

BEFORE THE
CITIZENS FINANCIAL ACCOUNTABILITY OVERSIGHT COMMITTEE
OF THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE
ORGANIZED PURSUANT TO THE
CALIFORNIA STEM CELL RESEARCH AND CURES ACT
REGULAR MEETING

LOCATION: CALIFORNIA PUBLIC UTILITIES
COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA

DATE: SEPTEMBER 14, 2006
9:09 A.M.

REPORTER: BETH C. DRAIN, CSR
CSR. NO. 7152

BRS FILE NO.: 76375

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1 SAN FRANCISCO, CALIFORNIA;
2 THURSDAY, SEPTEMBER 14, 2006
3 REGULAR MEETING OF THE
4 CITIZENS FINANCIAL ACCOUNTABILITY OVERSIGHT COMMITTEE
5 09:09 A.M.

6
7 CHAIRMAN WESTLY: IF EVERYBODY IS READY, WE'D
8 LIKE TO WELCOME EVERYBODY THIS MORNING TO THE INAUGURAL
9 MEETING OF THE CITIZENS FINANCIAL ACCOUNTABILITY
10 OVERSIGHT COMMITTEE TO THE CALIFORNIA INSTITUTE FOR
11 REGENERATIVE MEDICINE. WHAT I'D LIKE TO DO AT THIS
12 POINT IS TO ASK EVERYBODY TO RISE AND TO JOIN ME IN THE
13 PLEDGE OF ALLEGIANCE.

14 (THE PLEDGE OF ALLEGIANCE.)

15 CHAIRMAN WESTLY: ALL RIGHT. I'D LIKE TO
16 CALL THIS MEETING TO ORDER AND ADMINISTER THE OATH OF
17 OFFICE TO THE MEMBERS WHO HAVE BEEN APPOINTED TO THE
18 COMMITTEE. BUT BEFORE I DO THAT, IS THERE ANY PUBLIC
19 COMMENT ON THE MEMBERS? MR. SIMPSON.

20 MR. SIMPSON: GOOD MORNING. I'M JOHN SIMPSON
21 FROM THE FOUNDATION FOR TAXPAYER AND CONSUMER RIGHTS.
22 I AM DIRECTOR OF OUR STEM CELL OVERSIGHT AND
23 ACCOUNTABILITY PROJECT. FOLKS WHO GO TO ICOC MEETINGS
24 HAVE PROBABLY SEEN ME AS A FAMILIAR FACE.

25 WE HAVE SERIOUS CONCERNS ABOUT THIS PANEL.

1 WITHOUT SLIGHTING A PARTICULAR MEMBER, WHAT WE'RE
2 CONCERNED ABOUT IS THAT THE QUALIFICATIONS HAVE NOT
3 BEEN MET AS SPELLED OUT IN PROPOSITION 71.

4 MEMBERS OF THE COMMITTEE ARE REQUIRED TO HAVE
5 A MEDICAL BACKGROUND. AND TO THE BEST OF MY KNOWLEDGE,
6 MR. HEIN HAS NO SUCH BACKGROUND. SO WE DON'T SEE HOW
7 HE'S QUALIFIED TO SERVE ON THE COMMITTEE, AND I DON'T
8 BELIEVE HE SHOULD BE ADMINISTERED THE OATH OF OFFICE.

9 IT WOULD SEEM TO ME THAT THE REST OF THE
10 COMMITTEE MEETS THE REQUIREMENTS, AND YOU COULD GO
11 FORWARD AND DO BUSINESS, BUT I DON'T SEE HOW HE CAN BE
12 SEATED.

13 FROM A PRACTICAL POINT OF VIEW, I WOULD ADD
14 SOMETHING ELSE. THOSE WHO CARE DEEPLY ABOUT STEM CELL
15 RESEARCH AND WHO HAVE FOLLOWED THIS IN THE STATE KNOW
16 THAT THERE ARE A NUMBER OF PEOPLE WHO ARE USING ALL
17 SORTS OF LEGAL TRICKS TO DELAY EVERYTHING. AND IT
18 WOULD SEEM TO ME BY HAVING SOMEONE ON THE BOARD WHO
19 CLEARLY DOES NOT MEET THE LEGAL REQUIREMENTS, YOU'RE
20 OPENING YOURSELVES UP TO YET ANOTHER ROUND OF LEGAL
21 CHALLENGES. I DON'T THINK YOU WANT TO GO DOWN THAT
22 ROAD.

23 SO I WOULD, ON A PRAGMATIC BASIS, ASK MR.
24 HEIN TO WITHDRAW. AND PERHAPS IF HE'S INTERESTED IN
25 FOLLOWING THIS, HE CAN ATTEND AS MANY MEETINGS AS

1 POSSIBLE AND COMMENT AND OFFER HIS PROBABLY VERY GOOD
2 VIEWS AS A MEMBER OF THE PUBLIC. SO I THINK THIS IS A
3 VERY SERIOUS ISSUE. I DON'T SEE HOW HE RISES TO THE
4 QUALIFICATIONS, AND I WONDER WHY THE SPEAKER HAS SO
5 BLATANTLY FLOUTED THE LAW.

6 CHAIRMAN WESTLY: THANK YOU, MR. SIMPSON.
7 LET ME REMIND YOU THIS IS NOT AN ACTION ITEM, BUT WHAT
8 I WOULD LIKE TO DO IS ASK MS. LOPEZ, REPRESENTING THE
9 STATE'S ATTORNEY GENERAL, TO COMMENT ON THIS ISSUE.
10 MS. LOPEZ, WOULD BE YOU WILLING TO COME FORWARD?

11 MS. LOPEZ: GOOD MORNING. LESLIE LOPEZ,
12 ATTORNEY GENERAL'S OFFICE. THAT'S REALLY SOMETHING
13 THAT -- THAT'S AN ISSUE THAT SHOULD BE RAISED WITH THE
14 APPOINTING OFFICIAL WHO APPOINTED MR. HEIN. THE
15 APPOINTING AUTHORITY EXERCISED THEIR DISCRETION AND
16 APPOINTED MR. HEIN. SO ANY ISSUE WITH RESPECT TO THE
17 APPOINTMENT SHOULD BE RAISED WITH THE OFFICIAL WHO
18 NAMED HIM TO THIS COMMISSION.

19 CHAIRMAN WESTLY: WOULD YOU LIKE TO SAY JUST
20 A LITTLE BIT MORE ABOUT THE WORDING OF WHAT THE
21 INITIATIVE ACTUALLY SAYS?

22 MS. LOPEZ: UNDER PROP 71, IT CREATES THE --
23 IT CREATES THIS COMMITTEE, AND IT GIVES APPOINTING
24 POWERS TO THE CONTROLLER, THE TREASURER, PRESIDENT PRO
25 TEM OF THE SENATE, SPEAKER OF THE ASSEMBLY, AND CHAIR

1 OF THE ICOC. AND IT GOES ON TO SAY THAT THE MEMBERS
2 SHALL HAVE MEDICAL BACKGROUNDS AND KNOWLEDGE OF
3 RELEVANT FINANCIAL MATTERS. SO THAT'S THE GUIDELINE
4 THAT THE APPOINTING POWERS ARE TO USE.

5 AND, AGAIN, IF THERE WAS ANY QUESTION WITH
6 RESPECT TO ANY PARTICULAR APPOINTMENT, IT SHOULD BE
7 RAISED TO THE APPOINTING POWER.

8 CHAIRMAN WESTLY: THANK YOU, MS. LOPEZ. AND,
9 JOHN, WOULD YOU OR ANYBODY HERE LIKE TO SPEAK BRIEFLY
10 TO THAT? OTHERWISE, JOHN, WE'LL REFER THIS ISSUE TO
11 THE SPEAKER TO REVIEW. MR. SIMPSON.

12 MR. SIMPSON: MAY I SUGGEST THAT WHILE IT'S
13 IN FLUX, IT'S STILL INAPPROPRIATE, THEN, TO ADMINISTER
14 THE OATH OF OFFICE TO MR. HEIN.

15 CHAIRMAN WESTLY: THANK YOU, MR. SIMPSON. WE
16 STILL NEED TO ADMINISTER THE OATH OF OFFICE. I'M GOING
17 TO LEAVE THAT TO MR. HEIN'S DISCRETION AS TO WHETHER HE
18 WISHES TO TAKE IT, BUT ULTIMATELY THIS IS AN ISSUE
19 BEYOND MY DISCRETION. AGAIN, I'M GOING TO ASK THE
20 ATTORNEY GENERAL TO FOLLOW UP WITH THE SPEAKER ON THAT.

21 AT THIS POINT I WOULD LIKE THE MEMBERS OF THE
22 PANEL TO RISE AND REPEAT AFTER ME AS WE DO THE OATH OF
23 OFFICE.

24 (THE MEMBERS OF THE PANEL WERE THEN
25 ADMINISTERED THE OATH OF OFFICE.)

1 CHAIRMAN WESTLY: THANK YOU VERY MUCH. YOU
2 ARE ALL SWORN IN AS MEMBERS.

3 WHAT I'D LIKE TO DO AT THIS POINT IS ASK
4 MS. CASALEGNO TO DO THE ROLL CALL.

5 MS. CASALEGNO: DANIEL BRUNNER.

6 MR. BRUNNER: HERE.

7 MS. CASALEGNO: JOHN HEIN.

8 MR. HEIN: HERE.

9 MS. CASALEGNO: JIM LOTT.

10 MR. LOTT: HERE.

11 MS. CASALEGNO: MYRTLE POTTER.

12 MS. POTTER: HERE.

13 MS. CASALEGNO: AND CHAIRMAN WESTLY.

14 CHAIRMAN WESTLY: HERE.

15 THIS CONSTITUTES A QUORUM, AND THE MEETING IS
16 NOW IN SESSION. THE PUBLIC WILL HAVE AN OPPORTUNITY TO
17 COMMENT DURING THE MEETING, AND PUBLIC COMMENT WILL BE
18 LIMITED TO THREE MINUTES. IF YOU DO HAVE COMMENTS, I
19 WOULD LIKE IT IF YOU COULD SIGN IN AT THE FRONT TABLE
20 IF YOU HAVE NOT ALREADY DONE SO.

21 AT THIS POINT I DO WANT TO ACKNOWLEDGE THREE
22 OF THE PEOPLE WHO HAVE PLAYED AN INSTRUMENTAL ROLE IN
23 THE CREATION AND MANAGEMENT OF THE INSTITUTE. AND THAT
24 IS BOB KLEIN, THE CHAIRMAN OF THE INDEPENDENT CITIZEN
25 OVERSIGHT COMMITTEE. BOB, YOU MIGHT RAISE YOUR HAND.

1 AND, AMY, I WANT TO ACKNOWLEDGE YOU FOR PLAYING SUCH AN
2 INSTRUMENTAL ROLE. WE HAVE ZACH HALL HERE, I THOUGHT I
3 SAW HIM EARLIER. ZACH IS THE PERSON IN CHARGE OF
4 RUNNING THE CALIFORNIA INSTITUTE FOR REGENERATIVE
5 MEDICINE. AND ARLENE CHIU I THINK I SAW EARLIER.
6 THANK YOU, ARLENE, FOR BEING HERE AS THE DIRECTOR OF
7 SCIENTIFIC PROGRAMS AND REVIEW FOR THE INSTITUTE.

8 WHAT I WOULD LIKE TO DO AT THIS TIME IS USE
9 THE CHAIR'S PREROGATIVE JUST TO MAKE AN OPENING
10 STATEMENT BEFORE WE GO ON WITH THE AGENDA OF THE
11 MEETING, IF I MAY.

12 I REALLY WANT TO THANK ALL OF YOU FOR YOUR
13 COMMITMENT TO HELPING ENSURE THE FINANCIAL
14 ACCOUNTABILITY OF THE CALIFORNIA INSTITUTE FOR
15 REGENERATIVE MEDICINE. I THINK IT'S IMPORTANT TO
16 RECOGNIZE OUR GOAL IS TO HELP DELIVER ON A BIGGER
17 PROMISE. IT'S NOT JUST TO PROVIDE HOPE AND EVENTUALLY
18 CURES TO MILLIONS SUFFERING FROM DEBILITATING DISEASES,
19 BUT IT'S TO PROVIDE JOBS IN MEDICAL SCIENCE, RESEARCH,
20 PIONEERING TECHNOLOGIES FOR THE STATE OF CALIFORNIA,
21 AND TO PROVIDE CALIFORNIA WITH A RETURN ON THE
22 INVESTMENT IT'S SO BOLDLY STOOD UP TO MAKE.

23 OUR ROLE IS TO MAKE SURE THAT THE INSTITUTE
24 IS ABLE TO DO ITS WORK AND DELIVER ON THOSE PROMISES.
25 TOUGH FINANCIAL CONTROLS WILL ENSURE THE PUBLIC'S

1 CONFIDENCE IN OUR STEM CELL PROGRAM. THE STAKES ARE
2 TOO HIGH FOR THE INSTITUTE TO RISK ITS FUNDS OR, JUST
3 AS IMPORTANTLY, THE PUBLIC'S TRUST. SO WE MUST NOT
4 ALLOW EVEN A PERCEPTION OF WASTE OR ABUSE TO GET IN THE
5 WAY OF THE INSTITUTE'S LIFESAVING AND, I WOULD ARGUE,
6 HISTORIC WORK.

7 IN TERMS OF DELIVERING ON THE PROMISE, IN
8 APRIL MY OFFICE ISSUED THE CHECKS FOR OVER \$12 MILLION
9 IN GRANTS TO 169 RESEARCH FELLOWS AND 16 HOSPITALS,
10 UNIVERSITIES, AND RESEARCH INSTITUTES FROM AROUND THE
11 STATE. IT WAS ONE OF THE PROUDEST MOMENTS IN MY TERM
12 AS CONTROLLER.

13 AS WE SPEAK, RESEARCHERS FROM AROUND THE
14 WORLD ARE WORKING TO APPLY FOR THE NEXT \$150 MILLION IN
15 GRANT MONEY FOR THE INSTITUTE.

16 WE'RE CREATING A NEW INDUSTRY HERE, AND WE'RE
17 BOLSTERING OUR ECONOMY AT THE SAME TIME. LET'S NOT
18 FORGET WE HAVE AN OBLIGATION TO ASSURE CALIFORNIANS
19 THAT THEIR MONEY IS BEING SPENT WISELY, AND WE'LL TAKE
20 A STEP IN DOING JUST THAT TODAY.

21 I'VE CALLED FOR THE INSTITUTE TO ENSURE THAT
22 THE STATE SHARES IN THE FINANCIAL GAINS FROM ANY NEW
23 DEVELOPMENTS AND DISCOVERIES FROM PROP 71. AND I'M
24 GLAD TO REPORT THAT THE INTELLECTUAL PROPERTY COMMITTEE
25 IS NOW WORKING ON THAT ISSUE, AND I WANT TO THANK ZACH

1 HALL FOR HIS WORK AND MR. KLEIN IN HELPING THAT MOVE
2 FORWARD. WE MUST ENSURE THAT CALIFORNIANS REAP THE
3 REWARDS OF THE SACRIFICE THEY'RE MAKING AS DIRECT
4 FINANCIAL BENEFICIARIES AS WELL AS A BOOST IN THE JOBS
5 OF THE STATE'S ECONOMY, WHICH I'LL TALK A LITTLE BIT
6 ABOUT IN A MOMENT, AND, OF COURSE, IN THE MEDICAL
7 RESEARCH AND THE MOVEMENT TO CURES.

8 I RAISED THIS ISSUE LAST YEAR TO THE ICOC;
9 AND AS THE STATE'S CHIEF FINANCIAL OFFICER, I'VE ALWAYS
10 FELT THE NEED FOR PERFORMANCE CONTROLS TO EVALUATE THE
11 INSTITUTE'S PROGRESS. TAXPAYERS HAVE TAKEN A RISK BY
12 INVESTING IN STEM CELL RESEARCH, AND WE NEED TO GIVE
13 THEM A PROGRESS REPORT ON HOW WE'RE DOING IN MEETING
14 THOSE GOALS.

15 I'M PLEASED TO SEE SOME SUBSTANTIAL PROGRESS.
16 THE INSTITUTE IS ACTIVELY GATHERING THE ECONOMIC DATA
17 ON THE IMPACT OF PROP 71 IN CALIFORNIA AND WILL SHARE
18 MORE OF THAT AT THE NEXT MEETING.

19 WHAT I THINK IS PARTICULARLY STUNNING AND I
20 WANTED TO FOCUS ON TODAY IS THAT SCIENTISTS, THE BEST
21 AND THE BRIGHTEST FROM AROUND THE WORLD, ARE ALREADY
22 COMING HERE. WE'VE ALREADY ATTRACTED MANY OF THE
23 GREATEST MINDS FROM THE SCIENTIFIC COMMUNITY, AND
24 THERE'S A LAUNDRY LIST OF THE LEADING RESEARCHERS FROM
25 AROUND THE WORLD WHO ARE MOVING TO CALIFORNIA ALREADY.

1 I'M GOING TO TALK ABOUT A FEW OF THEM, BUT I'M HOLDING
2 A FAIRLY STUNNING LIST OF OVER 20 OF THE BEST AND
3 BRIGHTEST PH.D.'S, RESEARCHERS, AND SCIENTISTS FROM
4 AROUND THE WORLD WHO HAVE ALREADY MADE THE COMMITMENT
5 TO COME TO CALIFORNIA.

6 WE'VE ATTRACTED TOP PH.D.'S MARTIN PERA,
7 PH.D., MOVED FROM AUSTRALIA TO THE UNIVERSITY OF
8 SOUTHERN CALIFORNIA. STEPHAN HELLER, ONE OF THE FINEST
9 PH.D.'S FROM HARVARD, HAS JUST TRANSFERRED TO STANFORD.
10 PETER DONOVAN, ONE OF THE BRIGHTEST PH.D.'S FROM JOHNS
11 HOPKINS, RELOCATED TO UC IRVINE. THEY'RE MAKING OUR UC
12 SYSTEM, OUR PRIVATE UNIVERSITIES, AND RESEARCH
13 INSTITUTIONS EVEN MORE PRESTIGIOUS THAN THEY ALREADY
14 ARE.

15 THANKS TO THE INSTITUTE'S POTENTIAL, UC DAVIS
16 RECENTLY RECRUITED ANOTHER TOP STEM CELL EXPERT,
17 DR. JAN NOLTA FROM WASHINGTON UNIVERSITY IN ST. LOUIS,
18 TO LEAD A NEW STEM CELL PROGRAM THERE. UC DAVIS IS
19 DEDICATING 100,000 NEW SQUARE FEET OF ITS SACRAMENTO
20 MEDICAL CENTER CAMPUS FOR RESEARCH. THIS IS EXACTLY
21 THE PROMISE OF MAKING CALIFORNIA A WORLD LEADER, AND I
22 THINK IT'S CLEAR EVIDENCE THAT PROP 71 IS, IN FACT,
23 DELIVERING ON ITS PROMISE TO THE PEOPLE OF CALIFORNIA.

24 UC DAVIS IS ALSO A GRANT RECIPIENT AND HAS
25 NAMED TEN YOUNG SCIENTISTS REPRESENTING A BRIGHT FUTURE

1 FOR REGENERATIVE MEDICINE TO THEIR STEM CELL TRAINING
2 PROGRAM.

3 AT UCSF RIGHT HERE IN SAN FRANCISCO, THEY'VE
4 RECRUITED SIX OF THE LEADING YOUNG STEM CELL SCIENTISTS
5 FROM THROUGHOUT THE WORLD BECAUSE OF ITS REPUTATION IN
6 RESEARCH, BUT THE INSTITUTE HAS HELPED AS AN ATTRACTIVE
7 RECRUITING TOOL BECAUSE OF ITS FUNDING POTENTIAL. I'M
8 GOING TO FOCUS ON JUST A FEW OF THE NAMES OF PEOPLE WHO
9 HAVE ALREADY COME TO CALIFORNIA.

10 DR. ROBERT BLELLOCK CAME FROM MIT TO JOIN
11 UCSF'S FACULTY. DR. KATJA BRUCKNER JUST LEFT A
12 FELLOWSHIP AT HARVARD MEDICAL SCHOOL TO STUDY ISOLATED
13 ASPECTS OF CANCER DEVELOPMENT HERE BECAUSE OF THIS.
14 DR. DAVID HENRY ROWITCH STUDIES THE RELATIONSHIPS
15 BETWEEN STEM CELLS AND CANCER CELLS. HE'S ALSO COME
16 FROM HARVARD UNIVERSITY MEDICAL SCHOOL AND THE
17 DANA-FARBER CANCER CENTER HERE TO CALIFORNIA. DR.
18 ARNOLD KRIEGSTEIN, DIRECTOR OF UCSF INSTITUTE FOR
19 REGENERATION SAYS, QUOTE, THE LAST YEAR HAS BEEN ONE OF
20 THE MOST EXTRAORDINARY AND DYNAMIC GROWTH FOR STEM CELL
21 SCIENCE IN CALIFORNIA THANKS, IN GOOD PART, TO PROP 71.

22 I'D LIKE TO ACKNOWLEDGE THE SCIENTISTS AT
23 THIS MEETING, AND IN PARTICULAR I'D LIKE TO INTRODUCE A
24 TOP RESEARCHER HERE WHO HAS MOVED TO CALIFORNIA BECAUSE
25 PROP 71 PASSED. DR. XIANMIN ZENG HAS SPENT THE PAST

1 FIVE YEARS AT THE NATIONAL INSTITUTE OF HEALTH WORKING
2 ON STEM CELL BIOLOGY AND NEUROBIOLOGY BEFORE JOINING
3 THE BUCK INSTITUTE'S PROGRAM RIGHT HERE IN NOVATO IN
4 STEM CELL AND REGENERATIVE MEDICINE IN CALIFORNIA.

5 DR. ZENG, I WOULD JUST LIKE TO ASK YOU TO
6 STAND AND RECOGNIZE YOU AS PART OF THE BRAIN DRAIN THAT
7 IS COMING TO CALIFORNIA.

8 (APPLAUSE.)

9 CHAIRMAN WESTLY: THANK YOU FOR COMING TO
10 CALIFORNIA TO HELP CONTINUE CALIFORNIA'S HISTORIC ROLE
11 AS A LEADER IN NEW THINGS. WOULD YOU LIKE TO SAY A
12 QUICK WORD?

13 DR. ZENG: YES. I'M JUST HAPPY TO COME TO
14 CALIFORNIA. I HAVE WORKED AT THE NIH PREVIOUSLY.

15 CHAIRMAN WESTLY: WHY DON'T YOU COME TO THE
16 MICROPHONE, IF YOU WOULD BE WILLING, DR. ZENG.

17 DR. ZENG: I JUST WANTED TO THANK YOU FOR
18 GIVING ME THE CHANCE TO COME HERE TO SPEAK A FEW WORDS.
19 I CAME TO CALIFORNIA LAST YEAR IN SEPTEMBER. I HAVE
20 WORKED AT THE NIH ON HUMAN EMBRYONIC STEM CELLS WITH
21 SOME OF THE INVESTIGATORS LIKE MAHENDRA RAO MAYBE MANY
22 OF YOU KNOW. SO WHEN I DECIDED TO COME HERE, OF
23 COURSE, IS BECAUSE OF THE PASS OF THE PROP 71. I
24 THOUGHT THAT WOULD BE AN EXCELLENT CHANCE TO CONTINUE
25 MY WORK WITH EMBRYONIC STEM CELLS, ESPECIALLY WITH THE

1 POLICY, THE FEDERAL POLICY, THAT IS NOT REALLY
2 SUPPORTED AT THE NIH. SO THAT'S MY DECISION TO COME
3 HERE. THANK YOU.

4 (APPLAUSE.)

5 CHAIRMAN WESTLY: DR. ZENG, THANK YOU FOR
6 BEING HERE. WE'RE HONORED TO HAVE YOU.

7 I WANT TO TOUCH ON ONE OTHER SUBJECT THAT IS
8 FAIRLY CONTROVERSIAL AND IN SOME WAYS DRAMATIC THAT IS
9 PART OF THE CALIFORNIA PROMISE. THE INSTITUTE'S CALLED
10 RESEARCH SHARING. THE INSTITUTE HAS PUBLICLY DISCUSSED
11 INTELLECTUAL PROPERTY POLICIES TO RETURN ROYALTIES ON
12 RESEARCH TO CALIFORNIA'S COFFERS. THAT'S A GOOD THING.
13 TODAY I'M GOING TO ASK THE INTELLECTUAL PROPERTY
14 COMMITTEE TO RESEARCH THE POLICIES OF RESEARCH
15 ORGANIZATIONS THAT PUBLICLY SHARE GRANT PROGRESS AND
16 RESULTS. I THINK, AS YOU KNOW, TRADITIONALLY THERE ARE
17 INCENTIVES FOR TOP RESEARCHERS NOT TO SHARE THE
18 INFORMATION.

19 I BELIEVE THAT CALIFORNIA CAN HELP SET THE
20 STANDARDS FOR SPEEDING THE TIME TO CURES, NOT ONLY BY
21 FIRST ADMINISTERING THE GRANTS MORE QUICKLY, BUT,
22 SECOND, BY PROVIDING INCENTIVES FOR SHARING RESEARCH
23 EARLIER IN THE PROCESS, FOR BEING COLLABORATIVE, FOR
24 FOLLOWING THE LEADS OF THE MOST DYNAMIC ORGANIZATIONS
25 AROUND THE COUNTRY LIKE THE MILKEN INSTITUTE AND OTHERS

1 THAT ARE SETTING THE PATH TO GET BASIC RESEARCH TO THE
2 MARKETPLACE, TO THE PEOPLE WHO ARE WAITING FOR CURES
3 MORE QUICKLY.

4 I THINK THERE ARE CONCRETE WAYS TO DO THIS
5 THAT HAVE NOT BEEN DONE TRADITIONALLY. I HOPE
6 CALIFORNIA CAN SET THE STANDARD FOR DOING THEM. AND I
7 HOPE THE IP COMMITTEE WILL CONTINUE TO SET THE
8 STANDARDS TO ENCOURAGE THAT. WE NEED TO CONSIDER
9 INNOVATIVE SOLUTIONS OUTSIDE OF SCIENTIFIC CONVENTIONS
10 TO HELP SPEED THE DELIVERY OF POTENTIAL LIFESAVING
11 RESEARCH. IF WE CAN USE THE GRANTS TO STIMULATE OUR
12 ECONOMY AND ALLOW FOR RESEARCHERS TO COLLABORATE ON
13 REACHING OUR COMMON GOALS, THEN WE OWE IT TO THE PEOPLE
14 OF CALIFORNIA TO WEIGH OPTIONS AS TO HOW TO BEST DO
15 THIS.

16 WE SHOULD LOOK AT RESEARCH-BASED
17 ORGANIZATIONS AND EARMARK A PORTION OF FUNDING FOR
18 AWARDS THAT REQUIRE ANNUAL DISCLOSURE OF RESULTS.
19 THE BILL AND MELINDA GATES FOUNDATION HAS DONE A LOT OF
20 PATHBREAKING WORK IN THIS AREA. THE PROSTATE CANCER
21 FOUNDATION THAT MIKE MILKEN IS HEADING HERE IN
22 CALIFORNIA HAS BEEN ANOTHER LEADER, AS HAS THE JUVENILE
23 DIABETES FOUNDATION. I THINK IT'S INCUMBENT ON US TO
24 LEARN FROM THE BEST PRACTICES FROM AROUND THE WORLD.
25 AGAIN, OUR GOAL IS NOT ONLY TO SPEED THE TIME TO CURES,

1 BUT, FRANKLY, TO PROVIDE THE GREATEST RETURN ON
2 INVESTMENT TO THE PEOPLE OF CALIFORNIA. THAT IS WHAT
3 WE'RE HERE TO DO. AND I'D LIKE TO ASK THE IP COMMITTEE
4 TO EXPLORE WHAT THEY BELIEVE IS THE MOST STREAMLINED
5 GRANT PROCESS POSSIBLE THAT WILL SPUR, NOT ONLY
6 COLLABORATION AND INNOVATION, BY REQUIRING SCIENTISTS
7 TO SHARE RESEARCH AND SPEED THE TIME TO CURES AND
8 REPORT BACK TO THE FAOC ON THE BEST MEANS AND METHODS
9 FOR DOING THAT.

10 SO IN CLOSE, I'M PROUD TO REPORT WE'RE SEEING
11 THE INITIAL INVESTMENTS PAYING OFF. WE'RE ATTRACTING
12 THE BEST AND THE BRIGHTEST. I WANT TO THANK YOU FOR
13 COMING TO CALIFORNIA, MS. ZENG. I THINK YOU ARE JUST
14 ONE EXAMPLE OF WHAT WILL BE DOZENS, IF NOT HUNDREDS OF
15 THOUSANDS OVER TIME TO HELP CALIFORNIA LEAD THE WORLD
16 IN STEM CELL RESEARCH.

17 LET'S MOVE ON AND GET TO THE AGENDA.

18 ITEM 4 IS CONSIDERATION OF WHETHER TO SEEK AN
19 EXEMPTION FROM FILING A STATEMENT OF ECONOMIC INTEREST.
20 AS BACKGROUND, I THINK YOU ALL KNOW, AS A NEWLY CREATED
21 BODY THAT SERVES IN A SOLELY ADVISORY CAPACITY, THE
22 CFAOC IS ELIGIBLE TO SEEK AN EXEMPTION FROM THE FPPC
23 FROM FORM 700, STATEMENT OF ECONOMIC INTEREST, FILING
24 REQUIREMENT.

25 THE ATTORNEY GENERAL'S REPRESENTATIVE WILL

1 EXPLAIN AND THE COMMITTEE MUST DECIDE TO EITHER SEEK AN
2 EXEMPTION FOR FILL OUT THE FORM 700 WITHIN 30 DAYS AND
3 OFFICIALLY ADOPT THE CONFLICT OF INTEREST CODE AT A
4 SUBSEQUENT MEETING.

5 ITEM NO. 4 IS CONSIDERATION OF WHETHER TO
6 SEEK AN EXEMPTION FROM THE FPPC FORM 700 REQUIREMENT.
7 AND DEPUTY ATTORNEY GENERAL LOPEZ WILL SPEAK TO THAT.
8 WOULD YOU LIKE TO GO AHEAD AND SAY A WORD OR TWO,
9 MS. LOPEZ?

10 MS. LOPEZ: GOOD MORNING AGAIN. LESLIE
11 LOPEZ, AG'S OFFICE.

12 THE LAW PROVIDES A MECHANISM WHEREBY CERTAIN
13 BODIES CAN SEEK AN EXEMPTION FROM THE FILING
14 REQUIREMENTS OF THE POLITICAL REFORM ACT. IN OUR VIEW,
15 YOU MAY BE ELIGIBLE TO APPLY FOR THAT, AND THERE IS A
16 PROCESS SET UP TO DO SO IN WHICH YOU WOULD SEEK AN
17 EXEMPTION FROM THE FAIR POLITICAL PRACTICES COMMITTEE.
18 OR THE BOARD, IN ITS DISCRETION, CAN DECIDE THAT THEY
19 WOULD RATHER COMPLY WITH THE DISCLOSURE FILING
20 REQUIREMENTS.

21 I DON'T KNOW IF ANY OF YOU ARE FAMILIAR WITH
22 WHAT IS CALLED A FORM 700 WHERE YOU DISCLOSE VARIOUS
23 INTERESTS THAT YOU HAVE IN PROPERTY AND OTHER TYPES OF
24 THINGS.

25 MR. LOTT: MR. CHAIRMAN, IF I MAY.

1 CHAIRMAN WESTLY: PLEASE.

2 MR. LOTT: I'D LIKE TO PLACE A MOTION ON THE
3 TABLE THAT WE MOVE THAT WE COMPLY WITH THE REQUIREMENTS
4 EVEN THOUGH I RECOGNIZE WE HAVE THE OPPORTUNITY AND THE
5 OPTION TO SEEK AN EXEMPTION. BUT THIS IS A NEW AND
6 EXCITING ENDEAVOR, AND SUNSHINE AND TRANSPARENCY IS
7 ABSOLUTELY ESSENTIAL TO MAINTAIN THE CREDIBILITY AND
8 SET THE STANDARD FOR OTHER STATES AND OTHER PLACES THAT
9 MIGHT WANT TO DUPLICATE WHAT WE'RE DOING AT SOME TIME
10 IN THE FUTURE. SO I'D JUST LIKE TO PLACE THAT MOTION
11 ON THE TABLE, AND WE CAN GO AHEAD AND LISTEN TO THE
12 REST OF THE PRESENTATION, IF YOU WOULD LIKE, BUT I
13 THINK THAT'S THE PRUDENT COURSE TO TAKE.

14 CHAIRMAN WESTLY: THANK YOU, MR. LOTT. LET
15 ME SAY I'M VERY SUPPORTIVE OF THAT MOTION FOR REASONS
16 I'LL EXPLAIN IN A MOMENT. MS. LOPEZ, I WANT TO GIVE
17 YOU A CHANCE TO FINISH, AND THEN I'D LIKE TO GIVE
18 MEMBERS OF THE PUBLIC AN OPPORTUNITY TO SAY A WORD IF
19 THEY'D LIKE.

20 MS. LOPEZ: I DIDN'T HAVE MUCH MORE TO ADD
21 OTHER THAN JUST TO REITERATE THAT IT IS AN OPTION THAT
22 MAY BE AVAILABLE TO SEEK THE EXEMPTION. THERE'S NO
23 GUARANTEE WHETHER IT WOULD BE GRANTED, BUT IT IS ALSO
24 WITHIN YOUR DISCRETION TO DECIDE TO NOT SEEK THE
25 EXEMPTION AND JUST GO AHEAD AND COMPLY WITH THE

1 DISCLOSURE REQUIREMENTS.

2 CHAIRMAN WESTLY: THANK YOU, MS. LOPEZ. IT
3 WAS IMPORTANT TO US TO MAKE SURE THAT ALL OF THE BOARD
4 MEMBERS UNDERSTOOD THE OPTIONS BEFORE THEM.

5 WHAT I'D LIKE TO DO NOW BEFORE ALLOWING THE
6 BOARD MEMBERS TO SPEAK ON THIS IS TO ASK MEMBERS OF THE
7 PUBLIC TO COME FORWARD. I UNDERSTAND THAT MR. SIMPSON
8 WOULD LIKE TO SPEAK ON ITEM 4. MR. SIMPSON, PLEASE.

9 MR. SIMPSON: THANK YOU VERY MUCH. I WAS
10 DELIGHTED TO HEAR WHAT MR. LOTT SAID. I COMMEND THAT.
11 THIS IS SOMETHING THAT IS SETTING POLICY IN SOME SENSE
12 FOR THE REST OF THE COUNTRY. YOU HAVE TO BE ABSOLUTELY
13 TRANSPARENT AND LET THE SUN SHINE IN. AND I COMMEND
14 YOU FOR MAKING THAT MOTION SO QUICKLY, AND I HOPE THAT
15 YOU DO DECIDE TO FOLLOW THE FPPC DISCLOSURE RULES. I
16 THINK IT'S IMPERATIVE THAT YOU DO THAT.

17 CHAIRMAN WESTLY: THANK YOU, MR. SIMPSON.
18 WOULD ANY OF THE OTHER MEMBERS LIKE TO MAKE A COMMENT?
19 MR. BRUNNER AND THEN MS. POTTER.

20 MR. BRUNNER: JUST I AGREE WITH MR. LOTT. IF
21 IT'S APPROPRIATE, I'D SECOND THE MOTION NOW.

22 CHAIRMAN WESTLY: TERRIFIC. LET ME ASK
23 MS. POTTER TO SAY A FEW WORDS, AND THEN WE'LL GO AHEAD
24 WITH THE MOTION.

25 MS. POTTER: I DO WANT TO MAKE A COUPLE OF

1 COMMENTS. OUR ROLE IS TO ADVISE THE CONTROLLER ON
2 MATTERS OF FINANCES OF THE CIRM, AND WE ARE NOT
3 DECISION MAKERS. WE'RE ADVISORS. AND AS SUCH -- AND I
4 GUESS I NEED TO TEST MY UNDERSTANDING OF THE POLITICAL
5 REFORM ACT, BUT MY UNDERSTANDING IS THAT IT DOESN'T
6 APPLY TO INDIVIDUALS WHO SERVE IN AN ADVISORY CAPACITY.

7 NOW, THAT BEING SAID, TRANSPARENCY IS
8 ABSOLUTELY ESSENTIAL, BUT MY ISSUE IS ONE OF
9 APPLICATION OF THIS STANDARD ACROSS ALL ADVISORY
10 COMMITTEES THAT ARE SERVING ON BEHALF OF THE STATE. I
11 DON'T SEE WHY THIS COMMITTEE WOULD BE HELD AS AN
12 EXCEPTION TO OTHER ADVISORY COMMITTEES WHO HAVE NOT
13 BEEN ASKED TO SUBMIT TO FORM 700. SO MY ISSUE IS ONE
14 OF CONSISTENCY.

15 NOW, IF THE ATTORNEY GENERAL'S OFFICE
16 DETERMINES THAT IT, IN FACT, IS SUPPORTED BY LAW THAT
17 THE COMMITTEE DO THIS, THEN, OF COURSE, WE WOULD ALL
18 COMPLY. BUT I'D REALLY LIKE TO UNDERSTAND HOW THIS IS
19 BEING APPLIED ACROSS THE BOARD.

20 MS. LOPEZ: GENERALLY THE EXEMPTION IS
21 AVAILABLE TO PURELY ADVISORY BODIES, WHICH IN OUR VIEW
22 THIS BODY MAY BE. AND THAT'S WHY WE FEEL THAT IT IS AN
23 OPTION FOR THIS BODY TO APPLY FOR THE EXEMPTION. IT IS
24 UP TO THE FPPC WHETHER TO GRANT IT OR NOT, WHETHER THEY
25 VIEW THIS BODY AS PURELY ADVISORY.

1 CHAIRMAN WESTLY: MS. POTTER, I THINK YOU
2 MAKE A VERY GOOD POINT, AND I'VE SPENT A LOT OF TIME
3 GOING BACK AND FORTH WITH MY STAFF ON THIS AND TALKING
4 TO OTHER PEOPLE. MY VIEW IS THAT OTHER ADVISORY
5 COMMITTEES LIKE THIS ARE NOT DOING THIS. WE DO NOT
6 HAVE TO DO THIS LEGALLY, SO IT'S NOT A REQUIREMENT.
7 IT'S AN OPTION.

8 HAVING SPENT A LOT OF TIME ON THIS, LET ME
9 JUST SAY FOR THE PUBLIC RECORD, FILLING OUT A FORM 700
10 IS NOT ONE OF MY FAVORITE HOBBIES. HAVING SAID THAT, I
11 THINK WHAT WE'RE DOING HERE ON THIS COMMITTEE IS
12 PATHBREAKING. I THINK THE SHEAR MAGNITUDE OF THE \$3
13 BILLION THAT IS BEING GIVEN OUT IS DRAMATIC. I THINK
14 THERE HAVE BEEN CONCERNS FROM THE PUBLIC. OBVIOUSLY
15 THERE HAVE BEEN LEGAL CHALLENGES. AND I BELIEVE ON
16 BALANCE IT'S THE RIGHT THING FOR US TO DO, TO SET THE
17 ABSOLUTE HIGHEST STANDARD.

18 IT'S CLEARLY A JUDGMENT CALL. I COMPLETELY
19 UNDERSTAND WHERE YOU ARE, ESPECIALLY HAVING GONE
20 THROUGH THE HEADACHE MYSELF OF HAVING DONE THIS. I
21 BELIEVE, ESPECIALLY GIVEN THE UNIQUE NATURE OF THIS
22 BODY, AS WELL AS THE HISTORY OF CHALLENGES WITH THIS
23 GROUP, THAT WE WILL BE FAR BETTER OFF SETTING THE
24 HIGHEST STANDARD GOING AHEAD AND ADOPTING THIS, THIS
25 MOTION. SO WHAT I'D LIKE TO DO --

1 MS. CASALEGNO: EXCUSE ME, CHAIRMAN WESTLY.
2 THERE WAS ONE OTHER COMMENT SUBMITTED FOR THE RECORD BY
3 DAVID JENSON, WHO WAS NOT ABLE TO ATTEND. COPIES OF
4 THAT ARE AVAILABLE AT THE FRONT DESK AS WELL.

5 CHAIRMAN WESTLY: THANK YOU VERY MUCH.
6 MR. JENSON WANTED TO ATTEND. SOME OF YOU MAY HAVE
7 FOLLOWED HIS BLOG ON THIS ISSUE, AND HE HAS WRITTEN
8 ASKING US NOT TO SEEK AN EXEMPTION FOR SOME OF THE SAME
9 REASONS THAT WERE JUST MENTIONED.

10 AT THIS POINT ARE THERE OTHER COMMENTS FROM
11 THE BOARD? MR. HEIN OR MS. POTTER.

12 MR. HEIN: IF I MAY, I'M AN ADVOCATE FOR
13 DISCLOSURE.

14 CHAIRMAN WESTLY: OKAY. THANK YOU, MR. HEIN.
15 ANYTHING ELSE? IF NOT, I'D LIKE TO PROCEED TO A VOTE.
16 WE DO HAVE A MOTION AND A SECOND. ALL IN FAVOR PLEASE
17 SAY AYE. ALL OPPOSED?

18 MS. POTTER: OPPOSED.

19 CHAIRMAN WESTLY: THANK YOU, MS. POTTER.
20 WHAT I'D LIKE TO DO -- THE MOTION CARRIES -- IS MOVE TO
21 ITEM 5, WHICH IS A CONSIDERATION OF RECOMMENDATIONS ON
22 THE FINANCIAL PRACTICES OF THE INSTITUTE.

23 JUST TO GIVE YOU SOME BACKGROUND, THE
24 COMMITTEE WILL HEAR PRESENTATIONS ON THE INDEPENDENT
25 FINANCIAL AUDIT BY GILBERT & ASSOCIATES, THE AUDITOR,

1 AS WELL AS BY MY OFFICES, THE CONTROLLER'S OFFICE
2 REVIEW OF THAT REPORT, AND THEN A GENERAL FINANCIAL
3 PRACTICES OVERVIEW OF THE INSTITUTE. THE COMMITTEE
4 WILL HEAR PUBLIC COMMENT, MAKE RECOMMENDATIONS, OR
5 SIMILARLY DIRECT SCO STAFF TO RESEARCH RECOMMENDATIONS
6 AND PREPARE A REPORT FOR THE NEXT MEETING.

7 WHAT I'D LIKE TO DO AT THIS POINT IS WE HAVE
8 THREE PRESENTATIONS. MS. CASALEGNO, CAN YOU INTRODUCE
9 THE SPEAKERS?

10 MS. CASALEGNO: YES. THE FIRST ONE IS
11 MR. WALTER BARNES, CHIEF ADMINISTRATIVE OFFICER OF
12 CIRM, AND HE WILL PRESENT THE INDEPENDENT FINANCIAL
13 AUDIT PREPARED BY GILBERT & ASSOCIATES.

14 MR. BARNES: THANK YOU. YOU SHOULD HAVE A
15 COPY OF THE AUDIT IN THE MATERIALS THAT WERE PROVIDED
16 TO YOU. YOU PROBABLY DON'T HAVE THE FANCY COVER ON IT,
17 BUT YOU HAVE THE AUDIT ITSELF. GENERALLY, I SHOULD
18 PROBABLY ANSWER A QUESTION THAT'S GOING THROUGH YOUR
19 MIND RIGHT NOW. WHY ISN'T GILBERT HERE TO PRESENT
20 THEIR OWN AUDIT? AND FOR REASONS THAT I'LL MAKE CLEAR
21 DURING THE SUBSEQUENT PART OF THE PRESENTATION, GILBERT
22 IS NO LONGER OUR AUDITOR. THAT DOESN'T TAKE AWAY FROM
23 THE WORTH AND VALIDITY OF THEIR PARTICULAR AUDIT. IT
24 HAS TO DO WITH SOME OTHER ISSUES THAT WERE RAISED BY
25 THE STATE CONTROLLER DURING THEIR REVIEW.

1 BUT IN THE INTEREST OF TRYING TO MAKE SURE
2 THAT WE GET THROUGH THIS, GILBERT IS NOT HERE TO
3 PRESENT ITS AUDIT, BUT I WILL TAKE YOU THROUGH THE
4 ESSENTIAL ISSUES AND FINDINGS AND ALSO ANSWER ANY
5 QUESTIONS THAT YOU MAY HAVE.

6 I SHOULD MENTION THAT THIS AUDIT ONLY COVERS
7 THE PERIOD FROM INCEPTION OF CIRM THROUGH THE END OF
8 THE FIRST FISCAL YEAR IN WHICH IT WAS IN OPERATION,
9 WHICH IS JUNE 30TH OF 2006. SO ESSENTIALLY THERE ARE
10 ONLY ABOUT SEVEN MONTHS WORTH OF OPERATIONS, AND IT IS
11 TOTALLY OPERATIONS. THERE WERE NO GRANTS THAT WERE
12 ISSUED DURING THIS PERIOD OF TIME. THERE WERE ONLY THE
13 EXPENSES ASSOCIATED WITH SETTING UP AND OPERATING THE
14 CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE.

15 IN ADDITION, I SHOULD POINT OUT THAT DURING
16 THE PERIOD OF THE AUDIT, THERE WERE ONLY TWO SOURCES OF
17 FUNDS THAT WERE AVAILABLE TO CIRM. ONE WAS ACCESS TO A
18 \$3 MILLION GENERAL FUND LOAN THAT PROPOSITION 71
19 PROVIDED TO ASSIST THE INSTITUTE IN STARTING UP ITS
20 OPERATIONS. IN ADDITION, TOWARDS THE END OF THE FISCAL
21 YEAR IN JUNE, WE RECEIVED A \$5 MILLION GRANT FROM THE
22 DOLBY FAMILY FOUNDATION THAT WAS INTENDED TO ASSIST US
23 IN CARRYING OUT THOSE OPERATIONS. THAT BASICALLY HAD
24 TO DO WITH THE FACT THAT WE NEEDED ADDITIONAL FUNDING
25 BECAUSE OF SOME DELAYS ASSOCIATED WITH SALE OF OUR

1 BONDS, WHICH WOULD BE THE MAIN FUNDING SOURCE FOR OUR
2 PROGRAMS.

3 THE AUDIT ITSELF IS A PRETTY STRAIGHTFORWARD
4 DISCUSSION AND PRESENTATION OF OUR FINANCIAL
5 STATEMENTS. I WOULD SUGGEST THAT YOU TAKE A LOOK AT
6 PAGE 14 OF THE AUDIT. THIS ACTUALLY PROVIDES THE
7 DETAIL THAT'S USED IN COMBINED FORM IN ANOTHER PART OF
8 THE AUDIT, BUT I THINK SOMETIMES LOOKING AT THE DETAIL
9 GIVES A LITTLE BETTER PICTURE OF WHAT'S ACTUALLY
10 HAPPENING.

11 THIS IS THE STATEMENT OF ASSETS AND
12 LIABILITIES. ALL OF OUR ASSETS ARE CASH. THERE WERE
13 NO HARD EQUIPMENT OR SPACE TYPES OF THINGS THAT WE OWN.
14 SO EVERYTHING IN TERMS OF OUR ASSETS ARE CASH.

15 THE CASH CONSISTS OF TWO SOURCES. THE
16 NONGRANT FUNDS, WHICH IS BASICALLY THE \$3 MILLION
17 GENERAL FUND I MENTIONED TO YOU AND THE DOLBY GRANT.
18 AS YOU CAN SEE, AT THE BEGINNING -- AT THE END OF THE
19 YEAR, WE HAD THE \$5 MILLION IN DOLBY GRANT MONEY. IN
20 ADDITION, IN THE NONGRANT COLUMN, THE FIRST COLUMN,
21 THERE'S A REFERENCE TO \$112,154. THAT ACTUALLY IS
22 UNLIQUIDATED WARRANTS FROM THE LAST DRAW THAT WE MADE
23 FOR THE GENERAL FUND. WE ACTUALLY DRAW THE MONEY IN,
24 MATCH IT UP WITH WARRANTS BASED ON CLAIMS THAT WE HAVE
25 SUBMITTED TO THE CONTROLLER'S OFFICE FOR PAYMENT, AND

1 THESE PAYMENTS WERE ACTUALLY ISSUED TOWARDS THE END OF
2 THE YEAR, BUT NOT ALL OF THOSE PAYMENTS HAD BEEN CASHED
3 AND REDEEMED BY THE TREASURER'S OFFICE BEFORE THE END
4 OF THE YEAR. SO THAT REPRESENTS AN ASSET TO US,
5 ACTUALLY A TEMPORARY ASSET BECAUSE ALL OF THOSE HAVE
6 SENSE BEEN REDEEMED IN THE SUBSEQUENT FISCAL YEAR.

7 THERE'S AN ADDITIONAL REFERENCE TO DUE FROM
8 ANOTHER FUND, WHICH IS \$139,224. WE RECEIVED THE DOLBY
9 GRANT TOO LATE TO ACTUALLY USE IT FOR SPECIFIC
10 EXPENDITURES THAT HAD ALREADY BEEN MADE THAT THEY WERE
11 ELIGIBLE FOR. AND SO THIS REPRESENTS ACTUALLY A
12 JOURNAL ENTRY THAT WE INITIATED BEFORE THE END OF THE
13 YEAR TO ACTUALLY USE SOME OF THE DOLBY MONEY TO PAY FOR
14 SOME EXPENDITURES THAT WERE ELIGIBLE FOR DOLBY TO BE
15 USED FOR THAT HAD ALREADY BEEN PAID THROUGH THE GENERAL
16 FUND.

17 THIS WAS AN EXERCISE ON OUR PART TO TRY TO
18 ENSURE THAT WE PRESERVED AS MUCH OF THE LOAN AS
19 POSSIBLE BECAUSE OF CERTAIN FLEXIBILITIES THAT WERE NOT
20 AVAILABLE TO US IN THE DOLBY GRANT IN TERMS OF WHAT WE
21 COULD USE THAT MONEY FOR. THAT JOURNAL ENTRY WAS
22 PENDING, AGAIN, AT THE END OF THE YEAR, SO IT SHOWS AS
23 A DUE FROM AN ASSET IN THE ASSET PART OF IT; BUT, AS
24 YOU CAN SEE IN THE THIRD COLUMN, IT'S ALSO BALANCED OUT
25 BY THE REDUCTION THAT WILL TAKE PLACE TO THE DOLBY

1 GRANT FUND AS WELL. SO, IN EFFECT, IT CANCELS ITSELF
2 OUT.

3 WITH REGARD TO THE LIABILITIES, THEY CONSIST
4 OF TWO CATEGORIES. THERE'S ACCOUNTS PAYABLE, AND THESE
5 ARE THE ESTIMATED ACCRUALS THAT WE HAVE, THE
6 EXPENDITURES THAT WERE AUTHORIZED AND, TO A CERTAIN
7 EXTENT, GOODS OR SERVICES RECEIVED BEFORE THE END OF
8 THE YEAR, BUT WHICH WE OWED MONEY ON AND BILLS HAD NOT
9 ACTUALLY COME IN TO BE SCHEDULED FOR PAYMENT. MOST OF
10 THIS IS IN THE CONTRACTS AREA WHERE WE RECEIVED THE
11 SERVICES IN JUNE. WE DON'T ACTUALLY GET THE BILL UNTIL
12 JULY. WE PAY THE BILL, AND THEN IT GETS CHARGED BACK
13 TO THE PREVIOUS FISCAL YEAR. THIS IS AN ESTIMATE OF
14 WHAT THOSE ACCRUALS WILL BE OR WOULD HAVE BEEN AS
15 CHARGED.

16 WITH REGARD TO THE DUE TO OTHER FUNDS, I'VE
17 ALREADY EXPLAINED THE 139,000 FIGURE THAT IS AN OFFSET
18 TO THE MONEY MOVED TO THE NONGRANT CATEGORY. AND ALSO,
19 THE DUE TO OTHER FUNDS IN THE NONGRANT FUNDS, 1,650,000
20 REPRESENTS THE ACTUAL DRAWS THAT WE HAD TAKEN TO THE
21 GENERAL FUND \$3 MILLION LOAN. SO WE OWE THAT MONEY;
22 AND EVENTUALLY, WHEN WE PAY IT BACK, WE WILL OWE
23 INTEREST ON THAT AS WELL.

24 SO THAT'S A SUMMARIZATION OF THE ASSETS AND
25 LIABILITIES ASSOCIATED WITH OUR OPERATIONS DURING THAT

1 FISCAL YEAR ENDING JUNE 30TH.

2 I'D ALSO ASK YOU TO TAKE A LOOK AT PAGE 15,
3 WHICH IS A REFERENCE TO REVENUES AND EXPENDITURES.
4 BECAUSE WE'RE ON A CASH ACCRUAL BASIS WITH NO OTHER
5 ASSETS, THE NET ASSETS ON PAGE 14, WHICH ARE BASICALLY
6 THE FIGURE DOWN AT THE BOTTOM RIGHT-HAND SIDE,
7 \$2,457,000, ETC., SHOULD EQUAL THE DIFFERENCE BETWEEN
8 THE ASSETS, THE NET ASSETS, ON PAGE 14 AND, IN FACT,
9 THEY DO. THEY ARE A REFLECTION OF THE FACT THAT MONEY
10 GOES IN, MONEY GOES OUT. THAT'S IT. THAT'S ALL OF OUR
11 CASH.

12 THIS IS ALSO, HOWEVER -- I CALL YOUR
13 ATTENTION TO AN ITEM UNDER NONGRANT FUNDS, WHICH IS
14 \$84,660. THIS ACTUALLY IS A NONCASH REVENUE, AND IT
15 REPRESENTS THE VALUE OF FREE RENT GIVEN TO CIRM AT ITS
16 FIRST OFFICES IN EMERYVILLE. THIS IS ACTUALLY
17 DESCRIBED IN NOTE 5 ON PAGE 12 IF YOU WANT MORE
18 INFORMATION ABOUT IT, BUT ESSENTIALLY THE LEASE THAT WE
19 SIGNED WITH THE -- ACTUALLY SIGNED BY THE DEPARTMENT OF
20 GENERAL SERVICES, THE COMPANY AGREED TO PROVIDE US THE
21 SPACE FREE OF CHARGE. SO THIS IS THE EQUIVALENT OF
22 FIVE MONTHS WORTH OF RENT THAT WE WOULD HAVE PAID. IT
23 COMES IN AS REVENUE, IN EFFECT, AND THEN IT IS, IN
24 EFFECT, IMMEDIATELY SPENT DURING THE MONTH BECAUSE OF
25 OUR OCCUPATION OF THE SPACE. SO THE REVENUES ARE

1 BALANCED OUT BY AN INCREASE IN A SIMILAR AMOUNT OF
2 OPERATING EXPENSES.

3 THE OTHER ISSUES I'D POINT OUT TO YOU IS THAT
4 ON PAGE 6 ON PAGE -- NOTE 6 ON PAGE 12, THERE IS A
5 REFERENCE TO THE FACT THAT OUR DOLBY MONEY CAME IN
6 DURING THIS YEAR. THE ONLY THING I WOULD POINT OUT IS
7 THAT IT MAKES IT CLEAR IN THIS NOTE THAT THE STATEMENTS
8 ON PAGE 14 COMBINE THE BALANCES OF THE GENERAL FUND AND
9 LOAN AND THE DOLBY BALANCE TO COME TO A NET FIGURE.
10 AND WHAT THIS MAKES CLEAR IS THAT THAT'S FOR DISPLAY
11 PURPOSES ONLY. IN FACT, THE DOLBY GRANT THAT WE HAVE
12 DOES NOT ALLOW US TO USE IT TO PAY BACK THE GENERAL
13 FUND LOAN. AND SO WHILE THE DISPLAY IS CORRECT FROM AN
14 ACCOUNTING STANDPOINT, WE WANT TO MAKE SURE THAT YOU
15 UNDERSTAND AND THAT EVERYBODY UNDERSTANDS THAT, IN
16 FACT, IT'S NOT REALLY AN OFFSET. WE CAN'T ACTUALLY PAY
17 THAT 1,650,000 WITH THE DOLBY MONEY.

18 FINALLY, ON PAGE 9 OR NOTE 9 ON PAGE 13
19 PROVIDES INFORMATION ON A NUMBER OF LAWSUITS THAT HAVE,
20 IN FACT, HELD UP THE SALE OF BONDS THAT ARE ULTIMATELY
21 TO BE USED TO FUND THE OPERATIONS AND THE GRANT
22 PROGRAMS WITH CIRM.

23 WHEN THOSE BONDS ARE SOLD, THE FIRST PROCEEDS
24 ACTUALLY WILL BE USED TO PAY OFF THE GENERAL FUND LOAN
25 AND ANY OTHER INTERIM DEBT THAT WE HAVE FROM THE STATE

1 OF CALIFORNIA WITH INTEREST. IT TAKES 14 PAGES TO GO
2 THROUGH THIS, BUT IT'S REALLY ACTUALLY A FAIRLY SIMPLE
3 STATEMENT OF OUR ASSETS AND OUR LIABILITIES.

4 THE AUDITOR ISSUED AN UNQUALIFIED OPINION,
5 WHICH MEANS THAT THEY COULD FIND NO MATERIAL ISSUES OR
6 ERRORS THAT WOULD CHANGE THE INFORMATION THAT WAS
7 DISPLAYED, AND SO THAT'S WHAT THEIR AUDIT SAYS.

8 I SHOULD ALSO SAY THAT GILBERT ISSUED A
9 MANAGEMENT LETTER IN CONNECTION WITH THIS AUDIT, AND
10 YOU SHOULD HAVE A COPY OF THAT. AND THEY MADE TWO
11 RECOMMENDATIONS. THE FIRST RECOMMENDATION IS SORT OF A
12 TECHNICAL RECOMMENDATION THAT HAS TO DO WITH HOW WE
13 PRESENT INFORMATION TO THEM DURING THEIR AUDIT. WHEN
14 WE MET WITH THEM, WE ACTUALLY GAVE THEM A LISTING OF
15 ALL OF OUR EXPENDITURES AND REVENUES AND ASKED THEM TO
16 USE THAT TO PREPARE THE FINANCIAL STATEMENTS. THEY
17 SUGGESTED THAT IN THE FUTURE WE SHOULD USE THAT
18 INFORMATION TO PREPARE A DRAFT SET OF FINANCIAL
19 STATEMENTS THAT THEY COULD REVIEW. AND WE AGREED THAT
20 WE WOULD DO THAT, AND THAT AGREEMENT IS NOTED IN THE
21 LETTER THAT THEY SENT TO US.

22 IN ADDITION, AS PART OF A COMPLIANCE REVIEW,
23 THEY TOOK A LOOK AT COST OF -- I'M SORRY -- CONFLICT OF
24 INTEREST STATEMENTS THAT ARE PREPARED FOR CIRM STAFF,
25 FOR WORK GROUP MEMBERS, AND FOR ICOC MEMBERS. THEY

1 NOTED IN THEIR MANAGEMENT LETTER THAT ALL THE
2 STATEMENTS FOR CIRM STAFF AND WORK GROUP MEMBERS HAD
3 ACTUALLY BEEN SIGNED BY THOSE PERSONS, AGREEING TO
4 ABIDE BY THE INFORMATION THAT WAS IN THOSE CONFLICT OF
5 INTEREST STATEMENTS. HOWEVER, WHILE THE ICOC MEMBERS
6 HAD ACTUALLY VOTED IN OPEN MEETING TO ADOPT THEIR
7 STANDARDS, THEY HAD ACTUALLY NOT SIGNED THEM. NOW, WE
8 FELT THAT THAT WAS, AND GILBERT DID TOO, FELT THAT THE
9 VOTING IN AN OPEN MEETING WAS AN APPROPRIATE SUBSTITUTE
10 FOR SIGNING IT. BUT AS THEY POINTED OUT, THERE WERE A
11 COUPLE OF PEOPLE WHO WERE NOT AT THAT MEETING, COUPLE
12 OF MEMBERS WHO WERE NOT AT THAT MEETING, AND WE'VE HAD
13 A FEW NEW MEMBERS SINCE THAT TIME. WHILE THEY'VE BEEN
14 GIVEN COPIES OF THE STATEMENT, THEY HADN'T SIGNED THOSE
15 EITHER.

16 SO WE HAD A CHOICE OF GOING TO THOSE NEW
17 MEMBERS OR MEMBERS WHO WEREN'T THERE AND GET THEM TO
18 SIGN. WE THOUGHT THAT WAS REALLY KIND OF SILLY, SO WE
19 JUST WENT OUT AND GOT EVERYBODY TO SIGN THE STATEMENT,
20 ATTESTING THAT THEY AGREE TO ABIDE BY IT. THOSE ARE
21 NOW ON FILE WITH OUR ORGANIZATION, AND GILBERT
22 MENTIONED THAT WE HAVE TAKEN CARE OF THAT AS WELL.

23 SO THAT'S THE GILBERT AUDIT. HAPPY TO ANSWER
24 ANY QUESTIONS YOU HAVE ABOUT THAT.

25 CHAIRMAN WESTLY: THANK YOU, WALTER. I

1 ACTUALLY HAVE A QUESTION, BUT LET ME DEFER TO THE OTHER
2 BOARD MEMBERS. ANY PARTICULAR QUESTIONS OR COMMENTS?

3 MR. LOTT: MR. CHAIR, IF I MAY, AND THIS MAY
4 NOT BE AN APPROPRIATE QUESTION FOR THE AUDIT. ACTUALLY
5 I DON'T THINK IT IS, BUT WHAT ARE WE INCURRING IN
6 INTEREST EXPENSE ON THE LOAN FROM THE GENERAL FUND
7 PENDING OUR ABILITY TO BE ABLE TO ACCESS THE BOND
8 MARKET AND DO WHAT WE'RE SUPPOSED TO DO? WHAT'S
9 HAPPENING?

10 MR. BARNES: WE GET CHARGED AT THE POOLED
11 MONEY INVESTMENT RATE, WHICH IS WHAT THE TREASURER
12 CHARGES FOR ANY LOANS MADE TO A STATE AGENCY. MY
13 RECOLLECTION OF THE MOST RECENT RATES IS THAT THEY'RE
14 RUNNING SOMEWHERE BETWEEN 3.5 AND 4 PERCENT. BUT KEEP
15 IN MIND THAT WE ONLY PAY FROM THE DATE THAT WE DRAW
16 DOWN MONEY, AND SO WE ONLY DRAW DOWN MONEY WHEN WE'RE
17 ABSOLUTELY READY TO EXPEND IT TO TRY AND MINIMIZE OUR
18 INTEREST. PLUS WHICH, WHILE IT'S NOT MENTIONED IN
19 HERE, THE DOLBY MONEY IS ACTUALLY ELIGIBLE TO
20 PARTICIPATE IN THE POOLED MONEY INVESTMENT FUND THAT
21 THE TREASURER RUNS, WHICH MEANS THAT MONIES THAT ARE
22 NOT BEING USED ARE INVESTED BY THEM. AND THAT EARNS
23 INTEREST WHICH WE CAN HOPEFULLY USE TO CONTINUE TO
24 ADVANCE OUR PROGRAMS AND KEEP OUR OPERATIONS GOING.

25 I BELIEVE THE FUNDING FROM THAT INTEREST THAT

1 WE'VE RECEIVED TO DATE IS SOMEWHERE IN THE NEIGHBORHOOD
2 OF ABOUT \$100,000.

3 MR. LOTT: THANK YOU, MR. CHAIR.

4 CHAIRMAN WESTLY: JUST FROM MY STANDPOINT,
5 I'VE SPENT A FAIR BIT OF TIME WITH THIS AUDIT AND
6 STAFF, AND IT SEEMS TO BE AWFULLY GOOD NEWS HERE. I'VE
7 SEEN AN AWFUL LOT OF QUALIFIED AUDITS, BOTH THE PRIVATE
8 SECTOR AND GOVERNMENT, AND THIS IS AN UNQUALIFIED
9 SUPPORT FROM GILBERT & ASSOCIATES. I THINK THAT'S
10 GREAT NEWS.

11 AS I UNDERSTAND IT, WALTER, TO PUT THIS IN
12 LAYPERSON'S TERMS, GILBERT REALLY ONLY HAD TWO
13 CONCERNS. ONE, SOME MINOR CHANGES IN THE CLOSING
14 PROCESS, WHICH YOU'VE ALREADY INSTITUTED. AND, SECOND,
15 THAT WE MAKE SOME MINOR CHANGES IN THE CONFLICT OF
16 INTEREST FORMS. AND THAT'S SOMETHING ELSE YOU'VE
17 ALREADY DONE; IS THAT CORRECT?

18 MR. BARNES: THE ONLY THING I WOULD SAY IS WE
19 DIDN'T CHANGE THE FORMS THEMSELVES OR ANY OF THE
20 REQUIREMENTS, BUT WE DID GO THROUGH AND HAVE THEM
21 ATTEST THAT THEY AGREED TO COMPLY BY IT.

22 CHAIRMAN WESTLY: KUDOS TO YOU AND THE STAFF
23 FOR TAKING CARE OF THAT.

24 MS. POTTER, DID YOU --

25 LET'S GO ON TO THE SECOND PRESENTATION. AND

1 MS. CASALEGNO, WILL YOU INTRODUCE MS. MOORE-HUDNAL?

2 MS. CASALEGNO: YES. THE SECOND PRESENTATION
3 IS BY MS. CASSANDRA MOORE-HUDNAL WITH THE STATE
4 CONTROLLER'S OFFICE. SHE'S THE FINANCIAL AUDITS BUREAU
5 CHIEF, AND SHE'S PRESENTING THE STATE CONTROLLER'S
6 OFFICE REVIEW OF THE GILBERT & ASSOCIATES AUDIT.

7 MS. MOORE-HUDNAL: GOOD MORNING, CHAIRMAN
8 WESTLY AND COMMITTEE MEMBERS. AS YOU KNOW, THE STATE
9 CONTROLLER'S OFFICE IS REQUIRED TO REVIEW THE FINANCIAL
10 AUDIT OF THE INSTITUTE. SO THE PURPOSE OF OUR REVIEW
11 IS TO DETERMINE WHETHER THE AUDIT WAS PERFORMED IN
12 ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS
13 AND WHETHER OR NOT THE AUDITORS' WORKING PAPERS
14 SUPPORTED THEIR CONCLUSION THAT THE AUDIT WAS -- THE
15 FINANCIAL STATEMENTS WERE FAIRLY STATED.

16 TO PERFORM THE REVIEW, WE DEVELOPED REVIEW
17 PROCEDURES BASED ON AUDITING STANDARDS, GENERAL
18 FIELDWORK, AND REPORTING. WHAT WE DID IS WE COMPARED
19 OUR PROCEDURES TO THE WORKING PAPERS, AND WE FOUND THAT
20 THE AUDIT WAS PERFORMED IN ACCORDANCE WITH AUDIT
21 STANDARDS.

22 WE ALSO DETERMINED THAT THE AUDITORS' WORKING
23 PAPERS SUPPORTED THEIR CONCLUSION THAT CIRM'S FINANCIAL
24 STATEMENTS WERE FAIRLY STATED.

25 IN THE COURSE OF OUR REVIEW, WE IDENTIFIED

1 THREE ISSUES THAT WE OUTLINED IN THE LETTER TO MR. HALL
2 ON MAY 26TH. THE THREE ISSUES HAD TO DO WITH -- TWO OF
3 THEM HAD TO DO WITH ACCOUNTING RELATED ISSUES -- I'M
4 SORRY -- AUDIT-RELATED ISSUES AND ONE HAD TO DO WITH AN
5 ACCOUNTING-RELATED ISSUE.

6 THE ACCOUNTING-RELATED ISSUE DEALT WITH THE
7 CAPITALIZATION OF ASSETS THAT WERE PURCHASED BY THE
8 INSTITUTE. WE RECOMMENDED THAT THE INSTITUTE FOLLOW
9 UNIVERSITY OF CALIFORNIA'S CAPITALIZATION POLICY WHEN
10 PURCHASING ASSETS.

11 THE OTHER TWO ISSUES RELATED SPECIFICALLY TO
12 THE AUDIT PROCESS. ONE OF THE ISSUES HAD TO DO WITH
13 THE STANDARDS BY WHICH THE AUDIT WAS PERFORMED. THE
14 AUDITS WERE PERFORMED IN ACCORDANCE WITH GENERALLY
15 ACCEPTED AUDITING STANDARDS, AND THE INSTITUTE CAN HAVE
16 AN AUDIT PERFORMED IN ACCORDANCE WITH GENERALLY
17 ACCEPTED AUDITING STANDARDS OR GOVERNMENT AUDITING
18 STANDARDS.

19 THE GENERALLY ACCEPTED AUDITING STANDARDS ARE
20 USED WHEN THERE IS NO REQUIREMENT TO USE GOVERNMENT
21 AUDIT STANDARDS. THESE STANDARDS ARE PUBLISHED BY THE
22 AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS.
23 THE GOVERNMENT AUDIT STANDARDS ARE PRODUCED AND
24 PUBLISHED BY THE GENERAL ACCOUNTING OFFICE. THESE
25 STANDARDS INCORPORATE GENERALLY ACCEPTED AUDITING

1 STANDARDS AND EXPAND ON THOSE AUDITING STANDARDS. THE
2 EXPANSION HAS TO DO WITH AUDITOR'S INDEPENDENCE, AUDIT
3 DOCUMENTATION, AND ADDITIONAL REPORTING REQUIREMENTS.

4 WE BELIEVE THAT IF THE AUDITS ARE PERFORMED
5 IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, THE
6 AUDITOR HAS TO ISSUE AN ADDITIONAL REPORT ON INTERNAL
7 CONTROL AND ON THE INSTITUTE'S COMPLIANCE WITH CERTAIN
8 LAWS AND REGULATIONS.

9 SO WE BELIEVE THAT THAT ADDITIONAL REPORT
10 PROVIDES ADDITIONAL ASSURANCE TO THE INSTITUTE AS WELL
11 AS THE GENERAL PUBLIC AS TO THE INSTITUTE'S COMPLIANCE
12 WITH INTERNAL CONTROL AND WITH CERTAIN RULES AND
13 REGULATIONS. THERE WAS NOTHING WRONG, OR THERE WAS NO
14 PROBLEM WITH PERFORMING THE AUDIT IN ACCORDANCE WITH
15 GENERALLY ACCEPTED AUDITING STANDARDS. WE JUST BELIEVE
16 THAT USING GOVERNMENT AUDITING STANDARDS RAISES THE
17 LEVEL OF ASSURANCE FOR THE GENERAL PUBLIC AS WELL AS
18 FOR THE INSTITUTE MEMBERS.

19 THE LAST ISSUE THAT WE HAD HAD TO DO WITH OUR
20 ABILITY TO OBTAIN COPIES OF WORKING PAPERS FROM THE
21 AUDITOR. WE FELT THAT WE NEEDED THESE WORKING PAPERS
22 TO DOCUMENT OUR REVIEW AS WELL AS OUR CONCLUSIONS
23 REACHED. SO WHAT WE DID IS WE RECOMMENDED THAT THE
24 INSTITUTE WORK WITH LEGAL COUNSEL TO DETERMINE WAYS
25 THAT WE CAN OBTAIN COPIES OF WORKING PAPERS WITHOUT

1 LIMIT.

2 THANK YOU FOR ALLOWING ME TO PRESENT OUR
3 REPORT, AND I AM -- FEEL FREE TO ANSWER ANY QUESTIONS
4 YOU MAY HAVE.

5 CHAIRMAN WESTLY: TERRIFIC. LET ME JUST TAKE
6 A MOMENT HERE. I HAVE ALMOST 200 AUDITORS IN THE
7 CONTROLLER'S OFFICE. AND CASSANDRA IS ONE OF OUR VERY,
8 VERY BEST. I JUST WANT TO THANK YOU FOR ALL OF YOUR
9 HARD WORK ON THIS.

10 ARE THERE QUESTIONS FROM THE OTHER BOARD
11 MEMBERS ON THIS?

12 MR. LOTT: I'M READING BETWEEN THE LINES
13 HERE. AND MY DAUGHTER TELLS ME OFTEN THAT I JUST DON'T
14 GET IT, BUT I MAY NOT BE GETTING IT HERE TOO. BUT YOU
15 SOUNDED AS THOUGH THERE WAS SOME RECALCITRANCE ON THE
16 PART OF THE AUDITORS TO SHARE WITH YOUR THEIR WORKING
17 PAPERS. AM I HEARING THAT CORRECTLY?

18 MS. MOORE-HUDNAL: WE HAD FULL ACCESS TO THE
19 WORKING PAPERS TO PERFORM OUR REVIEW, SO THERE WAS NO
20 PROBLEM WITH THAT. IT WAS MORE OF A MATTER OF WE
21 WANTED SOME COPIES OF WORKING PAPERS TO PUT IN OUR
22 FILES SO THAT WE CAN DOCUMENT OUR REVIEW AND OUR
23 CONCLUSIONS IN CASE THERE'S AN ISSUE THAT COMES UP.

24 AND FOR THIS YEAR'S AUDIT, IT WASN'T AN ISSUE
25 BECAUSE IT WAS AN EIGHT-MONTH PERIOD.

1 MR. LOTT: MY DAUGHTER WAS RIGHT. I DIDN'T
2 GET IT RIGHT.

3 MS. MOORE-HUDNAL: SO IN SUBSEQUENT AUDITS,
4 THIS MAY PRESENT AN ISSUE FOR US.

5 CHAIRMAN WESTLY: THANK YOU, MR. LOTT. IF
6 THERE ARE NO OTHERS, I'D LIKE TO MOVE ON TO THE THIRD
7 PRESENTATION. ANY OTHER COMMENTS? THEN WHAT WE'LL DO
8 IS ASK FOR A MOTION OF SUPPORT ON ALL THREE.

9 MR. BRUNNER: MR. CHAIRMAN, I HAVE A QUESTION
10 REGARDING -- MAYBE THIS IS NOT THE RIGHT TIME, BUT
11 CONCERNING FUTURE AUDITS, THE TIMING OF FUTURE AUDITS.
12 IT SOUNDS LIKE YOU'RE ABOUT TO ENGAGE ANOTHER AUDIT
13 FIRM. WHAT'S THE SENSE OF THE SCHEDULE FOR FUTURE
14 AUDITS BECAUSE THIS ONE IS FOR -- WE'RE 14 MONTHS, 15
15 MONTHS BEYOND THE CLOSE OF THE PERIOD WHICH IS BEING
16 AUDITED. IS THAT TIMING ANTICIPATED FOR THE FUTURE, OR
17 WILL THEY BE MORE TIMELY THAN THAT?

18 CHAIRMAN WESTLY: WALTER, ARE YOU GOING TO
19 COVER THAT IN YOUR NEXT PRESENTATION?

20 MR. BARNES: ACTUALLY I WAS HOPING TO BE ABLE
21 TO RESPOND TO THE RECOMMENDATIONS FIRST AND LET YOU
22 KNOW WHERE WE ARE WITH IMPLEMENTING THOSE BECAUSE IT
23 GOES, I THINK, TO THE HEART OF HIS QUESTION AS WELL.

24 CHAIRMAN WESTLY: WHY DON'T YOU GO AHEAD AND
25 DO THAT, AND THEN SPEAK TO MR. BRUNNER'S ISSUE. AND

1 THEN WHY DON'T YOU GO RIGHT AHEAD INTO YOUR
2 PRESENTATION.

3 MR. BARNES: FIRST OFF, WITH REGARD TO THE
4 RECOMMENDATIONS THAT WERE MADE, WE'RE CERTAINLY IN
5 AGREEMENT WITH THE RECOMMENDATION ON THE \$15,000 LIMIT.
6 AND WE ARE SOMEWHAT EMBARRASSED BY THAT, BUT IT
7 HAPPENED VERY EARLY IN OUR OPERATIONS. AND WE HAVE
8 MADE SURE THAT WE'RE NOT GOING TO HAVE THAT HAPPEN
9 AGAIN. AS IT TURNS OUT, WE'VE ONLY HAD THE ONE ITEM
10 THAT ACTUALLY QUALIFIES FOR THAT DURING THAT PERIOD OF
11 TIME AND ALL THE WAY UP UNTIL NOW.

12 WITH REGARD TO THE GAGAS, I HAVE TO ADMIT TO
13 BEING SORT OF PERSONALLY EMBARRASSED BY THAT HAVING
14 SUPERVISED THE AUDIT PROGRAM AT THE STATE CONTROLLER'S
15 OFFICE IN WORKING WITH CASSANDRA ON A NUMBER OF ISSUES.
16 I SHOULD HAVE PICKED THAT UP IN THE TEMPLATE THAT WE
17 GOT FROM ANOTHER AGENCY THAT WE USED TO PUT OUR BID
18 PROCESS OUT. UNFORTUNATELY, FOR SOME REASON, THEY
19 INDICATED GAAS AND NOT GAGAS LIKE WE SHOULD HAVE DONE.
20 AND SO, ANYWAY, WE HAVE AGREED THAT WE WILL MAKE SURE
21 THAT FUTURE AUDITS WILL BE DONE IN THAT WAY.

22 WITH REGARD TO THE PAPER FINDING, I THINK
23 IT'S IMPORTANT TO REMEMBER THAT OR TO REALIZE THAT
24 GILBERT, AND I APPRECIATE YOUR COMMENT, GILBERT DID NOT
25 DENY ACCESS TO ANY WORKING PAPERS, AND THEY WERE ABLE

1 TO MAKE THEIR REVIEW AND REACH A CONCLUSION. AT THE
2 SAME TIME IT'S OBVIOUS THAT FUTURE AUDITS ARE GOING TO
3 BE MORE COMPLICATED. THEY NEED TO HAVE COPIES OF THESE
4 DOCUMENTS. GILBERT FELT THAT SOME OF THE PAPERS THAT
5 THEY DID NOT WANT TO PROVIDE COPIES TO CONTAINED WHAT
6 THEY FELT WERE TRADE SECRETS AND CONFIDENTIAL
7 COMMERCIAL AND FINANCIAL INFORMATION THAT IS PRIVILEGED
8 AND CONFIDENTIAL FROM THEIR STANDPOINT. NOT FROM US,
9 FROM THEIR STANDPOINT.

10 WE TALKED TO THEM WITH OUR LEGAL COUNSEL AND
11 WITH THE LEGAL COUNSEL FROM THE STATE CONTROLLER'S
12 OFFICE AFTER THE AUDIT AND TOLD THEM THAT WE NEEDED TO
13 HAVE THEM COMPLY WITH THIS REQUEST TO PROVIDE COPIES.
14 WE DEVELOPED LANGUAGE TO AMEND THE CONTRACT THAT WE HAD
15 WITH GILBERT, WHICH WOULD HAVE REQUIRED SPECIFICALLY
16 THAT THOSE COPIES BE MADE AVAILABLE. GILBERT INDICATED
17 THAT THEY FELT THEY JUST COULDN'T ACCEPT THAT LANGUAGE,
18 AND SO WE TERMINATED THEIR CONTRACT.

19 WE HAVE SINCE INITIATED A NEW REQUEST FOR
20 PROPOSAL. THE BIDS FOR THAT PROPOSAL WILL BE DUE ON
21 SEPTEMBER 18TH. WE HAVE INCLUDED IN THERE BOTH GAGAS
22 STANDARDS AND THE SPECIFIC LANGUAGE THAT THE
23 CONTROLLER'S OFFICE AND WE NEGOTIATED TO COME UP WITH
24 TO ENSURE THAT COPIES ARE MADE. AND SO WE BELIEVE THAT
25 THAT WILL NOT BE AN ISSUE IN A FUTURE AUDIT.

1 AS TO WHEN THAT AUDIT IS GOING TO TAKE PLACE,
2 OUR HOPE IS TO HAVE THE AUDIT FIRM SELECTED AND IN
3 PLACE, HOPEFULLY, BY THE END OF THIS NEXT WEEK. AND
4 THEN THE AUDIT OF THE NEXT FISCAL YEAR, WHICH WOULD BE
5 THE ONE ENDING JUNE 30, 2006, WILL BE DONE, WE PROJECT,
6 SOMETIME AROUND THE MONTH OF DECEMBER. SO AT THAT
7 POINT, WE WILL THEN BE UP TO DATE. AND, YOU KNOW, WE
8 ALSO HAVE A PROVISION IN THE CONTRACT THAT FOR FUTURE
9 AUDITS, THEY WILL BE PERFORMED WITHIN 60 DAYS AFTER THE
10 BOOKS AND RECORDS OF ALL SUBSEQUENT YEARS ARE CLOSED.

11 I WILL SAY THAT WE GOT A LITTLE LATE START IN
12 PUTTING THIS AUDIT TOGETHER. WE ATTRIBUTE THAT TO THE
13 FACT THAT WE WERE JUST TOO BUSY TRYING TO SET UP THE
14 ORGANIZATION TO DEAL WITH THAT RIGHT AT THAT PARTICULAR
15 PERIOD OF TIME, BUT WE DID MANAGE TO GET IT DONE AS
16 QUICKLY AS WE CAN. AND WE'LL CERTAINLY BE ON TIME IN
17 THE FUTURE.

18 IN THE MEANTIME WE DO PROVIDE COPIES OF OUR
19 UNAUDITED FINANCIAL STATEMENTS TO THE CONTROLLER'S
20 OFFICE DIVISION OF ACCOUNTING, LIKE ALL OTHER STATE
21 AGENCIES, TO BE REFLECTED IN THE ANNUAL FINANCIAL
22 REPORTS. SO THAT'S HOW WE'RE DOING WITH THAT. IF YOU
23 HAVE ANY QUESTIONS ABOUT THAT, IF NOT, I'LL GO AHEAD
24 INTO PRESENTATION ON FINANCIAL ACTIVITIES.

25 CHAIRMAN WESTLY: THANK YOU, WALTER.

1 ANYTHING ELSE? I THINK HIS FINAL PRESENTATION MAY
2 ACTUALLY CLEAR THAT UP.

3 MR. LOTT: I'M SORRY. THANK YOU. THANK YOU
4 VERY MUCH. IT JUST SEEMS TO ME THAT PEOPLE THAT WE'RE
5 DOING BUSINESS WITH WITH THIS WHOLE NEW AND EXCITING
6 VENTURE NEED TO UNDERSTAND IT AIN'T BUSINESS AS USUAL.
7 WE REALLY NEED TO HAVE PEOPLE UNDERSTAND THAT THIS IS
8 GROUNDBREAKING, THIS IS NEW STUFF THAT WE'RE DOING, AND
9 THEY HAVE TO BE WILLING TO BE OPEN, COMPLETELY OPEN,
10 WITH WHAT THEY'RE DOING AND WITH THE DECISIONS THAT
11 THEY MAKE AND INFORMATION THAT THEY PROVIDE.

12 I'M MAKING A SPEECH HERE, I GUESS. IT SEEMS
13 LIKE FOLKS THINK THAT THIS IS JUST A WELL THEY CAN COME
14 TO AND PARTICIPATE IN. AND I WOULD HOPE THAT PEOPLE
15 SEE THAT THIS NEW AND EXCITING VENTURE THAT WE'RE
16 EMBARKING UPON REQUIRES OPENNESS, COMPLETE OPENNESS,
17 AND COOPERATION AND NOT THE TYPE OF -- WELL, ANYWAY.
18 I'VE SAID ENOUGH.

19 MR. BARNES: I COULD SAY YOU MAY BE MAKING A
20 SPEECH, BUT YOU'RE PREACHING TO THE CONVERTED. AS I
21 SAID, WE TRIED TO WORK OUT THE ISSUE WITH GILBERT. I
22 HAVE TO ADMIT TO SOME PUZZLEMENT ON MY OWN PART ABOUT
23 THEIR ISSUE AND HOW IMPORTANT IT WAS TO THEM; BUT AS
24 SOON AS WE REALIZED THAT WE COULD NOT MAKE ANY HEADWAY,
25 WE TERMINATED THEIR CONTRACT. IT WAS NOT IN OUR BEST

1 INTEREST TO CONTINUE WITH THAT RELATIONSHIP.

2 CHAIRMAN WESTLY: THANK YOU, WALTER. WHY
3 DON'T YOU GO INTO YOUR FINAL REPORT, AND THEN WE CAN
4 TAKE FINAL QUESTIONS, AND THEN I'LL ASK FOR A MOTION.

5 MR. BARNES: OKAY. YOU HAVE A BINDER AND A
6 SUMMARY PRESENTATION. THE BINDER GENERALLY CONTAINS A
7 LOT OF MATERIALS THAT SORT OF ILLUSTRATE SOME OF THE
8 THINGS THAT WE ARE DOING TO MAINTAIN OUR FINANCIAL
9 PRACTICES AND CARRY THEM OUT IN AN APPROPRIATE MANNER.

10 FIRST OFF, I SHOULD SAY THAT I'D LIKE TO
11 RECOGNIZE THE CONTROLLER'S OFFICE CONTRIBUTION TO THE
12 SUCCESS THAT WE'VE HAD IN IMPLEMENTING CIRM AS A WHOLE.
13 THERE HAS BEEN AN INTERAGENCY AGREEMENT BY WHICH STAFF
14 AND THE CONTROLLER'S OFFICE HELPED US TO ACQUIRE OUR
15 SPACE, OUR EQUIPMENT, INSTALL OUR I.T. SYSTEM, AND HIRE
16 STAFF THAT WE NEEDED TO ACTUALLY OPEN AN OFFICE AND
17 BEGIN OPERATIONS.

18 IN ADDITION, THE INTERNAL ACCOUNTING OFFICE
19 OF THE STATE CONTROLLER'S ACTUALLY PREPARES ALL OF THE
20 CLAIMS THAT WE HAVE FOR PAYMENT, BE THEY OPERATIONS OR
21 FOR GRANT PAYMENTS, TO ENSURE THAT THEY MEET THE
22 STANDARDS THAT THE CONTROLLER'S OFFICE AUDITS DIVISION
23 REQUIRES IN ORDER TO PERFORM THEIR AUDIT AND REVIEW AND
24 APPROVE A PAYMENT FOR A WARRANT.

25 FINALLY, THE ACCOUNTING OFFICE ALSO MAINTAINS

1 AND OPERATES OUR ACCOUNTING SYSTEM AND PROCESSES THE
2 NECESSARY REPORTS THAT WE HAVE TO KEEP CONTROL AND
3 OVERSIGHT OF OUR EXPENDITURES. NOW, I WANT TO STRESS
4 THAT IT'S STILL OUR RESPONSIBILITY, FULLY OUR
5 RESPONSIBILITY TO ENSURE THAT THE CLAIMS FOR PAYMENT
6 ARE CORRECT AND ALLOWABLE. BUT I HAVE TO SAY THAT THE
7 TECHNICAL SUPPORT THAT WE'VE BEEN RECEIVING BASICALLY
8 PROVIDES A LITTLE GREATER ELEMENT OF ACCURACY OF THE
9 PROCESS. HAVING WORKED IN THE CONTROLLER'S OFFICE, I
10 KNOW THAT THE ACCOUNTING OFFICE IS DOUBLY CLEAR ABOUT
11 TRYING TO MAKE SURE THAT EVERYTHING THAT THEY DO IS
12 ABSOLUTELY CORRECT SO THAT IT PASSES ITS OWN AUDITS
13 TEST. AND SO I THINK THAT'S BEEN A BENEFIT TO US TO BE
14 ABLE TO ACCESS AND HAVE THEIR ASSISTANCE ON THAT. I
15 JUST WANTED TO PASS THAT ON TO EVERYBODY.

16 GOING TO THE FIRST PAGE, I THINK JUST ONE OF
17 THE THINGS TO REMIND EVERYBODY, AND I KNOW SOMETIMES
18 THE SPECIAL NATURE OF THE ACTIVITIES THAT WE'RE ENGAGED
19 IN SOMETIMES OBSCURES THE FACT THAT WE'RE REALLY A
20 STATE AGENCY, AND A PRETTY GARDEN VARIETY STATE AGENCY
21 LIKE ANY OTHER STATE AGENCY THAT'S OUT THERE, THE
22 DEPARTMENT OF FINANCE OR THE DEPARTMENT OF HEALTH
23 SERVICES, DEPARTMENT OF SOCIAL SERVICES, ANY OF THOSE
24 AGENCIES, WE HAVE TO FOLLOW ALL OF THE RULES AND
25 REGULATIONS ASSOCIATED WITH, YOU KNOW, OTHER STATE

1 AGENCIES. AND I LISTED A COUPLE HERE THAT ARE JUST
2 INDICATIVE OF THOSE THAT AFFECT OUR FINANCIAL
3 OPERATIONS.

4 THE STATE CONTROLLER'S OFFICE, FOR INSTANCE,
5 ALL OF OUR ACCOUNTING FOR OUR FUNDS IS DONE IN
6 ACCORDANCE WITH THE FUND ACCOUNTING PROCEDURES AND
7 PROCESSES THAT ARE SET UP BY THE CONTROLLER'S OFFICE
8 AND MAINTAINED BY THEM FOR EVERY OTHER DEPARTMENT IN
9 THE STATE OF CALIFORNIA. IN ADDITION, YOU KNOW, THE
10 CLAIMS, AS I MENTIONED, FOR PAYMENT OF OPERATING COSTS
11 AND GRANT PROGRAMS MUST BE PREPARED IN ACCORDANCE WITH
12 THE CONTROLLER'S OFFICE REQUIREMENTS FOR ACCEPTABILITY
13 IN TERMS OF ALL OTHER STATE AGENCIES AS WELL.

14 IN ADDITION, EVERY REQUEST FOR PAYMENT IS
15 AUDITED BY THE AUDITS OFFICE OF THE STATE CONTROLLER
16 PRIOR TO ISSUING THE WARRANT. SO WE HAVE TO GO THROUGH
17 THE SAME PROCESS FOR ALL OF THAT THAT EVERYBODY ELSE
18 DOES. DEPARTMENT OF GENERAL SERVICES IS COMPLETELY IN
19 CHARGE OF ALL SPACE ACQUISITION ACTIVITIES THAT WE
20 HAVE. BOTH OUR INITIAL EMERYVILLE OFFICE AS WELL AS
21 OUR FINAL HEADQUARTERS HERE IN SAN FRANCISCO WERE ALL
22 ACQUIRED UNDER THE PROCEDURES AND OVERSIGHT OF THE
23 DEPARTMENT OF GENERAL SERVICES.

24 IN ADDITION, ONE OF OUR MAIN PROCUREMENT
25 TOOLS IS THE CALCARD SYSTEM, A SYSTEM OF CREDIT CARDS

1 THAT ARE DELEGATED TO EACH DEPARTMENT TO USE TO BUY
2 SUPPLIES AND MATERIALS AND BOOKS AND THINGS LIKE THAT.
3 SO WE HAVE SET THAT UP AS WELL FOLLOWING THEIR
4 REQUIREMENTS AND PROCEDURES.

5 WITH REGARD TO THE DEPARTMENT OF FINANCE, WE
6 HAVE AN OBLIGATION TO PROVIDE BUDGET REPORTS AT THE
7 BEGINNING OF THE FISCAL YEAR THAT ARE USED IN PUTTING
8 TOGETHER THE GOVERNOR'S PROPOSED BUDGET AND AT THE END
9 OF EACH YEAR SHOWING THE EXPENDITURES AND DETAIL OF
10 INFORMATION ABOUT OUR FINANCIAL STATUS.

11 IN ADDITION, LIKE EVERY OTHER STATE AGENCY,
12 WE ARE REQUIRED TO GO TO THE DEPARTMENT OF FINANCE FOR
13 APPROVAL OF ALL OUT-OF-STATE AND OUT-OF-COUNTRY TRIPS
14 LIKE EVERY OTHER STATE AGENCY. AND THEN PROBABLY AT
15 LEAST AS IMPORTANT AS ANY OF THE OTHERS, THE STATE
16 TREASURER'S OFFICE IS THE LEAD AGENCY WITH REGARD TO
17 THE FINANCING COMMITTEE THAT IS GOING TO DEAL WITH OUR
18 GENERAL OBLIGATION BONDS. SO THERE ARE OTHER
19 NONFINANCIAL REQUIREMENTS THAT WE HAVE TO MEET SUCH AS
20 RECORDS RETENTION AND CERTAIN REPORTS TO THE PERSONNEL,
21 DPA, DEPARTMENT OF PERSONNEL ADMINISTRATION, ON HIRING
22 AND ON BILINGUAL CAPABILITIES IN OUR RECEPTIONIST'S
23 OFFICE AND THINGS LIKE THAT. TOO MANY TO MENTION HERE,
24 JUST TO GIVE YOU A SENSE THAT WE ARE BASICALLY UNDER
25 THE CONTROL AND FOLLOWING THE MANDATES REQUIRED OF US

1 BY THE MAJOR STATE CONTROL AGENCIES IN THE STATE OF
2 CALIFORNIA.

3 GOING TO THE SECOND PAGE, HOWEVER, I ALSO
4 WANTED TO SAY THAT THERE ARE CERTAIN PROVISIONS IN
5 PROPOSITION 71 THAT DO HAVE AN IMPACT ON OUR FINANCIAL
6 ACTIVITIES. I WANTED TO MENTION THOSE TO YOU AND GIVE
7 YOU A LITTLE BIT OF INFORMATION ABOUT HOW WE ARE
8 DEALING WITH THESE PARTICULAR ASPECTS.

9 FIRST OFF, AND BY THE WAY, UNDER TAB 1 I'VE
10 GIVEN YOU A COPY OF PROPOSITION 71. YOU PROBABLY HAVE
11 IT ALREADY, BUT JUST THOUGHT IT WOULD BE HELPFUL FOR
12 YOU. FIRST IS THAT UNDER THE CONSTITUTIONAL PROVISION,
13 THE FUNDING, WHICH IS BASICALLY ALL FUNDING ASSOCIATED
14 WITH, YOU KNOW, THE CIRM'S OPERATION, IS CONTINUOUSLY
15 APPROPRIATED, WHICH MEANS THAT THIS MONEY IS NOT -- WE
16 DO NOT HAVE TO GO THROUGH THE BUDGET PROCESS WITH
17 REGARD TO BEING INCLUDED IN THE STATE BUDGET BILL
18 THAT'S PASSED EACH YEAR. IN EFFECT, THE MONEY IS
19 AVAILABLE TO US TO EXPEND UNDER THE SUPERVISION AND
20 OVERSIGHT OF THE INDEPENDENT CITIZENS' OVERSIGHT
21 COMMITTEE, WHICH HAS MEMBERS THAT ARE APPOINTED BY ALL
22 OF THE MAJOR ELECTED OFFICERS IN THE STATE OF
23 CALIFORNIA.

24 WE ARE ALSO REQUIRED TO FOLLOW THE PROVISIONS
25 OF THE UC PUBLIC CONTRACT CODE, WHICH DEALS WITH

1 PROCUREMENT OF GOODS AND SERVICES AND, MOST
2 IMPORTANTLY, CONTRACTS. AND I'VE ACTUALLY UNDER TAB 2
3 GIVEN YOU A COPY OF THE TWO MAIN DOCUMENTS THAT UC PUTS
4 OUT TO DEAL WITH THESE, BUSINESS 34 AND BUSINESS 43,
5 WHICH CONTAINS ALL OF THEIR REQUIREMENTS WITH REGARD TO
6 PROCUREMENT THAT WE ARE REQUIRED TO FOLLOW.

7 IN ADDITION, UNDER THE CONSTITUTIONAL
8 PROVISION, THE 50 EMPLOYEES THAT ARE ALLOWED BY CIRM
9 ARE ALL EXEMPT FROM THE CIVIL SERVICE PROCESS, AND
10 COMPENSATION IS TO BE SET BY THE ICOC.

11 IN ADDITION, THE ICOC IS AUTHORIZED TO ACCEPT
12 DONATIONS, GIFTS, AND THINGS LIKE THAT FROM
13 ORGANIZATIONS THAT WILL HELP TO FURTHER THE OPERATIONS
14 OF CIRM. AND THE DOLBY GRANT IS ONE EXAMPLE OF THOSE
15 GIFTS.

16 IN ADDITION, THERE'S CERTAIN SPENDING LIMITS
17 THAT ARE IMPOSED ON THE BOND PROCEEDS, PARTICULARLY
18 WITH REGARD TO OPERATIONS, TO ENSURE THAT THE MAXIMUM
19 AMOUNT OF FUNDING THAT WE RECEIVE WILL GO TO GRANT
20 PROGRAMS, WHICH IS OBVIOUSLY THE MAIN ROLE OF CIRM.

21 AND THEN, FINALLY, THE FAOC ITSELF IS A BODY
22 UNLIKE BODIES THAT I'VE SEEN IN MY EXPERIENCE WITH
23 STATE SERVICE WITH REGARD TO STATE AUDITS. THERE ARE A
24 NUMBER OF STATE AUDITS THAT ARE REQUIRED OF STATE
25 AGENCIES, BUT TO HAVE AN AGENCY WITH AN ADVISORY

1 COMMITTEE LIKE THIS TO SET UP AND SPEND TIME LOOKING AT
2 IT AND REVIEWING IT AND PROVIDING FEEDBACK, I THINK
3 THAT'S VERY UNUSUAL.

4 IF YOU GO TO THE NEXT PAGE, AS I MENTIONED,
5 I'VE GIVEN YOU A COPY OF THE UC BUSINESS AND FINANCE
6 BULLETINS. I'VE ALSO GIVEN YOU A COPY OF THE CIRM
7 CONTRACT POLICY AND PROCEDURE WHICH SUMMARIZES THE
8 MATERIALS THAT ARE IN THIS DOCUMENT, THESE TWO
9 DOCUMENTS. IT'S NOT INTENDED TO BE A COMPLETE
10 RECITATION OF EVERYTHING THAT'S IN THERE. IT'S
11 BASICALLY TO GIVE THE EMPLOYEES IN CIRM AN
12 UNDERSTANDING THAT THERE ARE CERTAIN SPECIFIC CONTRACT
13 ACTIVITIES THAT THEY HAVE TO COMPLY WITH AND TO GET
14 THEM TO DIRECT THEIR QUESTIONS INTO THE OFFICE OF
15 ADMINISTRATION SO THAT WE CAN HELP THEM COMPLY WITH ALL
16 OF THESE REQUIREMENTS.

17 IN ADDITION, THAT POLICY AND PROCEDURE WAS
18 APPROVED BY THE ICOC AT A MEETING AT WHICH THEY ALSO
19 OUTLINED THOSE TYPES OF CONTRACTS THAT THEY RESERVE TO
20 THEMSELVES TO APPLY -- TO APPROVE AND WHICH ONES THEY
21 DELEGATED AWAY TO THE PRESIDENT.

22 I'VE ALSO GIVEN YOU A COPY OF OUR PROCEDURE
23 FOR REVIEW AND APPROVAL OF ALL OF THE DIFFERENT TYPES
24 OF EXPENDITURES THAT WE HAVE, TRAVEL CLAIMS, CONTRACT
25 INVOICES, YOU KNOW, TIME SHEETS, ALL OF THAT KIND OF

1 THING. AND I SHOULD SAY THAT IF YOU GO INTO ANY OTHER
2 STATE AGENCY, YOU WILL FIND DOCUMENTS JUST LIKE THAT
3 THAT LAY OUT THE PROCESS BY WHICH THESE EXPENDITURES
4 ARE TO BE REVIEWED AND APPROVED PRIOR TO SUBMITTING
5 THEM TO THE CONTROLLER'S OFFICE FOR PAYMENT.

6 AS I MENTIONED, THE PRIMARY VEHICLE FOR
7 PURCHASING IN THE CIRM IS THE CALCARD SYSTEM. THERE IS
8 EXTENSIVE GENERAL SERVICES MATERIAL ON WHAT YOU CAN
9 PURCHASE, WHAT YOU CANNOT PURCHASE. ALL OF STAFF
10 ASSIGNED CALCARDS HAVE BEEN TRAINED IN THOSE
11 PROCEDURES. AND IN ADDITION, THIS LAYS OUT THE
12 SPECIFICS OF WHO GETS TO APPROVE EITHER THE RECEIPT OF
13 GOODS AND SERVICES AND WHO GETS TO -- AND IS CHARGED
14 WITH THE RESPONSIBILITY FOR APPROVING THE PAYMENT.

15 SO ESSENTIALLY THIS IS HOW WE HAVE
16 IMPLEMENTED IT. WE'VE WRITTEN DOWN ALL OF OUR
17 PROCEDURES. WE'VE TRAINED OUR EMPLOYEES, AND THAT'S
18 HOW WE'RE DOING IT.

19 WITH REGARD TO COMPENSATION, AS I MENTIONED,
20 UNDER PROPOSITION 71, THE ICOC IS AUTHORIZED TO SET
21 COMPENSATION. PROPOSITION 71 ALSO SAYS THAT THAT
22 COMPENSATION IS TO BE SET BASED UPON SALARIES IN THE UC
23 MEDICAL SCHOOLS AND IN NONPROFIT ACADEMIC AND RESEARCH
24 INSTITUTIONS IN THE STATE OF CALIFORNIA. WHAT WE DID
25 IS WE HIRED A CONTRACTOR TO ACTUALLY CONDUCT A SURVEY

1 OF THESE TWO GROUPS OF AGENCIES TO FIND SALARY
2 INFORMATION FOR ALL OF THE VARIOUS POSITIONS THAT WE
3 HAD IN RELATIONSHIP TO COMPATIBLE POSITIONS IN THEIR
4 ORGANIZATION. WE ALSO MADE SURE TO EXCLUDE THINGS LIKE
5 BONUSES, INCENTIVES, ALLOWANCES SUCH AS HOUSING
6 ALLOWANCES OR ANY OF THAT KIND OF THING, SO THAT WE
7 COULD GET DOWN TO THE BASE SALARY, WHICH IS WHAT WE
8 WANTED TO DO.

9 I SHOULD SAY RIGHT NOW THAT, WHILE THE ICOC
10 CAN SET COMPENSATION, THEY DON'T SET BENEFITS. AND SO
11 ALL OF THE BENEFITS THAT OUR EMPLOYEES RECEIVE ARE THE
12 SAME BENEFITS THAT EVERY OTHER STATE AGENCY RECEIVES.

13 WE HAD THREE ICOC HEARINGS TO REVIEW AND
14 BASICALLY SUPPLEMENT THE RESULTS, THE TWO HEARINGS BY
15 THE GOVERNANCE COMMITTEE, WHICH OVERSEES OUR
16 OPERATIONS, AND A FINAL HEARING BY THE ICOC AT WHICH
17 THE FINAL COMPENSATION PROGRAM WAS APPROVED. AND I
18 HAVE GIVEN YOU A COPY OF BOTH THE LAST SPREADSHEET THAT
19 WE PRESENTED TO THE ICOC SO YOU CAN SEE ALL OF THE
20 VARIOUS SOURCES OF INFORMATION THAT WE PUT TOGETHER AND
21 A SHEET THAT SUMMARIZES THE COMPENSATION BY POSITION.

22 I SHOULD SAY THAT IN THE RUN-UP BETWEEN THE
23 FIRST PRESENTATION, WHICH WAS STRICTLY BASED ON THE UC
24 MEDICAL SCHOOLS AND THE NONPROFIT ACADEMIC, WE ENDED UP
25 WITH SALARIES AND WAGES THAT WERE ANYWHERE FROM 6 TO 19

1 PERCENT LESS THAN THE ORIGINAL PROPOSAL. THE ICOC FELT
2 THAT THEY NEEDED TO HAVE SOME LESSER AMOUNTS WITH
3 REGARD TO THOSE THINGS. AND I SHOULD ALSO SAY THAT WE
4 DO COMPETITIVE RECRUITMENTS ON ALL OF OUR POSITIONS
5 NOW, AND I WOULD SAY THAT THE FACT THAT ALL OF OUR
6 HIRES BEFORE THE COMPENSATION PLAN WAS ABLE TO BE PUT
7 INTO PLACE ENDED UP THAT EVERYBODY WHO WAS IN A
8 POSITION THAT WAS COMPARABLE TO THE POSITION THAT WE
9 HAD THE SALARY RANGE FOR HAPPENED TO END UP IN THAT
10 RANGE. SOME WERE AT THE HIGH LEVEL, SOME WERE AT THE
11 LOW LEVEL, SOME WERE IN BETWEEN, BUT CERTAINLY IT WAS A
12 VERY GOOD INDICATION THAT THE HIRES THAT WE HAD TO MAKE
13 AT THE BEGINNING BEFORE WE HAD THIS WERE CONSISTENT
14 WITH WHAT ULTIMATELY BECAME OUR COMPENSATION PROGRAM.

15 WITH REGARD TO DONATIONS, ICOC IS AUTHORIZED
16 TO ACCEPT BOTH REAL AND PERSONAL PROPERTY. WE'VE HAD
17 THREE DONATIONS TO DATE. THERE'S THE DOLBY FAMILY
18 FOUNDATION I MENTIONED. WE RECEIVED \$50,000 FROM
19 RICHARD K. ROBBINS, AND WE RECEIVED ANOTHER \$350,000
20 FROM THE RICHARD AND GOLDA GOLDMAN FOUNDATION. AFTER
21 THESE INITIAL RECEIPTS THAT WERE VOTED ON BY THE ICOC
22 IN OPEN SESSION, THE ICOC ACTUALLY ADOPTED A POLICY AND
23 PROCEDURE WITH REGARD TO THE RECEIPT OF GIFTS, AND
24 THAT'S UNDER TAB 7. AND THAT ONE BASICALLY LAYS OUT
25 SOME DELEGATIONS THAT THEY AGREED TO MAKE TO THE

1 PRESIDENT AND THE EXECUTIVE COMMITTEE FOR RECEIPT OF
2 CERTAIN DONATIONS, BUT IT ALSO LAYS OUT THE SPECIFIC
3 REPORTS THAT HAVE TO COME BACK TO THE ICOC FOR
4 DONATIONS THAT THEY ARE AUTHORIZED TO ACCEPT, PLUS IT
5 STILL LEAVES CERTAIN MAJOR GIFTS, LIKE REAL PROPERTY
6 AND GIFTS OVER A CERTAIN AMOUNT, TO BE LEFT TO THE ICOC
7 TO MAKE THAT FINAL DECISION.

8 IT ALSO CONTAINS PROHIBITIONS TO ENSURE THAT
9 WE DO NOT TAKE DONATIONS FROM AGENCIES THAT ARE NOW OR
10 COULD BE IN THE FUTURE A RECIPIENT OF A GRANT
11 ASSOCIATED WITH OUR GRANT PROGRAMS. SO THAT POLICY IS
12 IN PLACE AND IS IN OPERATION RIGHT NOW.

13 WITH REGARD TO THE SPENDING LIMITS ON BOND
14 PROCEDURES, UNDER TAB 8 WE'VE GIVEN YOU A VERBAL
15 LISTING OF, YOU KNOW, THE VARIOUS PROVISIONS IN
16 PROPOSITION 71 AND HOW THEY INTERACT WITH EACH OTHER TO
17 TAKE A DOLLAR OF BOND PROCEEDS AND WORK THEIR WAY DOWN
18 TO HOW THEY GET DIVIDED UP. WE'VE SUMMARIZED THE
19 ACTUAL CALCULATION ON PAGE 7 HERE. BASICALLY 3 PERCENT
20 OF THE TOTAL PROCEEDS, AND I SHOULD SAY THAT'S UP TO 3
21 PERCENT OF THE TOTAL PROCEEDS, MAY BE USED FOR WHAT'S
22 CALLED GENERAL ADMINISTRATION. AND THAT'S, YOU KNOW,
23 YOUR GENERAL PURPOSE ACTIVITIES, THE OFFICE OF
24 ADMINISTRATION, THE MAIN SUPERVISORS, THAT KIND OF
25 THING, THE THING THAT MOST ORGANIZATIONS HAVE EXPENSES

1 FOR.

2 THE NEXT ITEM THAT GETS TAKEN OFF THE TOP IS
3 THE COSTS ASSOCIATED WITH BOND ISSUANCE COSTS AND
4 INTEREST. THAT'S THE CAPITALIZED INTEREST FOR THE
5 FIRST FIVE YEARS, WHICH IS ALL DEFERRED TO ENSURE THAT
6 THE GENERAL FUND DOES NOT HAVE TO DEAL WITH INTEREST
7 COSTS UNTIL AFTER FIVE YEARS.

8 THE NEXT THING IS THAT UP TO 3 PERCENT OF THE
9 PROCEEDS AFTER THAT IS AVAILABLE FOR WHAT WE CALL
10 GRANTS MANAGEMENT. AND THIS IS THE SCIENCE PART OF OUR
11 OPERATION DEALING WITH THE APPLICATION, REVIEW,
12 OVERSIGHT OF ALL OF OUR GRANTS PROGRAMS, AS WELL AS ANY
13 OF THE SCIENCE ACTIVITIES THAT WE ENGAGE IN,
14 CONFERENCES AND THAT KIND OF THING.

15 THE REMAINDER IS THAT AT LEAST 90 PERCENT
16 GOES FOR PURE RESEARCH GRANTS. AND THEN THE REMAINDER
17 FALLS IN AND IS AVAILABLE TO CONDUCT RESEARCH. NOW, IN
18 TAB 8 I'VE GIVEN YOU A SPECIFIC SHOWING OF HOW THIS
19 WOULD BE PLAYED OUT SPECIFICALLY FOR THE \$45 MILLION IN
20 BAN'S THAT WE EXPECT TO HAVE IMPLEMENTED, ISSUED THIS
21 YEAR. AND IN A SENSE, YOU KNOW, ALL OF THE SAME
22 REQUIREMENTS TO THAT INTERIM DEBT WILL APPLY TO THE
23 BOND FUNDING AS WELL. SO IT'S JUST KIND OF AN EXAMPLE
24 SO YOU CAN SEE HOW THESE CALCULATIONS ACTUALLY FLOW
25 OUT. BUT I SHOULD ALSO SAY THAT THESE THINGS ARE --

1 THE EXAMPLE IS GIVEN AS AN ABSOLUTE, BUT 3 PERCENT IS
2 BEING USED FOR PROCEEDS FOR ADMIN WHEN, IN FACT, IT'S
3 ONLY UP TO 3 PERCENT. AND OUR ABILITY TO EXPEND THAT
4 GOES TO THE BUDGET THAT WE HAVE TO PROVIDE TO THE ICOC
5 FOR OUR EXPENDITURES.

6 SO, YOU KNOW, WHILE THAT'S LISTED AS KIND OF
7 AN ABSOLUTE, THE REAL DECISION ABOUT HOW MUCH OF THIS
8 GETS SPENT WILL DEPEND UPON OUR BUDGET THAT WE GIVE TO
9 GET APPROVED BY THE ICOC.

10 AND THEN I THOUGHT IT WOULD BE GOOD, I TOLD
11 YOU WHAT THE SOURCES OF FUNDS WERE FOR THE FIRST YEAR;
12 BUT AS A PREVIEW AND WHY I THINK OUR ISSUE WITH REGARD
13 TO GILBERT WAS SO IMPORTANT THAT WE GET THAT RESOLVED
14 AND MOVE ON, IT IS GOING TO GET A LITTLE MORE
15 COMPLICATED IN THE SECOND YEAR. FOR THE YEAR THAT
16 ENDED JUNE 30TH, 2006, WE STILL HAVE SOME MONEY LEFT
17 OVER FROM THE START-UP LOAN AND THE DOLBY GRANT. WE
18 ALSO RECEIVED \$14 MILLION IN BAN'S. AND WE ALSO
19 RECEIVED 400,000 IN DONATIONS THAT I MENTIONED EARLIER.

20 IT'S GOING TO GET EVEN MORE COMPLICATED,
21 ALTHOUGH IN THIS CASE COMPLICATION IS A GOOD THING,
22 THAT IN THE CURRENT YEAR, WE STILL HAVE ACTUALLY A
23 LITTLE BIT OF MONEY FROM THE START-UP LOAN, THE DOLBY
24 GRANT. WE EXPECT TO SELL ANOTHER 31 MILLION IN BAN'S
25 OR ACTUALLY THE TREASURER'S OFFICE WILL SELL THE \$31

1 MILLION IN BAN'S. WE ARE HOPING TO ACTUALLY CLOSE THAT
2 THIS MONTH AND ACTUALLY BE ABLE TO HAVE ACCESS TO THAT
3 MONEY.

4 AND YOU PROBABLY HAVE ALL HEARD ABOUT THE
5 \$150 MILLION LOAN FROM THE GENERAL FUND THAT THE
6 GOVERNOR AUTHORIZED. THIS WILL ACTUALLY REQUIRE A
7 MEETING OF THE FINANCING COMMITTEE, AND I KNOW THAT
8 THAT IS BEING SET UP AS RAPIDLY AS POSSIBLE. MY
9 EXPECTATION IS THAT IT PROBABLY WILL BE SET UP SOMETIME
10 IN EARLY OCTOBER, AND THEN WE WILL BE ABLE TO HAVE
11 ACCESS TO THAT FUNDING.

12 IN ADDITION, WE'RE EXPECTING SOME MORE
13 DONATIONS. THERE WAS A FUND-RAISING GALA HELD IN SAN
14 FRANCISCO BY THE SAN FRANCISCO COMMUNITY FOUNDATION,
15 AND WE'RE EXPECTING TO GET SOME PROCEEDS FROM THAT.
16 AND WE ACTUALLY HAVE TWO STOCK DONATIONS THAT HAVE BEEN
17 PROMISED TO US, AND THE SALE OF THAT WILL BRING IN SOME
18 MORE MONEY AS WELL. SO THOSE ARE OUR FUNDING SOURCES.

19 THE ONLY THING ABOUT THE \$150 MILLION LOAN
20 THAT I THOUGHT YOU SHOULD KNOW IS THAT THIS WILL ALSO
21 BE SUBJECT TO THE SAME SPENDING LIMITATIONS THAT THE
22 BONDS WILL WITH REGARD TO THE LIMITS ON ADMINISTRATIVE
23 EXPENSES, SO WE HAVE TO COMPLY WITH THAT. AND
24 OBVIOUSLY, SINCE IT'S NOT A BOND OR A BAN, THERE'S NO
25 ISSUANCE COST. AND THE GOVERNOR'S OFFICE HAS INDICATED

1 THAT THEY WOULD PREFER THAT THIS MONEY NOT BE USED FOR
2 BUILDING CONSTRUCTION, WHICH IS UNDER THE FACILITIES
3 COMPONENT THAT WE PROVIDE.

4 SO WE'RE READY TO SEE HOW BASICALLY WE USE
5 ALL OF THIS RESOURCES AND THINGS LIKE THAT IN CARRYING
6 OUT OUR OPERATIONS FOR OPERATIONS AS WELL AS GRANT
7 PROGRAMS. AND SO THE NEXT SLIDES ARE GOING TO TALK
8 ABOUT THE SPECIFICS OF OUR OPERATING COST PROGRAM. AND
9 THEN WE'LL TALK ABOUT THE GRANTS PROGRAM, AND AT THAT
10 POINT IT WILL BE YOUR TURN TO ASK ANY QUESTIONS THAT I
11 CAN HOPEFULLY ANSWER FOR YOU.

12 FIRST OFF, I THINK IT'S IMPORTANT TO REMEMBER
13 OF ALL THIS MONEY, WHAT CAN BE USED FOR OPERATING
14 COSTS? WELL, FOR BAN'S AND FOR GENERAL FUND LOANS,
15 KEEP IN MIND THAT AT SOME POINT IN TIME, THIS IS GOING
16 TO BE PAID OFF BY BOND MONEY. SO WE ARE PLEDGED TO USE
17 THIS MONEY IN THE SAME WAY THAT WE WOULD USE BOND
18 MONIES. AND THAT MEANS MAKING SURE THAT WE KEEP TRACK
19 OF WHICH COSTS ARE GENERAL ADMINISTRATION, WHICH COSTS
20 ARE GRANTS MANAGEMENT, WHICH COSTS ARE RESEARCH GRANTS
21 SO THAT WHEN THE BONDS ACTUALLY ARE PAID OFF, ALL OF
22 OUR ACCOUNTING IS ALREADY SET UP IN THE PROPER PLACE
23 FOR THE BONDS. SO ESSENTIALLY THE BAN'S AND ALL
24 GENERAL FUND LOANS ARE AVAILABLE TO FUND THOSE COSTS.

25 THERE IS ONE KIND OF UNIQUE ISSUE HERE, AND I

1 MENTIONED IT UNDER RESEARCH GRANTS, THAT BASICALLY
2 THERE'S A PROVISION IN THE PROPOSITION 71, AND I'VE
3 INCLUDED A COPY OF IT AS TAB 10, WHICH INDICATES THAT
4 OUR LEGAL COSTS ARE TO BE PAID FROM RESEARCH FUNDING.
5 IT'S A PROVISION THAT WAS PUT IN PLACE TO TRY AND HELP
6 US DEAL WITH WHAT WE EXPECTED WOULD BE A LARGE LEGAL
7 CHALLENGE TO US, AND IT HAS, IN FACT, PROVED TO BE VERY
8 HELPFUL IN MAKING SURE THAT WE CAN BOTH MEET THAT LEGAL
9 CHALLENGE AS WELL AS TAKE CARE OF OUR OPERATING COSTS.

10 WE ALSO HAVE ACCESS TO THE DOLBY MONEY, WHICH
11 IS SUPPOSED TO BE USED FOR OPERATING COSTS. THERE ARE
12 SOME LIMITS. I DID ACTUALLY PUT UNDER TAB 11 A COPY OF
13 THE DOLBY GRANT, THE MATERIALS ASSOCIATED WITH IT,
14 WHICH ARE VERY EQUIVALENT TO ALL THE TYPES OF DOCUMENTS
15 THAT WE HAVE FOR ALL OF OUR GIFTS OR DONATIONS THAT ARE
16 RECEIVED.

17 WITH REGARD TO OTHER DONATIONS, GENERALLY THE
18 400,000 I MENTIONED EARLIER, GENERALLY YOU CAN USE
19 THESE FOR PRETTY MUCH ANY COST THAT YOU WANT; HOWEVER,
20 WE HAVE AGREED TO DIRECT THESE FUNDS TO FURTHER OUR
21 SCIENTIFIC PROGRAM. AND, IN FACT, THEY ARE BASICALLY
22 BEING USED TO FUND THE STRATEGIC PLAN EFFORT THAT'S
23 REQUIRED TO LAY OUT THE EXPECTATIONS FOR OUR GRANT
24 PROGRAM OVER THE LIFE OF THE INSTITUTE.

25 WITH REGARD TO ACCOUNTING AND BUDGETING,

1 WE'VE ACTUALLY SET UP, THROUGH THE ACCOUNTING OFFICE OF
2 THE CONTROLLER'S, AN ACCOUNTING SYSTEM THAT CODES ALL
3 EXPENDITURES IN THREE CATEGORIES. ONE IS BY COST
4 CENTER, AND TAB 12 GIVES YOU A DESCRIPTION OF THE FOUR
5 COST CENTERS THAT CIRM HAS IN ITS OPERATION. WE MAKE
6 THIS CATEGORIZATION TO ENSURE THAT EACH OF THE CENTERS
7 UNDERSTANDS THAT IT'S RESPONSIBLE AND ACCOUNTABLE FOR
8 THEIR OWN EXPENDITURES. AND BY CHARGING THE
9 EXPENDITURES THAT THEY AUTHORIZE TO THEM AND LAYING IT
10 OUT FOR THEM, IT ENSURES THAT WE HAVE THAT
11 ACCOUNTABILITY.

12 IN ADDITION, THE COSTS GET ALLOCATED BY TYPE
13 OF COST. I'VE GIVEN YOU A COPY OF THE CHART OF
14 ACCOUNTS IN TAB 13 THAT LAYS OUT ALL OF VARIOUS TYPES
15 OF EXPENDITURES THAT WE HAVE, PARTICULARLY THE ONES
16 THAT ARE UNIQUE TO US, SUCH AS THE ICOC MEETINGS, THE
17 WORK GROUP MEETINGS, SCIENTIFIC CONFERENCES, AND THINGS
18 LIKE THAT THAT WE'RE INVOLVED IN.

19 AND FINALLY BY FUND SOURCE. AND I'VE GIVEN
20 YOU A COPY OF OUR CODING DOCUMENT, WHICH ACTUALLY
21 INCLUDES A BREAKDOWN OF THE VARIOUS FUNDS THAT ARE
22 AVAILABLE SO THAT WHEN WE SUBMIT THIS FOR THE
23 ACCOUNTING OFFICE, IT TELLS THEM WHERE TO DEAL WITH
24 EACH OF THESE THREE CATEGORIES.

25 THERE'S A MONTHLY REPORT THAT TRACKS

1 EXPENDITURES BY THESE THREE CATEGORIES AND AGAINST THE
2 BUDGET THAT'S APPROVED BY THE ICOC.

3 AND IN TAB 15 I'VE GIVEN YOU A COPY OF THE
4 END-OF-YEAR REPORT FOR THE YEAR THAT ENDED JUNE 30TH OF
5 2006 SO THAT YOU CAN GET A SENSE OF HOW MUCH
6 INFORMATION IS AVAILABLE IN THAT REPORT.

7 AND THEN THE BUDGET ITSELF IS APPROVED BY THE
8 ICOC. AND IN TAB 16 I'VE GIVEN YOU A COPY OF THE
9 BUDGET THAT HAS RECENTLY BEEN APPROVED FOR THE CURRENT
10 YEAR BY THE ICOC FOR OUR OPERATIONS.

11 WITH REGARD TO MONITORING AND MAKING SURE
12 THAT THE PAYMENTS THAT WE AUTHORIZE ARE APPROPRIATE,
13 LIKE, AGAIN, MOST OTHER STATE AGENCIES, I SAY THAT A
14 LOT, BUT IT GOES BACK TO MY OWN EXPERIENCES IN MANY
15 STATE AGENCIES WITH CALIFORNIA, WE HAVE A SEPARATION OF
16 RESPONSIBILITIES. THAT'S THE FIRST RULE OF ANY
17 INTERNAL ACCOUNTABILITY PROGRAM. WE HAVE WRITTEN
18 DELEGATIONS OF AUTHORITY. DURING THE EARLY DAYS OF
19 THIS OPERATION, THE ONLY PERSONS AUTHORIZED TO APPROVE
20 EXPENDITURES WERE THE PRESIDENT AND THE CHIEF
21 ADMINISTRATIVE OFFICER. AS WE'RE GROWING, WE'RE NOW
22 EXPANDING THAT COST DELEGATION SO THAT THE COST CENTERS
23 ARE NOW AGAIN MORE RESPONSIBLE FOR MAKING DECISIONS ON
24 THEIR OWN.

25 AND THERE'S A DOUBLE APPROVAL OF ALL

1 EXPENDITURES, AND I SHOWED YOU IN TAB 8 A COPY OF THE
2 STAMP THAT IS NEAR AND DEAR TO EVERY STATE EMPLOYEE
3 WHO'S EVER HAD TO APPLY AND APPROVE AN EXPENDITURE. IN
4 ONE WAY OR ANOTHER THIS STAMP IS ON EVERY EXPENDITURE
5 THAT WE MAKE. SOMEBODY HAS TO APPROVE THE RECEIPT OF
6 THE GOODS AND SERVICES, AND A SECOND PERSON, USUALLY
7 THAT PERSON'S SUPERVISOR, HAS TO APPROVE THE PAYMENT OF
8 THE EXPENSES ASSOCIATED WITH THAT.

9 IN ADDITION, THE MONTHLY REPORT THAT I
10 MENTIONED EARLIER BASICALLY GIVES THE SENIOR MANAGEMENT
11 STAFF THE INFORMATION THAT THEY NEED TO TRACK
12 EXPENDITURES IN THEIR OWN SHOP AND BE SURE THAT THEY'RE
13 OPERATING PROPERLY.

14 SO THAT'S OUR OPERATIONS. AND OBVIOUSLY I
15 SPENT A LOT OF TIME ON IT BECAUSE, TO A CERTAIN EXTENT,
16 THAT'S THE ONLY THING THAT'S INCLUDED IN THE FIRST
17 AUDIT THAT YOU HAVE. THE SECOND AUDIT OBVIOUSLY WILL
18 INCLUDE GRANTS. AND I'M SURE YOU'RE INTERESTED IN WHAT
19 ARE WE DOING IN THE SAME AREAS WITH REGARD TO GRANTS.
20 AND SO I'M GIVING YOU THAT INFORMATION EVEN THOUGH YOU
21 DON'T REALLY HAVE ANY GRANT PROGRAMS NECESSARILY IN
22 FRONT OF YOU WITH REGARD TO THE AUDIT THAT WE TALKED
23 ABOUT EARLIER, BUT I THINK IT'S A GOOD WAY TO KIND OF
24 GET YOU PREPARED FOR THE NEXT AUDIT THAT YOU ARE GOING
25 TO GET SHORTLY TO UNDERSTAND THAT.

1 THE FUNDING SOURCES THAT WE HAVE CURRENTLY
2 FOR GRANT PROGRAMS ARE REALLY TWO. THERE'S THE BAN
3 MONEY AFTER WE TAKE OFF THE ADMINISTRATIVE COSTS AND
4 THE \$150 MILLION LOAN. THAT'S HOW WE'RE GOING TO PAY
5 FOR OUR PROGRAMS.

6 WITH REGARD TO ACCOUNTING AND BUDGETING, THE
7 BUDGET IS ACTUALLY GOING TO BE TIED TO THE SCIENTIFIC
8 STRATEGIC PLAN THAT IS CURRENTLY IN DEVELOPMENT. AND
9 IN TAB 19 I'VE GIVEN YOU A COPY OF THE PLAN THAT DEALS
10 WITH THE DEVELOPMENT OF THAT PLAN, WHICH INCLUDES 13
11 PUBLIC MEETINGS TO GATHER AND REVIEW INPUT ON THIS
12 PLAN. THE SCIENTIFIC STRATEGIC PLAN WILL DEAL WITH NOT
13 ONLY JUST THE TYPES OF PROGRAMS THAT ARE TO BE
14 CONSIDERED FOR FUNDING OVER THE LIFE OF THE INSTITUTE,
15 BUT IT WILL ALSO TRY TO INDICATE HOW MUCH MONEY IS
16 AVAILABLE AND WHEN IT SHOULD BE SPENT AND HOW IT WOULD
17 BE SPENT AND THAT AS WELL. SO IT DOES HAVE A FINANCIAL
18 ASPECT TO IT.

19 IN THE MEANTIME WE HAVE ACTUALLY ISSUED
20 GRANTS LAST YEAR, AS STEVE MENTIONED EARLIER. AND
21 ESSENTIALLY, EVEN THOUGH WE DIDN'T HAVE A STRATEGIC
22 PLAN IN PLACE AT THAT POINT, WE WENT THROUGH THE SAME
23 PROCESS OF APPROVAL THAT WE WILL GO THROUGH FOR THE
24 STRATEGIC PLAN, WHICH IS THAT WE IDENTIFIED EARLY ON
25 THE NEED TO INCREASE THE NUMBER OF STUDENTS GRADUATING

1 FROM CALIFORNIA EDUCATIONAL INSTITUTIONS THAT ARE
2 QUALIFIED TO ENGAGE IN STEM CELL RESEARCH SO THAT WHEN
3 THE GRANTS GO OUT, WE HAVE PEOPLE THERE WHO CAN
4 ACTUALLY WORK ON THE PROGRAMS.

5 I SHOULD SAY THAT IT APPEARS THAT THIS NEED
6 IS PRETTY MUCH BEING VERIFIED BY THE DATA THAT WE'VE
7 RECEIVED TO DATE THROUGH THE MEETINGS THAT WE'VE HAD ON
8 THE STRATEGIC PLAN. ESSENTIALLY THE ICOC RECOGNIZED
9 THAT AND APPROVED IT. IN FACT, THEY APPROVED THAT
10 PART, FIRST STEP ON THE STRATEGIC PLAN, BY APPROVING
11 THAT. THEY APPROVED A BUDGET FOR CIRM TO RELEASE AN
12 RFP FOR A TRAINING GRANT PROGRAM. THE ICOC THEN
13 APPROVED THE FUNDING FOR THE 16 GRANTEE INSTITUTIONS
14 THAT THE CONTROLLER MENTIONED EARLIER. AND AFTER THE
15 FUNDS FROM THE \$14 MILLION BAN SALE, THE FIRST YEAR OF
16 FUNDING WAS ISSUED TO THESE GRANTEES.

17 IN TAB 20 IT CONTAINS A COPY OF THE DOCUMENT
18 THAT WE SUBMITTED TO THE CONTROLLER'S OFFICE REQUESTING
19 PAYMENT. AND YOU WILL NOTICE THAT IT HAS THE SAME
20 DOUBLE SIGNATURE. DR. ARLENE CHIU SIGNED OFF
21 INDICATING THAT THIS WAS APPROPRIATE AND READY TO BE
22 PAID. I SIGNED OFF AS THE AUTHORIZATION OF PAYMENT.
23 AND YOU ALSO SEE THE ACCOUNTING OFFICE SIGNING OFF,
24 SAYING THAT THE WARRANTS HAVE BEEN ISSUED AND WHEN. SO
25 THE SAME TYPE OF ACTIVITY CONTROL THERE.

1 AND THEN OUR ACCOUNTING SYSTEM ACTUALLY
2 TRACKS THE GRANT PAYMENTS TO EACH GRANTEE INSTITUTION
3 AND TO EACH GRANT SO THAT OUR ACCOUNTING SYSTEM WILL
4 SHOW HOW MUCH MONEY HAS BEEN SENT, FOR INSTANCE, TO THE
5 UNIVERSITY OF CALIFORNIA AT SAN FRANCISCO AND THIS
6 AMOUNT WAS SENT FOR A TRAINING GRANT, THIS AMOUNT WAS
7 SENT FOR THAT, AND THIS AMOUNT WAS SENT FOR THAT. SO
8 WE HAVE A WAY OF TRACKING THAT.

9 WITH REGARD TO FINANCIAL MANAGEMENT, THAT
10 EACH GRANTEE IS BASICALLY ISSUED OR APPROVED GRANTEE, I
11 SHOULD SAY, IS ISSUED A NOTICE OF GRANT AWARD. AND
12 THIS GRANT AWARD CONTAINS THE TERMS, INCLUDING
13 COMPLIANCE WITH ALL PROVISIONS OF WHAT'S CALLED THE
14 GRANTS ADMINISTRATION POLICY OR THE GAP, ANY CONDITIONS
15 OF THE AWARD, AND A PROPOSED PAYMENT SCHEDULE. AND I
16 DO HAVE AN EXAMPLE OF ONE OF THOSE NGA'S ATTACHED UNDER
17 TAB 20 TO THE DOCUMENT THAT WE SENT TO THE CONTROLLER'S
18 OFFICE FOR PAYMENT.

19 I SHOULD SAY THE GAP ACTUALLY CONTAINS
20 EXTENSIVE FINANCIAL PROVISIONS TO ENSURE THAT ALL
21 EXPENDITURES ARE MADE IN ACCORDANCE WITH THE CONDITIONS
22 IN THE GRANT AWARD, THE APPROVED BUDGET, THE GAP
23 ITSELF, AND THE TERMS OF THE NOTICE OF GRANT AWARD.

24 NOW, I SHOULD SAY GAP WAS DEVELOPED USING
25 INPUT FROM A VARIETY OF SOURCES, AND CERTAINLY ONE OF

1 THOSE INPUTS THAT WAS USED EXTENSIVELY WAS THE INPUT
2 THAT WE RECEIVED FROM THE CONTROLLER AT ONE OF THE
3 EARLY MEETINGS INDICATING A NUMBER OF DIFFERENT SOURCES
4 OF PLACES THAT WE SHOULD LOOK AT TO TRY AND FIND, YOU
5 KNOW, INFORMATION THAT WE COULD USE FOR CONTROLLING OUR
6 EXPENDITURES. SO WE REALLY APPRECIATE THAT. THAT WAS
7 A GOOD FIRST START FOR US.

8 GAP ALSO CONTAINS SEVERAL SANCTIONS THAT CAN
9 BE IMPOSED FOR FAILURE TO COMPLY, ANYTHING FROM, YOU
10 KNOW, A REQUEST THAT, INSTEAD OF GETTING ADVANCES, THAT
11 THEY ONLY GET REIMBURSEMENTS ALL THE UP TO CANCELING
12 THE GRANT AWARD AND ALSO REFERRAL TO THE ATTORNEY
13 GENERAL'S OFFICE FOR ANY INSTANCES OF FRAUD THAT WE
14 FIND THROUGH OUR PROCESS.

15 AFTER THE SIGNATURE OF THE GRANT AWARD BY THE
16 GRANTEE, THEN THE FIRST PAYMENT IS ISSUED TO THEM FOR
17 THE FIRST YEAR. AS IT HAPPENS IN THE TRAINING GRANTS,
18 THESE ARE THREE-YEAR GRANTS, SO THE FIRST YEAR HAS BEEN
19 ISSUED. AND THEN ANNUAL AWARDS ARE MADE IN THREE
20 SEPARATE PAYMENTS. NOW, I SHOULD SAY THAT THE TAB 22,
21 WHICH SHOWS THE PAYMENT SCHEDULE FOR THE TRAINING
22 GRANTS AWARD, SHOW THAT THE FIRST YEAR OF PAYMENTS,
23 INSTEAD OF DOING THREE PAYMENTS PER YEAR, WE ACTUALLY
24 SUBMITTED THE ENTIRE PAYMENT AT ONCE RIGHT AFTER WE
25 WERE ABLE TO GET THE FUNDING FOR IT. WE DID THAT

1 BECAUSE, IN ALL HONESTY, WE WERE WORRIED ABOUT POSSIBLE
2 LITIGATION THAT MIGHT BE FILED TO HOLD UP THE SECOND
3 PAYMENT. AND IT SEEMED LIKE IF WE SENT THE FIRST
4 PAYMENT OUT AND THEN THE SECOND PAYMENT GOT HELD UP OR
5 DELAYED, THEN WE WERE JUST SORT OF WASTING EVERYBODY'S
6 MONEY BECAUSE THE UNIVERSITIES AND PEOPLE WOULD BE A
7 LITTLE BIT RELUCTANT TO SPEND PART OF IT AND NOT BE
8 ABLE TO -- BE DELAYED IN ALL OF THAT. SO IT'S NOT
9 SOMETHING WE NECESSARILY LIKE TO DO OR WANT TO DO, AND
10 CERTAINLY OUR COMMITMENT IS TO GO WITH THE PROCESS THAT
11 WE HAVE LAID OUT IN THIS DOCUMENT, WHICH IS TO HAVE
12 THREE SEPARATE PAYMENTS DURING THE YEAR TO MAKE SURE
13 THAT WE ARE HOLDING ON TO FUNDS THAT AREN'T REALLY
14 NECESSARY TO BE USED.

15 WITH REGARD TO MONITORING, THE GAP DOES
16 REQUIRE TWO SEPARATE ANNUAL REPORTS. THERE'S ONE TO
17 TRACK THE PROGRAM PROGRESS, AND THEN THERE'S ANOTHER TO
18 TRACK THE STATUS OF FINANCIAL EXPENDITURES. IN
19 ADDITION, IT PROVIDES FOR FOLLOW-UPS, INCLUDING ON-SITE
20 REVIEWS, TO BE SCHEDULED WHENEVER DEEMED NECESSARY TO
21 DO SO. FOR THE TRAINING GRANT PROGRAM, WE ACTUALLY
22 HAVE THREE ADDITIONAL OVERSIGHT THINGS THAT WE'VE PUT
23 IN PLACE. ONE IS A TRAINEE APPOINTMENT FORM, AND
24 THAT'S IN TAB 23, A COPY OF THAT. AND WHAT THIS DOES
25 IS THAT AS THEY APPOINT SCHOLARS TO THE PROGRAM, THE

1 UNIVERSITIES ARE SUPPOSED TO SEND US THIS FORM SO THAT
2 WE KNOW THAT THEY ARE MEETING THEIR COMMITMENT TO PUT A
3 CERTAIN NUMBER OF PEOPLE INTO THESE PROGRAMS. SO WHILE
4 WE WON'T GET INTO WHO THEY SELECT, WE CAN AT LEAST BE
5 ASSURED THAT THEY'RE ACTUALLY MOVING ALONG AND GETTING
6 THE RIGHT LEVEL OF STUDENTS INTO THEIR PROGRAM ON A
7 TIMELY BASIS.

8 IN ADDITION, WE HAVE HAD A MEETING OF ALL THE
9 GRANTEE INSTITUTIONS WHICH HAS BEEN HELD FOR ORAL
10 PRESENTATIONS FROM THEM ABOUT THEIR PROGRESS AND
11 RECRUITMENT OF TRAINEES AND TO REVIEW THE REQUIREMENTS,
12 ONCE AGAIN, ANSWER ANY QUESTIONS, AND ALSO TO ENCOURAGE
13 COLLABORATION. AND WE AGREE WITH YOU, MR. WESTLY, THAT
14 COLLABORATION IS THE HEART AND SOUL OF A LOT OF WHAT
15 WE'RE GOING TO BE DOING HERE. SO IT'S ONE OF THE
16 THINGS, PARTICULARLY IN THIS AREA, WE'RE EMPHASIZING.

17 IN ADDITION, WE ALSO INTEND TO HAVE AN ANNUAL
18 WHAT WE CALL CIRM SCHOLARS MEETING TO ENCOURAGE
19 COLLABORATION BETWEEN THEM, NOT JUST THE INSTITUTIONS,
20 BUT BETWEEN THESE UP-AND-COMING SCIENTISTS AND TO
21 ASSESS THEIR INDIVIDUAL AND GROUP PERSPECTIVES ABOUT
22 THEIR PROGRAMS AND THE PROGRAM AS A WHOLE.

23 SO ESSENTIALLY WE HAVE THE INSTITUTION GIVING
24 THEIR PERSPECTIVE AND THE SCHOLARS GIVING THEIR
25 PERSPECTIVE, AND WE BELIEVE THE TWO OF THOSE TOGETHER

1 GIVE THE KIND OF INFORMATION WITH ALL THE REST OF THAT.
2 THIS IS THE EXTENT OF OUR MONITORING PROGRAM FOR THE
3 TRAINING GRANTS. HOWEVER, I THINK WE ALL RECOGNIZE
4 THAT A MORE EXTENSIVE MONITORING EFFORT IS GOING TO BE
5 NEEDED FOR FUTURE RESEARCH GRANTS.

6 AND THAT GETS ME TO MY LAST PAGE, WHICH IS
7 THAT WE HAVE SOME THINGS THAT ARE IN PROGRESS.
8 CERTAINLY THE ONE MAJOR THING IN PROCESS IS TO DEVELOP
9 A MONITORING POLICIES AND PROCEDURES FOR ALL OF OUR
10 GRANTS PROGRAMS. AS I MENTIONED BEFORE, AGAIN, ONE
11 SOURCE OF IDEAS FOR THAT IS, AGAIN, SOME
12 RECOMMENDATIONS FROM THE CONTROLLER AT THE ICOC MEETING
13 THAT HE ATTENDED. BUT A KEY PART OF THIS IS ACTUALLY
14 AN AUTOMATED GRANTS MANAGEMENT SYSTEM. AND THE GRANTS
15 MANAGEMENT SYSTEM WILL BASICALLY ALLOW US TO TRACK
16 GRANT PROGRAMS ALL THE WAY FROM APPLICATION OR LETTER
17 OF INTENT, APPLICATION, ALL THE WAY THROUGH AWARD AND
18 REPORTS, AND WILL ALLOW US TO BASICALLY PRODUCE ANY
19 KIND OF REPORTS THAT WE WANT, YOU KNOW, BY GRANTEE, BY
20 PROGRAM, AND BY, YOU KNOW, THE AGENCY'S OVERALL
21 PROGRAMS ASSOCIATED WITH THIS.

22 WE'VE ACTUALLY SELECTED A VENDOR OR A
23 PROGRAM, I SHOULD SAY, CALLED EASY GRANTS, WHICH IS
24 ACTUALLY UTILIZED -- IT'S AN OFF-THE-COUNTER TYPE OF
25 PROGRAM WHICH IS ACTUALLY UTILIZED BY A NUMBER OF

1 GRANTEE AGENCIES. IT IS ADAPTABLE SO THAT WE CAN MAKE
2 SURE THAT IT APPLIES AND TAKES CARE OF OUR PROGRAMS.
3 WE HOPE TO BE ABLE TO HAVE THAT UP AND OPERATING
4 SOMETIME IN OCTOBER, AND THAT WILL THEN ALLOW US TO
5 INPUT ALL OF THE DATA THAT WE GET FROM THE NEXT ROUND
6 OF GRANTS THAT WE'RE INVOLVED IN RIGHT NOW AND USE THAT
7 IN OUR MONITORING PROGRAM. WE THINK THIS IS REALLY KEY
8 TO OUR PROGRAM.

9 WITH THAT, THAT'S THE END OF MY PRESENTATION,
10 AND I'M AVAILABLE FOR ANY QUESTIONS YOU HAVE.

11 CHAIRMAN WESTLY: TERRIFIC. WHAT I'D LIKE TO
12 DO HERE IS TO, FIRST, THANK WALTER BARNES FOR A
13 THOROUGH, EXHAUSTIVE REPORT. YOU'VE DONE A SUPER JOB.

14 (APPLAUSE.)

15 CHAIRMAN WESTLY: ITEM 5 IS RELATED TO A KEY
16 PART OF THE MEETING TODAY. WHAT I'D LIKE TO DO IS ASK
17 THE BOARD'S INDULGENCE TO TAKE QUESTIONS AND COMMENT
18 FROM THE PUBLIC FIRST. THERE ARE TWO MEMBERS OF THE
19 PUBLIC WHO HAVE ASKED TO SPEAK. THEN WHAT I'D LIKE TO
20 DO IS GIVE YOU A CHANCE TO ASK ANY QUESTIONS THAT YOU
21 MIGHT HAVE. AT THAT POINT, THOUGH, I WOULD LIKE TO ASK
22 FOR A FORMAL MOTION TO APPROVE THE TWO RECOMMENDATIONS
23 FROM GILBERT & ASSOCIATES AS WELL AS THE THREE
24 RECOMMENDATIONS FROM THE CONTROLLER'S STAFF, THAT WE
25 APPROVE THOSE FIVE RECOMMENDATIONS AS PART OF THE

1 CONTINUED OPERATING PROCEDURES.

2 WHAT I'D LIKE TO DO THEN IS JUST TAKE A BRIEF
3 TEN-MINUTE BREAK, GIVE PEOPLE A CHANCE TO USE THE
4 RESTROOM, COME BACK, AND WE'LL FINISH ITEMS 6, 7, AND 8
5 FAIRLY QUICKLY AFTER 11. I THINK WE CAN STILL GET DONE
6 BY NOON. WHAT I'D LIKE TO DO HERE, IF YOU WILL ALLOW
7 ME, IS TO ASK TWO MEMBERS OF THE PUBLIC TO COME
8 FORWARD. MR. JOHN SIMPSON AND, BOB KLEIN, IF YOU WOULD
9 BE WILLING TO BE ON DECK. MR. SIMPSON, IF YOU COULD
10 PLEASE IDENTIFY YOURSELF, AND I DO WANT TO REMIND YOU
11 YOU HAVE A THREE-MINUTE LIMIT.

12 MR. SIMPSON: JOHN SIMPSON FROM THE
13 FOUNDATION FOR TAXPAYER AND CONSUMER RIGHTS. I JUST
14 WANTED TO SPEAK VERY QUICKLY. WE WERE AMONG THOSE WHO
15 WERE VERY CONCERNED ABOUT THE FLAK WITH THE GILBERT
16 ASSOCIATES. AND WE'RE DELIGHTED TO SEE THAT YOU STUCK
17 BY YOUR GUNS AND DID THE RIGHT THING.

18 THERE WAS ONE LITTLE HOUSEKEEPING POINT THAT
19 I WANTED TO MENTION. FOR SOME REASON OR ANOTHER, THE
20 CONTROLLER'S REVIEW THAT GOT POSTED IN CONJUNCTION WITH
21 THIS MEETING ON YOUR WEBSITE DID NOT INCLUDE THE LETTER
22 EXPLAINING THE DIFFICULTIES. AND I'M DELIGHTED TO BE
23 ABLE TO REPORT THAT WHEN I POINTED THAT OUT TO STAFF,
24 IT WAS QUICKLY MADE AVAILABLE TO THE PUBLIC. THAT'S
25 THE KIND OF RESPONSIVENESS THAT IS A VERY GOOD THING,

1 AND WE APPRECIATE THAT.

2 CHAIRMAN WESTLY: THANK YOU, MR. SIMPSON. WE
3 WORK HARD TO ACCOMMODATE CONCERNS. EVERY NOW AND THEN
4 WE DO MISS SOMETHING, BUT WE TRY TO MOVE AS QUICKLY AS
5 WE CAN TO FIX IT.

6 MR. SIMPSON: THAT WAS GOOD TO SEE.

7 AND THE FINAL THING, I JUST WANTED TO MAKE
8 NOTE OF, I UNDERSTAND, I BELIEVE, THAT WALTER BARNES IS
9 RETIRING TOMORROW. AND IT IS THE CASE THAT THE
10 PROCEDURES THAT HAVE BEEN PUT IN PLACE THAT MAKE THIS
11 STATE AGENCY ACT LIKE A STATE AGENCY ARE VERY MUCH DUE
12 TO HIS HARD, HARD DEDICATED WORK. AND I WANTED TO
13 PUBLICLY ACKNOWLEDGE THAT, AND I WANTED TO SORT OF SAY
14 THAT FOLKS LIKE ME, WHO WATCHDOG THIS AGENCY,
15 APPRECIATE EVERYTHING HE'S DONE AND HIS SERVICE. AND
16 IT'S BEEN A PLEASURE TO WORK WITH HIM.

17 (APPLAUSE.)

18 MR. LOTT: MR. BARNES, I WAS GOING TO COMMENT
19 LATER. I DIDN'T KNOW YOU WERE RETIRING TOMORROW.

20 MR. BARNES: ACTUALLY TOMORROW IS MY LAST
21 ACTIVE DAY, BUT I HAVE SOME VACATION THAT I'M GOING TO
22 BE RUNNING OUT.

23 MR. LOTT: SPECIFYING WHAT THEY'RE DOING.
24 THIS WAS ONE OF THE MOST COGENT, RELEVANT, AND
25 IMPORTANT PIECES OF DOCUMENTATION THAT WE COULD HAVE

1 RECEIVED. I WANT TO THANK YOU FOR THAT. I THINK IT
2 WAS AN EXTREMELY FANTASTIC JOB YOU DID IN MAKING US,
3 WHO ARE UNEDUCATED ABOUT ALL WHAT'S GOING ON, YOU
4 PRESENTED IT IN A VERY COGENT AND VERY UNDERSTANDABLE
5 WAY. AND I'M SORRY YOU'RE LEAVING. I APPRECIATE WHAT
6 YOU DID FOR US UP TO NOW.

7 MR. BARNES: THANK YOU VERY MUCH. I SHOULD
8 SAY THAT I'VE BEEN VERY FORTUNATE TO HAVE EXCELLENT
9 COOPERATION BY EVERYBODY WHO'S BEEN HIRED IN CIRM. AND
10 AGAIN, I SHOUT OUT TO THE ACCOUNTING OFFICE AT THE
11 CONTROLLER'S OFFICE FOR THEIR ONGOING SUPPORT AND
12 ASSISTANCE AND LITTLE BIT OF OVERSIGHT AS WELL TO MAKE
13 SURE THAT WE'RE DOING ALL THE RIGHT THINGS.

14 MR. LOTT: THERE'S SOMETHING THAT SAYS THAT
15 THIS IS MORE IMPORTANT TO YOU THAN JUST A JOB.

16 MR. BARNES: THIS IS A -- THERE ARE PERSONAL
17 ISSUES ASSOCIATED WITH WHY I WANTED TO BE A PART OF
18 THIS.

19 MR. LOTT: I GOT THAT. I GOT THAT. YOU KNOW
20 WHAT, YOU KNOW, THAT'S WHAT WE NEED.

21 MR. BARNES: THANK YOU.

22 MR. LOTT: WE'RE GOING TO MISS YOU.

23 MR. BARNES: THANK YOU VERY MUCH.

24 MR. LOTT: THANK YOU VERY MUCH FOR YOUR
25 SERVICE.

1 MR. BARNES: I'M GOING TO MISS THIS TOO.

2 CHAIRMAN WESTLY: WE'RE GOING TO PROVIDE
3 FURTHER ACKNOWLEDGEMENT TO MR. BARNES LATER IN THE
4 MEETING. MR. KLEIN.

5 MR. KLEIN: THANK YOU, MR. CHAIRMAN. FIRST
6 OF ALL, I'D LIKE TO THANK THE CHAIRMAN AND ALL THE
7 DISTINGUISHED MEMBERS OF THIS PANEL. IT'S
8 UNPRECEDENTED IN THE HISTORY OF THE STATE TO HAVE AN
9 INDEPENDENT COMMITTEE THAT OVERSEAS THE FINANCIAL
10 PERFORMANCE AND THE DELIVERY OF THE PROMISE OF ANY
11 AGENCY FOR THE PEOPLE OF THE STATE OF CALIFORNIA. SO
12 THIS OVERSIGHT IS WELCOMED AND IT IS TREMENDOUS.

13 I WOULD SAY THAT OUR MAXIM, ONE OF OUR MAXIMS
14 AT THE AGENCY IS, OF WHICH I AM CHAIRMAN OF THE BOARD,
15 LEARN EVERY DAY, IMPROVE EVERY DAY. AND WHILE WE'RE
16 VERY PROUD OF OUR RECORD, AND WE ARE EXTREMELY THANKFUL
17 FOR WALTER'S DEDICATION AND PASSION FOR HIS MISSION, WE
18 INTEND TO LEARN IN THE NEXT FISCAL YEAR, WHICH WE HOPE
19 WE'LL HAVE A MEETING OF YOUR BOARD TO OVERSEE VERY
20 SOON, BEFORE THE END OF THIS YEAR, WE HOPE TO DO
21 BETTER. AND WE HAVE TAKEN STEPS, AS WALTER INDICATED,
22 TO MAKE SURE WE DO BETTER AND REACH HIGHER AND HIGHER
23 STANDARDS.

24 I WOULD LIKE TO ALSO THANK THE CONTROLLER
25 SPECIFICALLY BECAUSE DECEMBER 17TH, THE DAY I WAS

1 ELECTED BY THE 29 MEMBERS OF THE BOARD AS CHAIRMAN, THE
2 CONTROLLER OFFERED THE ASSISTANCE OF HIS OFFICE TO LEAD
3 US THROUGH THE ACCOUNTING AND ACCOUNTABILITY AND
4 TRANSPARENCY REQUIREMENTS OF PUBLIC AGENCIES IN
5 CALIFORNIA. IT'S A BIG JOB TO CREATE A NEW AGENCY FROM
6 SCRATCH. AND AS THE FIRST INTERIM PRESIDENT OF THE
7 AGENCY STARTING IN JANUARY WHERE I FIRST GOT STAFF, THE
8 CONTROLLER OFFERED TO LOAN A SENIOR AUDIT REVIEW
9 SUPERVISOR FROM THE CONTROLLER'S AGENCY, WHICH WAS
10 WALTER BARNES.

11 IN ADDITION, HE AGREED TO AN INTERAGENCY
12 CONTRACT SO THAT WE COULD BEGIN WITH THE RIGHT
13 PROCEDURES, WITH THE RIGHT APPROVALS, WITH THE RIGHT
14 DOCUMENTATION, AND THAT HAS ALL BEEN VERY CRITICAL IN
15 THE UNQUALIFIED AUDIT OPINION THAT WE RECEIVED.

16 I WOULD LIKE TO SPECIFICALLY ACKNOWLEDGE THAT
17 THE CONTROLLER IS ALSO VERY GENEROUS IN TAKING SOMEONE
18 WITH 29 YEARS OR MORE OF EXPERIENCE WITH STATE
19 GOVERNMENT LIKE WALTER AND THEN ALLOWING US TO HIRE HIM
20 AWAY FROM THE CONTROLLER'S OFFICE TO MAKE SURE THERE
21 WAS CONTINUITY IN THE DEVELOPMENT OF THOSE POLICIES.

22 ON MARCH 1, 2005, AS WE BEGAN OUR TASK, THE
23 CONTROLLER ADDRESSED OUR FULL BOARD, TALKING ABOUT THE
24 IMPORTANCE OF OUR MEDICAL AND SCIENTIFIC RESEARCH
25 MISSION, ACCOUNTABILITY, TALKING ABOUT THE STEPS WE HAD

1 TO TAKE WITH OVERSIGHT TO MAKE SURE THAT WE WERE
2 PROPERLY DOCUMENTING IT. AND I'D LIKE TO EMPHASIZE
3 HERE, IN FOLLOWING THROUGH ON THAT, AS WALTER HAS SAID,
4 THAT OUR COMPLETE BOOKS FOR THE FISCAL YEAR THAT JUST
5 ENDED JUNE 30TH, 2006, HAVE BEEN SUBMITTED TO THE
6 CONTROLLER'S OFFICE. SO ALL OF THOSE ACCOUNTING
7 RECORDS ARE THERE; AND AS WALTER HAS SAID, EVERY SINGLE
8 EXPENDITURE WE'VE MADE, THE CHECK IS CUT NOT BY US, BUT
9 BY THE CONTROLLER'S OFFICE AFTER REVIEWING AND
10 APPROVING DOCUMENTATION. ALL OF THAT DOCUMENTATION IS
11 THEN SUBJECT TO THE ADDITIONAL REVIEW OF AN AUDIT, AND
12 THEN THE AUDIT IS THEN SUBMITTED TO YOUR BOARD FOR
13 REVIEW. SO WE THINK THERE IS AN EXTRAORDINARY LEVEL,
14 AS THERE SHOULD BE, OF CONTROL AND OVERSIGHT AND CHECKS
15 ON THE PERFORMANCE HERE.

16 FINALLY, I'D LIKE TO SAY THAT THE DOLBY
17 FAMILY NEEDS TO BE SPECIFICALLY RECOGNIZED IN THAT
18 FIRST YEAR BECAUSE WHILE THERE WERE IDEOLOGICAL GROUPS
19 THAT WANTED TO PROVE THAT THEY COULD DESTROY ANY NEW
20 AGENCY OR INITIATIVE THAT WAS DEMOCRATICALLY ENACTED IN
21 THIS STATE BY JUST TYING IT UP IN THE COURTS, THE DOLBY
22 FAMILY SAW THAT WE SHOULD NOT BE STARVED FOR FUNDS. WE
23 HAD TO ACT PROFESSIONALLY, WE HAD TO WORK WITH THE
24 NATIONAL ACADEMY OF SCIENCE TO PUT IN PLACE THE MODEL
25 MEDICAL AND ETHICAL STANDARDS FOR THIS RESEARCH FOR THE

1 NATION. IN FACT, THEY'RE BEING COPIED BY OTHER STATES.
2 WE HAD TO GET ALL OF OUR ACCOUNTING PROCEDURES AND
3 STAFF IN PLACE. SO THAT \$5 MILLION GIFT WAS VITAL TO
4 MAKE SURE THERE WAS A MESSAGE THAT CALIFORNIA, WITH ITS
5 DEMOCRATICALLY APPROVED MANDATES FOR MEDICAL AND
6 ETHICAL RESEARCH, IN THIS CASE PASSED WITH SEVEN
7 MILLION VOTES, WOULD NOT BE DESTROYED BY THE ABUSE OF
8 THE COURT SYSTEM.

9 ADDITIONALLY, I'D LIKE TO THANK THE
10 CONTROLLER AS A MEMBER OF THE STATE FINANCE COMMITTEE,
11 ALONG WITH THE STATE TREASURER'S LEADERSHIP OF THE
12 STATE FINANCE FUNCTION, IN WORKING WITH US FOR THE
13 FIRST TIME IN THE STATE'S HISTORY TO CREATE THE BOND
14 ANTICIPATION NOTES WHICH HAVE THEN FUNDED OUR ADVANCE
15 AND THE RESEARCH FELLOWS GRANTS THAT WERE FUNDED IN
16 APRIL, FOR EXAMPLE, TO KEEP THIS AGENCY MOVING. THOSE
17 ARE BOND ANTICIPATION NOTES THAT IN EVERY SINGLE CASE,
18 THAT THE PHILANTHROPIC AND CHARITABLE INSTITUTIONS WHO
19 HAVE BOUGHT THOSE HAVE A LITIGATION DISCLOSURE FROM
20 THEIR INDEPENDENT COUNSEL AND HAVE FUNDED THIS TO MAKE
21 SURE THIS MANDATE MOVES FORWARD FOR THE PEOPLE OF
22 CALIFORNIA. AND IT NEEDS TO BE RECOGNIZED THAT FOR THE
23 FIRST TIME IN THE HISTORY OF THE STATE OR THE COUNTRY
24 THAT IN THE FACE OF LITIGATION THAT, A, THAT WE HAVE
25 WON IN THE SUPERIOR COURTS ALREADY WITH THE BENEFIT OF

1 THE ATTORNEY GENERAL'S HELP, THAT CHARITABLE
2 INSTITUTIONS STEPPED FORWARD TO BUY BONDS WITH THAT
3 LITIGATION DISCLOSURE TO MAKE SURE THIS MEDICAL AND
4 SCIENTIFIC MANDATE NOT BE DESTROYED BY ABUSIVE
5 LITIGATION.

6 SO WE HAVE A GREAT DEAL OF THANKS. I'D ALSO
7 LIKE TO SAY THAT THIS IS A REMARKABLE STATE. THE
8 ENTERPRISE REQUIRES TREMENDOUS AMOUNT OF OVERSIGHT AND
9 TRANSPARENCY. AND FROM THE BOARD PERSPECTIVE, TO
10 CONTRIBUTE TO THAT TRANSPARENCY, WE HAVE HELD 84 PUBLIC
11 MEETINGS, ALMOST ONE EVERY WEEK WE HAVE BEEN IN
12 EXISTENCE. OUR WORKING GROUPS, OUR SCIENTIFIC GROUPS,
13 AND OUR STAFF AND OUR BOARD MAKE SURE THAT THE PEOPLE
14 OF CALIFORNIA UNDERSTAND. THANK YOU. ZACH HALL MIGHT
15 ALSO WISH TO MAKE A COMMENT.

16 CHAIRMAN WESTLY: THANK YOU, BOB. AND,
17 AGAIN, WE WOULDN'T BE HERE WITHOUT THE EXTRAORDINARY
18 EFFORTS YOU PUT FORWARD. PRESIDENT HALL.

19 DR. HALL: THANK YOU VERY MUCH. I ALSO WANT
20 TO ADD MY THANKS, FIRST OF ALL, TO STEVE WESTLY, THE
21 CONTROLLER, FOR HIS SUPPORT OF THE INSTITUTE FROM ITS
22 VERY INCEPTION. WE HAVE APPRECIATED YOUR GENEROUSLY
23 SHARING PERSONNEL, TECHNOLOGICAL HELP, AND ADVICE, AND
24 IT'S MEANT A LOT TO US, PARTICULARLY DURING THIS FIRST
25 YEAR WHEN WE WERE OFTEN STRUGGLING.

1 ALSO WANT TO THANK THE COMMITTEE MEMBERS FOR
2 THEIR TIME AND EFFORTS IN ENSURING THAT THE WORK THAT
3 WE DO IS CARRIED OUT RESPONSIBLY AND WITH
4 ACCOUNTABILITY. AND I'D JUST LIKE TO SAY THAT THIS IS
5 A VERY TIMELY, I THINK, MOMENT FOR YOU TO GIVE THAT
6 ASSURANCE AND TO LOOK AT OUR OPERATIONS BECAUSE WE ARE
7 REALLY ON THE CUSP OF GOING FULL TIME INTO SCIENTIFIC
8 OPERATION, WHICH IS, AFTER ALL, THE HEART AND SOUL OF
9 WHAT WE ARE HERE TO DO.

10 IN RESPONSE TO THE \$150 MILLION LOAN THAT WE
11 HAVE RECEIVED, WE ARE MOVING VERY QUICKLY TO GET THAT
12 MONEY OUT. UNDER THE LEADERSHIP DR. ARLENE CHIU, WE
13 HAVE ISSUED TWO RFA'S ALREADY, AND WE WILL HAVE A THIRD
14 ONE SHORTLY. THESE ARE INTENDED TO JUMP-START HUMAN
15 EMBRYONIC STEM CELL RESEARCH IN CALIFORNIA. THEY ARE
16 INTENDED TO BRING NEW INVESTIGATORS, NEW IDEAS, TO
17 SUPPORT ONGOING WORK, AND TO PROVIDE SPACE IMPORTANTLY
18 BY RENOVATION OF EXISTING SPACE WHERE THIS WORK CAN GO
19 ON.

20 LETTERS OF INTENT ARE REQUIRED FOR
21 SUBMISSIONS. THEY ARE DUE TOMORROW. AND PRELIMINARY
22 WORD IS WE ARE EXPECTING A DELUGE TOMORROW. THE
23 SCIENTISTS OUT THERE ARE HUNGRY TO BEGIN, THEY'RE READY
24 TO GET TO WORK, AND WE WILL GET THAT MONEY OUT, WE
25 HOPE, SHORTLY AFTER THE FIRST OF THE YEAR.

1 SO I'D LIKE TO JUST SAY A LAST WORD AND ADD
2 MY THANKS TO WALTER BARNES. FOR MANY OF US WHO ARE
3 COMMITTED TO THIS PROJECT FOR THE SCIENTIFIC AND
4 MEDICAL HOPE THAT IT PROVIDES, THE IMPORTANT
5 ADMINISTRATIVE UNDERPINNING THAT'S NECESSARY TO HAVE
6 THIS GO ON IN A SOUND AND RESPONSIBLE WAY IS LARGELY
7 INVISIBLE AND UNDERAPPRECIATED. AND I THINK WHAT WE'VE
8 HEARD HERE TODAY IS THE TREMENDOUS WORK THAT WALTER
9 BARNES HAS DONE, AND I THINK IT IS YOU AND YOUR PEERS
10 MORE THAN ANYBODY ELSE WHO PROVIDE THE PROFESSIONAL
11 APPRECIATION OF THE QUALITY OF THAT WORK. AND IT IS
12 EXTREMELY IMPORTANT TO US AS WE GO FORWARD, AND I'M
13 DELIGHTED TO HEAR YOUR STRONG WORDS OF PRAISE FOR
14 WALTER AND THE WORK HE'S DONE BECAUSE HE DESERVES EVERY
15 BIT OF IT. THANK YOU VERY MUCH.

16 (APPLAUSE.)

17 CHAIRMAN WESTLY: THANK YOU, DR. HALL. LET
18 ME TELL YOU I WILL SHARE A FEW PERSONAL ANECDOTES ABOUT
19 MY WORK WITH WALTER A LITTLE LATER. I WANT TO THANK
20 YOU. AND LET ME JUST SAY, AND THEN I'LL TURN IT OVER
21 TO THE OTHER MEMBERS TO ASK QUESTIONS, I'M SUPPORTIVE
22 OF THE REPORT IN ITS ENTIRETY. I JUST WANT TO NOTE
23 IT'S NOT EASY TO GIVE UP ONE OF YOUR VERY BEST
24 EMPLOYEES AS WE DID WITH WALTER, BUT WE FELT THIS WAS
25 SO IMPORTANT WE SIMPLY HAD TO.

1 I ALSO WANT TO POINT OUT, I THINK EVERYBODY
2 GRASPS THIS, THAT WHEN YOU GET THREE PEOPLE, ALL OF
3 WHOM ARE RUNNING FOR GOVERNOR FROM TWO DIFFERENT
4 PARTIES, FROM EVERY POLITICAL POINT ON THE SPECTRUM,
5 ALL PUTTING POLITICS ASIDE BECAUSE THIS IS SIMPLY TOO
6 IMPORTANT NOT TO, IT'S A TESTAMENT TO JUST HOW
7 STUNNINGLY IMPORTANT THIS WORK IS TO THE STATE OF
8 CALIFORNIA. AND I'M PROUD THAT THE GOVERNOR, THE
9 TREASURER, AND I WERE ALL MORE THAN HAPPY TO PUT
10 POLITICS ASIDE TO GET TO WHERE WE ARE.

11 I'M SUPPORTIVE OF THE REPORT IN ITS ENTIRETY.
12 WHAT I'D LIKE TO DO IS ASK THE OTHER MEMBERS TO ASK ANY
13 QUESTIONS OR ANY COMMENTS THEY MIGHT HAVE, AND THEN
14 I'LL ASK FOR A MOTION TO ACCEPT AND ADOPT THE FIVE
15 PROCEDURAL RECOMMENDATIONS THAT WERE MADE JUST NOW.
16 QUESTIONS FROM THE OTHER MEMBERS? MR. HEIN.

17 MR. HEIN: JUST A COUPLE OF INFORMATIONAL
18 THINGS AND THEN A BIGGER QUESTION. DID I HEAR
19 CORRECTLY, THAT YOU INDICATED THAT LEGAL COSTS, WHICH
20 ARE OBVIOUSLY EXTRAORDINARY AT THIS POINT, ARE BEING
21 ABSORBED OUT OF RESEARCH FUNDS? DID I HEAR THAT
22 CORRECTLY?

23 MR. BARNES: UNTIL WE ACTUALLY RECEIVED BAN
24 FUNDING AND HAD RESEARCH FUNDING, THE COSTS WERE
25 ABSORBED BY THE GENERAL FUND LOAN AND DOLBY. BUT THERE

1 IS A PROVISION IN THE LAW THAT INDICATES THAT THE LEGAL
2 COSTS ASSOCIATED WITH THE ORGANIZATION CAN BE PAID FROM
3 BAN -- FROM BOND FUNDING. BAN FUNDING IS, IN EFFECT,
4 EQUIVALENT, SO WE INTEND TO BASICALLY USE THAT TO HELP
5 PAY FOR THOSE COSTS.

6 MR. HEIN: SECONDLY, YOU MENTIONED THERE WAS
7 A RECENT FUND-RAISER. I THINK YOU INDICATED THAT MONEY
8 THAT WOULD BE RAISED IN THAT FASHION WOULD BE ALLOCATED
9 ON A DISCRETIONARY BASIS, BUT CURRENTLY IS BEING
10 ALLOCATED TO THE STRATEGIC PLAN?

11 MR. BARNES: NOT QUITE. WHAT I SAID WAS THAT
12 I HAD MENTIONED THAT WE HAD RECEIVED DONATIONS, TWO
13 DONATIONS, BESIDES THE DOLBY FUNDING OF 50,000 AND
14 350,000, AND WE WERE DEVOTING THAT MONEY TO OUR
15 STRATEGIC PLAN ACTIVITIES. WHAT I ALSO SAID WAS THAT
16 WE WERE EXPECTING TO RECEIVE MORE DONATIONS THIS YEAR,
17 ONE OF WHICH WOULD BE FROM THE SAN FRANCISCO GALA. WE
18 HAVE NOT RECEIVED THAT MONEY YET; BUT, AGAIN, OUR
19 EXPECTATION IS THAT WE PROBABLY WOULD USE MOST OF THAT
20 MONEY TO HELP WITH BOTH OUR OPERATIONAL AND SCIENTIFIC
21 PROGRAMS.

22 MR. HEIN: THE BIGGER QUESTION I HAVE, AND IT
23 MAY OR MAY NOT BE PERTINENT TO FINANCIAL PRACTICES IN
24 AN AUDIT, BUT IT WOULD SEEM TO ME THAT IT FITS
25 SOMEWHERE. IN THE INTENT LANGUAGE OF THE INITIATIVE,

1 THERE'S SPECIFIC LANGUAGE THAT SAYS PROVIDING AN
2 OPPORTUNITY FOR THE STATE TO BENEFIT FROM ROYALTIES,
3 PATENTS, AND LICENSE FEES, LICENSING FEES THAT RESULT
4 FROM THE RESEARCH. I'VE NOT SEEN ANY OF THAT IN ANY OF
5 THE FINANCIAL PRACTICES DOCUMENTS. PERHAPS I MISSED
6 THEM BECAUSE I HONESTLY DIDN'T READ EVERY SINGLE PAGE
7 THAT WAS IN THIS BIG MANUAL.

8 IS IT PRUDENT TO MONITOR, SORT OF MAKE IT
9 PART OF A REGULAR REPORTING MECHANISM AS TO WHAT'S
10 OCCURRING? MR. WESTLY MENTIONED INTELLECTUAL PROPERTY
11 COMMITTEE IS DOING SOME WORK IN THIS AREA, BUT IT WOULD
12 SEEM TO ME THAT SOMEHOW IT WOULD BE APPROPRIATE TO
13 SPOTLIGHT THAT. AND I DON'T KNOW IF IT ACTUALLY FITS
14 HERE IN FINANCIAL PRACTICES, BUT IT SEEMS TO ME, FROM A
15 TAXPAYER POINT OF VIEW, IT'S PRETTY ATTENDANT TO THAT.

16 CHAIRMAN WESTLY: MAY I COMMENT ON THAT
17 PERSONALLY? WHEN I GAVELED THE VERY FIRST MEETING TO
18 IN SAN FRANCISCO AND THEN AGAIN AT THE SUBSEQUENT
19 MEETING AT STANFORD, I SAID -- I TALKED ABOUT HOW
20 IMPORTANT IT WAS THAT THE CITIZENS OF THE STATE OF
21 CALIFORNIA GET A FINANCIAL RETURN. PUTTING TOGETHER
22 THE FORMULA ON HOW BEST TO DO THIS TO PROVIDE THE
23 INCENTIVES FOR SCIENTISTS TO STEP OUT, TO CREATE THE
24 COMPANIES THAT CAN LEAD TO CURES, ETC., IS NOT AN EASY
25 FORMULA TO PUT IN PLACE, BUT THERE ARE SOME GREAT

1 MODELS TO LOOK AT.

2 THE INTELLECTUAL PROPERTY COMMITTEE HAS LED
3 THE WAY ON THAT. I THINK THEY'RE QUITE A BIT OF THE
4 WAYS DOWNFIELD OF DOING THAT, NOT COMPLETED YET, BUT
5 THAT IS IN PLACE, AND I THINK WE CAN ALL FEEL VERY GOOD
6 THAT THERE WILL BE FINANCIAL RETURNS FOR THE STATE OF
7 CALIFORNIA. AND WHAT I HAVE DONE EARLIER TODAY IN MY
8 INITIAL COMMENTS IS ASK FOR WALTER AND HIS SUCCESSORS
9 TO BRING FORWARD THE UPDATES ON WHAT THE FINAL FORMULAS
10 ARE, THERE MAY BE MORE THAN ONE, GOVERNING CERTAIN
11 CIRCUMSTANCES AND THAT THEY KEEP US UPDATED ON HOW THAT
12 IS GOING AND HOW THE CITIZENS OF THE STATE WILL BENEFIT
13 ON THE FINANCIAL SIDE AS WELL AS FROM THE JOBS AND
14 OTHER SIDES, THE BRANDING SIDES SPECIFICALLY.

15 WALTER, DO YOU WANT TO ADD TO THAT?

16 MR. BARNES: YEAH. I THINK THAT THAT'S
17 CORRECT. TO A CERTAIN EXTENT, WE DID NOT INCLUDE THAT
18 KIND OF THING IN THIS DISCUSSION HERE BECAUSE MANY OF
19 THOSE POLICIES ARE BEING DEVELOPED RIGHT NOW. AS TO
20 WHETHER IT'S APPROPRIATE FOR THIS COMMITTEE TO CONDUCT
21 THAT, THAT'S CERTAINLY UP TO YOU AND YOUR LEGAL
22 COUNSEL. I WOULD ASSUME THAT THERE'S NO REASON WHY YOU
23 CAN'T. AND I WOULD ASSUME THAT WE'D BE HAPPY TO MAKE
24 PRESENTATIONS ON IT.

25 CHAIRMAN WESTLY: UNDER ITEM 6, JOHN, WE'RE

1 GOING TO TALK ABOUT WHEN WE HAVE THE NEXT MEETING. IF
2 WE DO THAT LATER THIS YEAR, I WOULD CERTAINLY ASK FOR A
3 REPORT TO BE MADE ON THE PROGRESS OF THE INTELLECTUAL
4 PROPERTY COMMITTEE AND TO HEAR SOME SPECIFICS AS TO
5 WHAT THE FORMULAS LOOK LIKE AND HOW THAT WOULD BE
6 GOVERNED. OTHER COMMENTS? MR. LOTT.

7 MR. LOTT: WELL, A COMMENT AND A QUESTION, I
8 GUESS. YOU SPENT SOME GOOD ENERGY AND EFFORT IN
9 ASSURING US HOW THE CALCARD SYSTEMS WORKS AS FAR AS
10 EXPENDITURES ARE CONCERNED BY EMPLOYEES WORKING IN THIS
11 EFFORT. AND I THINK THAT'S PROBABLY TRUE, THEY'RE
12 APPROPRIATE AND ADEQUATE.

13 I GUESS MY CONCERN IS THAT I'M NOT HEARING
14 WHAT WE WILL DO TO DEAL WITH OTHER TYPES OF
15 EXPENDITURES THAT MIGHT FALL OUTSIDE OF THE USE OF THE
16 CALCARD PROCESS.

17 AND THIS IS A VERY EXCITING FIELD THAT WILL,
18 AS BEST AS WE CAN TRY TO MAKE CERTAIN THAT WE SCREEN
19 PEOPLE WHO REPRESENT AND WORK FOR US. THERE WILL
20 ALWAYS BE AN OPPORTUNITY FOR FOLKS TO COME IN AND TAKE
21 ADVANTAGE OF WHAT IT IS THAT WE'RE DOING. I'M WANTING
22 TO LEARN MORE, I GUESS, ABOUT HOW WE WILL GUARD AGAINST
23 IMPROPRIETY, FOR WANT OF A BETTER WORD. WE CAN PROTECT
24 PUBLIC FUNDS THROUGH THE CALCARD SYSTEM AND THE
25 ACCOUNTING PROCESSES THAT YOU'VE ARTICULATED AND PUT IN

1 PLACE, AND WE'RE DOING A LOT OF OTHER THINGS TOO. BUT
2 I'M NOT, I GUESS, JUST COMFORTABLE WITH THE FACT THAT
3 WE'RE GOING TO STOP -- WE'RE GOING TO ADOPT WHAT OTHER
4 STATE AGENCIES DO AND THAT'S GOING TO BE GOOD ENOUGH.
5 I GUESS I WANT US TO BE BULLETPROOF. I WANT US TO BE
6 BULLETPROOF.

7 ARE THERE OTHER THINGS THAT WE CAN DO, ARE
8 THERE OTHER BEST PRACTICES THAT OTHER HIGH PROFILE
9 INDUSTRIES HAVE ADOPTED THAT WE COULD CONSIDER THAT
10 WILL MAKE CERTAIN THAT WE DON'T HAVE THE PROBLEM? I
11 GUESS THAT'S WHERE I AM. AND BY THE WAY, THAT'S NO --
12 PLEASE DON'T ACCEPT THAT AS ANY -- I MEAN DON'T -- I
13 WANT -- I DON'T WANT YOU TO LEAVE, SO DON'T -- IT'S NOT
14 A COMMENT ON WHAT YOU'VE DONE. I JUST WANT -- I JUST
15 WANT TO BE BULLETPROOF.

16 MR. BARNES: AND, AGAIN, YOU'RE PREACHING TO
17 THE CONVERTED. WE WANT TO BE BULLETPROOF TOO. WE WANT
18 TO MAKE SURE THAT ALL EXPENDITURES ARE PROPERLY
19 DOCUMENTED AND TAKEN CARE OF. I MENTIONED THE CALCARD
20 MAINLY BECAUSE THAT'S A VEHICLE THAT IS AVAILABLE AND
21 CONTAINS A SPECIAL CREDIT CARD PROCESS FOR PURCHASING A
22 LOT OF THINGS. BUT THE MATERIAL THAT I GAVE YOU WITH
23 REGARD TO THE, LET'S SEE, THE PROCEDURES ON OPERATING
24 EXPENDITURES, TAB 4, CONTAINS REFERENCE TO ALL OF THE
25 VARIOUS TYPES OF OPERATING EXPENSES THAT WE INCUR AND

1 BASICALLY LAYS OUT THE PROCESS FOR HOW THEY ARE TO BE
2 APPROVED.

3 AND, AGAIN, I WOULD SAY THAT GOING BACK TO MY
4 EARLIEST DAYS OF ACCOUNTING, YOU KNOW, WHEN I WAS IN
5 THE ACCOUNTING CLASSES AND ALL OF THAT, THE BIGGEST
6 THING THAT EVERYBODY HAS ALWAYS SAID IS SEPARATION OF
7 AUTHORITY AND RESPONSIBILITY. AND THE TWO-STEP
8 APPROVAL PROCESS IS INHERENT IN EVERYTHING THAT WE DO,
9 PLUS WHICH EVERYTHING GETS A REVIEW BY THE OFFICE OF
10 ADMINISTRATION BEFORE IT GOES TO THE STATE CONTROLLER'S
11 ACCOUNTING OFFICE WHERE THEY TAKE ANOTHER LOOK AT IT,
12 AND THEN IT GOES THROUGH A FORMAL AUDIT THAT THE STATE
13 CONTROLLER DOES FOR EVERY OTHER EXPENDITURE AS WELL.
14 SO I THINK THAT MY EXPERIENCE HAS ALWAYS BEEN WHEN THAT
15 BREAKS DOWN, IT BREAKS DOWN WHEN THAT PROCESS IS NOT
16 FOLLOWED. ALL OF MY EXPERIENCES WITH OTHER STATE
17 AGENCIES IS WHEN THERE'S A PROBLEM, YOU GO INTO IT AND
18 FIND THAT THAT EXTRA REVIEW AND EXTRA FOLLOW-UP IS NOT
19 THERE.

20 MR. LOTT: YOU GOT IT. YOU GOT IT RIGHT ON
21 TARGET. BUT HOW DO WE DEAL WITH THINGS LIKE KICKBACKS,
22 THINGS THAT MIGHT FALL OUTSIDE OF OUR ACCOUNTING
23 PROTECTIONS? WHAT DO YOU REQUIRE -- WHAT WOULD WE
24 REQUIRE OF OUR STAKEHOLDERS AND EMPLOYEES, WHOMEVER,
25 WITH REGARD TO ACTIVITIES THAT ARE NOT NECESSARILY

1 REPORTED THROUGH THE NORMAL PROCESSES THAT WE HAVE THIS
2 DOUBLE-CHECK SYSTEM IN PLACE? EXAMPLE, THIS IS VERY
3 EXTREME, AND I'M NOT NECESSARILY RECOMMENDING THIS, MR.
4 CHAIRMAN. I'M JUST RAISING THE QUESTION. DO WE HAVE
5 PEOPLE INVOLVED IN -- DO WE HAVE PEOPLE WHO WOULD -- DO
6 WE REQUIRE OF OUR PEOPLE TO TAKE LIE DETECTION TEST,
7 THAT KIND OF THING? I'M GETTING REALLY EXTREME HERE.
8 I REALLY WANT TO UNDERSTAND HOW IS IT THAT WE KNOW THAT
9 PEOPLE ARE NOT INVOLVED IN IMPROPER ACTIVITIES THAT
10 WOULD BE SELF-SERVING.

11 MR. BARNES: BESIDES THE PROCESS THAT I
12 MENTIONED TO YOU, WE ALSO HAVE, OF COURSE, THE AUDIT
13 THAT TAKES PLACE EVERY YEAR THAT COMES IN AND REVIEWS
14 OUR PROCESSES TO MAKE SURE, IN FACT, OUR INTERNAL
15 CONTROLS ARE, IN FACT, OPERATING PROPERLY. I WOULD
16 ALSO SAY THAT WE HAVE AN AUDIT CURRENTLY BEING
17 PERFORMED ON US BY THE STATE BUREAU OF STATE AUDITS
18 THAT IS ALSO TAKING A LOOK AT OUR PROCESSES AND THINGS
19 LIKE THAT.

20 MR. LOTT: BE SPECIFIC. HOW DO I KNOW THAT A
21 SCIENTIST IS WORKING FOR -- NOT RECEIVING AN HONORARIUM
22 FROM A DRUG COMPANY?

23 CHAIRMAN WESTLY: LET ME ASK DR. HALL.
24 YOU'VE HAD EXPERIENCE HERE AS A MEDICAL ETHICIST FOR
25 YEARS. MAYBE YOU CAN SPEAK TO THIS IN ADDITION TO THE

1 FINANCIAL ASPECT THAT WALTER BRINGS.

2 DR. HALL: LET ME ADDRESS IT, FIRST OFF, WITH
3 RESPECT TO THE CIRM EMPLOYEES. I JUST WANTED TO SAY
4 THAT WE HAVE CONFLICT OF INTEREST RULES THAT GO BEYOND
5 THOSE OF OTHER STATE AGENCIES. OUR EMPLOYEES ARE NOT
6 ALLOWED TO OWN BIOTECH OR PHARMACEUTICAL STOCKS. THEY
7 ARE NOT -- IF THEY HAVE ANY FAMILY MEMBERS OR OTHERS
8 WHO RECEIVE INCOME FROM A CALIFORNIA INSTITUTION, FOR
9 EXAMPLE, THEY CANNOT BE INVOLVED IN ANY GRANTING
10 ACTIVITIES OR CONSIDERATION OF GRANTS FROM THAT
11 INSTITUTION. SO WE HAVE A SERIES OF RULES THAT GO
12 ABOVE AND BEYOND THE NORMAL STANDARDS OF CALIFORNIA
13 STATE EMPLOYEES, AND THAT'S EXTREMELY IMPORTANT.

14 NOW, THE ISSUE YOU RAISE IS ONE THAT COULD
15 CONCEIVABLY COME UP IN A GRANTEE INSTITUTION. THAT IS,
16 WE DON'T HAVE ON OUR -- WE DON'T HAVE IN OUR STAFF
17 PEOPLE WHO ARE CARRYING OUT RESEARCH.

18 MR. LOTT: SO WE'VE TAKEN CARE OF OUR STAFF.

19 DR. HALL: YES.

20 MR. LOTT: BUT NOW WE'RE MOVING -- TALKING TO
21 THE GRANTEES. HOW DO WE --

22 DR. HALL: WE HAVE ALSO VERY STRICT
23 PROCEDURES FOR GIVING OUT GRANTS THAT ENSURE THAT WE
24 DON'T HAVE CONFLICT OF INTEREST AND THAT THIS IS DONE
25 IN A FAIR AND IMPARTIAL AND UNBIASED WAY. I WOULD BE

1 HAPPY TO TALK TO YOU ABOUT THAT AT ANOTHER OCCASION IF
2 YOU WANT. WE HAVE A NUMBER OF -- IT WOULD TAKE ME SOME
3 TIME TO WALK YOU THROUGH THE PROCESS, BUT LET ME JUST
4 SAY THAT WE HAVE WORKED VERY HARD ON THIS. WE GOT A
5 LOT OF PUBLIC INPUT --

6 MR. LOTT: MR. CHAIRMAN, I WON'T BELABOR THIS
7 TODAY. I WOULD LIKE TO BE WALKED THROUGH THE PROCESS.
8 WE CAN DO THAT OFF-LINE.

9 DR. HALL: I'D BE HAPPY TO DO THAT WITH YOU.

10 MR. LOTT: I WOULD LIKE TO UNDERSTAND THAT.

11 DR. HALL: AND THEN THE OTHER ISSUE, JUST TO
12 WIND IT UP, IS THE ISSUE OF SCIENTISTS THAT MIGHT
13 RECEIVE -- THE ISSUE THAT YOU REFER TO IS FOLLOWING
14 THAT A SCIENTIST CARRIES OUT A CLINICAL TRIAL AND HAS A
15 FINANCIAL INTEREST IN A DRUG COMPANY THAT IS SPONSORING
16 THE TRIAL. THE INSTITUTIONS THEMSELVES HAVE VERY
17 STRONG CONFLICT OF INTEREST RULES FOR THAT. I WAS
18 PREVIOUSLY VICE CHANCELLOR FOR RESEARCH AND EXECUTIVE
19 VICE CHANCELLOR AT UNIVERSITY OF CALIFORNIA SAN
20 FRANCISCO. AT THAT TIME WE HAD A RULE, WHICH IS STILL
21 IN EFFECT, WHICH ACTUALLY WENT BEYOND THE NATIONAL
22 STANDARD, THAT NO SCIENTIST INVOLVED IN A CLINICAL
23 TRIAL COULD RECEIVE ANY SORT OF INCOME, EITHER FROM THE
24 COMPANY SPONSORING THE TRIAL OR FOR THE PRODUCT, EVEN
25 TO THE EXTENT OF PARTICIPATING IN THE ADVISORY

1 COMMITTEE THAT GAVE THEM \$5,000 A YEAR. ABSOLUTELY
2 NOT. SO THIS IS A VERY FIRM RULE.

3 AND IT'S BEEN INTERESTING TO SEE, WITH SOME
4 OF THE MORE RECENT SCANDALS THAT HAVE BEEN IN THE NEWS
5 RECENTLY, THAT THAT SORT OF THING WOULD NOT HAVE
6 HAPPENED AT UNIVERSITY OF CALIFORNIA SAN FRANCISCO, FOR
7 EXAMPLE. THAT'S TRUE, I THINK, GENERALLY THROUGHOUT
8 CALIFORNIA INSTITUTIONS. SO WE, I THINK, CAN BE PROUD
9 OF BEING IN A STATE WHERE THE LEVEL OF SCRUTINY FOR
10 THAT IS QUITE HIGH.

11 MR. LOTT: THANK YOU FOR INDULGING ME.

12 DR. HALL: WE WILL MONITOR THAT FOR ISSUES
13 THAT ARE RELEVANT TO US.

14 CHAIRMAN WESTLY: MR. LOTT HAS RAISED AN
15 IMPORTANT QUESTION. WHAT I'D LIKE TO DO IS ASK
16 MS. CASALEGNO ON MY STAFF TO WORK WITH DR. HALL. IF
17 YOU COULD SEND AN E-MAIL PERHAPS TO ALL OF US AND GIVE
18 US A SENSE OF BACKGROUND. WE CAN REVIEW THAT BEFORE
19 THE NEXT MEETING.

20 DR. HALL: I'D BE HAPPY TO DO THAT.

21 CHAIRMAN WESTLY: STILL DO NEED TO GET A
22 MOTION CALLING FOR THE APPROVAL OF THE FIVE
23 RECOMMENDATIONS MADE. ARE THERE ANY OTHER COMMENTS
24 BEFORE THAT?

25 MR. LOTT: MOTION. I SO MOVE, MR. CHAIRMAN,

1 THAT WE ADOPT.

2 MR. BRUNNER: SECOND.

3 CHAIRMAN WESTLY: ALL IN FAVOR PLEASE SAY
4 AYE. MOTION CARRIES.

5 WHAT I'D LIKE TO DO WITH THE ACCEPTANCE AND
6 THE INDULGENCE OF THE OTHER MEMBERS IS TAKE A
7 FIVE-MINUTE BREAK HERE. I CHAIR OVER 50 BOARDS AND
8 COMMISSIONS, AND I APPRECIATE A BREAK, IF NECESSARY.
9 WE'LL READJOURN IN ABOUT FIVE TO TEN MINUTES, AND I
10 THINK WE CAN STILL BE FINISHED BY NOONTIME. THANK YOU.

11 (A RECESS WAS TAKEN.)

12 CHAIRMAN WESTLY: ALL RIGHT. I WOULD LIKE TO
13 READJOURN THE MEETING AND MOVE TO ITEM 6. JUST AS
14 BACKGROUND, THE COMMITTEE IS REQUIRED TO HOLD AT LEAST
15 ONE ANNUAL MEETING TO REVIEW THE ANNUAL INDEPENDENT
16 AUDIT. ADDITIONAL MEETINGS CAN BE SCHEDULED.
17 RECOMMENDATIONS HAVE BEEN DISCUSSED TO REQUIRE STAFF
18 WORK AND PUBLIC NOTICE BEFORE THE COMMITTEE CAN TAKE
19 ACTION. SO WE HAVE SOME DISCRETION HERE.

20 ITEM 6 IS A CONSIDERATION OF THE NEED FOR
21 ADDITIONAL MEETINGS. AND AS WE HEARD FROM MR. BARNES,
22 THE NEXT ANNUAL AUDIT BY THE INDEPENDENT AUDITOR COULD
23 BE DONE AS EARLY AS NOVEMBER. MY OFFICE WOULD THEN
24 QUICKLY REVIEW THAT REPORT BEFORE THE COMMITTEE
25 RECONVENES. SO IN LAYPERSON'S TERMS, WE COULD DO

1 ANOTHER MEETING BEFORE THE END OF THE YEAR, NOT JUST TO
2 REVIEW THE SECOND AUDIT, AND IT'S FOR THE PERIOD THAT
3 ENDED JUNE 30TH, SO WE HAVE THE DATA, WE CAN DO THIS
4 QUICKLY. BUT IT'S ALSO AN OPPORTUNITY TO ADDRESS OTHER
5 ISSUES, LIKE THE ONE I MENTIONED AT THE BEGINNING AND
6 MR. HEIN EXPRESSED AN INTEREST IN. SO I'M VERY OPEN TO
7 THIS.

8 MR. BARNES, CAN YOU JUST SAY A WORD ABOUT HOW
9 QUICKLY WE WOULD NEED TO MOVE, AND I KNOW YOU'VE MOVED
10 QUICKLY ON A CONSISTENT BASIS HERE. BUT CAN YOU
11 REITERATE WHERE WE ARE IN THE PROCESS, WHEN YOU WILL
12 HAVE FINAL SELECTION ON THE NEW AUDITOR?

13 MR. BARNES: SURE. THE BIDS ARE DUE ON
14 MONDAY, THE 18TH. AND WE HOPE TO BE ABLE TO MAKE THE
15 SELECTION BASED ON THOSE BIDS BY THE END OF THE WEEK
16 AND HAVE THE AUDITOR UNDER CONTRACT. AND UNDER THE
17 CONTRACT, THEY'RE REQUIRED TO START ALMOST IMMEDIATELY
18 ON THE RECORDS, WHICH ARE DONE AND READY TO BE AUDITED.
19 AND SO, AGAIN, OUR HOPE WOULD BE THAT, ALTHOUGH THIS
20 SECOND YEAR IS A LITTLE MORE COMPLICATED THAN THE FIRST
21 YEAR, IT'S ALSO NOT THAT COMPLICATED. SO WE HOPE THAT
22 THEY WILL BE ABLE TO FINISH THEIR AUDIT SOMETIME IN THE
23 LATE PART OF NOVEMBER, WHICH WOULD THEN ALLOW FOR THE
24 CONTROLLER'S REVIEW AND ISSUANCE OF ITS REPORT.

25 CHAIRMAN WESTLY: SO THE CONTROLLER'S OFFICE

1 IS PREPARED TO MOVE QUICKLY HERE. AND THIS IS
2 COMPLETELY UP TO THE DISCRETION OF THE BOARD. AND I
3 WOULD LOVE TO HEAR FROM THE MEMBERS BECAUSE I'M MORE
4 THAN HAPPY TO COMMIT MS. CASALEGNO AND MY STAFF TO
5 PREPARE A PUBLIC NOTICE FOR AN ADDITIONAL MEETING THIS
6 YEAR, PROBABLY IN EARLY DECEMBER, IF THAT IS YOUR
7 RECOMMENDATION AND PREFERENCE. IF I CAN HEAR FROM THE
8 BOARD, MS. POTTER, WOULD YOU LIKE TO COMMENT?

9 MS. POTTER: YES. MR. CHAIRMAN, I THINK AN
10 ADDITIONAL MEETING WOULD MAKE SENSE. WE'VE GOT THE
11 ISSUES THAT HAVE BEEN RAISED EARLIER. AND I THINK
12 THERE'S ALSO AN OPPORTUNITY FOR YOU TO COME BACK AND
13 TALK ABOUT THE FOUNDATION THAT'S BEING LAID FOR THE
14 MONITORING IN ADVANCE OF THE FORMAL AUDIT THAT WILL
15 OCCUR SOMETIME NEXT YEAR. SO I THINK THAT WOULD BE A
16 VERY, VERY GOOD IDEA.

17 CHAIRMAN WESTLY: THANK YOU, MS. POTTER.
18 MR. BRUNNER, MR. HEIN, MR. LOTT, ANY ADDITIONAL
19 COMMENTS?

20 MR. BRUNNER: JUST WANT TO MAKE SURE THAT THE
21 TIMING IS RIGHT, THAT IT'S NOT UNDULY SQUEEZING YOU. I
22 MEAN WE NEED TO DO IT QUICKLY. THE AUDIT, YOU'RE
23 ANTICIPATING THE AUDIT WILL BE OUT IN NOVEMBER
24 SOMETIME, AND HOW MUCH TIME DO YOU NEED TO REVIEW?

25 CHAIRMAN WESTLY: LET ME GO THROUGH THE

1 TIMING. THE NEW AUDITOR WILL BE SELECTED BY THE TAIL
2 END OF NEXT WEEK. ALL THE DOCUMENTS ARE READY TO GO.
3 I'M FAIRLY CONFIDENT THEY CAN HAVE THEIR REVIEW DONE,
4 WALTER, THE MONTH OF OCTOBER, AND I THINK THE
5 CONTROLLER'S OFFICE COULD DO THEIR REVIEW OF THAT AUDIT
6 FAIRLY QUICKLY AFTER THAT AND GIVING US TIME TO
7 SCHEDULE A MEETING IN DECEMBER.

8 MR. BRUNNER: IS THERE ANY PUBLIC NOTICE
9 PERIOD THAT WE HAVE TO HAVE THAT OUT?

10 CHAIRMAN WESTLY: ABSOLUTELY. WE CAN DO SOME
11 OF THESE STEPS IN PARALLEL, SO I THINK WE CAN CERTAINLY
12 DO THAT. IT WOULD PROBABLY BE A LITTLE SHORTER AGENDA
13 THAN THIS ONE BECAUSE THERE WOULDN'T BE QUITE AS MANY
14 ISSUES TO REVIEW, SO I'M CONFIDENT WE CAN DO THAT IF
15 YOU'RE COMFORTABLE WITH THAT, WALTER. WE CAN
16 COMMUNICATE BACK TO THE BOARD IF WE RUN INTO SOMETHING
17 UNFORESEEN, SOMETHING THAT REQUIRES MORE WORK.
18 OBVIOUSLY WE WOULD LET YOU KNOW, BUT THAT WOULD BE THE
19 OPERATING GOAL.

20 MR. BARNES: THAT'S CERTAINLY THE GOAL THAT
21 WE HAVE, AND WE'LL CERTAINLY TRY TO MAKE IT.

22 MR. LOTT: MR. CHAIRMAN, I WOULD LIKE TO
23 RECOMMEND THAT WE LEAVE THIS DECISION TO THE NEXT
24 MEETING ON THE CALL OF YOUR OFFICE. ONE THING WE DON'T
25 WANT TO DO IS BECOME AN IMPEDIMENT. WE DON'T WANT TO

1 BECOME A BARRIER IN THE WAY OF PROGRESS. YOUR FOLKS
2 WILL KNOW WHEN IT'S BEST TO BRING US BACK TOGETHER, I
3 THINK, AND REVIEW WHAT'S GOING ON. I'M VERY
4 COMFORTABLE WITH THE WAY THINGS ARE GOING ALONG TO
5 LEAVE IT UPON THE NOTICE AND THE CALL OF -- THE CALL
6 AND THE NOTICE OF YOUR OFFICE.

7 CHAIRMAN WESTLY: GREAT. I THANK YOU, MR.
8 LOTT. I THINK OUR GOAL WILL BE TO TRY TO NOTICE A
9 MEETING IN DECEMBER. WHAT I WILL DO IS ASK THE STAFF
10 TO PROVIDE AN UPDATE TO THE BOARD MEMBERS ON HOW WE'RE
11 GOING WITH THE AUDIT PROCESS AND TO COMMUNICATE BACK AS
12 TO WHETHER THAT'S POSSIBLE. IF IT'S NOT, WE'LL
13 CERTAINLY DO IT EARLY IN THE NEXT YEAR, BUT WE'LL DO
14 OUR BEST TO KEEP THE MOMENTUM WE'VE ALREADY
15 ESTABLISHED.

16 THAT'S NOT AN AGENDA OR AN ACTION ITEM. SO
17 WHAT I'D LIKE TO DO, UNLESS THERE'S FURTHER COMMENT, IS
18 MOVE TO ITEM 7. THIS IS THE PUBLIC COMMENT SECTION ON
19 MATTERS UNDER THE OVERSIGHT COMMITTEE'S JURISDICTION,
20 BUT THAT MAY NOT HAVE BEEN LISTED ON THE AGENDA.
21 PUBLIC IS NOW OPEN TO ANY OTHER ITEMS THAT THEY'D LIKE
22 TO RAISE, AND WE HAVE TWO PEOPLE WHO HAVE ASKED TO
23 SPEAK ON ITEM 7. AND THEY ARE JOHN SIMPSON. IF HE HAS
24 STEPPED OUT, MAYBE IF SOMEONE -- RUSS, COULD YOU LET
25 HIM KNOW THAT HE'S UP? AND MR. REED FROM THE

1 CALIFORNIANS FOR CURES.

2 MR. REED: FIRST OFF, I HAVE TO GO BACK A
3 LITTLE BIT FURTHER IN TIME, THAT I REMEMBER THE FIRST
4 TIME THAT, TO MY KNOWLEDGE, YOU, CONTROLLER WESTLY,
5 MENTIONED PROP 71, YOU MADE TWO PROMISES. YOU SAID YOU
6 WOULD GIVE IT YOUR ENTHUSIASTIC SUPPORT AND THAT WE
7 COULD EXPECT EQUALLY ENTHUSIASTIC OVERSIGHT. AND
8 YOU'VE BEEN TRUE TO YOUR WORD IN BOTH CASES. WE
9 APPRECIATE THAT.

10 TO THE PEOPLE ON THIS BOARD I WOULD JUST LIKE
11 TO SAY THERE WILL BE TIMES WHEN YOU'RE GOING TO WISH
12 YOU NEVER HEARD OF US BECAUSE THIS IS GOING TO REQUIRE
13 A LOT OF EXTRA WORK. THERE'S BEEN 84 PUBLIC MEETINGS.
14 I GO TO MOST OF THEM. AND EVERYBODY IS OVERWORKED, AND
15 YOU WILL BE TOO. IT'S SO MUCH. SO WHEN YOUR FAMILIES
16 GIVE YOU A HARD TIME FOR SPENDING SO MUCH, I WOULD JUST
17 LIKE TO SAY YOU'RE FIGHTING FOR MY SON, AMONG OTHER
18 PEOPLE. MY SON IS PARALYZED. HAPPENED IN A FOOTBALL
19 ACCIDENT. AND WE'VE SEEN SOME OF THE POSSIBILITIES OF
20 THE RESEARCH.

21 I GOT TO HOLD IN MY OWN HAND A RAT WHICH HAD
22 BEEN PARALYZED, BUT WHICH WAS GIVEN EMBRYONIC STEM CELL
23 RESEARCH, AND IT WALKED AGAIN. AND THIS WHILE MY SON
24 WAS SITTING IN HIS WHEELCHAIR WATCHING. CHRISTOPHER
25 REEVE SENT OUR FAMILY A LETTER. WE HELPED THEM IN A

1 SMALL WAY IN A FUND-RAISER FOR HIM. AND THE LETTER
2 SAID, "ONE DAY ROMAN," MY SON, "AND I WILL STAND UP
3 FROM OUR WHEELCHAIRS AND WALK AWAY FROM THEM FOREVER."

4 THE HOURS THAT YOU SPEND, THE EXTRA HOURS,
5 THE UNPAID EXTRA HOURS THAT YOU SPEND BRING US CLOSER
6 TO THE GLORIOUS DAY WHEN NOT JUST MY SON, BUT MILLIONS
7 MORE WILL HAVE THAT CHANCE. SO THANK YOU IN ADVANCE
8 VERY MUCH.

9 CHAIRMAN WESTLY: THANK YOU, MR. REED. THAT
10 IS ONE OF THE MORE POWERFUL THINGS I'VE HEARD. AND
11 WE'RE ALL PRAYING FOR ROMAN. I KNOW I'VE TALKED TO YOU
12 ABOUT THAT BEFORE. THANK YOU FOR YOUR EFFORTS.

13 MR. SIMPSON, WE'RE DELIGHTED TO YOU HAVE
14 BACK. WOULD YOU BE WILLING TO COME TO THE MICROPHONE?

15 MR. SIMPSON: JOHN SIMPSON FROM THE
16 FOUNDATION FOR TAXPAYER AND CONSUMER RIGHTS AGAIN. I
17 CAN'T -- RARELY CAN I MATCH DON REED'S ELOQUENCE AND
18 PERSONAL EXPERIENCE. I WISH THE BEST AND THE FASTEST
19 FOR HIS SON.

20 AND THIS IS AN INCREDIBLY IMPORTANT
21 ENTERPRISE THAT YOU'RE ALL PART OF. AND I GUESS I
22 CONSIDER MYSELF A VERY IMPORTANT PART OF IT TOO AND WAS
23 HEARTENED BY WHAT I SENSED AMONG THE COMMITTEE AS THE
24 NEED FOR KEEN OVERSIGHT AND A COMMITMENT TO
25 TRANSPARENCY.

1 I WAS TROUBLED INITIALLY WHEN WE SAW THE
2 AGENDA POSTED AND ESSENTIALLY THE FIRST ITEM OF
3 BUSINESS AS IT CAME ACROSS, IT MAY HAVE BEEN SLOPPY
4 READING ON MY PART, LOOKED AS THOUGH THE FIRST THING
5 YOU WERE GOING TO DO IS SEEK AN EXEMPTION FROM
6 FINANCIAL DISCLOSURE. I'M DELIGHTED THE VOTE WENT THE
7 WAY IT WENT. I THINK THAT'S WONDERFUL.

8 I SUSPECT THAT YOU WILL PROBABLY SEE MORE OF
9 ME. I WILL TRY TO BE CONSTRUCTIVE. I WILL TRY TO SAY
10 THINGS, CALL THEM AS I SEE THEM. I APPRECIATE MANY OF
11 THE THINGS THAT HAVE HAPPENED AT THE ICOC, SOME OF
12 WHICH HAVE BEEN THE DIRECT RESULT OF SUGGESTIONS WE'VE
13 MADE. THIS IS AN ONGOING PROJECT. I THINK WE'RE
14 GETTING FUNDING FOR ANOTHER YEAR FROM THE CUMMINGS
15 FOUNDATION TO CONTINUE IT. THAT'S BECAUSE THIS IS A
16 VITALLY IMPORTANT EFFORT IN CALIFORNIA. WE CAN TALK
17 ABOUT \$3 BILLION BEING AT STAKE; BUT, IN FACT, IT'S SIX
18 BILLION WHEN YOU FIGURE IN THE BOND FINANCING. IT'S A
19 HECK OF A LOT OF MONEY, AND IT'S CRITICALLY IMPORTANT
20 THAT THE TAXPAYERS WHO ARE PUTTING IT UP GET NOT ONLY
21 THE CURES, BUT THE FAIR FINANCIAL RETURN AND
22 ACCOUNTABILITY THAT THEY SHOULD EXPECT. THANK YOU VERY
23 MUCH.

24 CHAIRMAN WESTLY: MR. SIMPSON, THANK YOU. WE
25 APPRECIATE YOUR APPEARANCE AND YOUR THOUGHTS TODAY.

1 WHAT I'D LIKE TO DO NOW, UNLESS THERE ARE ANY
2 OTHER PUBLIC COMMENTS, IS TO MOVE TO ITEM 8. THIS IS
3 BOARD MEMBER TIME, AND I'D LIKE TO ASK ANY OF THE BOARD
4 MEMBERS TO SHARE ANY THOUGHTS OR CONCERNS THEY HAVE.
5 WHAT I'D LIKE TO DO FIRST IS WE'RE JUST GOING TO DO A
6 VERY SHORT PRESENTATION, IF THE BOARD WILL ALLOW ME, TO
7 WALTER BARNES.

8 I JUST WANT TO SAY ON A PERSONAL NOTE I'VE
9 BEEN BLESSED TO HAVE WALTER BARNES WORK IN THE
10 CONTROLLER'S OFFICE. HE WAS NOT ONLY ONE OF OUR VERY
11 BEST AND MOST SENIOR EMPLOYEES, HE ALSO BECAME A GOOD
12 FRIEND. I LOVE TO JOKE WITH WALTER. AFTER 42 YEARS OF
13 SERVICE TO THE STATE OF CALIFORNIA, I REALLY FELT THE
14 LAST YEAR OR TWO HE BEGAN TO GET A HANDLE ON THINGS.

15 LET ME JUST SAY WHEN I FIRST CAME INTO
16 OFFICE, YOU KNOW, I HAD COME FROM A VERY LARGE,
17 WELL-KNOWN COMPANY. I HAD QUITE A BIT OF FINANCIAL
18 BACKGROUND; BUT WHEN I CAME IN, WE WERE FACED RIGHT OUT
19 OF THE SHOOT WITH A \$12 BILLION DEFICIT THAT, FRANKLY,
20 THE STATE DIDN'T QUITE KNOW HOW TO DEAL WITH, AND WE
21 HAD TO REALLY JUMP INTO ACTION FROM DAY ONE. WALTER
22 AND I WORKED LITERALLY AROUND THE CLOCK WITH OTHER
23 MEMBERS OF OUR STAFF TO DO WHAT WAS CALLED A \$12
24 BILLION ALMOST IMMEDIATE BORROWING FOR THE STATE OF
25 CALIFORNIA TO AVOID LITERALLY THE WORLD'S SIXTH LARGEST

1 ECONOMY FROM RUNNING OUT OF MONEY.

2 SO I GOT TO SERVE IN THE TRENCHES WITH WALTER
3 FROM DAY ONE. AND I WILL TELL YOU THAT HE IS ONE OF
4 THE FINEST, HARDEST WORKING, MOST THOUGHTFUL AND HIGHLY
5 RESPECTED AND HIGH INTEGRITY PEOPLE YOU'LL EVER WORK
6 WITH. SO I'M JUST DELIGHTED TO HAVE HIM HERE AND TO BE
7 WITH HIM ON ONE OF HIS FINAL DAYS OF STATE SERVICE.

8 I ALSO HAVE TO TELL YOU HE WAS LOVED IN THE
9 OFFICE, AND YOU WILL FIND NO BIGGER FAN FOR THE
10 SACRAMENTO KINGS THAN WALTER BARNES. WALTER WOULD
11 OFTEN SHOW UP DRESSED HEAD TO TOE IN PURPLE, WHICH WAS
12 A LITTLE SCARY INITIALLY, BUT I LEARNED IT'S JUST PART
13 OF WHO HE IS. WALTER, I'D LIKE TO ASK YOU TO COME UP,
14 AND I'D JUST LIKE TO PRESENT TO YOU FOR YOUR YEARS OF
15 SERVICE.

16 MR. BARNES: THANK YOU VERY MUCH.

17 CHAIRMAN WESTLY: WALTER BARNES, YOU'RE A
18 HERO OF STATE SERVICE. IF MORE PEOPLE KNEW WHAT PEOPLE
19 LIKE WALTER BARNES WERE DOING, IT WOULD MAKE THEM VERY
20 PROUD THAT THE STATE'S FINANCES WERE BEING WELL LOOKED
21 AFTER. AND IF I EVER NEED TO BORROW ANOTHER 12
22 BILLION, I KNOW WHO TO COME TO. WALTER BARNES.

23 (APPLAUSE.)

24 CHAIRMAN WESTLY: WALTER, I KNOW ALL YOU
25 REALLY WANTED WAS A CHAMPIONSHIP TROPHY IN SACRAMENTO.

1 MAYBE THIS YEAR. ALL RIGHT. THANK YOU FOR INDULGING
2 ME ON THAT.

3 I WOULD VERY MUCH LIKE TO THANK THE OTHER
4 BOARD MEMBERS FOR THEIR TIME AND TO ASK THEM TO JUST
5 REMEMBER MR. REED'S COMMENTS, WHO I'VE SPENT SOME TIME
6 WITH, AND HOW EXTRAORDINARILY IMPORTANT THE WORK IS
7 AND, FRANKLY, HOW IMPORTANT IT IS TO NOT JUST PROVIDE
8 THE FINANCIAL OVERSIGHT WORK, BUT TO GET CREATIVE, TO
9 THINK BIG, TO THINK ABOUT SOME OF THE THINGS I TALKED
10 ABOUT EARLIER ABOUT HOW WE CAN WORK WITH OTHER
11 COMMITTEES TO PERHAPS SET STANDARDS TO HELP SPEED THE
12 TIME TO CURES BY PROVIDING OPEN RESEARCH, HOW WE CAN
13 MAKE SURE THAT THE PEOPLE OF STATE OF CALIFORNIA
14 RECEIVE A RETURN ON THEIR INVESTMENT. BUT I'D LOVE TO
15 HEAR CREATIVE THOUGHT, BOLD THOUGHTS, IDEAS, CRITICISMS
16 FROM OTHER BOARD MEMBERS.

17 MR. LOTT: I'D LIKE TO MAKE A COMMENT, IF I
18 MAY, WHICH I DO A LOT OF.

19 CHAIRMAN WESTLY: MR. LOTT.

20 MR. LOTT: MR. REED, I'M GOING TO SHARE WITH
21 YOU -- WELL, I'LL SHARE WITH EVERYBODY. I WAS ASKED TO
22 BE A PART OF THIS -- PART OF THIS FANTASTIC OPPORTUNITY
23 BY THE PRESIDENT PRO TEM OF THE SENATE. AND THIS WAS
24 QUITE AWHILE BACK. THIS WAS BACK IN JULY, I GUESS,
25 EARLY LAST YEAR SOMETIME. AND LITTLE DID I KNOW AT

1 THAT TIME ABOUT THE EVENTS THAT WERE GOING TO OCCUR IN
2 MY LIFE, BUT ON DECEMBER 27TH ON THE I-5 COMING BACK
3 FROM VISITING WITH RELATIVES IN NAPA VALLEY, MY FAMILY
4 WAS INVOLVED IN A HORRIFIC AUTOMOBILE ACCIDENT, AND MY
5 FIVE-YEAR-OLD DAUGHTER WAS LEFT PARALYZED.

6 ALL OF A SUDDEN THIS TOOK A WHOLE NEW MEANING
7 FOR ME PERSONALLY. AND MY WIFE AND I PROBABLY DID ALL
8 THE THINGS THAT YOU'VE DONE, AND I PROBABLY SHOULD
9 CONNECT WITH YOU AND SEE ABOUT SOME OF THE THINGS WE
10 PROBABLY MISSED. WE JUST RESEARCHED EVERYTHING THAT WE
11 COULD POSSIBLY RESEARCH ABOUT HER SPINAL CORD INJURY.
12 AND WE'RE SO FAR BEHIND HERE IN THIS COUNTRY AS TO
13 WHAT'S GOING ON IN OTHER PARTS OF THE WORLD THAT WE'VE
14 BEEN ABLE TO, AT LEAST, ASSESS. WE'RE LOOKING AT
15 PROBABLY WHAT YOU'VE DONE AS WELL. WE'RE LOOKING AT
16 ALL SORTS OF TREATMENT REGIMENS THAT HAVE BEEN
17 DEVELOPED ALL OVER THE WORLD THAT WE DON'T SEEM TO HAVE
18 HERE IN THE UNITED STATES.

19 I DON'T KNOW WHERE THIS IS ALL GOING TO END
20 UP, BUT JUST ON A PERSONAL NOTE, I WANT YOU TO KNOW
21 THAT I KNOW WHAT YOU ARE GOING THROUGH. AND I JUST
22 HOPE THAT WE CAN GET THIS PROGRAM HERE, WHAT WE VOTED
23 FOR -- WHAT WE VOTED FOR, I JUST HOPE WE CAN GET THIS
24 THING GOING. AND I JUST HOPE TO GET BEYOND ALL THE
25 LITIGATION, ALL THE BARRIERS SO THAT WE CAN DO WHAT THE

1 PEOPLE OF CALIFORNIA THINKS NEEDS TO BE DONE.

2 MR. REED: WE WILL.

3 MR. LOTT: I PERSONALLY THANK YOU VERY MUCH.

4 CHAIRMAN WESTLY: THANK YOU. OTHER MEMBERS?

5 MR. HEIN, MR. BRUNNER, MS. POTTER, ANYTHING ELSE?

6 MS. POTTER: NO.

7 CHAIRMAN WESTLY: ALL RIGHT. WELL, LET ME
8 JUST PERSONALLY THANK ALL OF YOU FOR BEING HERE. WHAT
9 I WANT YOU TO KNOW IS WE'RE GOING TO MOVE QUICKLY TO
10 TRY TO GET ANOTHER MEETING SCHEDULED BEFORE THE END OF
11 THE YEAR. I THINK THERE ARE SOME SMART, BOLD, NEW
12 THINGS WE CAN DO TO HELP MOVE THINGS FORWARD MORE
13 QUICKLY FOR PEOPLE LIKE MR. LOTT'S DAUGHTER AND
14 MR. REED'S SON. I JUST WANT TO THANK YOU FOR YOUR
15 COMMITMENT FOR BEING HERE.

16 WITHOUT ANY FURTHER ADO, WHAT I'D LOVE TO DO
17 IS ASK FOR THERE TO BE A MOTION FOR ADJOURNMENT.

18 MS. POTTER: MOVE THAT WE ADJOURN.

19 MR. BRUNNER: SECOND.

20 THE COURT: ALL IN FAVOR AYE. THANK YOU VERY
21 MUCH. THANK YOU MEMBERS OF THE PUBLIC.

22 (THE MEETING WAS THEN ADJOURNED AT 11:53
23 A.M.)

24

25

REPORTER'S CERTIFICATE

I, BETH C. DRAIN, A CERTIFIED SHORTHAND REPORTER IN AND FOR THE STATE OF CALIFORNIA, HEREBY CERTIFY THAT THE FOREGOING TRANSCRIPT OF THE PROCEEDINGS BEFORE THE CITIZENS FINANCIAL ACCOUNTABILITY OVERSIGHT COMMITTEE OF THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE IN THE MATTER OF ITS REGULAR MEETING HELD AT THE LOCATION INDICATED BELOW

CALIFORNIA PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA
ON
SEPTEMBER 14, 2006

WAS HELD AS HEREIN APPEARS AND THAT THIS IS THE ORIGINAL TRANSCRIPT THEREOF AND THAT THE STATEMENTS THAT APPEAR IN THIS TRANSCRIPT WERE REPORTED STENOGRAPHICALLY BY ME AND TRANSCRIBED BY ME. I ALSO CERTIFY THAT THIS TRANSCRIPT IS A TRUE AND ACCURATE RECORD OF THE PROCEEDING.

BETH C. DRAIN, CSR 7152
BARRISTER'S REPORTING SERVICE
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