California State Auditor

FACT SHEET

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The California State Auditor released the following report today:

The State Bar of California

Its Lack of Transparency Has Undermined Its Communications With Decision Makers and Stakeholders

BACKGROUND

To protect the public and regulate the practice of law, the State Bar of California (State Bar), among other things, admits new members, investigates and resolves complaints against members, disciplines attorneys who fail to meet their professional responsibilities, and performs administrative and support duties. Every person licensed to practice law in California must belong to the State Bar. To pay for most of its operations, the State Bar collects an annual fee from each of its members. Although it has various funds, most are restricted and designed for specific purposes—such as, the Client Security Fund which is used to account for fees and expenses of the Client Security Fund program that reimburses individuals who incur losses resulting from dishonest conduct by attorneys.

KEY FINDINGS

During our audit of the State Bar's financial operations, we noted the following:

- The State Bar's financial reports have not fully disclosed its financial situation over the last three years.
  - ✓ The Client Security Fund did not have the funds to pay victims of dishonest attorneys—almost $19 million in estimated claims for the backlog of nearly 5,500 pending applications was outstanding in 2015, yet, until we expressed our concerns, the financial reports did not reflect the inability to pay.
  - ✓ Because the State Bar does not have a process for distributing certain costs, it has not always identified funds that are restricted to certain purposes. Consequently, in 2014 the State Bar overreported its level of funds available for general purposes by $4.6 million.
  - ✓ The State Bar has repeatedly changed the way in which it reports certain costs in its financial statements over the past several years, thus making it difficult to compare expenses from year to year.
  - ✓ It did not have detailed procedures to guide staff in preparing financial reports.
- Victims of dishonest attorneys experience significant delays in gaining reimbursement for their claims.
  - ✓ The State Bar must wait until the California Supreme Court orders the attorney to be disciplined—the total time from its receipt of a complaint to the final decision averaged 505 days in 2014.
  - ✓ The State Bar takes about 36 months after an attorney is disciplined to pay claims because of the lack of funds.
- It has not clearly documented or reported its budget assumptions to the Legislature, even though the Legislature relies on that budget to determine the reasonableness of the State Bar's fees. Further, the State Bar eliminated detailed information about each fund's major revenues in the latest budget submitted to the Legislature.
- After we raised concerns about the structure of its loan agreements, the State Bar modified provisions in its building loans that might have limited the Legislature's ability to lower member fees for several years.
- The State Bar's executive staff created an unneeded nonprofit organization and charged inappropriate expenses to it.
- The salaries for its executives are significantly higher than salaries for comparable positions in state government.

KEY RECOMMENDATIONS

We recommended that the Legislature require the State Bar to notify or seek approval for any plan to pledge its revenue for more than a year. We also recommended that the State Bar's Board of Trustees set policies to ensure appropriate supervision and control of financial affairs, including those of any nonprofit organizations.

We made numerous recommendations to the State Bar aimed at increasing the transparency, comparability, and accuracy of its financial information and budgeting. Further, we recommended that it continue to explore means for increasing resources for its Client Security Fund to reduce the length of time victims of dishonest attorneys must wait for reimbursement. Lastly, we made recommendations to ensure that its executives' compensation is reasonable.

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