



VIRGINIA STATE BAR

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the Virginia State Bar (State Bar) for the fiscal year ended June 30, 2022, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system and State's Bar internal accounting system; and
- no matters involving internal control and its operation necessary to bring to management's attention nor instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Our prior audit of State Bar included two findings titled "Continue Improving Oversight of Third-Party Service Providers" and "Improve Server Operating System Security." We found that State Bar has completed corrective action with respect to the finding titled "Continue Improving Oversight of Third-Party Service Providers." The system for which the finding titled "Improve Server Operating System Security" applied is no longer in use by State Bar; therefore, this finding is no longer applicable.

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AGENCY HIGHLIGHTS

State Bar is an administrative agency of the Supreme Court of Virginia and is governed by an Executive Committee and 81-member Bar Council. The mission of the Virginia State Bar is to protect the public, regulate the legal profession of Virginia, advance access to legal services, and to assist in improving the legal profession and the judicial system. All persons practicing law in Virginia must be members of the Virginia State Bar. In addition to other responsibilities, State Bar initiates and prosecutes lawyer disciplinary actions.

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. It maintains separate detailed internal records for the Administration and Finance Fund and the Clients' Protection Fund and reports these in summary format. In addition to its financial operating activities, State Bar transfers funds to affiliated parties for legal defense.

Membership fees provide the primary funding for operations. For fiscal year 2022, total operating revenues totaled approximately \$14 million, an increase of \$451,651 compared to fiscal year 2021. Table 1 shows State Bar's sources of operating revenue for the dedicated special revenue fund as recorded under the Regulation of Professions and Occupations program.

Analysis of Actual Operating Revenues for the Year Ended June 30, 2022

Table 1

	Revenues	Percentage of Total Revenues
Membership fees	\$9,990,976	71%
Miscellaneous revenue	3,134,689	22%
Clients' Protection Fund collections	252,046	2%
Fines and costs	577,270	4%
Administration and Finance Fund collections	75,370	1%
Total operating revenues	\$14,030,351	100%

Source: Commonwealth accounting and financial reporting system

Miscellaneous revenues consist primarily of mandatory continuing legal education fees, section dues, seminar registrations, mandatory professionalism course registrations, lawyer referral service revenue, and professional corporation registration.

State Bar is the trustee for the Clients' Protection Fund, a separate account that 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, 2022, the Clients' Protection Fund had a balance of \$9,822,830.

The Administration and Finance Fund accounts for meeting revenue and expenses related to the annual meeting and other official functions of State Bar. State Bar records Administration and Finance Fund collections as revenues in the Commonwealth's accounting and financial reporting system and then transfers the amounts collected to a separate account and records all activities related to the Fund in its internal accounting system. State Bar's annual meeting registration fees generate the Administration and Finance Fund's revenue and pay for the meetings according to the rules of the Supreme Court. As of June 30, 2022, the Fund's balance was \$214,395.

Table 2 shows State Bar's original budget, final budget, and actual expenses.

Analysis of Budgeted and Actual Expenses for the Year Ended June 30, 2022

Table 2

	Original Budget	Final Budget	Actual Expenses
General fund	\$ 7,571,912	\$ 7,564,407	\$ 7,564,397
Legal aid services special revenue fund	8,350,000	8,350,000	4,351,595
Dedicated special revenue	15,721,191	15,721,191	13,097,983
COVID-19 Relief Fund	1,000,000	1,000,000	1,000,000
ARPA State and Local Recovery Fund	-	2,500,000	2,500,000
Total	\$32,643,103	\$35,135,598	\$28,513,975

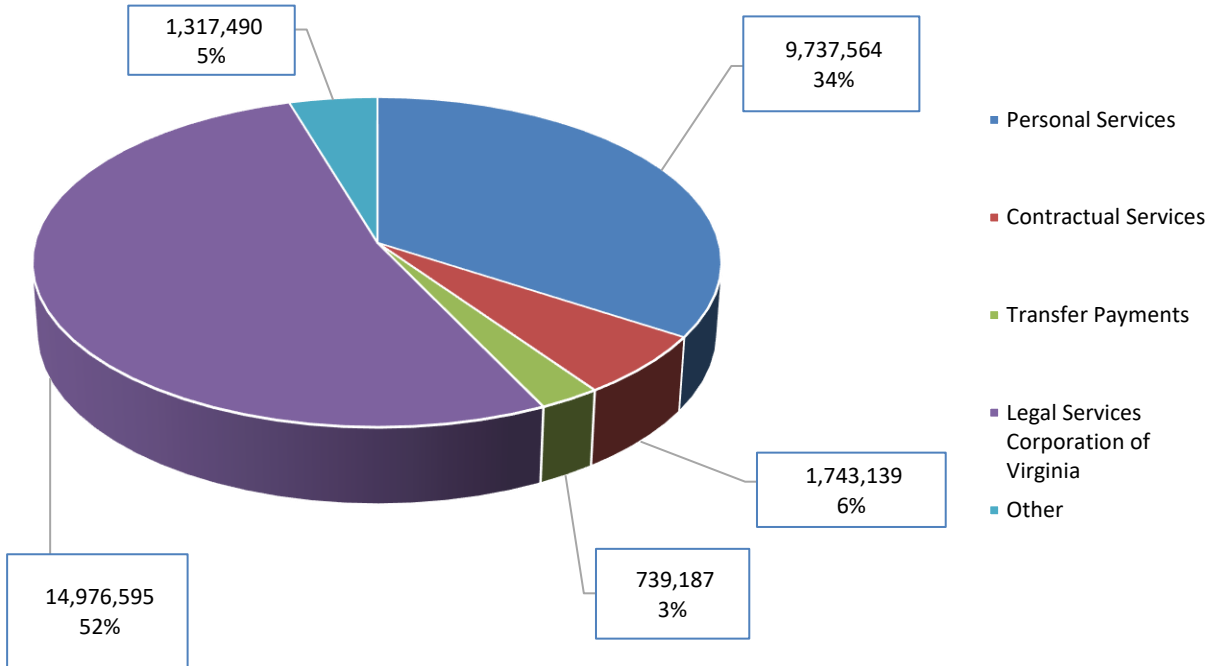
Source: Commonwealth's accounting and financial reporting system

State Bar transferred \$7.13 million in General funds to the Legal Services Corporation of Virginia (Corporation), as required by Chapter 552, 2021 Virginia Acts of Assembly. The Corporation provides civil legal services for needy Virginians. Additional transfers to the Corporation from State Bar include \$3.5 million in COVID-19 Relief and ARPA State and Local Recovery funds and \$4.4 million in legal aid services special revenue it received from circuit court civil filing fees. State Bar also transferred \$352,500 in General funds to the Virginia Capital Representation Center (Center). The Center is a separate not-for-profit corporation with its own board, which offers assistance or consultation to death-sentenced inmates, and defendants charged with or convicted of a federal or state capital crime in Virginia. Additionally, State Bar transferred \$75,000 in General funds to the Community Tax Law Project, as required by Chapter 552, 2021 Virginia Acts of Assembly. 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.

State Bar accounts for operating expenses in the dedicated special revenue fund which totaled approximately \$13.1 million in fiscal year 2022, a \$474,531 increase compared to fiscal year 2021. Chart 1 shows actual expenses for all funds for fiscal year 2022 broken down by type of expense.

Analysis of Actual Expenses for Fiscal Year 2022

Chart 1



Source: Commonwealth's accounting and financial reporting system

*Other Expenses include Supplies and Materials, Equipment, and Continuous Charges



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 19, 2023

The Honorable Glenn Youngkin
Governor of Virginia

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, 2022. 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 State Bar's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior reports.

Audit Scope and Methodology

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 and classes of transactions:

- Revenues
- Expenses (including payroll and purchase cards)
- Information system security

We performed audit tests to determine whether 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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of 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 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.

Our prior audit of State Bar included two findings titled “Continue Improving Oversight of Third-Party Service Providers” and “Improve Server Operating System Security.” We found that State Bar has completed corrective action with respect to the finding titled “Continue Improving Oversight of Third-Party Service Providers.” The system for which the finding title “Improve Server Operating System Security” applied is no longer in use by State Bar; therefore, this finding is no longer applicable.

Management’s Review and Report Distribution

We provided this report to management on October 19, 2023, for review.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JMF/clj

VIRGINIA STATE BAR

As of June 30, 2022

Jay B. Myerson, President
Stephanie E. Grana, President-elect
Brian L. Buniva, Immediate Past President
Karen A. Gould, Executive Director and Chief Operating Officer

EXECUTIVE COMMITTEE

Maryse C. Allen
Peter C. Burnett, Ex-Officio
Eugene N. Butler
Roy V. Creasy, Ex-Officio
Kenneth B. Marston
David D. Masterman, Ex-Officio
Kristopher R. McClellan, Ex-Officio
Eric M. Page
Luis A. Perez-Pietri
Lisa A. Wilson