

**VIRGINIA STATE BAR  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 1999**

***AUDITOR OF  
PUBLIC  
ACCOUNTS***



***COMMONWEALTH OF VIRGINIA***

## **AUDIT SUMMARY**

Our audit of the Virginia State Bar for the year ended June 30, 1999, 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.

March 21, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Richard J. Holland  
Chairman, Joint Legislative Audit and  
Review Commission  
General Assembly Building  
Richmond, Virginia

#### FINANCIAL HIGHLIGHTS

The **Virginia State Bar** is an administrative agency of the Supreme Court of Virginia and the 71 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. The Bar records most of its financial operating activities on the Commonwealth's Accounting and Reporting System and maintains separate, internal records for the Administration and Finance Fund and the Clients' Protection Fund.

The Bar's primary funding source is membership dues. In fiscal year 1999, the Bar collected annual membership dues from 21,725 active members and 7,601 associate members. During fiscal year 1999, the Bar admitted 1,274 new members consisting of 1,180 members passing the bar exam and 94 members admitted through reciprocity. Attorney registration fees of \$4.3 million accounted for 74 percent of \$5.8 million in total revenues. Other sources of revenue totaling \$1.5 million included referral fees, education program fees, section dues, and collections of back dues. Payroll expenses were \$3.8 million or 62 percent and contractual services were \$1.7 million or 28 percent of the Bar's total operating expenses of \$6.2 million. After a 1996 review of the Bar's operations, membership dues were reduced from \$185 to \$169. Since that time, operating expenses have continued to increase and expenses in excess of dues have been paid from the Bar's operating reserve. Effective July 1, 2000, the Supreme Court of Virginia approved a dues increase from \$169 to \$250 annually for active members to support increased operating costs.

In addition to other responsibilities, the Bar oversees lawyer disciplinary actions. The Intake Department receives and reviews complaints, and determines if an investigation is necessary. The Office of the Bar Counsel reviews reports of investigations and makes a recommendation for dismissal, hearing or disciplinary sanctions in a report to the District Committee. The District Committee will set the case for a hearing or certify the case directly to the Disciplinary Board. The Bar received approximately three thousand complaints during the year and sanctioned 198 attorneys.

### Administration and Finance Fund

The Administration and Finance Fund was created to account for certain expenses related to meetings of the Council, meetings of the Executive Committee, the Annual and Midyear Meetings, and other official functions of the State Bar. The Bar's annual and midyear meetings' registration fees generate Administration and Finance Fund's revenues and the Fund paid for the meeting according to the rules of the Supreme Court. During fiscal year 1999, the Fund received \$126,506 in meeting and registration fees, and paid \$114,199 in related expenses. As of June 30, 1999 the fund balance was \$142,996.

### Clients' Protection Fund

The Virginia State Bar is the trustee for the Clients' Protection Fund that compensates clients for injuries or losses resulting from dishonest conduct of a Bar member. The fund's main sources of revenue are interest on investments, member contributions, and transfers of member dues. During fiscal year 1999, the Clients' Protection Fund collected \$121,452 in interest income and reimbursements from attorneys and disbursed \$180,870 in settlements. As of June 30, 1999, the Clients' Protection Fund had a fund balance of \$2,721,204.

### Related 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 1999, the Bar transferred \$1.7 million from these court fees to the Legal Services Corporation. Additionally, the Bar received \$1.4 million in general fund appropriations that it also transferred to the Legal Services Corporation.

The Virginia State 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 Virginia State Bar received \$470,000 in State appropriations that it transferred to the Center during fiscal year 1999.

The Bar has a close relationship with the Virginia Law Foundation. The Foundation is a separately incorporated, not-for-profit foundation with its own board and investment income from its endowment fund. The Foundation collects, invests, and distributes moneys for charitable and educational programs that aid in the understanding of the legal profession. The Bar's Continuing Legal Education Committee directs the Foundation's activities. The Bar did not provide any financial assistance to the Foundation during the year.

## INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Virginia State Bar for the year ended June 30, 1999. 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 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 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:

Cash and other assets  
Revenues and Cash Receipts  
Expenditures, including 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 internal 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 and in the Virginia State Bar's internal accounting records. The Virginia State Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Virginia State Bar's accounting records.

We noted no matters involving internal control and its operation that we consider material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that may 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 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 March 21, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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aom:38

VIRGINIA STATE BAR  
Richmond, Virginia

John A. C. Keith, President

W. Scott Street, III, President-Elect

Edward B. Lowry, Immediate Past President

EXECUTIVE COMMITTEE

Joseph A. Condo	Jane Siobhan Glenn
William D. Cremins	Julie Dawn McClellan
Michael Andrew Glasser	James Arthur Roy
Larry Benjamin Slipow	