



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 11/18/2022

Action Item #1 – (Action Required)

Budget Change Proposal Concept

Requested Action Item: Approve the attached budget change proposal concept seeking additional spending authority for external audits of the judicial branch, consistent with law. (Committee members will be voting by email).

Each year, the annual budget act appropriates \$540,000 for the audits mandated in section 77206(h) of the Government Code. These audits of trial court revenues, expenditures and fund balances are performed by the State Controller's Office (SCO) and current funding levels support five (5) audits per year. However, statute requires that each trial court receive such an audit every four years (or equivalent to conducting 14-15 audits per year).

This budget change proposal concept seeks additional funding to comply with the 4-year audit requirement. If approved by the audit committee, staff will proceed with drafting a full Budget Change Proposal document that will go through the judicial branch's vetting process, including consideration by the Judicial Branch Budget Committee.

Tracking
Number:

**Judicial Branch
2024-25 Budget Change Proposal Concept
(4 Page Maximum Length)**

Requesting Entity	Audit Services / Advisory Committee for Audits and Financial Accountability
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Proposal Title	Statewide External Audit Program
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Proposal Summary

Section 77206(h) of the Government Code requires the trial courts to be audited by an external governmental audit organization (i.e. State Controller, State Auditor, or Department of Finance). Statute further requires that each trial court be audited by such an organization every four years.

Current spending authority in the annual budget act provides \$540,000, which is enough to cover the costs of only five (5) audits as opposed to the 14-15 audits needed to get to a 4-year cycle as required by statute. This budget concept proposes to fully fund the statewide external audit program (total of \$1.85 million annually, or an increase of \$1.31 million over current funding levels) based on cost estimates provided by the State Controller’s Office (SCO).

This concept mirrors a previous budget change proposal (0250-018-BCP-2020-GB) that was initially accepted by the Administration and later withdrawn.

Does this proposal require a statutory change? Yes No

Does this proposal have an information technology component? Yes No

Does this proposal require data collection or reporting? Yes No

Proposed fund source: 0250-101-0932(16)

Estimated Cost (Rounded to thousands) *

Fiscal Year	2024-25 (BY)	2025-26 (BY+1)	2026-27 (BY+2)	2027-28 (BY+3)	2028-29 (BY+4)
Positions					
Personal Services					
Operating Expenses & Equipment	\$1,310,000	\$1,347,000	\$1,385,000	\$1,423,000	\$1,463,000
Local Assistance					
Total	\$1,310,000	\$1,347,000	\$1,385,000	\$1,423,000	\$1,463,000
One-time					
Ongoing	\$1,310,000	\$1,347,000	\$1,385,000	\$1,423,000	\$1,463,000

*Please include all costs associated with request including costs for other offices and courts.

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Problem or Issue

Section 77206(h) of the Government Code requires 14-15 trial court audits each year by an external governmental audit organization. Current spending authority in the budget act provides only \$540,000, which is sufficient for just five (5) audits. By seeking additional spending authority, the judicial branch is demonstrating its ongoing commitment to fiscal accountability and adherence to the Legislature's oversight requirements, as expressed in law. Provide a concise summary of the problem or issue your proposal addresses.

Background/History of Problem

Without additional funding, trial courts will find it impossible to comply with statute mandating the 4-year audit cycle. Government Code 77206(h)(4) states: "The reasonable and necessary costs of the audit conducted pursuant to this subdivision shall be paid from funds of the local trial court being audited."

Historically, the annual budget act has appropriated funding for these external audits so trial court budgets would not be impacted. The Judicial Council has used this funding on the courts' behalf to arrange for the SCO audits. However, it is unlikely the SCO will commit to auditing 14-15 courts per year if it was required to negotiate contracts with each specific court, where available financial resources vary court-by-court. Further, the costs of these audits would put particular financial strain on smaller to medium sized courts. The SCO estimates that the cost of auditing a small to medium-sized courts would range from \$102,000 - \$131,000 per audit, which would constitute 11-12% of total annual expenditures at very small courts like Alpine and Sierra. Further, statute limits the amount of budgetary reserves trial courts may retain from year-to-year, and what limited funds are at the courts are often already assigned for other purposes.

Impact of Denial of Proposal

Absent a change in existing law, denial of this funding request will likely result in the SCO not performing the required audit work due to the uncertainty of available funding. Many of the small courts would likely be unable to absorb the cost of an SCO audit. In fiscal year 2020-21, none of the 58 trial courts reported unassigned (available) fund balance that could be used to pay for these audits. Denial of this proposal will prevent the judicial branch from complying with Section 77206(h) of the Government Code.

Outcomes and Accountability of Proposal

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Greater fiscal accountability, transparency, and compliance with statutory requirements.

Required Review/Approval

Advisory Committee on Audits and Financial Accountability for the Judicial Branch
Choose from drop down, advisory body(ies) who should review this proposal.
Choose from drop down, advisory body(ies) who should review this proposal.

Proposal is Consistent with the Following Strategic Plan Goals/Other Considerations

Goal II: Independence and Accountability
Goal VII: Adequate, Stable, and Predictable Funding for a Fully Functioning Branch
Choose from drop down, all Judicial Branch Strategic Goals this proposal supports.

Insert any additional necessary information.

Approval

I certify that I have reviewed this concept and an accurate, succinct, well written, and effectively justified request is being submitted.

Director Signature: *Grant Parks*

Contact Name: Grant Parks