

VIRGINIA STATE BAR

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2012, 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 operations 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.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1-2
INDEPENDENT AUDITOR’S REPORT	3-4
AGENCY OFFICIALS	5

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's 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.

Analysis of Actual Operating Revenues for the Year Ended June 30, 2012

	<u>Revenues</u>	<u>Percent of Total Revenues</u>
Membership fees	\$ 8,275,451	69%
Clients' Protection Fund collections	797,873	7%
Fines and costs	534,354	4%
Administration and Finance Fund collections	124,028	1%
Miscellaneous revenue	<u>2,278,464</u>	<u>19%</u>
Total operating revenues	<u>\$12,010,170</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System

Membership dues provide the State Bar's primary funding for operations. For fiscal year 2012, operating revenues totaled \$12 million as detailed above, slightly lower than the \$12.7 million collected in the prior year. The decrease in revenue resulted from a reduction in membership dues charged to active and associate members.

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, 2012, the Clients' Protection Fund had a balance of \$5,882,437.

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 midyear meetings, and other official functions of the State Bar. The State Bar's annual and midyear 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, 2012, the Fund's balance was \$243,321.

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 2,420,000	\$ 2,420,000	\$ 2,420,000
Legal aid services special revenue fund	7,850,000	7,850,000	6,976,772
Dedicated special revenue	<u>12,387,630</u>	<u>12,387,630</u>	<u>12,061,995</u>
Total	<u>\$22,657,630</u>	<u>\$22,657,630</u>	<u>\$21,458,767</u>

Source: Commonwealth Accounting and Reporting System

The State Bar transferred \$1.9 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 \$7 million in fiscal year 2012, 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 million in fiscal year 2012, \$400,000 more than in fiscal year 2011. This increase was mostly the result of the five percent increase given to state employees to cover employee retirement contributions and computer software purchases. Personnel costs and contractual services represent the majority of operating expenses. 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 2012.

Analysis of Actual Operating Expenses by Major Object for the Year Ended June 30, 2012

	<u>Expenses</u>	<u>Percent of Total Expenditures</u>
Personal services	\$ 7,921,099	65%
Contractual services	2,083,886	17%
Transfer payments	954,612	8%
Continuous charges	689,557	6%
Equipment	349,493	3%
Supplies and materials	<u>63,348</u>	<u>1%</u>
Total operating expenses	<u>\$12,061,995</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

January 15, 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** for the year ended June 30, 2012. 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 the State Bar's internal controls, test compliance with applicable laws and regulations 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 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 and regulations.

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
Expenditures (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 and regulations. Our audit procedures included inquiries of appropriate personnel, inspection

of documents, records, and contracts, 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 the internal accounting system of State Bar. 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 accrual basis financial reports prepared by the State Bar.

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 28, 2013.

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

Warren David Harless – President

Sharon D. Nelson – President -Elect

George Warren Shanks – 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

Ray Webb King

Kevin Edward Martingayle

Brian Boger Charville

Plato George Eliades

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