



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

www.courts.ca.gov/auditcommittee.htm
auditcommittee@jud.ca.gov

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

April 17, 2024
12:15 p.m. - 1:15 p.m.
Conference Call

Advisory Body Members Present: Hon. Ann Moorman, Hon. Kimberly Merrifield, Hon. Kelly L. Neel, Mr. Charles Johnson, Mr. Kevin Harrigan, Mr. Michael Powell, Ms. Nocona Soboleski, Ms. Kristine Swensson (non-voting advisory member)

Advisory Body Members Absent:

Others Present: Mr. Joe Meyer (Principal Manager, Judicial Council's Audit Services), Ms. Dawn Tomita (Manager, Judicial Council's Audit Services), Ms. Michelle O'Connor (Senior Auditor, Judicial Council's Audit Services), Ms. Sandra Gan (Senior Auditor, Judicial Council's Audit Services), Ms. Amanda Toste (Court Executive Officer, Merced Superior Court), Ms. Keri Brasil (Chief Financial Officer, Merced Superior Court), Mr. Kao Saepanh (Fiscal Operations Supervisor), Ms. Reneé McCanna Crane (Court Executive Officer, Siskiyou Superior Court), Mr. Jake Chatters (Court Executive Officer, Placer Superior Court), Ms. Julie Kelly (Chief Administrative Officer/Deputy CEO, Placer Superior Court)

OPEN MEETING

Call to Order and Roll Call

Hon. Ann Moorman welcomed committee members and called the meeting to order at 12:17 p.m.

Mr. Meyer took roll call.

Approval of Minutes

Mr. Johnson moved to approve the minutes of the April 17, 2025, meeting. Judge Merrifield seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

No public comments were received for this meeting.

Item 1

External Audit Report – State Controller's Office (Action Required)

Mr. Meyer provided an overview of the State Controller's recent audit of Modoc Superior Court's revenues, expenditures, and fund balance for fiscal year 2021-22.

Action: Mr. Harrigan moved to approve this report for posting on Judicial Council's website (seconded by Ms. Soboleski). The motion passed by unanimous voice vote of the committee members present.

Item 2

External Audit Report – State Controller’s Office (Action Required)

Mr. Meyer provided an overview of the State Controller’s recent audit of the Judicial Council’s revenues, expenditures, and fund balance for fiscal year 2021-22.

Action: Mr. Johnson moved to approve this report for posting on Judicial Council’s website (seconded by Judge Merrifield). The motion passed by unanimous voice vote of the committee members present.

A D J O U R N M E N T

There being no further open meeting business, the meeting was adjourned to closed session at 12:25 p.m.

C L O S E D S E S S I O N

Item 1

Draft Audit Report – Rule of Court 10.75(d) (6), non-final audit reports or proposed responses to such reports (Action Required)

Committee members discussed the draft audit report for Merced Superior Court, per Rule of Court 10.63(c)(1).

Action: Ms. Soboleski moved to approve this report for posting (seconded by Mr. Powell). Committee members unanimously approved the audit of Merced Superior Court for public posting on Judicial Council’s website.

Item 2

Draft Audit Report – Rule of Court 10.75(d) (6), non-final audit reports or proposed responses to such reports (Action Required)

Committee members discussed the draft audit report for Placer Superior Court, per Rule of Court 10.63(c)(1).

Action: Ms. Soboleski moved to approve this report for posting (seconded by Mr. Johnson). Committee members unanimously approved the audit of Placer Superior Court for public posting on Judicial Council’s website.

Item 3

Draft Audit Report – Rule of Court 10.75(d) (6), non-final audit reports or proposed responses to such reports (Action Required)

Committee members discussed the draft audit report for Siskiyou Superior Court, per Rule of Court 10.63(c)(1).

Action: Ms. Soboleski moved to approve this report for posting (seconded by Mr. Johnson). Committee members unanimously approved the audit of Siskiyou Superior Court for public posting on Judicial Council’s website.

Adjourned closed session at 1:00 pm.



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 6/24/2025

Action Item #1 – (Action Required)

Invitation to Comment regarding proposed revisions to the Judicial Branch Contracting Manual

Requested Action:

- **Action Item #1** – Discuss and approve Invitation to Comment regarding revisions to the Judicial Branch Contracting Manual.

Supporting Documents:

- ***Attachment A***—Invitation to Comment for the proposed changes to the Judicial Branch Contracting Manual

Background:

With certain exceptions,¹ the California Judicial Branch Contract Law (Judicial Branch Contract Law or JBCL),² enacted March 24, 2011,³ requires that California judicial branch entities comply with the provisions of the Public Contract Code (PCC) applicable to state agencies and departments related to the procurement of goods and services.⁴ The JBCL applies to all covered contracts initially entered into or amended by judicial branch entities on or after October 1, 2011.⁵

The JBCL also requires the Judicial Council of California (Judicial Council or council) to adopt a judicial branch contracting manual that (1) contains policies and procedures applicable to judicial branch entities related to the procurement of goods and services, and (2) is consistent

¹ Pub. Contract Code, §§ 19204(c), 19207, and 19208.

² *Id.*, §§ 19201–19210. The JBCL is posted at https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=PCC&division=2.&title=&part=2.5.&chapter=&article=.

³ Sen. Bill 78 (Stats. 2011, ch. 10).

⁴ Pub. Contract Code, § 19204(a).

⁵ *Id.*, § 19203.

with the PCC as well as substantially similar to the *State Contracting Manual* (SCM) and the *State Administrative Manual* (SAM).⁶

At the council's business meeting on August 26, 2011, the council adopted the *Judicial Branch Contracting Manual*, effective October 1, 2011, the operative date of substantive requirements of the JBCL. The council adopted revisions to the JBCM in December 2011, April 2012, August 2012, December 2013, June 2015, June 2016, July 2017, July 2018, September 2019, September 2020, October 2021, October 2022, October 2023, and October 2024.

The version of the JBCM adopted at the council's regular business meeting on September 20, 2024, remains in effect as of the date of this invitation to comment. The current version of the JBCM became effective on October 1, 2024, and can be viewed at www.courts.ca.gov/documents/jbcl-manual.pdf.

Under rule 10.63(c) of the California Rules of Court, the duties of the Audit Committee include (1) advising and assisting the council in performing its responsibilities and exercising its authority under the JBCL, and (2) reviewing and recommending to the council proposed updates and revisions to the JBCM. It is anticipated that the next revision of the JBCM will be considered by the council at its meeting scheduled for December 12, 2025; if adopted by the council, the effective date of the revised JBCM would be January 1, 2026.

Proposed JBCM Revisions:

Pursuant to rule 10.63(c), the Audit Committee proposes that the JBCM be revised to add provisions on generative artificial intelligence (GenAI) so that the JBCM will remain substantially similar to the SCM and SAM, as required by the Judicial Branch Contract Law. The California Department of General Services (DGS) has updated the SCM and SAM with additional procurement and contracting provisions regarding GenAI. These provisions are in chapter 23 of the SCM, volume 2; SAM section 4986; and section 7.12 of the SCM, volume 1 (Feb. 2025 updates to the SCM and SAM). The current version of the JBCM does not have provisions on GenAI.

⁶ *Id.*, § 19206. The SCM is posted at www.dgs.ca.gov/PD/Resources/Page-Content/Procurement-Division-Resources-List-Folder/State-Contracting-Manual, and the SAM is posted at www.dgs.ca.gov/Resources/SAM.



Judicial Council of California

455 Golden Gate Avenue · San Francisco, California 94102-3688

<https://courts.ca.gov/policy-administration/invitations-comment>

INVITATION TO COMMENT

SP25-03

Title

Judicial Administration: Revisions to
Judicial Branch Contracting Manual

Action Requested

Review and submit comments by 5 p.m.,
[month] [day], 2025

Proposed Rules, Forms, Standards, or Statutes

None

Proposed Effective Date

January 1, 2026

Proposed by

Advisory Committee on Audits and Financial
Accountability for the Judicial Branch
Hon. Ann C. Moorman, Chair

Contact

Joe Meyer
joe.meyer@jud.ca.gov
Clarissa Cheng
clarissa.cheng@jud.ca.gov

Executive Summary and Origin

Under rule 10.63(c) of the California Rules of Court, the Advisory Committee on Audits and Financial Accountability for the Judicial Branch (Audit Committee) proposes revising the *Judicial Branch Contracting Manual* (JBCM) to add provisions regarding generative artificial intelligence, so that the JBCM will remain substantially similar to the *State Contracting Manual* and *State Administrative Manual*, as required by the Judicial Branch Contract Law. In addition, the Audit Committee's proposal to revise the JBCM aligns with the judicial branch's efforts to address the emerging technology of generative artificial intelligence.

Background

With certain exceptions,¹ the California Judicial Branch Contract Law (Judicial Branch Contract Law or JBCL),² (Link A) enacted March 24, 2011,³ requires that California judicial branch

¹ Pub. Contract Code, §§ 19204(c), 19207, and 19208.

² *Id.*, §§ 19201–19210. The JBCL is posted at https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=PCC&division=2.&title=&part=2.5.&chapter=&article=.

³ Sen. Bill 78 (Stats. 2011, ch. 10).

This proposal has not been approved by the Judicial Council and is not intended to represent the views of the council, its Rules Committee, or its Legislation Committee. It is circulated for comment purposes only.

entities comply with the provisions of the Public Contract Code (PCC) applicable to state agencies and departments related to the procurement of goods and services.⁴ The JBCL applies to all covered contracts initially entered into or amended by judicial branch entities on or after October 1, 2011.⁵

The JBCL also requires the Judicial Council of California (Judicial Council or council) to adopt a judicial branch contracting manual that (1) contains policies and procedures applicable to judicial branch entities related to the procurement of goods and services, and (2) is consistent with the PCC as well as substantially similar to the *State Contracting Manual* (SCM) (Link B) and the *State Administrative Manual* (SAM) (Link C).⁶

At the council's business meeting on August 26, 2011, the council adopted the *Judicial Branch Contracting Manual*, effective October 1, 2011, the operative date of substantive requirements of the JBCL. The council adopted revisions to the JBCM in December 2011, April 2012, August 2012, December 2013, June 2015, June 2016, July 2017, July 2018, September 2019, September 2020, October 2021, October 2022, October 2023, and October 2024 (Link D).

The version of the JBCM adopted at the council's regular business meeting on September 20, 2024, remains in effect as of the date of this invitation to comment. The current version of the JBCM became effective on October 1, 2024, and can be viewed at www.courts.ca.gov/documents/jbcl-manual.pdf.

Under rule 10.63(c) of the California Rules of Court, the duties of the Audit Committee include (1) advising and assisting the council in performing its responsibilities and exercising its authority under the JBCL, and (2) reviewing and recommending to the council proposed updates and revisions to the JBCM.

The Proposal

Pursuant to rule 10.63(c), the Audit Committee proposes that the JBCM be revised to add provisions on generative artificial intelligence (GenAI) so that the JBCM will remain substantially similar to the SCM and SAM, as required by the Judicial Branch Contract Law. The California Department of General Services (DGS) has updated the SCM and SAM with additional procurement and contracting provisions regarding GenAI. These provisions are in chapter 23 of the SCM, volume 2; SAM section 4986; and section 7.12 of the SCM, volume 1 (Feb. 2025 updates to the SCM and SAM). The current version of the JBCM does not have provisions on GenAI.

The Audit Committee's proposal is consistent with a key priority of the California judicial branch: addressing the emerging technology of GenAI. In her 2024 State of the Judiciary address, Chief Justice Patricia Guerrero discussed the strategic judicial branch goal of

⁴ Pub. Contract Code, § 19204(a).

⁵ *Id.*, § 19203.

⁶ *Id.*, § 19206. The SCM is posted at www.dgs.ca.gov/PD/Resources/Page-Content/Procurement-Division-Resources-List-Folder/State-Contracting-Manual, and the SAM is posted at www.dgs.ca.gov/Resources/SAM.

modernization and management of administration, stating: “Society, government, and, therefore, our court system must address the many issues and questions presented by the developing field of artificial intelligence.” The Audit Committee’s proposed revisions will enable the JBCM to align more closely with a strategic goal of the judicial branch.

The Audit Committee plans to recommend JBCM revisions to the council, and invites public comment on the JBCM revisions proposed below.⁷ It is anticipated that the next revision of the JBCM will be considered by the council at its meeting scheduled for December 12, 2025; if adopted by the council, the effective date of the revised JBCM would be January 1, 2026.

The proposed GenAI revisions to the JBCM would add a new section 2.4 (Generative Artificial Intelligence) to the JBCM’s chapter 2 (Procurement Planning). The revisions would include new GenAI-related provisions on procurement and contracting. Key topics of chapter 2, section 2.4 would include, for example:

- During the procurement process, requiring bidders to inform the procuring judicial branch entity if the bidders’ goods or services contain or utilize GenAI;
- Risk assessments to be conducted by procuring judicial branch entities before (i) proceeding with a GenAI purchase, (ii) posting a solicitation that includes the purchase of GenAI, or (iii) entering into a contract that includes GenAI;
- Written confirmation by the judicial branch entity’s CEO or CIO that the GenAI-related procurement may proceed; and
- Monitoring and assessing GenAI contract deliverables for equitable outcomes, output inaccuracies, bias, and hallucinations to ensure that applicable laws and policies are followed.

The field of artificial intelligence is constantly evolving, and therefore, the JBCM should provide sufficient flexibility to adapt to new GenAI-related developments. The revised JBCM would provide core guidance, but detailed information on risk assessments as well as sample GenAI-related contract provisions would be provided in separate reference materials or links. For example, the revised JBCM would include a link to sample GenAI-related contract provisions to be drafted by Judicial Council Legal Services and updated from time to time as necessary.

The attached draft of proposed JBCM revisions includes a reference to the proposed rule of court 10.430 on GenAI. To the extent that a California court permits the use of GenAI by court staff or judicial officers, rule 10.430 would require the court to adopt a GenAI use policy. The proposed rule 10.430 was posted for public comment earlier this year, and it has an anticipated effective date of September 1, 2025.⁸

⁷ The Court Executives Advisory Committee and the JBCM Working Group provided input during the development of the proposed JBCM revisions.

⁸ https://courts.ca.gov/system/files/itc/sp25-01_0.pdf.

The JBCL requires the Judicial Council to adopt a JBCM that is “substantially similar” to the SCM and SAM. The attached draft of proposed JBCM revisions is intended to incorporate policies and procedures that are “substantially similar” to the SCM and SAM while also taking into account the fundamental differences between the underlying assumptions of SCM/SAM, and the organization and operations of judicial branch entities (JBEs). As explained in the JBCM’s Introduction, section 2 (Guiding Principles in the Development of this Manual):

“Development of this Manual was complicated by the inapplicability of the SAM and SCM to the organization and operations of JBEs. The SAM and SCM were written for use by executive branch agencies, with the Department of General Services (DGS) as the entity charged with administering those agencies’ procurement and contracting activities. In contrast, management in the judicial branch is decentralized; for the superior courts, by way of example, the presiding judge of each court is responsible for approving procurements and contracts and the court executive officer is responsible for contract negotiations.⁹ In addition, PCC 19207 acknowledges that neither DGS nor any other state entity is involved in approval or review of judicial branch procurement, except as specifically required by law.”

Alternatives Considered

No alternatives were considered because the JBCM needs to be revised so that it remains substantially similar to the SCM and SAM, as required by the JBCL. GenAI provisions have been added to the SCM and SAM; the current JBCM does not have provisions on GenAI.

Fiscal and Operational Impacts

The proposed JBCM revisions will add new GenAI-related procurement and contracting provisions to the JBCM. The Audit Committee anticipates that judicial branch entities may incur some costs in connection with implementation, such as conducting staff training on the new procedures, or implementing additional procurement procedures to handle bidders’ disclosure of GenAI to be included in goods or services (as well as conducting related risk assessments). However, it should be noted that regardless of the proposed JBCM revisions, judicial branch entities will most likely be incurring additional costs as they take additional measures to assess the impacts, benefits, and risks of GenAI and its evolving technology. Therefore, no significant additional costs or operational impacts are anticipated from implementing the recommendations in this report.

⁹ Cal. Rules of Court, rules 10.603(c)(6)(D) and 10.610(c)(3); Gov. Code, § 77009(e).

Request for Specific Comments

Comments are invited on the proposed revisions to the JBCM and on the following questions:

1. Are the revisions clear and understandable?
2. Do the revisions appear to work from a judicial branch operations perspective, e.g., do they conflict with any aspect of a judicial branch entity's operations or appear to make any incorrect assumptions?
3. Are the revisions user-friendly? Do the revisions appear to work for courts of different sizes and staffing capabilities?

Attachments and Links

1. Attachment A: Proposed revisions to JBCM, adding (1) new section 2.4 to chapter 2 (Procurement Planning), and (2) cross-references in chapters 4, 5, 8, and 11 to the new section 2.4 of chapter 2
2. Link A: Judicial Branch Contract Law, https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=PCC&division=2.&title=&part=2.5.&chapter=&article=
3. Link B: *State Contracting Manual*, www.dgs.ca.gov/PD/Resources/Page-Content/Procurement-Division-Resources-List-Folder/State-Contracting-Manual
4. Link C: *State Administrative Manual*, www.dgs.ca.gov/Resources/SAM
5. Link D: Current version of *Judicial Branch Contracting Manual* (eff. Oct. 1, 2024), www.courts.ca.gov/documents/jbcl-manual.pdf

2.4 GENERATIVE ARTIFICIAL INTELLIGENCE (GenAI)

“**Artificial intelligence**” or “**AI**” means technology that enables computers and machines to reason, learn, and act in a way that would typically require human intelligence.

“**Generative Artificial Intelligence**” or “**GenAI**” means an artificial intelligence system that can generate derived synthetic content, including text, images, video, and audio, that emulates the structure and characteristics of the system’s training data.

A. GenAI Disclosures

All written solicitations by JBEs regardless of acquisition type (e.g., IT, non-IT, goods or services) should include language regarding the following:¹

- In its Bid or offer, the Bidder or offeror must notify the JBE if the Bidder’s/offeror’s goods or services contain or utilize GenAI (or will contain or utilize GenAI), or if GenAI is or will be included in any services, goods, or deliverables that materially impact:
 - (i) *functionality of a JBE system* (i.e., the work using GenAI could have a significant, substantial effect on the system’s data integrity, availability, confidentiality, or security, and failure to perform such work in accordance with the contract could cause major disruptions to JBE operations);
 - (ii) *risk to the JBE* (i.e., the work using GenAI could have a significant, substantial effect on the JBE’s operations, finances, security, or reputation, and failure to perform such work in accordance with the contract would constitute a high likelihood of damage to the JBE); or
 - (iii) *contract performance* (i.e., when failure to conduct work which uses GenAI in accordance with the contract would constitute a material breach of contract).
- A Bidder’s/offeror’s failure to disclose GenAI to the JBE may result in disqualification, and the JBE reserves the right to seek any and all relief it may be entitled to as a result of such non-disclosure.
- The JBE reserves the right to incorporate GenAI-related provisions into the final contract or to reject bids/offers that present an unacceptable level of risk to the JBE, as determined by the JBE in its sole discretion.

¹ Please note: If prior to commencing a solicitation, JBE staff is aware that the solicitation will include the purchase of GenAI or that GenAI will be used in the performance of a contract, then the solicitation should be conducted in writing.

Judicial Branch Contracting Manual	Procurement Planning	Chapter 2
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Non-competitively bid (NCB) procurements should also require disclosure of GenAI, consistent with the guidance above.

B. Assessment of GenAI

Before proceeding with a GenAI purchase, releasing a solicitation that includes the purchase of GenAI, or approving a contract that includes GenAI (or if during the contract term, additional GenAI components are included or proposed to be included in the goods, services, or deliverables), a JBE should engage its CEO or Chief Information Officer (or equivalent, or their designee) (collectively, “AI Officer”) to conduct a risk assessment. If the CIO or their department is both requesting the purchase and responsible for the GenAI procurement, the JBE must avoid even the appearance of impropriety by: (i) ensuring the risk assessment is conducted or independently validated by a neutral party such as the JBE’s Approving Authority, CEO, or Chief Risk/Compliance Officer and (ii) documenting the foregoing procedures in the procurement/contract file.

After conducting a risk assessment, the AI Officer should confirm in writing that the GenAI-related procurement may proceed. The confirmation should be kept in the procurement/contract file and it can be an email, or a form created by the JBE. For GenAI procurements that involve significant potential risks, the JBE may consider consulting with the Judicial Council’s Information Technology Office (JCIT) before proceeding. For more information on risk assessments, please see: **[JCIT’s Risk Assessment document (*specific document title to be determined*)]**.

For all GenAI procurements, a JBE should conduct a privacy assessment, to assess GenAI-related potential impacts and risks regarding privacy. The JBE must implement measures to ensure that the JBE’s use or procurement of GenAI complies with applicable laws, rules, and ethics guidelines. JBEs should maintain an inventory of high-risk uses of GenAI.

Please note: under CRC 10.430, if a superior court, Court of Appeal, or the Supreme Court permits the use of GenAI by court staff or judicial officers, that court must adopt a GenAI use policy in accordance with CRC 10.430. For Judicial Council staff, please see the Judicial Council’s GenAI use policy.

JBEs should establish internal procedures for the JBE’s evaluation of GenAI during the competitive bidding process, so that the evaluation complies with procurement policy and procedures, including confidentiality compliance.

Judicial Branch Contracting Manual	Procurement Planning	Chapter 2
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C. GenAI Contract Provisions

For JBE contracts (and amendments), regardless of acquisition types (IT, non-IT goods, non-IT services, etc.) or solicitation method, the JBE should include GenAI contract language when appropriate and feasible. Please see the following link regarding GenAI-related contract provisions: ***[Sample contract language to be drafted by Judicial Council Legal Services]***

D. Purchases Exempt from GenAI Risk Assessment

The following purchases are exempt from the GenAI risk assessment procedures in section 2.4(B) above:

- Mandatory IT services provided by the Judicial Council or the California Department of Technology.
- Intrabranch agreements (agreements between JBEs) that do not include third-party contracts.
- Procurement of commodity types that do not include a technology or service component. Examples include: (i) office, medical, and cleaning supplies; (ii) office furniture; and (iii) non-IT hardware.
- Licenses/subscriptions to access online content including news, training, or digital publications that do not include the ability to independently create content.

E. Contract Management

JBEs must monitor, assess, and validate GenAI contract deliverables for equitable outcomes, output inaccuracies, fabricated content, hallucinations, biases, and the need for human action for all decision-making processes to ensure applicable laws and policies are followed. JBEs should work closely with their GenAI subject matter expert (or other JBE designee) to assess and validate contract deliverables.

JBEs should enforce GenAI contract language by monitoring for any previously unreported GenAI, including any additions to or modifications of previously reported GenAI. Upon discovery and/or when contractors disclose previously unreported GenAI or an intent to provide or use new GenAI in the performance of the contract, JBEs should engage the AI Officer to determine how to proceed.

F. GenAI Training

JBEs should consider requiring GenAI training for their procurement staff and staff involved with using or deploying GenAI.

Cross references to be added to JBCM chapters 4, 5, 8, and 11 regarding the new GenAI provisions in chapter 2, section 2.4.

The text below to be added as a:

- new section 4.2(A)(3) in JBCM Chapter 4 (Competitive Solicitation Overview);
- new section 5.15 to JBCM Chapter 5 (Non-Competitively Bid Procurements);
- new section 8.3(D) to JBCM Chapter 8 (Contracts); and
- new section 11.14 to JBCM Chapter 11 (Contract Administration).

“Generative Artificial Intelligence: Please refer to chapter 2, section 2.4 of this Manual regarding additional procurement and contracting policies and procedures relating to generative artificial intelligence.”



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 6/24/2025

Action Item #2 – (Action Required)

2025-2026 Annual Audit Plan

Requested Action:

- **Action Item #2** – Discuss and approve the draft annual audit plan for fiscal year 2025-26.

Supporting Documents:

- ***Attachment B***—Draft Audit Plan (Fiscal Year 2025-26)

Background:

One of the audit committee’s primary responsibilities under California Rules of Court, Rule 10.63(c)(1) is to “review and approve a yearly audit plan for the judicial branch...” The proposed audit plan for fiscal year 2025-26 is provided as Attachment B and represents audit staff’s recommendations to the committee for what should be audited for the coming year. The recommended plan is based on a variety of factors, including areas of risk at the courts and available audit resources within Audit Services.

Last Year’s Audit Findings (2024-25)

So far in fiscal year 2024-25, the audit committee has considered 6 audit reports prepared by the Judicial Council’s Audit Services, and another 2 reports are drafted but pending review by the audit committee. Those 8 audit reports contained a cumulative total of 43 audit findings in the following areas:

- Cash Handling – 25 findings (58%)
- Procurement – 8 findings (19%)
- Payment Processing – 6 findings (14%)
- JBSIS Reporting of Case Filings – 4 findings (9%)

Overall, the most common areas for findings in 2024-25 were the same as the most common areas for findings in 2023-24:

- *Cash Handling* – our most common findings in this area were related to courts not always having required controls over payments received through the mail, change funds, end-of-day balancing and closeout, and bank deposits.
- *Procurement* – lack of procurement requisitions to demonstrate management’s approval to begin a solicitation (i.e., demonstrating there was a legitimate business need and funds were available). At times, we also noted the lack of documentation to explain why certain solicitations did not follow competitive bidding rules noted in the Judicial Branch Contracting Manual (JBCM).

No changes to the Audit Plan for Fiscal Year 2025-26

Audit Services does not propose any modifications to its FY 2025-26 Audit Plan.

Proposed Audit Schedule (FY 2025-26)

The proposed list below is generally based on those courts with the greatest elapsed time since their prior audit by the Audit Services.

Audit Services’ proposed FY 2025-26 audits:

- Glenn
- Lassen
- Modoc
- Sacramento
- San Benito
- San Francisco
- San Mateo
- Santa Cruz
- Trinity

Schedule of Current and Planned Audits

The table below provides a listing of the audits scheduled for FY 2025-26 (including those currently in progress), as well as those likely to be selected for next year's schedule. This is intended to be a tentative guide to the committee and potential notice to courts that they may be audited.

Appellate / Superior Court	Date of Last Audit Report	(Current Plan)		(Next Year)	
		FY 2025-26	FY 2026-27	Appellate / Superior Court	Date of Last Audit Report
Lake	August-14	IP		Nevada	July-22
Yolo	February-15	IP		El Dorado	November-22
Colusa	June-18	IP		Mendocino	November-22
Solano	June-18	IP		Tuolumne	November-22
Sacramento	December-18	X		Marin	October-23
Ventura	December-18	IP		Monterey	October-23
Glenn	February-19	X		San Luis Obispo	October-23
San Benito	June-19	X		Yuba	October-23
San Francisco	June-19	X		Los Angeles	October-23
Santa Cruz	June-19	X		Tulare	October-23
Modoc	October-19	X		San Joaquin	October-23
Trinity	October-19	X		Fresno	April-24
Lassen	February-20	X		Kings	April-24
San Mateo	February-20	X		Madera	April-24
Sierra	February-20		Y	San Bernardino	April-24
Tehama	February-20		Y	Sonoma	April-24
San Diego	July-20		Y	Calaveras	June-25
Imperial	March-21		Y	Contra Costa	June-25
Napa	March-21		Y	Alameda	November-24
Mariposa	July-21		Y	Kern	November-24
Mono	July-21		Y	Plumas	November-24
Riverside	July-21		Y	Merced	April-25
Alpine	February-22		Y	Placer	April-25
Amador	February-22			Siskiyou	April-25
Del Norte	February-22			Butte	*June-25
Inyo	February-22			Humboldt	*June-25
Santa Clara	February-22			3rd DCA	^May-18
Shasta	February-22			5th DCA	^February-19
Sutter	February-22			4th DCA	^March-19
Orange	June-22			1st DCA	^July-20
Santa Barbara	June-22			2nd DCA	^July-20
Stanislaus	June-22			6th DCA	^March-21

Notes:

"IP" = In progress

"X" = Scheduled for audit in current year's audit plan

"Y" = Tentative for audit in next year's audit plan

* = Pending audit committee approval

^ = The appellate courts are not scheduled for audits at this time



JUDICIAL BRANCH ANNUAL AUDIT PLAN Fiscal Year 2025-26



Judicial Council of California

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BACKGROUND

The Audit Committee

Rule of Court, rule 10.63 establishes the “Advisory Committee on Audits and Financial Accountability for the Judicial Branch” (audit committee). The Judicial Council has tasked the audit committee with advising and assisting the Judicial Council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently. The committee’s audit-specific responsibilities include¹:

- Reviewing and approving an annual audit plan for the judicial branch.
- Reviewing all audit reports of the judicial branch and recommending actions to the Judicial Council in response to any substantial issues identified.
- Approving the public posting of all audit reports of the judicial branch.
- Advising and assisting the Judicial Council in performing its responsibilities under:
 - Government Code, Section 77009(h) – the Judicial Council’s audits of the superior courts.
 - Government Code, Section 77206 – Responding to external audits of the Judicial Council and the superior courts by the State Controller, State Auditor, or Department of Finance.

The audit committee serves as a central clearinghouse for hearing all audit-related issues pertaining to the Judicial Council, Courts of Appeal, and the superior courts, regardless of

¹ The Judicial Council tasked the Advisory Committee on Audits and Financial Accountability for the Judicial Branch with responsibilities beyond reviewing and responding to audit reports, which is the principal focus of this annual audit plan. Other committee responsibilities generally include monitoring adherence to the California Judicial Branch Contract Law, evaluating proposed changes to the *Judicial Branch Contracting Manual*, and making recommendations on proposed changes to the annual compensation plan for Judicial Council staff.

whether the audit was performed by the Judicial Council's own staff (Audit Services) or by external audit organizations (such as the State Controller's Office, State Auditor's Office, or the Department of Finance). The audit committee communicates significant audit findings and issues to the entire Judicial Council and can also suggest policy changes or other proposed corrective actions in response to any significant audit finding.

Purpose of the Annual Audit Plan

The purpose of the annual audit plan is to explain which focus areas will be audited during the year. The annual audit plan also helps to establish expectations for audit committee members regarding which audits and topics will come before the committee for further discussion during the year.

Audit Services' Role

Audit Services' primary role is to establish an annual audit plan, which explains how significant risks and statutory audit requirements imposed on the judicial branch will be addressed in the coming year, and to perform audits of the Courts of Appeal and superior courts to ensure the Judicial Council's rules and policies are followed in actual practice. An audit of a superior court often entails a review of its fiscal affairs such as, but not limited to, whether the court has: implemented certain mandatory internal controls over cash handling and has spent state-provided funding on allowable expenses for "court operations" as defined by Rule of Court, rule 10.810. Audits of the Courts of Appeal focus more heavily on procurement activity given the more limited requirements imposed on their activities by the Judicial Council and state law. Generally, audits are scheduled based on the time elapsing from the prior audit. Finally, Audit Services periodically performs internal reviews of the Judicial Council as directed by executive management and coordinates with independent, external agencies that audit the Judicial Council's operations.

The Role of External Audit Agencies

External audit agencies, such as the State Auditor's Office (State Auditor) and the State Controller's Office (SCO), also perform recurring audits of the judicial branch as directed by statute. The statutory authorities for each external audit agency (as they currently pertain to the judicial branch) are summarized below:

State Auditor's Office:

- Financial statement audits of the State's annual comprehensive report, as prepared by the SCO in accordance with Generally Accepted Accounting Principles. [Govt. Code, Section 8546.3]
- Discretionary audits as directed by the Joint Legislative Audit Committee. [Govt. Code, Section 8546.1]
- Audits of the Judicial Council and other judicial branch entities' compliance with the Judicial Branch Contract Law. [Pub. Contract Code, Section 19210]

State Controller's Office:

- Audits of Judicial Council and superior courts' revenues, expenditures, and fund balance. [Govt. Code, Section 77206]
- Audits of criminal fine and fee revenue collection and distributions by the superior courts. [Govt. Code 68101- 68104]

Although the State Auditor and the SCO both perform financial-related audits, the purpose of each audit is different. The State Auditor's annual financial statement audit includes the financial information submitted by the judicial branch to the SCO. Separate from this statewide financial statement audit, the Government Code requires the SCO to evaluate the Judicial Council's and superior courts' compliance with state laws, rules, and regulations pertaining to significant revenues, expenditures, and fund balances under their control. These SCO audits focus on evaluating financial compliance with the State's unique rules, such as the State's legal/budgetary basis of accounting and civil filing fee collections and distributions. The Judicial Council is required to use the SCO to perform the audits mandated under Government Code, Section 77206, unless either the State Auditor or Department of Finance can perform the same scope of work as the SCO but at a lower cost.

ANNUAL AUDIT PLAN

Risk Assessment Background

The concepts behind risk and internal controls are interrelated. Internal controls are those policies or procedures mandated by the Judicial Council, or developed by a court, designed to achieve a specific control objective. For example, an internal control for cash handling, such as the segregation of certain conflicting duties, principally focuses on reducing the risk of theft. Internal controls respond to risks, and Audit Services broadly classifies risks into the following three categories:

- Operational Risk – The risk that the court’s strategic business objectives or goals will not be accomplished in an effective or efficient manner.
- Reporting Risk – The risk that financial or operational reporting is not relevant or reliable when used for internal decision-making or for external reporting. Examples of external reporting include the Judicial Council’s and the courts’ financial reporting to the SCO, or a court’s reporting of case filing data to the Judicial Council through the Judicial Branch Statistical Information System (JBSIS).
- Compliance Risk – The risk of not complying with statutory requirements or the policies promulgated by the Judicial Council (such as the requirements found in the *Trial Court Financial Policies and Procedures Manual* (FIN manual), Judicial Branch Contracting Manual, or other Judicial Council policies).

Any single risk area may overlap with more than one of the three risk categories defined above. For example, certain reports—such as JBSIS case filing reports—have a reporting risk component in that the data reported must be accurate and complete to support trial court funding allocations, along with a compliance component since the Judicial Council has established definitions for what constitutes a new case filing and how a filing should be categorized by case type. Audit Services considers risk areas that cross over into more than one risk category to be indicative of higher risk.

However, risk areas that can be confined to only one risk category—such as compliance risk—may also be considered an area of higher risk depending on the likelihood of error or its potential negative effects (financial, reputational, etc.). For example, the FIN Manual has established policies concerning the proper handling of cash and other forms of payment received by the courts. Many of these policies were issued with the intent of establishing a minimum level of internal controls at each court to prevent or detect theft or fraud by court employees, and to provide the public with the highest level of assurance that their payments would be safeguarded and properly applied to their cases.

When identifying areas to include within the scope of its superior court audits, Audit Services focused on identifying compliance and reporting risks, but not operational risks. This decision

reflects Audit Services' recognition of each superior court's broad authority to operate under its own locally developed rules and strategic goals. Government Code, Section 77001 provides for each superior court's local authority by authorizing the Judicial Council to adopt rules that establish a decentralized system of trial court management. The Judicial Council's Rules of Court, rule 10.601, also emphasizes the decentralized management of superior court resources and affirms each superior court's authority to manage its day-to-day operations with sufficient flexibility.

The Legislature has provided the Judicial Council with the responsibility for developing broad rules within which the superior courts exercise their discretion. For example, Government Code, Section 77206 authorizes the Judicial Council to regulate the budget and fiscal management of the trial courts, which has resulted in it promulgating the FIN Manual pursuant to Rules of Court, rule 10.804. The FIN Manual establishes a fundamental system of internal controls to enable trial courts to monitor their use of public funds, consistently report financial information, and demonstrate accountability. The FIN Manual contains both mandatory requirements that all trial courts must follow, as well as suggestive guidance that recognizes the need for flexibility given varying court size and resources. Similarly, the Legislature enacted section 19206 of the Public Contract Code, requiring the Judicial Council to adopt and publish a *Judicial Branch Contracting Manual* (JBCM) that all judicial branch entities must follow. When identifying high-risk areas that will be included in the scope of its audits, Audit Services considers the significant reporting and compliance risks based on the policies and directives issued by the Judicial Council, such as through the FIN Manual, JBCM, Rules of Court, and budgetary memos.

Risk Areas, Assessed Level of Risk, and Auditing Entities

Audit Services uses its professional judgment when identifying areas of risk (and associated risk levels), which inform the scope of its audits. Specifically, Audit Services considered the significance of each risk area in terms of the likely needs and interests of an objective third party with knowledge of the relevant information, as well as a risk area's relevance or potential impact on judicial branch operations or public reputation. The risk areas assessed are shown in Table 1 on the next page. The table also reflects statutorily mandated audits performed by the State Auditor and the State Controller's Office, which further contribute to accountability and public transparency for the judicial branch. When assigning risk levels, Audit Services generally considered the complexity of the requirements in a given risk area and its likely level of importance or significance to court professionals, the public, or the Legislature. High-risk areas are those where the internal control requirements may be complex or the incentives to circumvent those controls or to rationalize not having them in the first place is high (e.g., cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

Table 1 – Risk Areas Considered (by area, level of risk, and responsible audit organization)

		Risk Category and Level		Audit Organization		
Risk Area	Description of Risk	Reporting Risk	Compliance Risk	JCC Audit Services	State Controller's Office	State Auditor's Office
<u>Superior Courts</u>						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Revenues, expenditures, and fund balance not recorded in accordance with state rules.	N/A	Medium		X	
Cash Handling	JCC internal control policies on handling cash and other forms of payment not followed.	N/A	High	X		
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium	X		X
Payments & Authorization	Payments are for unallowable activities and/or lack authorization from the designated level of court management.	N/A	Medium	X		
Criminal Fine & Fee Revenue	Criminal fines and fees not properly calculated and reported to the county.	Medium	Medium		X	
Travel & Business Meal Expenses	Courts reimbursing employees for unallowable travel and business meal expenses.	N/A	Medium	X		
Budgetary Accountability	Court submits inaccurate case filing data to JBSIS, impacting trial court budget allocations. Court retains more fund balance than allowed under statute and JCC policy.	Medium	Medium	X		
<u>Appellate Courts</u>						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium	X		X
<u>Judicial Council</u>						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Revenues, expenditures, and fund balance not recorded in accordance with state rules.	N/A	Medium		X	
Procurement Activity	Judicial Branch Contract Law and related JCC policies not followed to maximize best value through competitive procurements.	Medium	Medium			X
Non-Audit, Internal Reviews	The Judicial Council's offices and programs are reviewed for financial and/or operational performance as directed by executive management.	Medium	Medium	X		

To the extent that Audit Services notes systemic and recurring issues at multiple courts, this too is considered as part of the risk-assessment process. Of the six audits reviewed by the audit committee in fiscal year (FY) 24-25 and two draft audits pending approval by the audit committee, there were a total of 43 findings. The review of cash handling controls has historically been an area with the largest number of audit findings. This was the case again for our FY 24-25 audits. The most frequent categories of audit findings for FY 24-25 were cash handling-related findings (25 findings or 58%). The area with the second highest number of findings was procurements and contracts (8 findings or 19%), such as courts not consistently documenting or requiring purchase requisitions. The JBSIS area had 4 findings—or 9%—because courts did not always accurately report new case filings data.

Table 2 – Recap of FY 24-25 Audit Findings**Standard Audit Scope – Superior Courts**

Areas and Sub-Areas Subject to Review		Audit Findings from Prior Year	
		# of Findings in FY 24-25	Common Compliance Issues
Cash Handling			
1	Daily Opening Process		
2	Voided Transactions		
3	Manual Receipts	2	
4	Mail Payments	8	Courts do not always restrictively endorse mail payments, maintain a mail payments receipt log, safeguard mail payments, or identify and track mail payments not processed in 5, 15, or 30 days.
5	Internet Payments		
6	Change Fund	4	Courts do not always require someone to count and verify the change fund at the end of each day while in the presence of a manager or supervisor, or require periodic counts of the change fund by someone other than the change fund custodian.
7	End-Of-Day Balancing and Closeout	4	Courts do not always follow a "blind closeout" process.
8	Bank Deposits	4	Courts do not always require one person to prepare and a second person to verify their bank deposits, or promptly deposit their collections in the bank.
9	Other Internal Controls	3	
Procurement and Contracts			
10	Procurement Initiation	3	Courts do not always consistently document or require purchase requisitions to demonstrate that an authorized approver reviewed and approved the purchase request before commencing the solicitation and procurement process.
11	Authorization & Authority Levels		
12	Competitive Procurements		
13	Non-Competitive Procurements		
14	Leveraged Purchase Agreements		
15	Contract Terms	2	
16	Other Internal Controls	3	Courts have not always adopted a Local Contracting Manual as required by the Judicial Branch Contracting Manual and state law. Courts do not always adequately segregate court staff duties in the procurement process.
Payment Processing			
17	3-Point Match Process	1	
18	Payment Approval & Authority Levels	2	
19	Special Rules - In-Court Service Providers	1	
20	Special Rules - Court Interpreters		
21	Other Items of Expense		
22	Jury Expenses		
23	Travel Expense Claims	1	
24	Business-Related Meals	1	
25	Allowable Costs		
26	Other Internal Controls		
Fund Balance			
27	Year-End Encumbrances		
28	Use of "Held on Behalf" Funds		
JBSIS Case Filing Data			
29	Validity of JBSIS Data	4	Courts do not always report materially accurate new case filings by RAS case category, or report case filings a manner consistent with the JBSIS Manual data element definitions.

In Audit Services' view, cash handling continues to be a high-risk area given that a court's handling of collections is inherently a high-risk activity given the potential incentives for court employees to act inappropriately when mandatory internal controls per FIN Manual are compromised or not in operation. We also believe procurement processing continues to be an inherently medium-risk process given the lack of use or documentation of purchase requisitions, as well as the complexity of the rules and requirements for the various procurement types and their processing.

Audit Scope Adjustments for Fiscal Year 25-26

Audit Services added testing of travel expense claims and business meals to its audit plan in FY 24-25, and it removed testing of enhanced collections. Audit Services does not propose any modifications to its FY 25-26 Audit Plan.

Available Staff Resources and Audit Scheduling

Audit Services' staffing currently consists of 1 manager, 1 supervisor, 1 team leader, and 5 audit staff (total of 8 auditors). Audit Services is currently recruiting to fill 1 vacant team leader position. On an as-needed basis, audit staff are pulled to support other projects focusing on the Judicial Council's internal operations or projects requested by the courts. Based on the available staff resources, Audit Services estimates that it will be able to complete five audits currently in progress and begin an additional nine audits.

Audit Services will provide each court with a reasonable time—up to 30 days—to provide its official response and corrective action plan before finalizing the draft report for the audit committee. The audit schedule includes assumptions about the required time to complete each audit and other factors such as the number of anticipated locations where cash handling activities take place.

Schedule of Future Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year's annual audit plan. Table 3 shows all 58 superior courts, ranked by the time elapsing since its previous audit. Elapsed time will always be a significant consideration for Audit Services when scheduling audits. To minimize the risk of a single court being audited by multiple entities during the same year, audit scheduling is also influenced by—and to the extent possible coordinated with—the work of external audit organizations.

Table 3 –Audit Services’ Previous and Planned Appellate and Superior Court Audits
(Current Year and Anticipated Next Year)

Appellate / Superior Court	Date of Last Audit Report	(Current Plan)		(Next Year)	Appellate / Superior Court	Date of Last Audit Report
		FY 2025-26	FY 2026-27			
Lake	August-14	IP			Nevada	July-22
Yolo	February-15	IP			El Dorado	November-22
Colusa	June-18	IP			Mendocino	November-22
Solano	June-18	IP			Tuolumne	November-22
Sacramento	December-18	X			Marin	October-23
Ventura	December-18	IP			Monterey	October-23
Glenn	February-19	X			San Luis Obispo	October-23
San Benito	June-19	X			Yuba	October-23
San Francisco	June-19	X			Los Angeles	October-23
Santa Cruz	June-19	X			Tulare	October-23
Modoc	October-19	X			San Joaquin	October-23
Trinity	October-19	X			Fresno	April-24
Lassen	February-20	X			Kings	April-24
San Mateo	February-20	X			Madera	April-24
Sierra	February-20		Y		San Bernardino	April-24
Tehama	February-20		Y		Sonoma	April-24
San Diego	July-20		Y		Calaveras	June-25
Imperial	March-21		Y		Contra Costa	June-25
Napa	March-21		Y		Alameda	November-24
Mariposa	July-21		Y		Kern	November-24
Mono	July-21		Y		Plumas	November-24
Riverside	July-21		Y		Merced	April-25
Alpine	February-22		Y		Placer	April-25
Amador	February-22				Siskiyou	April-25
Del Norte	February-22				Butte	*June-25
Inyo	February-22				Humboldt	*June-25
Santa Clara	February-22				3rd DCA	^May-18
Shasta	February-22				5th DCA	^February-19
Sutter	February-22				4th DCA	^March-19
Orange	June-22				1st DCA	^July-20
Santa Barbara	June-22				2nd DCA	^July-20
Stanislaus	June-22				6th DCA	^March-21

Notes:

"IP" = In progress

"X" = Scheduled for audit in current year's audit plan

"Y" = Tentative for audit in next year's audit plan

* = Pending audit committee approval

^ = The appellate courts are not scheduled for audits at this time