

MACIAS GINI & O'CONNELL LLP

Review Report

QUALITY CONTROL REVIEW

For the Firm's Audit of the
California Institute for Regenerative Medicine (CIRM)
for the Fiscal Year Ended June 30, 2006



JOHN CHIANG
California State Controller

April 2007



JOHN CHIANG
California State Controller

April 23, 2007

Heather Jones, Director
Macias Gini & O'Connell LLP
3000 S. Street, Suite 300
Sacramento, CA 95816

Dear Ms. Jones:

The State Controller's Office (SCO) completed a quality control review of Macias Gini & O'Connell LLP. We reviewed the audit working papers for the firm's audit of the California Institute for Regenerative Medicine (CIRM) for the fiscal year ended June 30, 2006.

The firm's audit was performed in accordance with the majority of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards (GAGAS); U.S. generally accepted auditing standards (GAAS); and the California *Business and Professions Code*. However, we noted that Macias Gini & O'Connell LLP did not include the reference to the management report dated January 5, 2007, that it issued in conjunction with its Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters as required by *Government Auditing Standards*.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm:vb

cc: Zach Hall, President
California Institute for Regenerative Medicine
Marcia Davey, Chief Financial Officer
California Institute for Regenerative Medicine
Independent Citizens' Oversight Committee
California Institute for Regenerative Medicine
Financial Accountability Oversight Committee

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Review Report

Summary

The State Controller's Office (SCO) completed a quality control review of Macias Gini & O'Connell LLP's working papers for the audit of the California Institute for Regenerative Medicine (CIRM) for the fiscal year ended June 30, 2006. The last day of fieldwork was March 29, 2007.

The firm's audit was performed in accordance with the majority of the standards and requirements set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States, often referred to as generally accepted government auditing standards (GAGAS); U.S. generally accepted auditing standards (GAAS); and the California *Business and Professions Code*. However, we noted that Macias Gini & O'Connell LLP did not include the reference to the management report dated January 5, 2007, that it issued in conjunction with its Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters as required by *Government Auditing Standards*.

Background

The California Institute for Regenerative Medicine (CIRM) is a California state agency formed pursuant to the provisions of Proposition 71 approved by California voters in November 2004. Proposition 71, the California Stem Cell Research and Cures Initiative, amended the California Constitution by adding an article thereto; amended a section of the California *Government Code*; and added sections to the California *Health and Safety Code*. The purpose of the legislation was the formation of the institute to:

- Make grants and loans for stem cell research, for research facilities, and for other vital research opportunities to realize therapies, protocols, and/or medical procedures that will result in, as speedily as possible, the diagnosis, treatment, and cure for, and/or substantial mitigation of, major diseases, injuries, and orphan diseases.
- Support all stages of the process of developing treatments and cures, from basic research and discovery through preclinical and translational research, to the conduct of successful clinical trials.
- Establish the appropriate regulatory standards and oversight bodies for research and facilities development.

Proposition 71 authorized the State to issue, under the oversight of the California Stem Cell Research and Cures Finance Committee, \$3 billion in state issued tax-exempt and taxable bonds to fund CIRM's operations, medical and scientific research, including therapy development through clinical trials and facilities. CIRM is authorized to receive a \$3 million loan from the General Fund and to issue Bond Anticipation Notes (BANS) to fund its initial grants and operational costs until the bonds can be issued. Both will be repaid with interest from the proceeds of bonds when they are issued.

The added *Health and Safety Code* Section 125290.30 requires the institute to “annually commission an independent financial audit of its activities from a certified public accounting firm, which shall be provided to the State Controller, who shall review the audit and annually issue a public report of that review.”

Macias Gini & O'Connell LLP is an independent certified public accounting firm with offices located in Sacramento, the San Francisco bay area, Los Angeles, and San Diego, California. This is the first year the firm has been the independent auditor for the California Institute for Regenerative Medicine.

Objectives, Scope, and Methodology

The general objectives of our quality control review were to determine whether this audit was conducted in compliance with GAGAS, GAAS, and the California *Business and Professions Code*.

We conducted the quality control review at the office of Macias Gini & O'Connell LLP. We compared the audit work performed by the firm as documented in the working papers, with the standards stated in the general objectives.

Conclusion

Macias Gini & O'Connell LLP's audit was performed in accordance with the majority of the standards and requirements set forth in GAGAS, GAAS, and the California *Business and Professions Code*. However, we noted one exception that is discussed in the Finding and Recommendation section of this report.

This report is applicable solely to the audit working papers referred to above and is not intended to pertain to any other work of Macias Gini & O'Connell LLP.

Views of Responsible Official

We issued a draft report on April 6, 2007. Heather Jones, Director, responded, via e-mail dated April 9, 2007, agreeing with the review results. The final report includes the firm's response.

Restricted Use

This report is intended solely for the information and use of the specified parties; it is not intended to be and should not be used for any other purpose. This restriction is not meant to limit distribution of the report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

Finding and Recommendation

**FINDING—
Management letter
not referenced in
auditor's report**

Maricas Gini & O'Connell LLP did not include the reference to the management report dated January 5, 2007, that it issued in conjunction with the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters dated January 5, 2007, as required by *Government Auditing Standards* (GAGAS).

GAGAS 5.16 states:

When auditors detect deficiencies in internal control that are not reportable conditions, they should communicate those deficiencies separately in a management letter to officials of the audited entity unless the deficiencies are clearly inconsequential considering both quantitative and qualitative factors. Auditors should refer to that management letter in the report on internal control. Auditors should use their professional judgment in deciding whether or how to communicate to officials of the audited entity deficiencies in internal control that are clearly inconsequential. Auditors should include in their audit documentation evidence of all communications to officials of the audited entity about deficiencies in internal control found during the audit.

Recommendation

Maricas Gini & O'Connell LLP should more thoroughly review its reports to ensure that it fully complies with all GAGAS reporting standards.

Firm's Response

"We are in agreement with your finding and recommendation."

**State Controller's Office
Division of Audits
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Sacramento, California 94250-5874**

<http://www.sco.ca.gov>