLS FARGO BANK  
FOR DEPOSIT ONLY  
THE STATE BAR  
OF CALIFORNIA  
4159-394709

Please contact Office of Finance for endorsement stamp.

3. Unattended checks must be secured by putting the checks in a locked cabinet, prior to submitting to Office of Finance for deposit.
4. The person, who opens the mail, with the Supervisor or another staff member who observes the mail opening, shall prepare an adding machine tape of the amount of all checks received.
5. Unidentified checks received from the mail should be forwarded to the Office of Finance within one business day.
6. After posting the check data to the application document or application system, the staff of the receiving unit should mark the business unit and account code at the right-hand corner of the check, and prepare Daily Cash Receipt Summary form for supervisor or manager review.
7. Supervisors of the receiving unit shall verify the amount stated on the Daily Cash Receipts Summary form to the tape total, correct account coding, and proper documentation before approving the Daily Cash Receipt Summary.
8. Checks and completed Daily Cash Receipt Summary should be submitted in person to the Office of Finance in San Francisco, or the Administrative Service in Los Angeles for deposit.
9. All reconciliation documents should be retained by the receiving unit.



**B) Cash receipts from walk-in:**

Currency or check from walk-in should be collected by the Office of Finance, SF or Administrative Services, LA.

1. Upon receipt of the cash from the individual, Administrative Services in LA runs a two-part receipt from a cash register and give the original copy to the individual, and keep the copy for filing with the DCRS. Cash collected by the Office of Finance in San Francisco, Finance staff issue a three-part (white, yellow, pink) Cash Receipts and give the original copy (white) to the individual, the yellow copy is attached to the DCRS for filing, and the pink copy is retained in the Cash Receipt book for record keeping. Receipts issued from both the Office of Finance and Administrative Services are pre-numbered, and Finance staff maintains receipt logs and all receipts are reconciled to the receipt batches and general ledger on a monthly basis.
2. The Accounting Clerk prepares the Daily Cash Receipts Summary and forwards the cash and the yellow copy of the receipt form to the Accounts Receivable Clerk. The Account Receivable Clerk prepares the deposit slip and reconciles the summary total to the respective deposit slip.
3. Upon verification of the receipts, the Accounts Receivable Clerk initials the Daily Cash Receipts Summary form, keep the pink copy of the summary form on file, and return the white copy of the summary form to the originator. For any discrepancy, the Office of Finance shall contact the originator to determine the cause of error(s).
4. The yellow copy of the Cash Receipts Book will be attached to the Daily Cash Receipts Summary form for filing, and the pink copy will be retained in the Cash Receipts Book for recording.
5. The receiving unit shall provide a cash summary report detailing the appropriate cost center and revenue account for all of the receipts to the Office of Finance for verification, approval, and reconciliation.
6. All cash receipts from Administrative Services in LA are deposited within one business day through an on-line deposit system (Check 21). DCRS and supporting documents are submitted to the Office of Finance on a weekly basis.

#### **IV. PROCESSING PROCEDURES**

1. All receipts are to be entered into the accounting system on a daily basis after deposited into the State Bar's bank account.
2. The Accounting Clerk in Office of Finance is responsible for maintaining a daily log in batch of all cash receipts deposited in the bank account and entered into the system. The log should independently reflect the daily total for lockbox, wire transfer, ACH deposit, and merchant receipts entered into the accounting system.
3. Finance staff reconciles the bank statement to the general ledger (GL) records and the daily deposit summary on a monthly basis to assure completeness, accuracy and validity of all deposit transactions.
4. Cash Receipt Summary must be reviewed and approved by the Finance Manager prior to entering into the accounting system.

# The State Bar of California

## Cash Receipt Process Flow Chart

