



# VIRGINIA BOARD OF BAR EXAMINERS

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts  
Martha S. Mavredes, CPA

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## AUDIT SUMMARY

Our audit of the Virginia Board of Bar Examiners for the fiscal year ended June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- a matter involving internal control and its operation necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### **Improve Oversight of Third-Party Providers**

The Virginia Board of Bar Examiners (Bar Examiners) does not adequately maintain oversight of its third-party providers, including sub-service providers, to gain assurance over outsourced information technology (IT) operations. Additionally, Bar Examiners does not document agreements with service providers that establish requirements to protect sensitive data. Bar Examiners has outsourced one of its sensitive mission critical business functions.

The Commonwealth's Information Security Standard, SEC501-09 (Security Standard), considers third-party providers to be organizations that perform outsourced IT services or business functions on behalf of the Commonwealth. The Security Standard, Section 1.1, recognizes that agencies may procure IT equipment, systems, and services from third-party providers. However, the Security Standard holds agency heads accountable for maintaining compliance with the Security Standard and requires that agencies enforce Security Standard compliance requirements through documented agreements with third-party providers and oversight of the services performed. Bar Examiners may obtain assurance over outsourced operations in various ways, including, but not limited to, Service Organization Control (SOC) reports or other independent security audit reports.

Without establishing documented agreements and exercising oversight of the services provided, Bar Examiners cannot gain reasonable assurance and validate that service providers have implemented effective internal controls that meet or exceed the requirements outlined in the Security Standard for protecting sensitive data.

Bar Examiners has not enforced compliance requirements for third-party providers because it has not established a formal documented process in its information security program for identifying third-party providers, establishing documented agreements with each service provider, and employing appropriate oversight of the services provided.

Bar Examiners should develop a formal documented process to establish documented agreements with third-party providers directing that the vendor comply with the requirements of the Security Standard. In addition, Bar Examiners should proactively and timely request the appropriate assurances from its service providers and implement a structured review process to evaluate the service provider's internal controls and performance. Finally, Bar Examiners should document its evaluation of the service provider's internal controls and performance, noting any areas identified as weaknesses, then apply compensating controls accordingly; and document agency head approval of the services provided. These processes will ensure adequate oversight of third-party vendors.

## AGENCY HIGHLIGHTS

The Virginia Board of Bar Examiners (Bar Examiners) is part of the judicial branch of government and administers the bar examination twice every year. Bar Examiners evaluates the character and fitness of applicants and certifies individuals as eligible to practice law in Virginia. Bar Examiners also administers the Law Reader Program that allows approved individuals to study law under an experienced general practice attorney to become eligible to sit for the examination.

In addition, Bar Examiners reviews qualifications of persons applying for admission to the Virginia Bar without taking the examination. Under Section 54.1-3931 of the Code of Virginia, Bar Examiners certifies to the Supreme Court of Virginia those applicants who have satisfied the reciprocity provisions and the Supreme Court's rules for admission on motion.

Bar Examiners operates through a special revenue fund and administers all activities under the Regulation of Professions and Occupation program. Revenues come from the collection of application fees for the examination and character and fitness fees from each examinee. Revenue collections for fiscal year 2015 were approximately \$1.5 million.

The following table shows Bar Examiners' original budget, final budget, and actual expenses for fiscal year 2015.

### Budget and Actual Expenses for Fiscal Year Ended June 30, 2015

Original Budget	Final Budget	Actual Expenses
\$1,500,077	\$1,500,077	\$1,498,155

The table below summarizes the Bar Examiners' expenses by major object code for fiscal year 2015. Personal and contractual services represented approximately 74 percent and 18 percent, respectively, of the Bar Examiners' total expenses. Personal services is comprised of eight full-time staff (including the Secretary), one part-time salaried staff, and two part-time seasonal wage staff that work as needed. Contractual services include costs to administer the exam.

2015	
Personal Services	\$1,111,876
Contractual Services	272,235
Continuous Charges	101,706
Supplies and Materials	10,806
Equipment	1,531
<b>Total</b>	<b>\$1,498,154</b>

Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

June 28, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia Board of Bar Examiners** (Bar Examiners) for the year ended June 30, 2015. 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 Cardinal, review the adequacy of the Bar Examiners' internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports. Bar Examiners transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on October 1, 2014.

## **Audit Scope and Methodology**

Bar Examiners' 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.

Cash receipting and collection of exam fees  
Expenses (including payroll)  
Information systems security

We performed audit tests to determine whether Bar Examiners' 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, records, and observation of Bar Examiners' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

We found that Bar Examiners properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Cardinal. Bar Examiners 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.

We noted a matter involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. This matter is described in the section entitled "Audit Findings and Recommendations."

Bar Examiners has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

### **Exit Conference and Report Distribution**

We discussed this report with management on July 20, 2016. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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: clj





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## COMMONWEALTH of VIRGINIA

### *Virginia Board of Bar Examiners*

July 20, 2016

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Auditor of Public Accounts  
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Re: Fiscal 2015 Virginia Board of Bar Examiners' ("VBBE") Response to APA  
Finding - Improve Oversight of Third-Party Providers

Dear Ms. Mavredes:

This letter is in response to the Fiscal Year 2015 Audit Findings and Recommendations ("Audit Report"), which states that the Virginia Board of Bar Examiners ("VBBE") "does not adequately maintain oversight of its third-party providers...to gain assurance over outsourced information technology (IT) operations. Additionally, [VBBE] does not document agreements with service providers that establish requirements to protect sensitive data."

VBBE understands the importance of oversight of third-party providers to protect sensitive data. VBBE contracted with the third-party provider in 2014. Before doing so, VBBE reviewed the security standards of the third-party provider to ensure that any data transmitted or hosted via the third party was encrypted and met the highest security protections and industry standards.

As acknowledged in the Audit Report, VBBE "may obtain assurances over outsourced operations in various ways, including, but not limited to, Service Organization Control (SOC) reports" from third-party providers. VBBE maintains such SOC reports on file. In addition, VBBE has a documented agreement from its third-party provider that includes terms for the provision of services, maintenance, and protecting the privacy and security of sensitive data that VBBE collects through the third-party provider. This agreement is on file.

As recommended, VBBE is developing a "formal documented process" for maintaining such agreements with third-party providers, requesting assurances from third-party providers, reviewing third-party providers' internal controls and performance, and documenting approval of the services third-party providers.

Thanking you for the opportunity to provide this response, I am

Very truly yours,

Catherine C. Hill  
Secretary/Treasurer



## **AGENCY OFFICIALS**

### **VIRGINIA BOARD OF BAR EXAMINERS**

Stephen M. Quillen, President

Anita O. Poston

Grady K. Carlson

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Catherine C. Hill, Secretary and Treasurer