



VIRGINIA STATE BAR

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Virginia State Bar 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 Virginia State Bar's internal accounting 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 State Bar is an administrative agency of the Supreme Court of Virginia and is governed by its Executive Committee and 75-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 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.

Table 1 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, 2015

Table 1

	Revenues	Percentage of Total Revenues
Membership fees	\$ 8,807,995	69%
Miscellaneous revenue	2,226,696	18%
Clients' Protection Fund collections	837,565	7%
Fines and costs	697,149	5%
Administration and Finance Fund collections	109,145	1%
Total operating revenues	\$12,678,550	100%

Source: Commonwealth Accounting and Reporting System

Membership dues provide the State Bar's primary funding for operations. For fiscal year 2015, total operating revenues totaled approximately \$12.7 million, as detailed above, consistent with the amount collected in the prior year.

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, 2015, the Clients' Protection Fund had a balance of \$7,596,995.

The State Bar records Administration and Finance Fund collections as revenues in CARS 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, 2015, the Administration and Finance Fund's balance was \$231,603.

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.

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, 2015

Table 2

	Original Budget	Final Budget	Actual Expenses
General fund	\$ 4,002,896	\$ 4,002,896	\$ 4,002,896
Legal aid services special revenue fund	7,850,000	7,850,000	6,128,692
Dedicated special revenue	14,001,202	14,001,202	12,828,639
Total	\$25,854,098	\$25,854,098	\$22,960,227

Source: Commonwealth Accounting and Reporting System

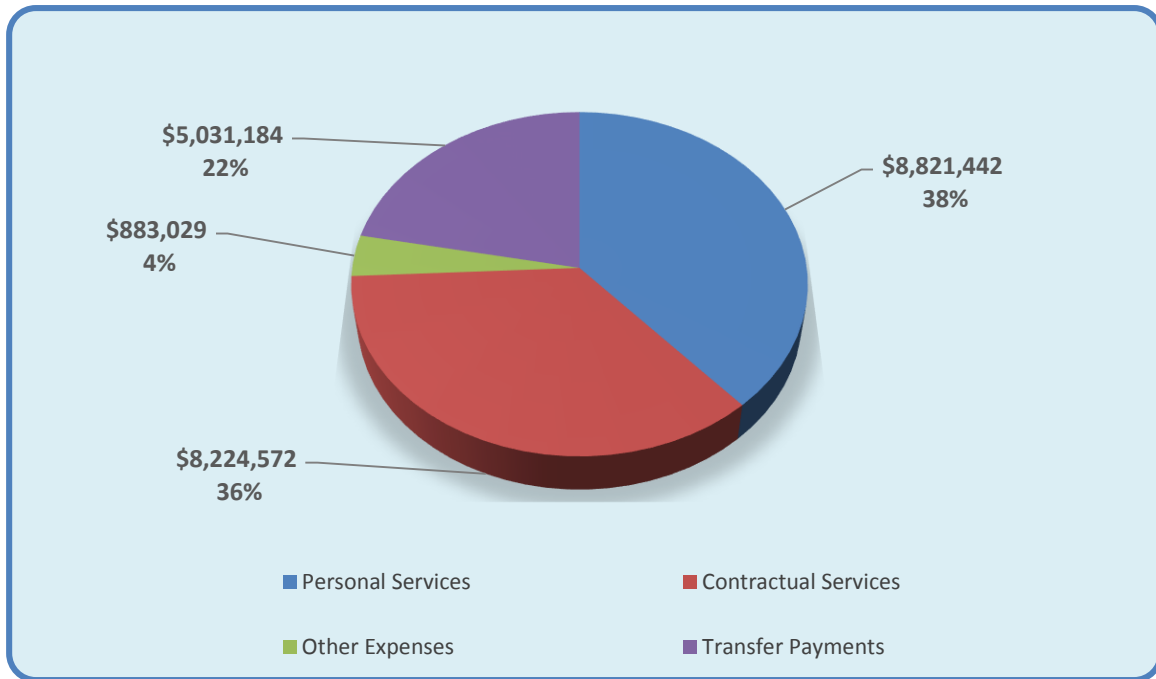
The State Bar transferred \$3.6 million in General funds to the Legal Services Corporation of Virginia (Corporation), as required by Chapter 806, 2013 Acts of Assembly. The Corporation provides civil legal services for needy Virginians. In addition, the State Bar transferred the special revenue it received from circuit court civil filing fees, totaling approximately \$6.1 million in fiscal year 2015, to the Corporation. The State Bar also transferred \$352,500 in General funds to the Virginia Capital Representation Center (Center) and \$50,000 in General funds to the Community Tax Law Project, as required by Chapter 806, 2013 Acts of Assembly. 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 approximately \$12.8 million in fiscal year 2015, about \$1.3 million less than in fiscal year 2014. This decrease in expenses was primarily due to moving and relocation expenses of State Bar's offices incurred in fiscal year 2014 as well as the acceleration of the State Bar's Enterprise Content Records Management project in an effort to move less paper to the agency's new office location.

Chart 1 shows actual operating expenses for fiscal year 2015 broken down by type of expense.

Analysis of Actual Operating Expenses for Fiscal Year 2015

Chart 1



Source: Commonwealth Accounting and 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
Richmond, Virginia 23218

May 31, 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 State Bar** (State Bar) 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 State Bar's internal accounting system, review the adequacy of the 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 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 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 State Bar's 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, regulations, contracts, and grant agreements 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 June 8, 2016.

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

AGENCY OFFICIALS

VIRGINIA STATE BAR

Kevin E. Martingayle, President
Edward L. Weiner, President-elect
Sharon D. Nelson, Immediate Past President
Karen A. Gould, Executive Director and Chief Operating Officer

EXECUTIVE COMMITTEE

Alan S. Anderson
Doris E. H. Causey
Nancy C. Dickenson
Tracey A. Giles
Leonard C. Heath
Michael W. Robinson
Mary M. Benzinger, Ex-Officio
Eva N. Juncker, Ex-Officio
Maureen E. Danker, Ex-Officio
Robert T. Vaughan, Jr., Ex-Officio