



VIRGINIA STATE BAR

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Virginia State Bar's internal financial system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AGENCY HIGHLIGHTS

The Virginia State Bar (State Bar) is an administrative agency of the Supreme Court of Virginia and the 75-member Bar Council is the governing body. The State Bar's primary mission is the regulation, improvement, and education of members of the legal profession. All persons practicing law in Virginia must be members of the State Bar. In addition to other responsibilities, the State Bar initiates and prosecutes lawyer disciplinary actions.

The State Bar records most of its financial operating activities in the Commonwealth Accounting and Reporting System (CARS) under the Regulation of Professions and Occupations program. The State Bar maintains separate internal records for the Administration and Finance Fund and the Clients' Protection Fund. In addition to its financial operating activities, the State Bar transfers funds to affiliated parties for legal defense.

The following table shows the State Bar's sources of operating revenue for the dedicated special revenue fund.

Analysis of Actual Operating Revenues for the Year Ended June 30, 2013

	<u>Revenues</u>	Percentage of Total <u>Revenues</u>
Membership fees	\$ 8,442,956	68%
Clients' Protection Fund collections	770,514	6%
Fines and costs	586,820	5%
Administration and Finance Fund collections	127,368	1%
Miscellaneous revenue	<u>2,410,517</u>	<u>20%</u>
Total operating revenues	<u>\$12,338,175</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System

Membership dues provide the State Bar's primary funding for operations. For fiscal year 2013, operating revenues totaled \$12.3 million as detailed above, slightly greater than the \$12.0 million collected in the prior year. The increase in revenue resulted from an increase of attorneys paying membership fees.

The State Bar is the trustee for the Clients' Protection Fund, which compensates clients for injuries or losses resulting from the dishonest conduct of a State Bar member. The Fund's main sources of revenue include an annual mandatory assessment on all active Virginia State Bar members, interest on investments, and reimbursements from attorneys for client settlement payments. As of June 30, 2013, the Clients' Protection Fund had a balance of \$6,254,591.

The State Bar records Administration and Finance Fund collections as revenues in the Commonwealth's accounting system and then transfers the amounts collected to a separate account maintained by the State Bar. The State Bar records all of the Administration and Finance Fund activities in its internal accounting system. The Fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee, annual and mid-year meetings, and other official functions of the State Bar. The State Bar's annual and mid-year meetings' registration fees generate the Administration and Finance Fund's revenue and pays for the meetings according to the rules of the Supreme Court. As of June 30, 2013, the Fund's balance was \$254,583.

Miscellaneous revenues consist mainly of mandatory continuing legal education fees, section dues, seminar registrations, mandatory professionalism course registrations, lawyer referral service revenue, and professional corporation registration.

The following table shows the State Bar's original budget, final budget, and actual expenses.

Analysis of Budgeted and Actual Expenses for the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 3,420,000	\$ 3,420,339	\$ 3,420,339
Legal aid services special revenue fund	7,850,000	7,545,000	6,552,228
Dedicated special revenue	<u>12,465,152</u>	<u>13,070,152</u>	<u>12,781,598</u>
Total	<u>\$23,735,152</u>	<u>\$24,035,491</u>	<u>\$22,754,165</u>

Source: Commonwealth Accounting and Reporting System

The State Bar transferred \$2.9 million in General funds to the Legal Services Corporation of Virginia (Corporation), per the Appropriation Act. The Corporation provides civil legal services for needy Virginians. In addition, the State Bar transferred the special revenue it receives from circuit court civil filing fees, totaling about \$6.5 million in fiscal year 2013, to the Corporation. The State Bar also transferred \$470,000 in General funds to the Virginia Capital Representation Center (Center) and \$50,000 in General funds to the Community Tax Law Project, per the Appropriation Act. The Center is a separately incorporated, not-for-profit corporation with its own board. The Center offers assistance or consultation to death-sentenced inmates and defendants charged with or convicted of a federal or state capital crime in Virginia. The Community Tax Law Project provides legal assistance to low income taxpayers and to nonprofit start-up organizations whose mission is to assist low-income individuals.

The State Bar's operating expenses are accounted for in the dedicated special revenue fund and totaled about \$12.8 million in fiscal year 2013, approximately \$700,000 more than in fiscal year 2012. This increase was primarily the result of an increase in staffing and a three percent bonus paid to state employees in November 2012. Contractual services primarily consist of meals provided during meetings, legal services, postage, printing, training, and travel.

The following table shows the actual operating expenses by major object for fiscal year 2013.

Analysis of Actual Operating Expenses by Major Object for the Year Ended June 30, 2013

	<u>Expenses</u>	<u>Percent of Total Expenses</u>
Personal services	\$ 8,473,997	66%
Contractual services	2,353,460	18%
Transfer payments	940,363	7%
Continuous charges	711,468	6%
Equipment	242,119	2%
Supplies and materials	<u>60,191</u>	<u>1%</u>
Total operating expenses	<u>\$12,781,598</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 22, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the Virginia State Bar (State Bar) for the year ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and the internal accounting system of State Bar, review the adequacy of State Bar's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The State Bar's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenue
Expenses (including payroll)
Information Systems

We performed audit tests to determine whether the State Bar's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents

and records, and observation of the State Bar's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the State Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and its internal accounting system. The State Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and State Bar's internal accounting system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on January 6, 2014.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LJH/alh

VIRGINIA STATE BAR

Sharon D. Nelson – President

Kevin Edward Martingayle – President-Elect

Warren David Harless – Immediate Past President

Karen A. Gould, Executive Director and Chief Operating Officer

EXECUTIVE COMMITTEE

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Doris Elcenia Henderson Causey

Donna Sue Baker Cox

Tracy Allen Giles

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