

VIRGINIA STATE BAR

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Virginia State Bar for the year ended June 30, 2010, found:

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

Virginia State Bar (State Bar) is an administrative agency of the Supreme Court of Virginia and the 75-member Bar Council is the governing body. 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 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 Reporting System (CARS) under the Regulation of Professions and Occupations program. State Bar maintains separate internal records for the Administration and Finance Fund and the Clients' Protection Fund. In addition to its financial operating activities, State Bar transfers funds to affiliated parties for legal defense.

State Bar's operations are composed primarily of members' registration fees. The following table shows State Bar's original budget, final budget, and actual expenses for fiscal year 2010. State Bar received total resources of approximately \$22.9 million in fiscal year 2010 of which \$12.5 million of the dedicated special revenue funds supports State Bar's operations.

Analysis of Budgeted and Actual Expenses for the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 2,520,000	\$ 2,520,000	\$ 2,520,000
Legal aid services special revenue fund	7,850,000	7,850,000	7,667,629
Dedicated special revenue	<u>12,500,458</u>	<u>12,500,458</u>	<u>10,889,016</u>
Total	<u>\$22,870,458</u>	<u>\$22,870,458</u>	<u>\$21,076,645</u>

Source: Commonwealth Accounting and Reporting System

State Bar used General Fund resources to pay affiliated parties \$2.5 million, and Legal Services of Virginia received \$7.8 million from the Legal Aid Services Special Revenue fund for purposes of providing legal defense services to the indigent. For fiscal year 2010, operating revenues totaled \$12.4 million, slightly higher than the \$12.3 million collected the prior year. The increase in revenue results from a new late fee of \$100 for noncompliance with Mandatory Continuing Legal Education requirements.

Operating expenses totaled \$10.9 million in fiscal year 2010 compared to \$11.5 in prior year. Most of this decrease is the result of suspended fourth quarter retirement contributions and cost savings measures instituted by State Bar's Executive Director to lower printing, copying, postage, and travel costs. 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 2010.

Analysis of Actual Operating Expenses by Major Object for the Fiscal Year Ended June 30, 2010

	<u>Expenses</u>	Percent of Total <u>Expenditures</u>
Personal services	\$ 7,226,157	66%
Contractual services	1,932,404	18%
Supplies and materials	77,790	1%
Transfer payments	867,652	8%
Continuous charges	683,542	6%
Equipment	<u>101,471</u>	<u>1%</u>
Total operating expenses	<u>\$10,889,016</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System

Administration and Finance Fund

State 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 State Bar. State 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 State Bar. State 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 2010, the Fund received \$115,680 in meeting registration fees and interest income and paid \$98,045 in related expenses. As of June 30, 2010, the fund balance was \$318,534.

Clients' Protection Fund

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 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 2010, the Clients' Protection Fund collected \$703,420 from mandatory assessments and \$241,164 in interest income, net increases in the fair value of investments, and reimbursements from attorneys and disbursed \$488,072 in settlements. As of June 30, 2010, the Clients' Protection Fund had a fund balance of \$4,830,806.

Affiliated Parties

State 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 State Bar passes through to separate entities. In fiscal year 2010, State Bar transferred all of the general fund appropriations it received to third parties for legal defense.

State 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. In addition to the general funds, State Bar also transfers the special revenue it receives from the

Circuit Courts from civil court filing fees to the Legal Services Corporation. In fiscal year 2010, State Bar transferred a total of \$7.7 million in special revenues to the Corporation.

State 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.

State Bar transferred \$50,000 in General Funds to the Community Tax Law Project in fiscal year 2010, 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.

Unspent Cash Balance

In fiscal year 2011, the Governor proposed transferring \$5 million of State Bar's unspent cash to the Commonwealth's General Fund. State Bar's cash balance retained in dedicated special revenue is for unexpected expenses, such as court-ordered receiverships of lawyers' practices and attorney's fees and litigation in pursuit of the bar's regulatory mission, or capital expenditures. The monies in this fund come from mandatory dues and fees paid by Virginia's lawyers for the protection of Virginia's citizens and the regulation of the legal profession. The General Assembly did not approve the transfer and restored the monies to State Bar's budget.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

June 22, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of **Virginia State Bar** for the year ended June 30, 2010. 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 Accounting and Reporting System and the internal accounting system of State Bar, review the adequacy of State Bar's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

State 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 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
Expenditures
Payroll
Information 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 and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of State Bar's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that State 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 State Bar. 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, State Bar internal accounting system, and accrual basis financial reports prepared by State 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.

Exit Conference and Report Distribution

We discussed this report with management on June 27, 2011.

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

DBC/clj

VIRGINIA STATE BAR

Jon David Huddleston. - President

Irving M. Blank. - President -Elect

Manual Aggie Capsalis - Immediate Past President

Karen A. Gould, Executive Director and Chief Operating Officer

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