



**JOHN CHIANG**  
*California State Controller*

February 20, 2014

**To the People of California:**

I am pleased to present the ninth annual report of the Citizens Financial Accountability Oversight Committee (CFAOC) to the California Institute for Regenerative Medicine (CIRM).

Proposition 71, passed by voters in November 2004, created CIRM to implement a \$3 billion stem cell research program. It is this committee's responsibility to ensure that those public funds are spent efficiently and effectively on lifesaving medical research. The CFAOC was created by Proposition 71 to provide financial oversight and recommendations to CIRM. The CFAOC must meet annually to review the finances of CIRM and issue an annual report.

Almost 10 years after the voters' passage of Proposition 71 and \$1.7 billion of the bond funds have been committed, CIRM is entering a transition phase, engaging in an active search for a new President and focusing on how it can best spend the remaining funds. As my term as the Chairman of the CFAOC comes to an end, I want to say I am proud of the role this committee has played in providing the necessary oversight on this investment. I am also proud of the steps we have taken to demonstrate transparency in this area of State government.

Sincerely,

**JOHN CHIANG**  
California State Controller

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# Committee Overview

## **History of the Citizens Financial Accountability Oversight Committee**

The Citizens Financial Accountability Oversight Committee (CFAOC) was created by Proposition 71, which was approved by voters in November 2004. Proposition 71 charged the CFAOC with reviewing the financial practices and performance of the California Institute for Regenerative Medicine (CIRM) and advising CIRM on its financial practices.

## **Scope**

The CFAOC's six-member board, chaired by the California State Controller, must annually review the financial practices and performance of CIRM. As a part of its evaluation, CFAOC members review CIRM's annual financial audit, the State Controller's evaluation of that audit and the financial practices of CIRM.

## **Committee Members**

**The Honorable John Chiang, Chair**  
*California State Controller*

Controller John Chiang was elected in November 2006 to serve as California's Chief Fiscal Officer.

The Controller is the chair of the Franchise Tax Board and, during even-numbered years, the State Lands Commission. He serves on 81 boards and commissions including CalPERS and CalSTRS, the nation's first- and second-largest public pension funds.

As Controller, Chiang has moved swiftly to ensure California is on the road to prosperity while meeting its obligations to workers and retirees. Upon assuming office, Chiang immediately hired an independent actuary to determine, ahead of schedule, the costs of post-employment benefits as the first step in crafting California's long-term plan to meet the State's accounting and healthcare commitments.

The Controller brings extensive experience and fiscal leadership to the State Controller's Office. Chiang was first elected to the Board of Equalization in 1998 where he served two terms, including three years as chair. He began his career as a tax law specialist with the Internal Revenue Service and previously served as an attorney in the State Controller's Office.

Chiang is the son of immigrant parents, and graduated with honors from the University of South Florida with a degree in Finance. He received his law degree from the Georgetown University Law Center. Chiang and his wife, Terry Chi, live in Torrance, California.

**Daniel Brunner**

*Retired, Appointed by the State Treasurer*

Daniel Brunner has more than 30 years' experience in health care law, policy and corporate management in both the public and private sectors. Mr. Brunner co-founded Affordable Health Care Concepts in 1983. The Sacramento-based firm, which developed highly customized PPO networks on the West Coast, was the first to introduce the concept of competitive bidding among hospitals for patient services. It was acquired by First Health in 1987. Through January of 2005, he served as Executive Vice President of First Health and as a member of its Board of Directors.

Mr. Brunner served as General Counsel for the California Governor's Office of Special Health Care Negotiations and was the Director of the Legislative Office at the Western Center on Law and Poverty, General Counsel and Deputy Director of Legal Affairs in the State Department of Benefit Payments and was on the faculty at UCLA and USC law schools.

Mr. Brunner earned a bachelor's degree in accounting at UCLA. He obtained his law degree from California Western University and is a member of the California Bar. In addition, he served on the boards of directors of the Sacramento Theatre Company and Capitol Public Radio. He also serves on the board of visitors of the University of California, Davis, School of Medicine.

**Dr. James Kovach** *CEO and President of Athleticcode Inc., appointed by the ICOC Chair*

Dr. James Kovach is currently the CEO and founder of Athleticcode, a fitness company using genetic testing and performance data that athletes can use to develop personalized training programs that reduce injury. He serves as the Principal Investigator of the NFL Concussion Study, in which more than 100 former National Football League players have undergone confidential genetic testing of APOE, a gene associated with late-life cognition issues in individuals who have suffered multiple concussions.

Dr. Kovach also serves as Manager of Healthcare System and Physician Outreach for SKS Investments, LLC, where he helps identify hospital and healthcare systems to partner with in developing medical office and life sciences research space.

He served as President and Chief Operating Officer of the Buck Institute for Age Research in Novato, California, in 2005-2010. In 1998-2005, Dr. Kovach was Executive Vice President and Chief Operating Officer of Athersys, Inc., a publicly-traded biotechnology company located in Cleveland, Ohio. He has also directed the Office of Technology Management at the Case Western Reserve University School of Medicine in Cleveland.

Dr. Kovach spent seven years as a middle linebacker in the NFL, playing for the New Orleans Saints and the San Francisco Forty-Niners and attending medical school in consecutive off-seasons. He received his Bachelor of Science degree in biology from the University of Kentucky in 1978, where he graduated cum laude. He received his Doctor of Medicine Degree from the University of Kentucky in 1984. He obtained his law degree from Stanford University in 1990, and practiced as a corporate attorney.

**Dr. Loren G. Lipson**

*Retired, appointed by the State Controller*

Dr. Loren G. Lipson is a Professor Emeritus of Medicine at the Keck School of Medicine at the University of Southern California. A resident of Pasadena, Dr. Lipson has been a recognized leader in the field of medicine for 40 years. He has been appointed to academic posts at some of the country's most prestigious universities, including the Harvard Medical School and the USC School of Medicine, where he served as Chief of the Division of Geriatric Medicine, Department of Medicine, from 1984-2004.

Dr. Lipson currently serves as a Geriatric Medicine and Long Term Care consultant to the U.S. Department of Justice, Civil Division; U.S. Department of Health and Human Services, Office of the Inspector General; California Department of Justice's Bureau of Medi-Cal Fraud and Elder Abuse; California Department of Social Services; and the New Mexico Department of Justice, Medicaid Fraud Control Unit.

He was director of two USC Teaching-Nursing Home Programs, the Hollenbeck Home in Los Angeles and the Atherton Baptist Home in Alhambra.

A graduate of Johns Hopkins University School of Medicine, Dr. Lipson received his undergraduate degree in Chemistry from the University of California, Los Angeles.

**Jim Lott**

*Executive Vice President, Hospital Association of Southern California, appointed by the Senate President Pro Tem*

Jim Lott is the Executive Vice President of the Hospital Association of Southern California where he is responsible for health care policy development, advocacy, and communications for hospitals serving Los Angeles, Orange, San Bernardino, Riverside, Santa Barbara and Ventura counties.

Prior to his move to Los Angeles, he served for five years as the President and Chief Executive Officer of the Hospital Council for San Diego and Imperial counties.

Mr. Lott served for ten years as Staff Director and Chief Consultant to the Senate Committee on Health and Human Services of the California Legislature. In that capacity, he was one of the principal architects of the health care finance reforms adopted by the California Legislature in 1982. Later, he worked on President Clinton's Health Care Reform Task Force.

Mr. Lott received his undergraduate degree from Cal State L.A., his MBA degree from the University of Redlands, and has achieved candidate status for his doctorate in Education-Organizational Leadership at Pepperdine University. He serves on the boards of the Claremont Universities Consortium, the Los Angeles Economic Development Corporation, and L.A. Care Health Plan, for which he serves as chairperson.

**Dr. Gurbinder Sadana**

*Physician, Appointed by the Assembly Speaker*

Dr. Gurbinder Sadana is a long-time private practice physician and specialty consultant with offices in Pomona.

He has been in private practice in Pomona since 1983, and is a specialty consultant and advisor on asthma and related disease. He is also Medical Director of Critical Care Services at the Pomona Valley Hospital Medical Center in Pomona.

Dr. Sadana is a fellow of the American College of Chest Physicians and a member of the Society of Critical Care Medicine. He serves on the Board of Directors of the Pomona Valley Hospital Medical Center Foundation.

His Board Certifications include American Board of Internal Medicine, American Board of Internal Medicine/Critical Care Medicine, and American Board of Internal Medicine/ Pulmonary Medicine.

Dr. Sadana graduated from Gauhati Medical College in Gauhati, Assam, India in 1969, and he has completed extensive post-graduate education including earning a Diploma in Chest Diseases from the University of Delhi, New Delhi, India.

**Oversight of the  
California Institute  
for Regenerative  
Medicine**

When Proposition 71 created CIRM, it also established two structures for providing oversight of the Institute and the taxpayer bond money. The Independent Citizens Oversight Committee (ICOC) consists of 29 members who are appointed by statewide elected officials and Legislative leaders. The ICOC is the board that governs CIRM. ICOC members include scientists, physicians, business people, university administrators and patient advocates. Proposition 71 provided that the Chair and the Vice Chairperson of ICOC shall be full- or part-time employees of the Institute.

The Citizens Financial Accountability Oversight Committee (CFAOC) is chaired by the State Controller and is responsible for reviewing CIRM's annual financial audit, the Controller's review of that audit and the financial practices of CIRM.

# Ninth Annual Meeting

## Meeting Details

The ninth annual meeting of the Citizens Financial Accountability Oversight Committee was held on January 22, 2014, at the SCAG Board Room, 818 W. 7th Street, 12th Floor, in Los Angeles. Three of the six members were in attendance. Chair John Chiang was absent, and Deputy Controller Ruth Holton-Hodson chaired the meeting in his absence. Dr. Kovach and Dr. Sedana were absent as well.

## Financial Presentations

On January 22, 2014 the Committee heard presentations regarding the independent audit of CIRM; audit response by CIRM; the State Controller's Office's review of that audit; a status update of CIRM's financial performance, current budget, update of grants awarded, and the grants process.

### Independent Audit

Shelley Walker-Davey from Macias, Gini & O'Connell (MGO) presented the audit findings for the year ending June 30, 2013. MGO did not identify any deficiencies in internal controls over financial reporting. Expenses for FY 2012-2013 were \$211,559,000 of which \$197,080,000 was for grants and \$14,479,000 was for operations. This reflects a decrease of \$27,943,000 over 2012-13 as a result of a \$29,847,226 decrease in awards and a \$1,903,445 increase in operational expenses due to the filling of several vacancies and employees meeting eligibility terms for PERS.

CIRM ended the fiscal year with a fund balance of \$81,786,309. The primary source of revenues is bond revenue and investment earnings. This year CIRM received \$229,000,000 in Prop. 71 funds and \$232,000 in investment earnings. Since July 2012, the state has been funding CIRM through commercial paper. CIRM receives a monthly payment based on their estimated monthly expenses and grant distribution. These allocations range from \$13 million to \$24 million. CIRM did not receive any grants this past year. CIRM's net assets at the end of June 30, 2013, were \$109,033,000. (It is important to note that this figure includes \$1.6 million in interest on loans, but this interest isn't receivable until the loans terminate.) CIRM has received \$1.46 billion of the bond funding to date. Prop. 71 authorizes issuance of not more than \$350 million in bonds annually over a 10-year period for a total of \$3 billion. Beginning in fiscal year (FY) 2012-13, the State Treasurer's Office began funding

CIRM with commercial paper. To date, CIRM has awarded \$1.79 billion, of which \$550,000,000 has yet to be disbursed. Approximately \$950 million is left to be awarded, of that \$320.5 million has been approved in concept, so \$629 remains to be allocated. CIRM anticipates awarding funds until 2017 and distributing those funds and monitoring grants until approximately FY 2020-21. The audit offered a clean opinion. The audit did not identify any deficiencies in internal controls on financial reporting. (1/22/14 minutes, p. 6-13)

The MGO audit report for FY 2012-2013 can be found online at [http://www.sco.ca.gov/Files-EO/CFAOC/Item\\_5-CIRM\\_MGO\\_AuditReport2013.pdf](http://www.sco.ca.gov/Files-EO/CFAOC/Item_5-CIRM_MGO_AuditReport2013.pdf)

### **State Controller's Office Review**

Caroline Baez, Manager, Financial Audits Bureau, with the State Controller's Office (SCO) reported on the SCO's review of the MGO audit, emphasizing that the objective of the review was to determine whether the audit was performed in accordance with generally accepted auditing standards, government auditing standards, and the California Business and Professions code. The SCO found that the audit was performed in accordance with audit standards and requirements, and did not identify any exceptions.

(1/22/14 minutes, p. 13-14)

The SCO report can be found online at [http://www.sco.ca.gov/Files-EO/CFAOC/Item\\_5-SCO\\_Review\\_of\\_MGO\\_Audit.pdf](http://www.sco.ca.gov/Files-EO/CFAOC/Item_5-SCO_Review_of_MGO_Audit.pdf)

### **Status Update of CIRM**

Chila Silva-Martin of CIRM presented the final overview of CIRM's 2012-13 operating budget and reported on the 2012-13 budget expenditures through December 31, 2013. She reported that total allocations for FY 2012-13 were \$17.9 million, while expenditures were \$16.3 million, leaving a balance of \$1.6 million.

Ms. Silva-Martin reported that CIRM had budgeted \$11.1 million for employee expenses, but had spent \$10.8 million. For external services, \$3.4 million was budgeted and \$2.7 million spent. The public communications office, meetings and workshops, and travel are other areas where CIRM was slightly under budget.

Ms. Silva-Martin compared the 2012-13 budget with the budget from 2011-2012. Employee spending was higher than in the previous year. This is because there were minimal vacancies during the fiscal year and because a new position was established to perform work previously done through an external contract. Additionally, five staff members moved from the state's alternate retirement program to the traditional retirement program, which is more costly. Spending on external services declined from the previous year, largely because of completed information technology work and the aforementioned new position. There were also savings because of travel that did not materialize and a new policy of



purchasing nonrefundable airfare. Spending on reviews and meetings increased slightly, as there were more meetings. Spending on equipment and supplies also increased because of server upgrades.

## **Committee Discussions**

Member Lipson asked if CIRM could save additional money by moving more external contracts to in-house positions. Ms. Silva-Martin reported that CIRM will consider additional positions in the future if it is determined to be cost-effective.

Member Lott requested that future budget reports include an accounts payable as well as variance or standard deviation on all of the accounts payable until CIRM winds down. Ms. Silva-Martin responded that the request could be accommodated.

Chair Holton-Hodson asked what had happened to the online journal Stem Cells Translational Medicine, noting that it was no longer accounted for in the budget. Ms. Silva-Martin and Dr. Feigal reported that CIRM had helped establish the journal and funded it for three years, but that it was now independently funded and operated, as was planned.

She also asked what CIRM's plan is for leasing an office when their free rent deal with the city of San Francisco expires in 2015. Chairman Thomas reported that CIRM is exploring options for a similar arrangement, but assuming in its budget that it will be paying for a market rate lease somewhere in the Bay Area starting in 2015. Chair Holton-Hodson asked whether the added expense of rent will cause problems in other parts of CIRM's budget, given the constraint that CIRM can spend at most 6% of its budget on administrative costs. Ms. Silva-Martin reported that CIRM has accounted for the extra expense and does not anticipate any issues.

Ms. Silva-Martin presented the budget for the current year. For FY 2013-14, CIRM budgeted \$17.4 million, an increase of \$500,000 from the previous year. Ms. Silva-Martin detailed each of CIRM's cost centers as listed in the budget and described the responsibilities of each. Starting in 2012-13, the state began funding CIRM with commercial paper. Grant disbursements for the first half of the fiscal year increased to \$102 million, from \$79 million for the same period the previous year. Expenditures increased by \$500,000 over the same period.

Member Lipson asked if CIRM was expecting any loan repayments. James Harrison reported that there are three outstanding loans that may result in repayment if the research produces a commercial product.

Chair Holton-Hodson asked how money would be collected in the future if CIRM no longer exists. Mr. Harrison reported that legislation would likely be necessary to ensure that another body would inherit the responsibility of enforcing CIRM's rules and collecting money from loan recipients and grantees. Member Lott asked when CIRM would create a detailed plan to manage this transition. Mr. Harrison estimated that a plan would be ready in 2017-2018, which Member Lott stated to be

unacceptably late. Mr. Harrison responded that CIRM will cease issuing grants in about 2017, but will continue to exist in a downsized form until 2021 to oversee grantees.

Dr. Ellen Feigal, Senior Vice President of Research and Development at CIRM, provided an overview of CIRM's scientific programs. Dr. Feigal reported that CIRM is out of its first five-year phase, which laid the groundwork for research. In the current phase, CIRM intends to bring therapies to the clinical trial stage and find a suitable business model for stem cell-based therapies.

Member Lott commented that, although he supports CIRM and recognizes the contributions it has made to stem cell research, the organization has not lived up to the expectations of California voters who passed Proposition 71, because the research has not yet produced a demonstrable cure. Member Lott and Dr. Feigal discussed the difficult process of getting FDA approval for clinical trials. They also discussed the challenge of communicating to the public the progress CIRM has made when there are no cures to show.

Chair Holton-Hodson asked about the process CIRM will use to evaluate and prioritize projects on which to spend their remaining grant money. Chairman Thomas reported that CIRM intends to identify six to eight promising projects that have the potential to produce a clinical proof of concept and focus exclusively on them for the remainder of CIRM's existence.

Member Lipson asked if CIRM faces a conflict of interest in potentially delaying the awarding of grants in order to prolong the organization's existence. Mr. Harrison reported that such an action would reflect poorly on CIRM because it would prevent it from meeting its yearly goals as defined in CIRM's strategic plan. Mr. Harrison also commented that the 6% cap on administrative costs makes it impossible for CIRM to continue operating without continually giving grants.

There was further discussion about conflict of interest matters at CIRM. Chairman Thomas discussed the issues that CIRM has had with public concerns about conflict of interest in the grant process as well as steps it has taken to address those concerns. Mr. Harrison pointed out that CIRM employees must adhere to California's revolving door laws, which prevent employees from leaving and immediately taking a job at a company that is applying for a grant and vice versa.

Dr. Feigal discussed CIRM's industry relations. He reported that for-profit companies have received a significant share of CIRM's funding. He highlighted some of CIRM's partnerships with the private sector. As of December 26, 2013, CIRM has received 235 invention disclosures. CIRM is actively proceeding with 38% of them.

Chairman Thomas discussed the future of CIRM along with the challenge of continuing the research once state funds run out. He stated

that Proposition 71 has made California the center of stem cell research worldwide. Chairman Thomas emphasized the importance of finding new sources of money in order to complete studies that began with CIRM funding. He pointed to a proposed ballot initiative that would add a surcharge to tobacco sales, of which thirty percent would go to CIRM. CIRM decided not to endorse this initiative for fear that the tobacco industry would campaign heavily against it and target stem cell research, harming CIRM's public image. Chairman Thomas discussed other sources of funding that could potentially help fill the gap, including donations by individuals, public/private partnerships, and a possible new bond measure.

Member Lott reiterated that he thinks CIRM has a marketing problem that must be addressed before bringing any new initiative to voters. He suggested that CIRM forgo hiring a chairman and instead spend money increasing awareness of CIRM's accomplishments.

Chairman Thomas discussed the pharmaceutical industry's increased involvement in funding stem cell research beyond their internal research and development. The relationship between the industry and researchers will possibly help products reach commercialization.

Member Lott expressed his thanks to the Controller for his leadership over the last eight years, emphasizing his championing the need for greater transparency for CIRM.

### **Committee Actions**

The Committee took no action at the meeting on January 22, 2014.

### **Public Comments**

Jeanne Loring, a scientist funded by CIRM, suggested that, as a way of improving public perception, CIRM could make better use of scientists to address the public and make press appearances at the local level.

The meeting adjourned at 4:52 pm.

**Citizens Financial Accountability Oversight Committee  
to the California Institute for Regenerative Medicine  
c/o State Controller's Office  
Post Office Box 942850  
Sacramento, California 94250-5874  
<http://www.cfaoc.ca.gov>**