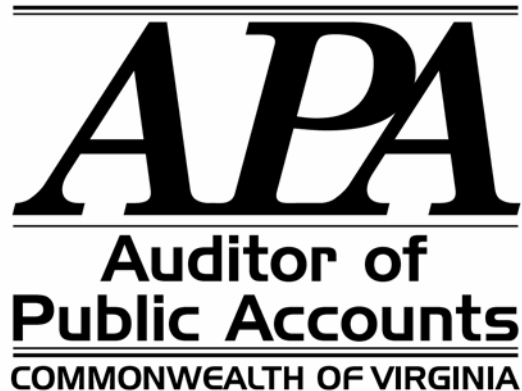


THE VIRGINIA STATE BAR

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2005 AND 2006**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the years ended June 30, 2005 and 2006, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting systems of the Virginia State Bar; and
- matters involving compliance and internal control and its operation that we have communicated to management in the Audit Findings and Recommendations section of this report.

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AUDIT FINDINGS AND RECOMMENDATIONS

Comply with the Commonwealth's Security Standard, SEC 2001

The Virginia State Bar (Bar) does not have a complete or current information security program; therefore, they do not meet Virginia's information technology security standard, ITRM Standard SEC 2001-01.1. Although the Bar does have some security procedures, the overall security plan is undocumented. This documented security program should include policies and procedures to provide reasonable assurance that appropriate levels of confidentiality, integrity, and availability exist over data in the Bar's possession and should meet the Commonwealth's new IT Security Standard 501-01. A well developed security program should include documented policies and procedures consisting of the following components:

- Information Security Responsibilities and Separation of Duties
- Risk Management
- IT Contingency Planning
- IT Systems Security
- Logical Access Control
- Data Protection
- Facilities Security
- Personnel Security
- Threat Management
- IT Asset Management

A comprehensive information security program provides the essential framework to protect the data on information systems and the data handled by employees. The lack of a comprehensive information security program prevents the Bar's management from assessing the current or potential risks to their data and enables them to adequately prevent or minimize those risks. The Bar plans to work with the Virginia Supreme Court IT section to develop the appropriate policy and procedures. Nevertheless, we recommend that the Bar prioritize allocating the time and resources necessary to complete a comprehensive information security program that will meet industry best practices.

For the recommendation above, management should take into account the detailed specifications included in the new Commonwealth's security standard, SEC501, which was effective July 1, 2006, and requires compliance by July 1, 2007.

Comply with State Bar's Procurement Procedures

The Bar has not followed its procurement procedures for certain training programs. The State Bar holds training sessions and other activities in Northern Virginia; however, it did not solicit the six bids it normally requires for purchases over \$50,000, nor did it document the reason for reducing the solicitation or the reason for selecting the venue. The Bar solicited four vendors and did not document receipt or evaluation of bids; total venue cost was \$90,094 for fiscal 2006.

The Bar's procurement procedures encourage staff to use public procurement and arrange for services in advance, if they can plan for the purchase. However for two annual training sessions, the Bar used an outside service to complete the work without following competitive bid procedures. The Bar spent \$24,488 during fiscal 2006 to complete the work for these two events and does not consistently follow procurement guidelines when using these services.

We recommend that the Bar follow its procurement procedures, and when it is necessary to deviate from them, that they document the reason for the deviation. Also, by anticipating recurring events that require procurement, the Bar could potentially reduce its cost of services.

AGENCY HIGHLIGHTS

The Virginia State Bar (the Bar) is an administrative agency of the Supreme Court of Virginia and the 75-member Bar Council is the governing body. The 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 Virginia State Bar. In addition to other responsibilities, the Bar initiates and prosecutes lawyer disciplinary actions.

The Bar records most of its financial operating activities on the Commonwealth's Accounting and Reporting System (CARS) under the program Regulation of Professions and Occupations and maintains separate, internal records for the Administration and Finance Fund and the Client's Protection Fund.

General Operating Activity

The Bar's operations are composed primarily of members' registration fees. The final 2006 budget increased over the original budget to reflect a state-wide salary and fringe benefit increases and the payment of an additional payroll period in fiscal 2006.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
2006	\$8,812,317	\$11,459,689	\$10,370,329
2005	\$8,698,817	\$9,676,817	\$9,676,681

For fiscal year 2006, revenue totaled \$10.1 million, slightly higher than the \$9.8 million collected the prior year, since the Bar sent out collection letters earlier. Attorney registration fees accounted for 79 percent of total revenue in both years. Other sources of revenue included referral fees, education program fees, section dues, and collection of back dues.

Fiscal year 2006 expenses totaled \$10.3 million compared to \$9.6 a year earlier. Personnel costs account for 62 percent and contractual services for 26 percent of the Bar's operating expenses. Other reasons for the increase in operating expenses not explained above is the filling of two additional positions, and an increase in rent as the Bar has expanded its office space.

Operating cash flows were negative \$217,113 because the seven percent increase in expenses exceeded the two percent rate of growth in revenues. In addition, cash transfers totaling \$55,895, as mandated by the Appropriation Act, were completed during FY 2006. As a result, the Bar's cash reserve declined about \$270,000 or seven percent to \$3.5 million.

In fiscal year 2007, the Bar implemented the Regulation module of the Integrated Bar Information System, which is the system's final module. The system includes modules that manage membership, continuing education, lawyer referrals, event management, and accounting functions. This is a proprietary system that will require substantial ongoing maintenance.

Virginia State Bar
Excess of Revenues over Expenses
Fiscal Year 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Registration fees	\$ 7,992,723	\$7,801,061
Other revenue	<u>2,160,492</u>	<u>2,056,447</u>
Total revenue	<u>10,153,215</u>	<u>9,857,508</u>
Expenses:		
Personal services	6,632,376	6,024,285
Contractual services	2,825,648	2,488,246
Supplies and materials	97,149	95,987
Transfer payments	123,293	376,438
Rent and other charges	597,082	566,648
Equipment	<u>94,781</u>	<u>125,077</u>
Total expenses	<u>10,370,329</u>	<u>9,676,681</u>
Excess of Revenues Over Expenses	<u>\$ (217,114)</u>	<u>\$ 180,827</u>

(Source: Commonwealth Accounting and Reporting System)

Virginia State Bar
Increase (Decrease) in Reserve Cash Balance
Fiscal Year 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 10,153,215	\$ 9,857,508
Less: Operating Expenses	10,370,329	9,676,681
Net transfers and change in suspense deposits	<u>(52,394)</u>	<u>(47,884)</u>
Contributions to increase/(decrease) operating cash balance	(269,508)	132,943
Add: Beginning operating reserve cash balance	<u>3,502,313</u>	<u>3,369,370</u>
Ending operating reserve cash balance	3,232,805	3,502,313
Add: Administrative and Finance reserve cash balance	<u>296,219</u>	<u>294,509</u>
Total reserve cash balance	<u>\$ 3,529,024</u>	<u>\$ 3,796,822</u>

(Source: Commonwealth Accounting and Reporting System)

NOTE: all amounts are on a cash basis.

Administration and Finance Fund

The Administration and Finance Fund is a separated fund from the Bar's operating revenues and expenses, and is on the Bar's internal accounting system and not the Commonwealth Accounting and Reporting System. The fund includes certain meeting revenues and expenses for the Council, Executive Committee, Annual and Midyear Meetings, and other official functions. The Bar's annual and mid-year meetings' registration fees generate the Administration and Finance Fund's revenue and the Fund pays for the meetings according to the rules of the Supreme Court. During fiscal year 2006, the Fund received \$109,514 in meeting and registration fees and paid \$111,942 in related expenses. As of June 30, 2006, the fund balance was \$242,078.

Clients' Protection Fund

The Virginia State Bar is the trustee for the Clients' Protection Fund. This fund compensates clients for injuries or losses resulting from the dishonest conduct of a Bar member. The Fund originally received a portion of the member dues and member contributions. Currently, the Fund's main sources of revenue include interest on investments and reimbursements from attorneys for client settlement payment. During fiscal year 2006, the Clients' Protection Fund collected \$153,318 in interest income and reimbursements from attorneys and disbursed \$136,265 in settlements. As of June 30, 2006, the Clients' Protection Fund had a fund balance of \$3,230,609.

Affiliated Parties

The Bar also receives General Fund appropriations and fees from the Circuit Courts for the Legal Defense of needy Virginians. The Bar transferred \$1.6 million in general funds to the Legal Services Corporation of Virginia, which provides civil, legal services for needy Virginians. The Bar also transferred the Circuit Court fees for legal aid to the Legal Services Corporation, which totaled \$3,324,150.

The Bar transferred \$470,000 in general funds to the Virginia Capital Representation Center. The Virginia Capital Representation 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 Bar provided the Community Tax Law project \$50,000.

Legal Defense Program Final Budget 2006

<u>General Fund</u>	<u>Special Funds</u>	<u>Total Budget</u>	<u>Actual Expenses</u>
\$2,145,000	\$3,324,150	\$5,469,150	\$5,469,150

(Source: Commonwealth Accounting and Reporting System)



Walter J. Kucharski, Auditor

Commonwealth of Virginia

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

July 2, 2007

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Virginia State Bar for the period July 1, 2004 through June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

AUDIT OBJECTIVES

Our audit's primary objectives were to evaluate the accuracy of financial transactions on the Commonwealth Accounting and Reporting System and in the Bar's financial system, review the adequacy of the 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 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 control components, automated and manual, sufficient to plan the audit. We considered materiality and control 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.

Expenditures
Revenue
Payroll

We performed audit tests to determine whether the 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 Bar's operations. We tested transactions and performed analytical procedures including budgetary and trend analysis. We confirmed bank and investment balances with outside parties.

CONCLUSIONS

We found that the Virginia State Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Bar's accounting system. The 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, except for the information for the Administrative and Finance Fund and the Client's Protection Fund, which came from the Bar's accounting records.

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

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on July 31, 2007.

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

MMT/wdh



Virginia State Bar

Eighth and Main Building
707 East Main Street, Suite 1500
Richmond, Virginia 23219-2800
Telephone: (804) 775-0500

Facsimile: (804) 775-0501 TDD (804) 775-0502

TO: David K. Jones, Auditor
Nancy Willson, In-Charge

FROM: Susan C. Busch, Assistant Executive Director

DATE: June 12, 2007

SUBJECT: Response to MP#3

We are reviewing and updating our internal policies for procurement. Appropriate steps will be taken to train staff members who are responsible for procuring goods and services for the Virginia State Bar.

A new position was authorized to assist with procurement, effective July 1, 2005, but not filled, due to the delay in acquiring the new office space. The new office space was acquired as of mid March 2007 and the new position will be recruited as soon as possible.



Virginia State Bar

Eighth and Main Building
707 East Main Street, Suite 1500
Richmond, Virginia 23219-2800
Telephone: (804) 775-0500

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TO: David K. Jones, Auditor
Nancy Willson, In-Charge

FROM: Susan C. Busch, Assistant Executive Director
William H. Dickinson, Director of Information Technology

DATE: June 12, 2007

SUBJECT: Response to MP#1

In reference to the statement; "Although VSB does have informal security procedures, the security plan is undocumented":

While we do lack a single comprehensive information security plan, it should be noted that our VSB Information Technology Standards and Guidelines manual contains numerous written policies and procedures that pertain to IT System Security, Logical Access Control, and Data Protection.

While we agree that a comprehensive information security plan would help VSB's management assess potential risks to their data and enable us to adequately prevent or minimize those risks, we wish to note the existence and our regular use of the documented policies already in place. The VSB will work toward developing a comprehensive information security program that will meet industry best practices.

VIRGINIA STATE BAR
Richmond, Virginia

Karen Ann Gould - President

Howard W. Martin, Jr. – President Elect

Phillip Verne Anderson - Immediate Past President

EXECUTIVE COMMITTEE

Irving M. Blank

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Edward Lacey Chambers, Jr.

Jon David Huddleston

Judith Lynn Rosenblatt

Alda Laverne White

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George W. Shanks - Ex-Officio