



JOHN CHIANG
California State Controller

January 20, 2012

Richard A. Green, CPA, Partner
Macias Gini & O'Connell, LLP
3000 S Street, Suite 300
Sacramento, CA 95816

The State Controller's Office (SCO) completed a quality control review of Macias Gini & O'Connell, LLP. We reviewed the audit working papers for the firm's audit of the California Institute for Regenerative Medicine for the fiscal year ended June 30, 2011.

Based on our review, we noted the following matters that provide opportunities for improvement in the firm's audit process and working papers.

Capital Assets—Note Disclosures

The audit report did not disclose the beginning-of-year balance of capital assets, acquisitions, or dispositions as required by GASB 34. Note 2 E, Capital Assets and Depreciation, disclosed the depreciation expense for fiscal year 2010-11 and the balance of capital assets net of depreciation. Note 3, Reconciliation of Governmental Fund Financial Statements and Government-Wide Financial Statements, disclosed the total balance of capital assets, the total balance of accumulated depreciation, and the balance of capital assets net of accumulated depreciation.

The firm did not document why the audit report did not contain all of the information required to evaluate the value of capital assets.

GASB 34, Paragraph 117, states:

Information presented about major classes of capital assets should include:

- a) Beginning- and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical costs
- b) Capital acquisitions
- c) Sales or other dispositions
- d) Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

The firm responded to our letter of comment on January 18, 2012 (attached). The firm did not document in its working papers its discussion with CIRM management regarding the capital asset disclosure requirements and CIRM's election to not include the beginning balance or information regarding capital asset activity during the year. We also discussed this issue with CIRM management on January 12, 2012. CIRM management stated that they would ensure that future reports comply with capital asset disclosure requirements. Our comment remains unchanged.

Subsequent Events

The firm did not document that it made inquiries of CIRM management about matters dealt with at the Independent Citizens' Oversight Committee (ICOC) meeting held on August 25, 2011. The meeting minutes were not available until October 25, 2011, which was after the date of the independent auditor's report (October 17, 2011); however, the firm should have inquired of management about matters discussed at the meeting in order to identify subsequent events that may require disclosure in the notes to the financial statements or adjustments to the financial statements.

Members of the firm explained that they traditionally update the extract form, the working paper used to document the review of minutes, in subsequent years for any missing meeting transcripts. However, for the 2010-11 fiscal year, the firm should have documented inquiries of management regarding the ICOC meeting.

Events occurring after the end of the fiscal year that require disclosure in the audit report may not be identified and properly disclosed if minutes to all meetings, held after year end but prior to issuance of the audit report are not reviewed. If the minutes are not available, the firm should have made inquiries of management about the meeting.

AU 560.12 states, in part:

In addition, the independent auditor should perform other auditing procedures with respect to the period after the balance-sheet date for the purpose of ascertaining the occurrence of subsequent events that may require adjustment or disclosure essential to a fair presentation of the financial statements in conformity with generally accepted accounting principles. These procedures should be performed at or near the date of the auditor's report. The auditor generally should: . . . c) Read the available minutes of meetings of stockholders, directors, and appropriate committees; as to meetings for which minutes are not available, inquire about matters dealt with at such meetings.

The firm responded to our letter of comment on January 18, 2012 (attached). We reviewed the working papers referred to in the response; however, the working papers did not specifically identify that the ICOC meeting was discussed. Our comment remains unchanged.

If you have any questions, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, at (916) 322-4846.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Divisions of Audits

JVB/vb

Attachment

Re: S12-CRM-001

cc: Robert Russell, Manager
Macias Gini & O'Connell, LLP
Alan Trounson, President
California Institute for Regenerative Medicine
Independent Citizens' Oversight Committee
California Institute for Regenerative Medicine
Citizen's Financial Accountability Oversight Committee
California Institute for Regenerative Medicine
Casandra Moore-Hudnall, Bureau Chief
Division of Audits, State Controller's Office

January 18, 2012

Ms. Casandra Moore-Hudnall
Chief, Financial Audits Bureau
California State Controller's Office
3301 C Street, Suite 700
Sacramento, CA 95816

Dear Ms. Moore-Hudnall:

Pursuant to the Quality Control Review Report and Comment Letter provided by Jeffrey Brownfield of the California State Controller's Office (SCO) dated January 18, 2012, Macias Gini & O'Connell LLP (MGO) appreciates the opportunity to respond to the comments intended to improve our audit process and working papers. Below are the two comments made by the SCO's office with our response to such comments.

SCO Comment No. 1:

Capital Assets – Note Disclosures

The audit report did not disclose the beginning-of-year balance of capital assets nor acquisitions or dispositions as required by GASB 34, Note 2 E, Capital Assets and Depreciation, disclosed the depreciation expense for fiscal year 2010-11 and the balance of capital assets net of depreciation. Note 3, Reconciliation of Governmental Fund Financial Statements and Government-Wide Financial Statements, disclosed the total balance of capital assets net of accumulated depreciation.

The firm did not document why the audit report did not contain all of the information required to evaluate the value of capital assets.

GASB 34, Paragraph 117, states:

Information presented about major classes of capital assets should include:

- a) Beginning- and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical costs
- b) Capital acquisitions
- c) Sales or other dispositions
- d) Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

MGO Response:

CIRM management is responsible for the preparation of their financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, CIRM management elected not to include a footnote to their 6/30/2011 financial statements identifying the beginning balance of capital assets, acquisitions, dispositions and year-end balance. MGO concurred with management's decision for the following reasons:

- 1) There were no acquisitions of capital assets during fiscal year ending 6/30/2011.
- 2) There were no dispositions of capital assets during fiscal year ending 6/30/2011.
- 3) The only activity impacting capital assets during the fiscal year ending 6/30/2011 related to the annual depreciation expense which was disclosed in Note 2 to the financial statements.
- 4) Total capital assets prior to accumulated depreciation and accumulated depreciation are disclosed in Note 3 to the financial statements.
- 5) GASB 34, Paragraph 117 states, Information presented about major classes of capital assets "*should*" include beginning balance, acquisitions, dispositions and ending balance, however, does not "*mandate*" such disclosure. The lack of such mandate reflects the understanding by the professional standards that there are circumstances where such disclosure is not meaningful to informed readers of the financial statements or necessary for the financial statements to be fairly and presented in accordance with GAAP. It should be noted that CIRM's capital assets, net of accumulated depreciation represents \$81,011 out of \$272,994,827 in total assets (.0296%) at 6/30/2011. This asset class is clearly immaterial to the financial statements taken as a whole.

In summary, it is MGO's position that there is no departure from GAAP related to the current reporting of capital assets in CIRM's 6/30/2011 financial statements.

Furthermore, our working papers documented the beginning balance of capital assets, acquisitions and dispositions (totaling \$0) and the ending balance. Additionally, our working papers documented the beginning balance of accumulated depreciation, additions totaling \$31,085 (due to depreciation expense), reductions (totaling \$0) and the ending balance.

SCO Comment No. 2:

Subsequent Events

The firm did not document that it made inquiries of CIRM management about matters dealt with at the Independent Citizens' Oversight Committee (ICOC) meeting held on August 25, 2011. The meeting minutes were not available until October 25, 2011, after the date of the independent auditor's report (October 17, 2011); however, the firm should have inquired of management about matters dealt with at the meeting in order to identify subsequent events that may require disclosure in the notes to the financial statements, or adjustments to the financial statements.

Members of the firm explained that they traditionally update the extract form, the working paper used to document the review of minutes, in subsequent years for any missing meeting transcripts. However, for the 2010-11 fiscal year, the firm should have documented inquiries of management regarding the ICOC meeting.

Events occurring after the end of the fiscal year that require disclosure in the audit report, may not be identified and properly disclosed if minutes to all meetings, held after year end but prior to issuance of the audit report, are not reviewed.

AU 560.12 states, in part:

In addition, the independent auditor should perform other auditing procedures with respect to the period after the balance-sheet date for the purpose of ascertaining the occurrence of subsequent events that may require adjustment or disclosure essential to a fair presentation of the financial statements in conformity with generally accepted accounting principles. These procedures should be performed at or near the date of the auditor's report. The auditor generally should: ... c) Read the available minutes of meetings of stockholders, directors and appropriate committees; as to meetings for which minutes are not available, inquire about matters dealt with at such meetings.

MGO Response:

In addition to various other audit procedures performed by MGO as it relates to "subsequent events", our working papers provided to the SCO documents that MGO made an inquiry of Chila Silva-Martin, Finance Officer, as to whether she was aware of any significant events subsequent to 6/30/2011. This inquiry was made on 10/5/2011 and included her knowledge of items discussed during the ICOC meeting held on 8/25/2011.

If you have any questions, please feel free to contact me at 916.642.7046 or rgreen@mgocpa.com.

Sincerely,

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants and
Management Consultants

By:



Richard A. Green, CPA
Partner

RG/tk