



# VIRGINIA STATE BAR

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts  
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## AUDIT SUMMARY

Our audit of the Virginia State Bar for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial 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 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. 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, 2016

Table 1

	Revenues	Percentage of Total Revenues
Membership fees	\$ 9,846,574	71%
Miscellaneous revenue	2,337,092	17%
Clients' Protection Fund collections	820,922	6%
Fines and costs	634,637	5%
Administration and Finance Fund collections	109,470	1%
<b>Total operating revenues</b>	<b>\$13,748,695</b>	<b>100%</b>

Source: Commonwealth accounting and reporting systems

Membership dues provide the State Bar's primary funding for operations. For fiscal year 2016, total operating revenues totaled approximately \$13.75 million, an increase of approximately \$1 million from prior year total operating revenues. The increase is due to increases in membership fee rates of 12 percent from fiscal year 2015 to fiscal year 2016.

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, 2016, the Clients' Protection Fund had a balance of \$8,309,227.

The State Bar records Administration and Finance Fund collections as revenues in the Commonwealth's accounting and financial reporting system and then transfer 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 meeting revenue and expenses related to the annual meeting, and other official functions of the State Bar. The 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, 2016, the Administration and Finance Fund's balance was \$262,966.

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, 2016**

Table 2

	Original Budget	Final Budget	Actual Expenses
General fund	\$ 4,755,863	\$ 4,755,863	\$ 4,755,848
Legal aid services special revenue fund	7,850,000	7,850,000	6,039,772
Dedicated special revenue	14,086,677	14,086,677	13,439,187
<b>Total</b>	<b>\$26,692,540</b>	<b>\$26,692,540</b>	<b>\$24,234,807</b>

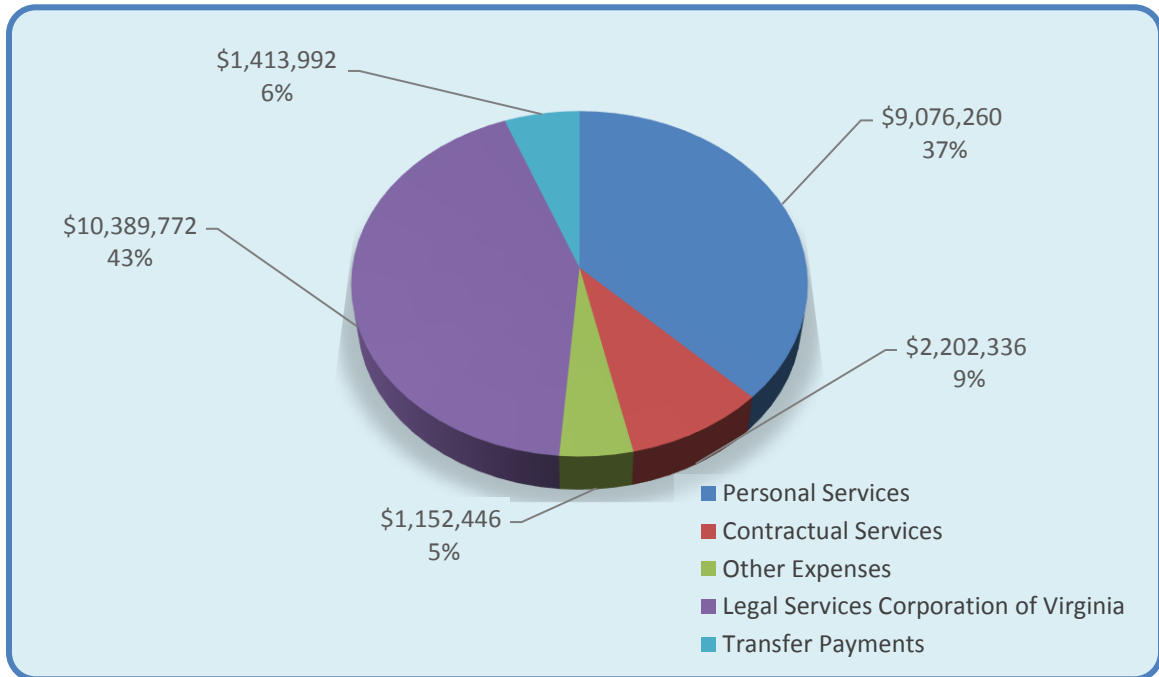
Source: Commonwealth's accounting and financial reporting system

The State Bar transferred \$4.35 million in General funds to the Legal Services Corporation of Virginia (Corporation), as required by Chapter 665, 2015 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 million in fiscal year 2016, 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 665, 2015 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 \$13.4 million in fiscal year 2016, about \$600,000 more than in fiscal year 2015. This increase was due partially to the statewide two percent salary increase effective August 2015, costs associated with the Enterprise Content Records Management project, and a rent increase resulting from the move to a new location at the end of fiscal year 2014. The State Bar had three months free rent in fiscal year 2015.

Chart 1 shows actual operating expenses for fiscal year 2016 broken down by type of expense.

### Analysis of Actual Operating Expenses for Fiscal Year 2016



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  
Richmond, Virginia 23218

July 6, 2017

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, 2016. 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, and test compliance with applicable laws, regulations, contracts, and grant agreements.

## **Audit Scope and Methodology**

The Virginia 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 and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, 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 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 August 8, 2017.

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

HHS/clj

## **VIRGINIA STATE BAR**

As of June 30, 2016

Edward L. Weiner, President  
Michael W. Robinson, President-elect  
Kevin E. Martingayle, Immediate Past President  
Karen A. Gould, Executive Director and Chief Operating Officer

### **EXECUTIVE COMMITTEE**

Nancy C. Dickenson  
Leonard C. Heath, Jr.  
Brian L. Buniva  
Marni E. Byrum  
Michael HuYoung  
Daniel L. Rosenthal  
Jack W. Burtch, Jr., Ex-Officio  
Providence E. Napoleon, Ex-Officio  
Robert T. Vaughan, Jr., Ex-Officio  
Nathan J. Olson, Ex-Officio