

VIRGINIA STATE BAR

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2008, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting system of the Virginia State Bar;
- 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.

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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 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 Regulation of Professions and Occupations program. The Bar maintains separate internal records for the Administration and Finance Fund and the Clients' Protection Fund. In addition to its financial operating activities, the Bar transfers funds to affiliated parties for legal defense.

The Bar's operations are composed primarily of members' registration fees. The following table shows the Bar's original budget, final budget, and actual expenses for fiscal year 2008. The Bar received total resources of approximately \$18.2 million in fiscal year 2008 of which \$12.2 million of the dedicated special revenue funds supports the Bar's operations. The final 2008 budget increased over the original budget by \$1 million due to the receipt of the new Clients' Protection Fund assessment collections.

Affiliated parties were budgeted to receive \$2.5 million in resources from the General Fund and Legal Services of Virginia received \$3.5 million from the Legal Aid Services Special Revenue fund for purposes of providing legal defense services to the indigent.

Analysis of Budgeted and Actual Expenses for Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 2,520,015	\$ 2,520,015	\$ 2,520,000
Legal aid services special revenue fund	3,600,000	3,600,000	3,531,706
Dedicated special revenue	<u>11,676,669</u>	<u>12,546,119</u>	<u>12,186,951</u>
Total	<u>\$17,796,684</u>	<u>\$18,666,134</u>	<u>\$18,238,657</u>

Source: Commonwealth Accounting and Reporting System and Form 27 Automated Transaction System

For fiscal year 2008, operating revenues totaled \$11.9 million, slightly higher than the \$10.4 million collected the prior year. Attorney registration fees accounted for most of the increase at approximately 70 percent of total revenue. Other increases in revenue were due to increases in court cases filed, fee increases, growth in bar membership, and lawyer referrals.

Operating expenses totaled \$12.2 million in fiscal year 2008 compared to \$10.8 in prior year. Most of this increase is due a mandatory Clients' Protection Fund Assessment of \$25 for each active Virginia attorney. Personnel costs and contractual services account for the majority of expenses. Contractual services primarily consist of costs related to software development, meetings, postage, and printing. The following table shows the actual operating expenses by major object for fiscal year 2008.

Analysis of Actual Operating Expenses by Major Object for Fiscal Year Ended June 30, 2008

	<u>Expenses</u>	Percent of Total <u>Expenditures</u>
Personal services	\$ 7,670,863	63%
Contractual services	2,761,510	23%
Supplies and materials	94,348	1%
Transfer payments	796,219	6%
Continuous charges	594,832	5%
Equipment	<u>269,179</u>	<u>2%</u>
Total operating expenses	<u>\$12,186,951</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System

Administration and Finance Fund

The Bar records the receipt of the 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 Bar. The Bar records all of the Administration and Finance Fund activities in its internal accounting system. This fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee, Annual and Midyear Meetings, and other official functions of the Bar. The 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. During fiscal year 2008, the Fund received \$129,335 in meeting, registration fees, and interest income and paid \$96,162 in related expenses. As of June 30, 2008, the fund balance was \$292,057.

Clients' Protection Fund

The 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 the new mandatory assessment, interest on investments and reimbursements from attorneys for client settlement payments. During fiscal year 2008, the Clients' Protection Fund collected \$672,375 from the mandatory assessment, \$188,652 in interest income and reimbursements from attorneys and disbursed \$202,899 in settlements. As of June 30, 2008, the Clients' Protection Fund had a fund balance of \$4,080,522.

As of June 30, 2008, the Clients' Protection Fund had investments with an estimated market value of \$3.6 million. Since June 30, 2008, capital markets have experienced significant volatility. The market volatility has affected the short term value of these investments, and may have affected the permanent value.

Affiliated Parties

The Bar also receives appropriations for a Legal Defense program in addition to the operating revenues for the Regulation of Professions and Occupations program. This program receives general and special revenue fund support that the Bar passes through to separate entities. In fiscal year 2008, the Bar transferred all of the general fund appropriations it received of \$2.52 million to third parties for legal defense.

The Bar transferred \$2.0 million in General Funds to the Legal Services Corporation of Virginia, per the Appropriation Act. The Legal Services Corporation of Virginia provides civil legal services for needy Virginians. The Bar also transfers the special revenue it receives from the Circuit Courts from -civil court filing fees to the Legal Services Corporation in addition to general funds. In fiscal year 2008, the Bar transferred a total of \$3.531 million, to the Corporation.

The Bar transferred \$470,000 in General Funds to the Virginia Capital Representation Center, per the Appropriation Act. 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 Bar transferred \$50,000 in General Funds to the Community Tax Law Project in FY 2008, per the Appropriation Act. 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.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

February 27, 2009

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

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia State Bar (the Bar)** for the year ended June 30, 2008. 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 on the Commonwealth Accounting and Reporting System and the internal accounting system of the Bar, 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 controls, both 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.

Revenue
Expenditures
Information Systems Security
Cash and Investments

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, records, and contracts, and observation of the Bar's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed cash and investment accounts for the Administration and Finance Fund and the Clients' Protection Fund with outside parties.

Conclusions

We found that the 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 the Bar. 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 and the internal accounting system of the 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."

The Bar has taken adequate corrective action with respect to audit findings reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management on March 9, 2009. Management's response has been included at the end of this report.

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

AVG/clj

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Edward L. Davis
Bar Counsel

March 12, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

Thank you for the opportunity to respond to the Virginia State Bar's audit report for the year ended June 30, 2008. I believe the report fairly highlights the important financial aspects of the bar's operations.

Regarding the status of the Clients' Protection Fund investments, due to the current economic conditions and market volatility, we are continually monitoring the Clients' Protection Fund investments in government-sponsored enterprises (GSEs). The fund has not experienced any losses related to these investments to date. Some of the callable securities with higher interest rates have been called, and interest rates are lower on the new instruments which have been purchased. We have received face value on all securities, whether redeemed at the maturity date or called prior to the maturity date, and all interest payments have been paid based on the stated coupon rate.

Thank you for your staff's cooperation during the audit process. It has been a pleasure to work with them.

Very truly yours,

Karen A. Gould

AGENCY OFFICIALS

VIRGINIA STATE BAR

Howard W. Martin, Jr. - President

Manuel A. Capsalis. - President -Elect

Karen A. Gould - Immediate Past President

Karen A. Gould, Executive Director and Chief Operating Officer

EXECUTIVE COMMITTEE

Irving M. Blank

Jan Lois Brodie

Edward Lacey Chambers, Jr.

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John Y. Richardson - Ex-Officio

George W. Shanks - Ex-Officio