



Judicial Council of California
ADMINISTRATIVE OFFICE OF THE COURTS

OFFICE OF GOVERNMENTAL AFFAIRS

770 L Street, Suite 700 • Sacramento, California 95814-3393
Telephone 916-323-3121 • Fax 916-323-4347 • TDD 415-865-4272

RONALD M. GEORGE
Chief Justice of California
Chair of the Judicial Council

WILLIAM C. VICKREY
Administrative Director of the Courts

RONALD G. OVERHOLT
Chief Deputy Director

CURTIS L. CHILD
Director, Office of Governmental Affairs

April 16, 2010

Hon. Mike Feuer, Chair
Assembly Judiciary Committee
State Capitol, Room 3146
Sacramento, California 95814

Subject: AB 2521 (Torrico), as proposed to be amended – Oppose unless funded; concerns noted about scope and frequency of audits
Hearing: Assembly Judiciary Committee – April 20, 2010

Dear Assembly Member Feuer:

The Judicial Council regrets that it must oppose AB 2521 (Torrico), relating to audits, unless funded. AB 2521 would direct the State Controller to conduct annual financial audits of the trial courts and the Administrative Office of the Courts (AOC).

The Judicial Council does not oppose the policy objectives of the bill, and in fact supports the need for transparency and accountability for the use of public funds. The Internal Audit Services (IAS) unit of the AOC was established in 2001 in response to the Trial Court Funding Act of 1997 and the requirements that made the Judicial Council responsible for financial oversight of the trial courts. The goal of IAS is to ensure that the financial information being provided by the judicial branch is beyond reproach; assets are safeguarded; and financial, operational, and compliance risks mitigated. IAS currently conducts comprehensive audits of the trial courts every four years. These audits include a review of the internal controls and transactions related to court operations and records, encompassing not just financial transactions related to the financial statements of the courts, but also operational and compliance reviews for compliance with the mandatory requirements of the Trial Court Financial Policies and Procedures Manual, California Rules of Court related to court administration, and other high and medium risk financial and operational areas. IAS also performs special audits as necessary.

Like the sponsor of this bill, the AOC believes that the current four year audit cycle is too long. The AOC believes three years is the appropriate cycle for comprehensive (financial, operational, and compliance) audits of the superior courts. Additional audit staff would be required to

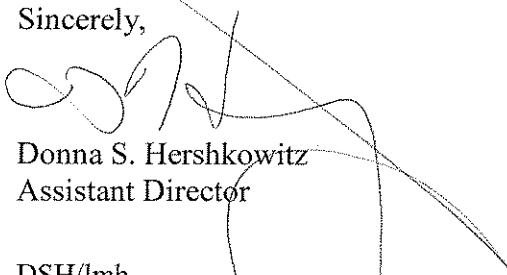
support this activity, however, and past years' requests for additional audit staff have not been approved by the Legislature. The council also agrees with the importance of auditing funds within the control of the AOC, and is finalizing negotiations with the Office of State Audits and Evaluations in the Department of Finance to conduct periodic audits of the AOC.

The Judicial Council has concerns, however, about the lack of clarity on the scope of the audits proposed. To the extent these audits would involve extensive fieldwork or other audit work resulting in State Controller spending weeks or months at each trial court or significantly impacting staff time, the Judicial Council believes annual audits to be excessive and unduly burdensome. The workload on trial court staff simply to assist in the audit could be significant, diverting court staff from other work and functions they need to perform. At a time with unparalleled vacancy rates and staff doing more with less, significant additional workload would be untenable. According to the sponsor of AB 2521, local school districts, cities, and counties are audited annually. The type of annual audits these entities undergo are generally referred to as financial statement opinion audits (as required, for example under Government Code section 25250 et seq. for counties). To the extent the bill is envisioning the Controller performing an audit along these lines, which would not involve significant work in the courts, or a substantial devotion of court staff resources, the council would not object to these annual audits. The same concerns exist with regard to the proposed annual audit of the AOC. The Judicial Council looks forward to working with the author, sponsor, committee staff, and the Controller to provide the necessary specificity as to the scope of the audits.

AB 2521 imposes unknown costs on the AOC and the trial courts, and during these times of unprecedented cuts to the judicial branch budget, these costs could not be absorbed. The Controller estimates the annual audits of the AOC would cost \$384,000 in the first year, and \$196,000 ongoing. The Controller does not currently have an estimate for the audit of the trial courts because the scope of the audit is not known.

For these reasons, the Judicial Council opposes AB 2521 unless funded, and notes concerns about the lack of clarity of the scope and frequency of the audits. If you have any questions, please feel free to contact me at 916-323-3121.

Sincerely,



Donna S. Hershkowitz
Assistant Director

DSH/lmb

cc: Members, Assembly Judiciary Committee
Hon. Alberto Torrico, Member of the Assembly
Ms. Leora Gershenzon, Counsel, Assembly Judiciary Committee
Mr. Mark Redmond, Assembly Republican Office of Policy
Ms. Kirsten Kolpitke, Deputy Director of Legislation, Governor's Office of Planning and Research
Mr. Aaron Maguire, Deputy Legislative Affairs Secretary, Office of the Governor



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April 16, 2010

Hon. Alberto Torrico
Member of the Assembly
State Capitol, Room 3160
Sacramento, California 95814

Subject: AB 2521 (Torrico), as proposed to be amended – Oppose unless funded; concerns noted about scope and frequency of audits

Hearing: Assembly Judiciary Committee – April 20, 2010

Dear Assembly Member Torrico:

The Judicial Council regrets that it must oppose AB 2521 (Torrico), relating to audits, unless funded. AB 2521 would direct the State Controller to conduct annual financial audits of the trial courts and the Administrative Office of the Courts (AOC).

The Judicial Council does not oppose the policy objectives of the bill, and in fact supports the need for transparency and accountability for the use of public funds. The Internal Audit Services (IAS) unit of the AOC was established in 2001 in response to the Trial Court Funding Act of 1997 and the requirements that made the Judicial Council responsible for financial oversight of the trial courts. The goal of IAS is to ensure that the financial information being provided by the judicial branch is beyond reproach; assets are safeguarded; and financial, operational, and compliance risks mitigated. IAS currently conducts comprehensive audits of the trial courts every four years. These audits include a review of the internal controls and transactions related to court operations and records, encompassing not just financial transactions related to the financial statements of the courts, but also operational and compliance reviews for compliance with the mandatory requirements of the Trial Court Financial Policies and Procedures Manual, California Rules of Court related to court administration, and other high and medium risk financial and operational areas. IAS also performs special audits as necessary.

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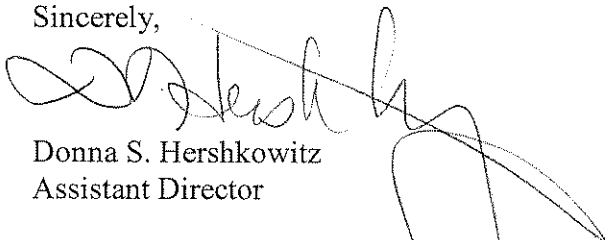
and compliance) audits of the superior courts. Additional audit staff would be required to support this activity, however, and past years' requests for additional audit staff have not been approved by the Legislature. The council also agrees with the importance of auditing funds within the control of the AOC, and is finalizing negotiations with the Office of State Audits and Evaluations in the Department of Finance to conduct periodic audits of the AOC.

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Donna S. Hershkowitz
Assistant Director

DSH/lmb

cc: Ms. Michelle Castro, Senior Government Relations Advocate, SEIU California
Ms. Kirsten Kolpitzke, Deputy Director of Legislation, Governor's Office of Planning and Research
Mr. Aaron Maguire, Deputy Legislative Affairs Secretary, Office of the Governor



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Director, Office of Governmental Affairs

May 11, 2010

Hon. Felipe Fuentes, Chair
Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, California 95814

Subject: AB 2521 (Torrico), as amended April 26, 2010 – Oppose unless funded; concerns noted about scope and frequency of audits

Hearing: Assembly Appropriations Committee – May 19, 2010

Dear Assembly Member Fuentes:

The Judicial Council regrets that it must oppose AB 2521 (Torrico), relating to audits, unless funded. AB 2521 directs the State Controller to conduct annual financial audits of the trial courts and the Administrative Office of the Courts (AOC).

The Judicial Council does not oppose the policy objectives of the bill, and in fact supports the need for transparency and accountability for the use of public funds. The Internal Audit Services (IAS) unit of the AOC was established in 2001 in response to the Trial Court Funding Act of 1997 and the requirements that made the Judicial Council responsible for financial oversight of the trial courts. The goal of IAS is to ensure that the financial information being provided by the judicial branch is beyond reproach; assets are safeguarded; and financial, operational, and compliance risks mitigated. IAS currently conducts comprehensive audits of the trial courts every four years. These audits include a review of the internal controls and transactions related to court operations and records, encompassing not just financial transactions related to the financial statements of the courts, but also operational and compliance reviews for compliance with the mandatory requirements of the Trial Court Financial Policies and Procedures Manual, California Rules of Court related to court administration, and other high and medium risk financial and operational areas. IAS also performs special audits as necessary.

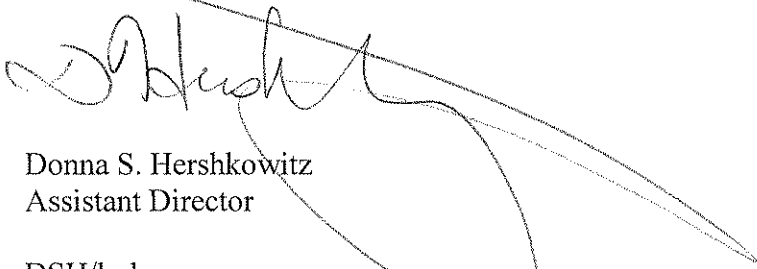
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The Judicial Council has concerns about the lack of clarity on the scope of the audits proposed. To the extent these audits would involve extensive fieldwork or other audit work resulting in State Controller spending weeks or months at each trial court or the AOC or significantly impact staff time, the Judicial Council believes annual audits to be excessive and unduly burdensome. The workload on trial court and AOC staff simply to assist in the audit could be significant, diverting staff from other work and functions they need to perform. At a time with unparalleled vacancy rates and staff doing more with less, significant additional workload would be untenable. Conversations to clarify the scope of these audits has begun, but discussions are ongoing. We look forward to continuing to work with the author and sponsor to provide the necessary specificity as to the scope of the audits.

AB 2521 imposes unknown costs on the AOC and the trial courts, and during these times of unprecedented cuts to the judicial branch budget, these costs could not be absorbed. The Controller estimates the annual audits of the AOC would cost \$384,000 in the first year, and \$196,000 ongoing. The Controller does not currently have an estimate for the audit of the trial courts because the scope of the audit is not known.

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DSH/lmb

cc: Members, Assembly Appropriations Committee
Hon. Alberto Torrico, Member of the Assembly
Mr. Chuck Nicol, Principal Consultant, Assembly Appropriations Committee
Mr. Allan Cooper, Consultant, Assembly Republican Fiscal Office
Ms. Kirsten Kolpitke, Deputy Director of Legislation, Governor's Office of Planning and Research
Mr. Aaron Maguire, Deputy Legislative Affairs Secretary, Office of the Governor
Ms. Teresa Calvert, Budget Analyst, Department of Finance