



VIRGINIA STATE BAR

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2019

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Virginia State Bar (State Bar) for the fiscal year ended June 30, 2019, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system and State Bar's internal accounting system;
- instances involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

We also found State Bar had not completed corrective action over the prior year finding titled "Improve Oversight of Third-Party Service Providers"; therefore, we have repeated this finding in the current year. State Bar has completed corrective action over the prior year finding titled "Comply with Federal Regulations for Documentation of Employment Eligibility."

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AUDIT FINDINGS AND RECOMMENDATIONS

Continue Improving Oversight of Third-Party Service Providers

Type: Internal Control and Compliance

Repeat: Partial (first issued in fiscal year 2018, with satisfactory progress in this area)

The Virginia State Bar (State Bar) is making progress to address an information security weakness communicated in our prior year audit report regarding protecting externally hosted sensitive data; however, corrective action remains in progress.

During our follow-up review of the State Bar's corrective action plan to improve third-party service provider oversight, we found that the State Bar has identified external information technology (IT) systems and included the IT systems and data hosted on their behalf by third-party providers in the data sensitivity and classification listing. However, the State Bar did not define and document agency and third-party roles and responsibilities in their contracts with three of the four vendors.

Additionally, the State Bar did not provide an enforceable agreement with one third-party provider, requiring the provider to comply with the Commonwealth's security controls. Finally, the State Bar obtained the providers' independent audit reports and documented the reviews and determinations of possible compensating controls of deficiencies; however, one of the four providers' audit reports includes a Non-Disclosure Agreement with terms that impede the Commonwealth's sovereign immunity and; therefore, cannot be reviewed and evaluated.

The Commonwealth's Hosted Environment Information Security Standard, SEC 525 (Security Standard), requires the State Bar to define, document, and employ processes to monitor security control compliance by external service providers on an ongoing basis. Without these controls, the State Bar risks not applying appropriate controls to external information systems and not gaining assurance that third-party providers have effective security controls to protect the State Bar's sensitive data.

Previous contractual obligations contributed to the State Bar not completing contractual language to include IT roles and responsibilities for its service providers. The pandemic crisis also delayed completing corrective actions to potentially replace two service providers.

State Bar has obtained the services of a cybersecurity planning firm to assist in developing their information security program to include achieving full compliance with the IT service provider control requirements by September 30, 2020. After achieving full compliance with the IT service provider control requirements, the State Bar should implement measures to ensure third-party providers adhere to the same security controls that govern State Bar's internal IT systems.

Improve Server Operating System Security

Type: Internal Control and Compliance

Repeat: No

State Bar does not have some critical security controls in place for the server operating system that hosts the database for a mission critical and sensitive system. The Commonwealth's Information Security Standard, SEC 501 (Security Standard) requires these controls to reduce risk to data confidentiality, integrity, and availability.

We communicated the details of the control weaknesses to State Bar in a separate document marked FOIA Exempt under § 2.2-3705.2 of the Code of Virginia, due to its sensitivity and description of security mechanisms. In general, the critical controls relate to policies, procedures, and a baseline configuration that outline requirements and the minimum configuration settings for server operating systems that store sensitive data, as well as several key settings and controls necessary to secure the system.

State Bar should prioritize and dedicate the necessary resources to address the concerns communicated in the FOIA Exempt document.

AGENCY HIGHLIGHTS

The State Bar is an administrative agency of the Supreme Court of Virginia and is governed by an Executive Committee and 81-member Bar Council. 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's accounting and financial reporting system under the Regulation of Professions and Occupations program. They maintain separate detailed internal records for the Administration and Finance Fund and the Clients' Protection Fund and report these in summary format. In addition to its financial operating activities, State Bar transfers funds to affiliated parties for legal defense.

Table 1 shows the State Bar's sources of operating revenue for the dedicated special revenue fund as recorded under the Regulation of Professions and Occupations program.

Analysis of Actual Operating Revenues for the Year Ended June 30, 2019

Table 1

	Revenues	Percentage of Total Revenues
Membership dues	\$ 10,046,888	73%
Miscellaneous revenue	2,624,096	19%
Clients' Protection Fund collections	344,654	2%
Fines and costs	677,029	5%
Administration and Finance Fund collections	88,741	1%
Total operating revenues	\$13,781,408	100%

Source: Commonwealth accounting and financial reporting system

Membership dues provide the primary funding for operations. For fiscal year 2019, total operating revenues totaled approximately \$13.8 million, a decrease of approximately \$242,694 from prior year total operating revenues.

State Bar is the trustee for the Clients' Protection Fund, a separate account that 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, 2019, the Clients' Protection Fund had a balance of \$10,140,232.

State Bar records Administration and Finance Fund collections as revenues in the Commonwealth's accounting and financial reporting system and then transfers the amounts collected to a separate account and records all activities related to the Fund in their internal accounting system. This fund accounts for meeting revenue and expenses related to the annual meeting and other official

functions of the State Bar. State Bar's annual meeting 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, 2019, the Fund's balance was \$238,311.

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

Table 2 shows the State Bar's original budget, final budget, and actual expenses.

Analysis of Budgeted and Actual Expenses for the Year Ended June 30, 2019

Table 2

	Original Budget	Final Budget	Actual Expenses
General fund	\$ 4,791,473	\$ 4,792,349	\$ 4,792,339
Legal aid services special revenue fund	7,350,000	7,350,000	6,601,945
Dedicated special revenue	15,240,451	15,240,451	12,749,680
Total	\$27,381,924	\$27,382,800	\$24,143,964

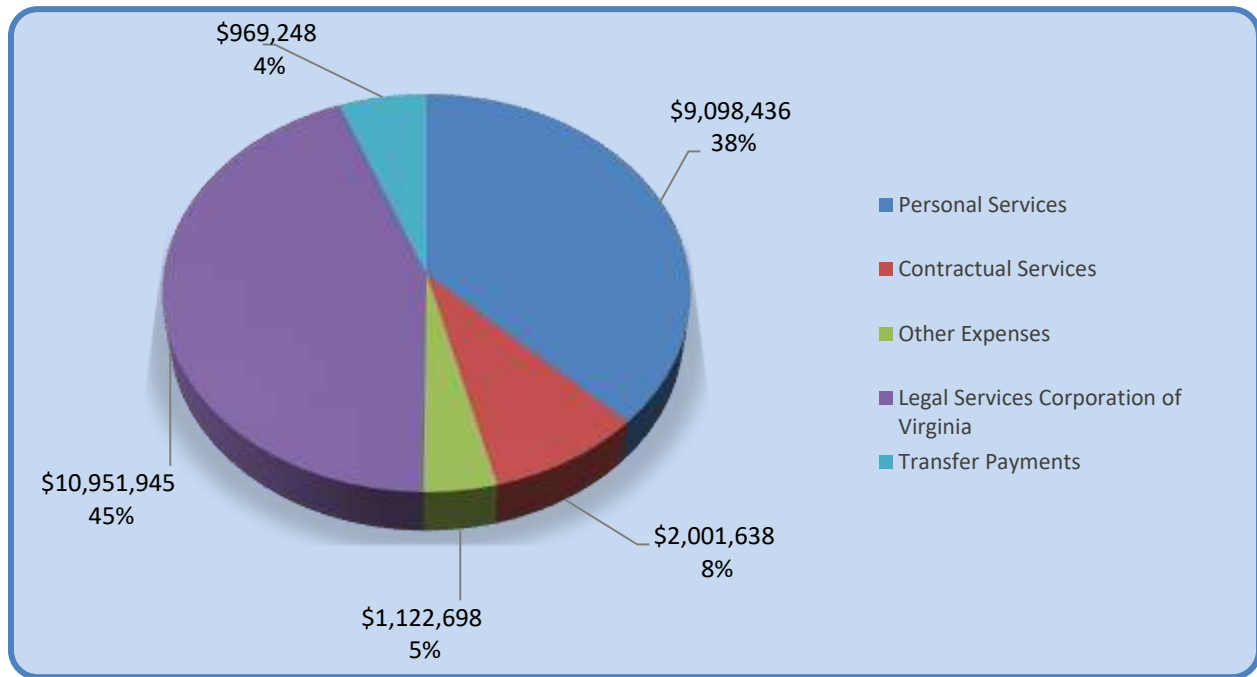
Source: Commonwealth's accounting and financial reporting system

State Bar transferred \$4.35 million in General funds to the Legal Services Corporation of Virginia (Corporation), as required by Chapter 854, 2019 Virginia Acts of Assembly. The Corporation provides civil legal services for needy Virginians. In addition, State Bar transferred the legal aid services special revenue it received from circuit court civil filing fees, totaling approximately \$6.6 million in fiscal year 2019, to the Corporation. They also transferred \$352,500 in General funds to the Virginia Capital Representation Center (Center). The Center is a separate not-for-profit corporation with its own board, which offers assistance or consultation to death-sentenced inmates, and defendants charged with or convicted of a federal or state capital crime in Virginia. Additionally, State Bar transferred \$75,000 in General funds to the Community Tax Law Project, as required by Chapter 854, 2019 Virginia Acts of Assembly. 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.

State Bar accounts for operating expenses in the dedicated special revenue fund which totaled approximately \$12.7 million in fiscal year 2019, \$513,258 less than in fiscal year 2018. Chart 1 shows actual expenses for fiscal year 2019 broken down by type of expense.

Analysis of Actual Expenses for Fiscal Year 2019

Chart 1



Source: Commonwealth's accounting and financial reporting system

*Other Expenses include Supplies and Materials, Equipment, and Continuous Charges



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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October 6, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
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, 2019. 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's accounting and financial reporting system and State Bar's internal accounting system; review the adequacy of the State Bar's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The State Bar's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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 system security

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the State Bar's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the State Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system and State Bar's internal accounting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system and State Bar's internal accounting system.

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

The State Bar 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 October 21, 2020. Management's response to the finding 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

DGS/vks

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October 21, 2020

Martha S. Mavredes, CPA
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RE: FY 2019 AUDIT

Dear Ms. Mavredes:

The Virginia State Bar has reviewed the Fiscal Year 2019 Audit Report provided by your office. We have discussed the areas noted in the "Internal Control and Compliance Findings and Recommendations" with your team during the exit conference.

The Virginia State Bar acknowledges and concurs with the recommendations for internal control and compliance findings with respect to "Improving Oversight of Third-Party Providers." We have remediated, or are in the process of instituting corrective measures to remediate, these findings in a robust manner. The issue regarding our server was remediated in April 2020.

Thank you as always for your team's professional interactions with our agency.

Very truly yours,

Karen A. Gould, Executive Director
Virginia State Bar

VIRGINIA STATE BAR

As of June 30, 2019

Leonard C. Heath, Jr., President
Marni E. Byrum, President-elect
Doris E. H. Causey, Immediate Past President
Karen A. Gould, Executive Director and Chief Operating Officer

EXECUTIVE COMMITTEE

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