

AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Virginia State Bar's accounting system;
- no matters involving the internal control structure and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

January 25, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
Richmond, Virginia

FINANCIAL HIGHLIGHTS

The **Virginia State Bar** is an administrative agency of the Supreme Court of Virginia. 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. The Bar records most of its financial operating activities on the Commonwealth Accounting and Reporting System and maintains separate, internal records for the Administration and Finance Fund and the Clients' Protection Fund.

The Bar's primary funding source is membership dues. In fiscal year 1998, the Bar collected annual membership dues of about \$4.2 million from 21,780 active members and 7,530 associate members. During fiscal year 1998, the Bar admitted 1,154 new members consisting of 1,065 members passing the bar exam and 89 members through reciprocity. Other sources of revenue totaled \$1.4 million and include section dues, referral fees, education program fees, and collections of back dues. Payroll expense accounted for \$3.5 million or 57 percent of the Bar's state operating expenses. Contractual services of \$1.6 million accounted for 27 percent and includes \$566,000 for printing and mailing, and \$425,000 for travel and meetings. The remaining 16 percent, about \$1 million, consists of rent equipment, supplies, and other operating expenses.

In addition to other responsibilities, the Bar oversees lawyer disciplinary actions. The Intake Department receives and reviews complaints, and determines if an investigation is necessary. Reports of investigations are reviewed by bar counsel who makes a recommendation for dismissal, hearing or disciplinary sanctions in a report to the District Committee. The District Committee will set the case for a hearing or certify the case directly to the Disciplinary Board.

Related Parties

The Bar transfers court-collected legal aid filing fees to the Legal Services Corporation of Virginia for legal services for indigents in civil cases. Monthly, the Department of Accounts reviews Court deposits to determine the amounts available; and the Bar then disburses this amount from this fund. During fiscal year 1998, the State Bar transferred about \$1.8 million to the Legal Services Corporation from legal case filing fees. Additionally, the Bar transferred \$1 million in General Fund state appropriation to Legal Services Corporation.

The Bar has a close relationship with the Virginia Law Foundation, a separately incorporated, not-for-profit foundation with its own board. The Foundation collects, invests, and distributes moneys for charitable and educational purposes related to the legal profession. The Foundation performs these activities under the direction of the Continuing Legal Education Committee for which Virginia State Bar has some oversight responsibilities. However, the Bar did not provide any financial assistance to the Foundation during the year.

The Bar maintains a close relationship with the Virginia Capital Representation Resource Center, a separately incorporated, non-for-profit corporation with its own board. The Center offers assistance or consultation in all Virginia death sentence cases. The Center received money from the Bar through General Fund state appropriation totaling \$470,000 in fiscal year 1998.

Administration and Finance Fund

The Administration and Finance Fund includes the expenses of Council committee and executive meetings and other official Bar functions. During fiscal year 1998, the Fund received \$122,703 in meeting and registration fees, and paid \$104,508 in related expenses. As of June 30, 1998, the fund balance was \$130,472.

Clients' Protection Fund

The Bar is the trustee for the Clients' Protection Fund, which compensates clients for injury or losses caused by a member's dishonest conduct. During fiscal year 1998, the Clients' Protection Fund collected \$211,929 in interest income and reimbursements from attorneys and disbursed \$109,694 in settlements. In addition, the Fund received \$200,000 from the Bar's operating funds. As of June 30, 1998, the Clients' Protection Fund had a fund balance of \$2,780,622.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Virginia State Bar for the year ended June 30, 1998. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the adequacy of the Virginia State Bar's internal control structure, test compliance with applicable laws and regulations, and evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Virginia State Bar's accounting records.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over significant cycles, classes of transactions, and account balances including cash and other assets, revenues and cash receipts, and expenditures, including payroll.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether policies and procedures 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.

Management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit 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 the Virginia State Bar's accounting records. The Virginia State Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Virginia State Bar's accounting records.

We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that we are required to report under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management on March 10, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JHS:aom
aom:38

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Richmond, Virginia

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