



THE STATE BAR OF CALIFORNIA

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Date: November 5, 2009 **IV.B.**

To: Audit Committee

From: Senior Executive Staff

Subject: Management response to potential risks identified by and recommendations from the Cash Receipts Process Internal Control Self-Assessment Task Force

Introduction

In 2009, the Audit Committee engaged the services of Kevin Harper CPA & Associates to identify and implement a process for State Bar personnel to “self assess” the adequacy of internal controls for the State Bar’s cash receipting process. Rather than taking a traditional internal audit approach, this assessment consisted of a series of six facilitated workshops involving employee representatives from the major cash receipting departments of the Bar. The workshop approach was designed as a forum that encouraged each Task Force member to brainstorm problems he/she believed could exist. The issues discussed were not tested for validity but were intended as the starting point for the Task Force to identify methods in which potential problems could be mitigated.

As part of the workshops, the Task Force members reviewed the State Bar’s cash receipts process to:

- Receive training on internal controls over cash receipting including a discussion of the various types of controls
- Gain a shared understanding about how receipts are currently processed
- Identify and agree upon the objectives related to the cash receipts process
- Brainstorm risks that could keep the State Bar from meeting its objectives
- Prioritize potential risks from its brainstorming session
- Identify improvements that could be made to mitigate potential risks

The Task Force identified six potential risks that could impact cash receipting and developed a list of recommended actions with Task Force members assigned specific tasks to accomplish. This listing of tasks begins on page 9 of Mr. Harper's report. Management fully supports the Task Force's efforts to implement the tasks it has identified. With the exception of two tasks that may involve enhancements to the Bar's technology systems, all tasks are either completed or on course for completion by the target implementation dates. The technology enhancements are task 2 under Risk #2 and task 2 under Risk #4. Both of these tasks are discussed on page 15 of the report. These enhancements will be prioritized against the IT list of projects in process or under consideration. No specific target date has been established as yet for evaluation of those tasks.

In addition to Management's support of the Task Force's identified tasks, the Senior Executive Team makes the following comments and has developed the following plan to complement the Task Force's efforts:

Risk 1 - Inadequate staff training (on written procedures, communications, systems, etc.)

SET agrees that additional training in areas of internal controls is important. Training in financial matters has been conducted in the past several months and Administrative Advisories have also been circulated regarding the State Bar's financial policies and procedures, which are now accessible to all staff through the Intranet. The annual Executive Staff training included a special emphasis this year on the need to assure that controls are understood and effectuated.

Separate workshops are planned to discuss other financial responsibilities, such as the procurement card process. A cash receipts policy, incorporating input from the Task Force, is now available on the Bar's intranet for access by all employees and training is scheduled for cash receipts staff in December. This policy and all other financial policies will be reviewed annually by the Office of Finance and suggested updates will be forwarded to SET as needed.

Risk 2 - Inadequate segregation of duties:

SET believes that the new cash receipts policy addresses the issues raised regarding the segregation of duties associated with the receipt of cash

Risk 3 - Checks misdirected, held and/or lost

The new cash receipts policy will specifically address the timing of check depositing and provide a direction relative to what should be done with checks where it is difficult to ascertain to which department they should be forwarded.

Risk 4 - Inadequate automation (IT support, automate Daily Cash Receipt Summary (DCRS))

Automation of the various components related to financial processes is certainly a goal, and implementing automation of more of the financial processes is one of

several projects that the IT department is working on. Finance has already developed “smart” forms for the Bar’s daily cash summaries, time cards, expense forms and others. Additionally, all Finance policies are included on the intranet for access by all employees. Finance and IT will continue to work together to identify possible enhancements and maintain an up-to-date list of planned system improvements, which will include expected completion dates.

Risk 5 - Inconsistent processing and account coding by departments

In addition to the tasks identified by the Task Force, Finance will review all account codes and eliminate those that are obsolete and provide clarification of those that remain active. This project is tentatively scheduled for completion during the first quarter of 2010.

Risk 6 - Lack of reasonableness tests of revenue

The Finance Office is currently developing reports that should be helpful to departments in reviewing their revenue collections. These reports are being designed by a contract report developer and we hope to have these completed during the first quarter of 2010.

Conclusion

The Senior Management Team of the State Bar of California wishes to express its appreciation to Kevin Harper CPA & Associates for their facilitation of the Cash Receipts Process Internal Control Self-Assessment for the staff of the Bar. We believe that the training and guidance provided to the State Bar’s cash receipting staff, as well as management staff, were invaluable and will no doubt bring a new awareness and appreciation of the contribution and obligation of each employee to maintaining effective internal controls.

We also wish to acknowledge the hard work of the Task Force members who spent a considerable amount of time and effort to perform this self assessment and who are working diligently to implement their recommended improvements.