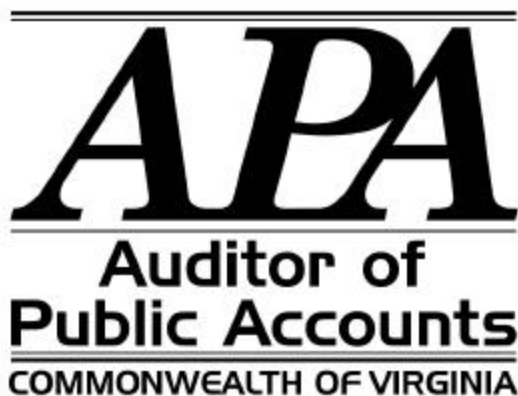


**VIRGINIA STATE BAR
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2001, 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;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

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AGENCY BACKGROUND AND FINANCIAL 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 received approximately 3,248 complaints during the year and sanctioned 272 attorneys.

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

CARS Activity

For fiscal year 2001, revenue totaled \$8.5 million while expenses totaled \$7.2 million. Attorney registration fees accounted for \$6.7 million or 80 percent of total revenues. Other sources of revenue included referral fees, education program fees, section dues, and collection of back dues. Payroll accounted for \$4.67 million or 65 percent of operating expenses. The remaining expenses are primarily contractual services.

Excess of Revenues over Expenses	
<u>Fiscal Year 2001</u>	
Revenue:	
Registration fees	\$6,743,928
Other revenue	<u>1,715,739</u>
Total revenue	<u>8,459,667</u>
Expenses:	
Personal services	4,670,253
Contractual services	1,818,466
Supplies and materials	109,041
Transfer payments	69,108
Rent and other charges	398,385
Equipment	<u>143,240</u>
Total expenses	<u>7,208,493</u>
Excess of Revenues Over Expenses	<u>\$1,251,174</u>

(Source: Commonwealth Accounting and Reporting System)

In prior years, expenses have exceeded revenue causing the Bar to place operational reliance on its cash reserve. In efforts to address the operational deficit, the Supreme Court of Virginia approved a dues increase of \$81 for active members and an increase of \$40 for associate members, effective July 1, 2000. The Bar plans to use the revenue increase to maintain its cash reserve balance and fund any reoccurring costs related to the Professional Regulation Department expansion including additional office space rental and personnel. In addition, the increase in dues will also fund the development of a new management and financial information system. The new information system will increase the capabilities of its current

management system, plus add an accounting component to maintain the Bar's accounting records including the Administration and Finance Fund and the Clients' Protection Fund. The project is under development with an approved budget of \$1 million, and the expected project duration is three years. Any revenues in excess of expenses go to the Bar's cash reserve account.

	FY 2000 Actual	FY 2001 Actual	FY 2002 Projected *	FY 2003 Projected *
Operating Revenue:	\$5,993,203	\$8,459,667	\$8,680,000	\$8,730,000
Less: Operating expenses	6,552,269	7,208,493	8,420,000	8,900,000
Net transfers and change in suspense deposits	<u>(8,908)</u>	<u>7,289</u>	<u>-</u>	<u>-</u>
Contributions to/(from) operating cash reserve	(567,974)	1,258,463	260,000	(170,000)
Add: Beginning operating reserve cash balance	<u>915,061</u>	<u>347,087</u>	<u>1,605,550</u>	<u>1,865,550</u>
Ending operating reserve cash balance	347,087	1,605,550	1,865,550	1,695,550
Administrative and Finance reserve cash balance	<u>226,362</u>	<u>221,788</u>	<u>226,700</u>	<u>233,200</u>
Total reserve cash balance	<u>\$ 573,449</u>	<u>\$1,827,338</u>	<u>\$2,092,250</u>	<u>\$1,928,750</u>

NOTE: All amounts are on a cash basis.

*Projected amounts do not include Grant Revenues and Expenses.

Administration and Finance Fund

The Administration and Finance Fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee, Annual and Midyear Meetings, and other official functions of the State Bar. The Bar's annual and midyear meetings' registration fees generate the Administration and Finance Fund's revenues and the Fund pays for the meetings according to the rules of the Supreme Court. During fiscal year 2001, the Fund received \$135,037 in meeting and registration fees, and paid \$132,170 in related expenses. As of June 30, 2001, the fund balance was \$186,260.

Clients' Protection Fund

The Virginia State Bar is the trustee for the Clients' Protection Fund that 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 are interest on investments and reimbursements from attorneys for whom client settlements have been paid. During fiscal year 2001, the Clients' Protection Fund collected \$276,850 in interest income and reimbursements from attorneys and disbursed \$132,274 in settlements. As of June 30, 2001, the Clients' Protection Fund had a fund balance of \$2,899,989.

Affiliated Parties

The Bar transfers court-collected legal aid filing fees and amounts appropriated from the General Fund of the Commonwealth to the Legal Services Corporation of Virginia to provide civil legal services for needy Virginians. Monthly, the Department of Accounts reviews Circuit Court deposits to determine the amounts available. Then, the Bar disburses this amount from a special revenue fund. During fiscal year 2001, the Bar transferred \$1.7 million from these court fees to the Legal Services Corporation. Additionally, the Bar received \$1,675,000 million in General Fund appropriations of which the Bar transferred \$1,625,000 million to the Legal Services Corporation and \$50,000 to the Community Tax Law Project.

The Bar maintains a close relationship with the Virginia Capital Representation Resource Center, 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 received \$470,000 in state appropriations that it transferred to the Center during fiscal year 2001.

March 29, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, 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 year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Virginia State Bar's accounting records, review the adequacy of the Bar's internal control, and test compliance with 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 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 the following significant cycles, classes of transactions, and account balances:

Revenues	Expenditures
Cash Receipts	Payroll

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls 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. The Virginia State 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 Bar's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components 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 disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 25, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA STATE BAR
Richmond, Virginia

Michael Andrew Glasser, President

Bernard Joseph DiMuro, President-Elect

Joseph A. Condo, Immediate Past President

EXECUTIVE COMMITTEE

David Paul Bobzien
Jean Patricia Dahnk
Tracy Allen Giles

Susan M. Pesner
Virginia W. Powell
W. Scott Street III

Theophlise Lee Twitty