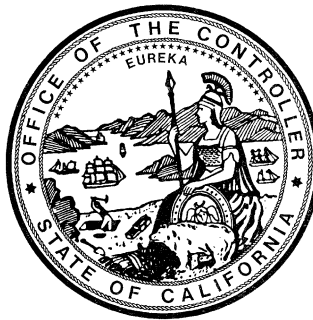


MACIAS GINI & O'CONNELL, LLP

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, 2009



JOHN CHIANG
California State Controller

December 2009



JOHN CHIANG
California State Controller

December 7, 2009

Rick Green, Partner
Macias Gini & O'Connell, LLP
3000 S Street
Sacramento, CA 95816

Dear Mr. Green:

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, 2009.

The firm's audit was performed in accordance with 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.

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/vb

cc: Shelley Walker-Davey, Manager
Macias Gini & O'Connell, LLP
Alan Trounson, President
California Institute for Regenerative Medicine
Independent Citizens' Oversight Committee
California Institute for Regenerative Medicine
Financial Accountability Oversight Committee
California Institute for Regenerative Medicine

Contents

Review Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	2
Restricted Use	2

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, 2009.

The firm's audit was performed in accordance with 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.

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. The firm has been the independent auditor for the California Institute for Regenerative Medicine since FY 2005-06.

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 standards and requirements set forth in GAGAS, GAAS, and the California Business and Professions Code.

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 discussed the review results with Shelley Walker-Davey, Manager, on November 18, 2009. Ms. Walker-Davey agreed with the review results presented in this report. Ms. Walker-Davey declined a draft report and agreed that we could issue the report as final.

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

December 7, 2009

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

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