December 31, 2025

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Institute for Regenerative Medicine submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2025.

Should you have any questions please contact Benjamin Huang, Deputy General Counsel, at (510) 340-9138, Bhuang@cirm.ca.gov.

GOVERNANCE

Mission and Strategic Plan

In 2004, California voters approved Proposition 71, the California Stem Cell Research and Cures Initiative. The statewide ballot measure authorized issuance of $3 billion in general obligation bonds to finance funding for stem cell and regenerative medicine research including dedicated research facilities at California universities and research institutions. Proposition 71 created CIRM as a new state agency to administer the funding. In 2020, California voters approved Proposition 14, which authorized an additional $5 billion in general obligation bonds for CIRM to continue funding stem cell and regenerative medicine research and for the administration thereof. CIRM is a small agency now staffed by approximately 67 FTEs. In authorizing these funds, Californians expected to accelerate world class science to deliver transformative regenerative medicine treatments in an equitable manner to a diverse California and the world. Additional potential benefits to Californians include propelling California into a leadership position in regenerative medicine, establishing California as the premier international location to advance stem cell and gene therapy research and medicine, stimulating the California economy, reducing health care costs by replacing chronic treatments with cures, and ensuring that the State has the opportunity to benefit via treatment accessibility to low income Californians from revenue-sharing originating from CIRM-funded treatments or technologies. CIRM is governed by the Independent Citizen's Oversight Committee (ICOC), a 35-member board appointed by various state officials according to criteria specified in Proposition 14. ICOC members are public officials, appointed on the basis of their experience earned in California's leading public universities, non-profit

academic and research institutions, patient advocacy groups, nursing advocates, and the biotechnology industry. In addition to its fiduciary responsibility to the people of California, the Board is charged with: (1) adopting scientific, medical, ethical and intellectual property policies; (2) making final funding decisions on grant and loan awards; and (3) providing oversight of CIRM.

Consistent with the State Leadership Accountability Act, the ICOC provides governance-level oversight and policy direction, while executive management is responsible for the design, implementation, and operation of internal controls and monitoring activities

The mission of CIRM is to accelerate world class science to deliver transformative regenerative medicine treatments in an equitable manner to a diverse California and the world. CIRM does so pursuant to the highest ethical and medical standards, and seeks to discover and develop cures, therapies, diagnostics, and research technologies to relieve human suffering from chronic disease and injury. To date, CIRM has approved grants and loans totaling approximately $4.22 billion. Of that amount, approximately $3.62 billion has been disbursed to grantees as of the date of this report.

CIRM developed a new strategic plan in September 2024 which has received the ICOC Board approval.

Control Environment

CIRM establishes standards of conduct, by setting the tone at the top: The ICOC Board, the President and CEO, and management at all levels of the organization demonstrate through their directives, actions, and behavior, the importance of integrity and ethical values to support the functioning of the system of internal control; in CIRM's case, the mission is to accelerate world class science to deliver transformative regenerative medicine treatments. These expectations are defined within the CIRM Employee Handbook under our Conflict of Interest Policy, Incompatible Activities Statement, and Conflict of Interest Code, and are understood at all levels, including outsourced service providers and business partners. All employees are required to take an Ethics class every two years. Evaluations assessing performance, behavior, and integrity and ethical values, occur every 12 months or as needed should a deviation occur. If this is determined to be the case, the deviations are identified and remedied in a timely and consistent manner.

As noted earlier, CIRM is governed by the Independent Citizen's Oversight Committee (ICOC), a 35-member board appointed by various state officials according to criteria specified in Proposition 14. ICOC members are public officials, appointed on the basis of their experience earned in California's leading public universities, non-profit academic and research institutions, patient advocacy groups, and the biotechnology industry. In addition to its fiduciary responsibility to the people of California, the Board is charged with: (1) adopting scientific,

medical, ethical and intellectual property policies; (2) making final funding decisions on grant and loan awards; and (3) providing oversight of CIRM.

Through public ICOC meetings, the CIRM executive team supports the governing board in fulfilling its oversight responsibilities by providing updates on organizational performance, risk trends, and management's programmatic efforts.

CIRM is divided into a number of functional teams, those that relate to the grant functions and separate teams related to agency function. For the grant functions, CIRM has a Review team, which handles incoming applications and the review process; a Grants Management team, which handles the disbursement of funds and tracking the milestones and progress of the Grants in CIRM's Grants Management System; and a Programs team, which consists of Science Officers with Ph.Ds. who establish the milestones and budgeting of all grants as well as serve as primary contact with the Principal Investigators and Program Directors. For the functioning of the agency, CIRM has Finance, HR, Legal, IT, Communications and administrative staff. These teams (or combination of teams) have leaders who serve on the CIRM Executive Team with the CIRM President.

The CIRM Grants Management System (GMS) is the control system for managing all grant related documentation, such as applications, reviews, grant reporting, intellectual property, licensing etc. Employees have access only to those portions of the GMS related to their duties. All documentation about the GMS is maintained on an internally accessible Gitlab Wiki. Git is used for source code control.

As part of the employee control system, CIRM has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, training, and improvements to CIRM's systems of controls and monitoring.

In establishing a competent workforce, CIRM's hiring practices are extensive and targeted. Job descriptions are specific to duties and necessary skill set. Leadership Team members and functional team members are included in the interview process, with final sign off from the CEO. Once a hire is made, the onboarding process includes meetings with all departments within the organization with a special emphasis on those with which the individual will most work. In addition, there is often the opportunity to cross train with other relevant job functions if there is a desire. In addition to internal knowledge gathering, CIRM also provides the opportunity to take classes and get training outside the organization to improve internal job performance, including science classes for non-technical staff, science specific classes (e.g., regulatory processes), leadership classes, management training, and program management.

CIRM has committed to increase administrative controls which include well developed onboarding processes; management approved procedural manual (Employee Handbook) for all staff; cross-training of staff; opportunities for training classes; ongoing Leadership mentoring

and training; and Analyst Certification Program, offered by the California Department of Human Resources, and other offered training courses. Staff are offered flexible hybrid work schedules. CIRM HR has implemented the use of Bamboo HR to centralize and simplify human resource functions for employees. Teamwork strategies and promotional opportunities to create long-term incentives for retention and skills development are ongoing. The Employee Assistance Program is available to all staff and staff are aware of this assistance.

Information and Communication

As a funding agency for life sciences grants, CIRM and its Applicant/Grantees communicate and record documentation via a customized Grants Management System portal. This software system serves as a repository of all the reporting requirements on the part of Applicants and Grantees as well as allowing CIRM to update with the Grantees via automated reminders. During the application phase, the applications are vetted by out of state peer reviewers with expertise in the science and methodology of the applicants. During the Grantee phase, the Grantees are assigned CIRM science officers, all with PhDs, with the knowledge base to interact deeply with the Grantee at that particular stage of scientific/Drug development. Any research which gets published via a CIRM-funded grant has to be credited to CIRM and such publication citations are provided to CIRM for CIRM's records. In addition, CIRM has a public website and a dedicated communications staff that keeps the website up to date. The website provides the public with information regarding the grants and grantees, the dates of CIRM public meetings and the transcripts. The website also contains a page where speeches by CIRM-sponsored scientific experts can be found helping educate the public about CIRM's activities.

As a small state agency with approximately 67 FTEs, CIRM maintains direct and timely communication channels consistent with the agency's size and documented escalation practices, supported by shared workspaces, conference rooms for private discussions, and regular team and management meetings. In addition, the various teams in CIRM are all represented by team leaders who participate in a weekly senior management team meeting with the CIRM President and CEO which has interactive elements for team leaders to provide updates on their teams' progress and collaborate on resolving cross-functional issues. Team leaders have an open-door policy with their team members. CIRM encourages all members of the CIRM team to communicate to the rest of the team if they identify an opportunity that should be considered to better assist CIRM with fulfilling its mission and goals.

A major stakeholder is the Independent Citizen's Oversight Committee, CIRM's governing board. Through its periodic public board meetings, the CIRM executive team updates the ICOC, in its oversight capacity, on the performance of individual units in the overall achievement of the strategic goals and efforts to mitigate challenges identified in this report. The Board also has subcommittees governing various items of interest to CIRM (e.g.

Application Review, Science, Finance, Governance, IP & Industry). Other stakeholders are the Grantees receiving CIRM funding who can and often do contact their CIRM Science Officers directly. The staffing at CIRM is fairly lean with very few administrative staff so direct calls are allowed and encouraged.

CIRM has a dedicated human resources team who initially receive and manage, under the direction and with the support of the CIRM legal team, any reports of inefficiencies and potential violations of law and/or corporate policy. CIRM HR has an open-door policy for any employee to report inappropriate actions. CIRM HR has provides sexual harassment training and provides guidelines, resources and other assistance to employees on an as-needed basis.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Institute for Regenerative Medicine monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Michelle Lewis, Director of Finance; Benjamin Huang, Deputy General Counsel; Rafael Aguirre-Sacasa, General Counsel; Jonathan Thomas, President and CEO.

A. Propositions 14 and 71 require an annual independent financial audit of CIRM. Health & Safety Code section 125290.30, subdivision (b), requires CIRM to commission an annual independent audit by a certified public accounting firm: "The institute shall 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." Gilbert Associates, Inc. performed CIRM's audit for the period from inception to June 30, 2005. Macias, Gini & O'Connell LLP (MGO) performed CIRM's audit for each fiscal year ending June 30th, from 2006-2024. All of the audit reports previously released may be found on the SCO website.

B. The annual independent financial audit is also reviewed separately by the State Controller. As required by Section 125290.30(b), the annual independent financial audit of CIRM is provided to the State Controller, who then reviews the audit and issues a public report of that review. The SCO has reviewed and reported favorably on the independent financial audits of CIRM for every fiscal year through June 30, 2024.

C. CIRM's financial practices are also reviewed each year by the Citizen's Financial Accountability Oversight Committee. In addition to the annual independent financial audit and the annual SCO review of that audit, Health & Safety Code section 125290(c) creates a Citizen's Financial Accountability Oversight Committee (CFAOC): "There shall be a CFAOC

chaired by the State Controller. This committee shall review the annual financial audit, the State Controller's report and evaluation of that audit, and the financial practices of the institute." The CFAOC is a six-member board chaired by the State Controller. The CFAOC meets annually to review the financial practices and performance of CIRM. The SCO's website has a page dedicated to the CFAOC's proceedings. CFAOC meeting transcripts, annual reports, and other resources can be found there.

D. CIRM is also subject to a triennial performance audit to ensure it is achieving economy, efficiency, and effectiveness in its use of resources. In addition to the multiple levels of oversight described above, Health & Safety Code Section 125290.30(c) requires that CIRM commission a performance audit every 3 years beginning FY 2010-2011. The performance audit, which is conducted in accordance with government auditing standards, examines the functions, operations, management systems, and policies and procedures of the institute to assess whether the institute is achieving economy, efficiency and effectiveness in the employment of available resources. This includes a review of whether CIRM is complying with ICOC policies and procedures. The first performance audit was presented to the ICOC in May 2012 and included a review of, among other things: (1) CIRM's policies and procedures for the issuance of contracts and grants and a review of a representative sample of contracts, grants and loans executed by the institute; and (2) CIRM's policies and procedures relating to the protection or treatment of IP rights associated with research funded or commissioned by CIRM. The second performance audit conducted by Moss Adams LLP commenced in late 2014 and covered CIRM's operations int he fiscal year (July 1, 2013-June 30,2014). The FY 2013-2014 Performance Audit included, but was not limited to, a review of all the following: Policies and procedures for the issuance of contracts and a review of a representative sample of contracts; policies and procedures for the issuance of grants and loans and a review of a representative sample of grants and loans; and policies and procedures relating to the protection or treatment of IP rights associated with research funded or commissioned by CIRM. The third performance audit for FY 2016-2017 was completed in 2018 by Moss Adams LLP. This audit assessed the compliance with policies and procedures for the core functions of grant applications, review, oversight, loans, contracts and intellectual property. The fourth performance audit for FY 2019-2020 was completed in 2021 by Moss Adams with similar audit responsibilities. The latest performance audit conducted by Moss Adams for FY 2022-2023 was completed in 2024 by Moss Adams with similar audit responsibilities and no significant findings.

Addressing Vulnerabilities

CIRM holds weekly Executive Team meetings. Meeting topics include discussion of current and potential challenges to achievement of strategic goals, as well as updates on control activities and an assessment of the success of mitigation activities. These meetings consist of individual unit leaders charged with implementation of the controls, each of which oversees

implementation of various components of the controls and evaluates the control's performance.

Ongoing Monitoring Compliance
The California Institute for Regenerative Medicine has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Institute for Regenerative Medicine systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the California Institute for Regenerative Medicine risk assessment process: executive management, and middle management.

The following methods were used to identify risks: brainstorming meetings, ongoing monitoring activities, audit/review results, other/prior risk assessments, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, and potential impact to mission/goals/objectives.

RISKS AND CONTROLS

Risk: Federal Government management of life science awards

The federal government has instituted a number of changes at the National Institute of Health which has impacted the life sciences research and development sector. These include a 15% cap on indirect cost at institutions of higher education, intermittent funding freezes generated by paused grant reviews, specific funding freezes directed at selected institutions of higher education, etc. In addition to the economic environment, these actions has impacted CIRM as more applicants look to CIRM as a funding source while its staffing resources stay the same.

Control: Establish pre-submission scoring

CIRM has instituted pre-submission scoring in order to forward a manageable number of applications to the Grants Working Group for review.

Since the CIRM team has a cap on FTEs and a limited pool of out of state grant reviewers and patient advocates on the CIRM Board, there are only so many applications that can be fully reviewed during an award cycle. The pre-submission selection allows CIRM to manage the high number of applications by establishing certain criteria and a cutoff range to allow the top scoring applicants to advance to a full grant review.

Risk: The increase in Artificial Intelligence usage in the life sciences field

Artificial Intelligence has impacted the scientific funding environment by potentially making it easier for applicants, awardees, grant reviewers, funding agencies to draft documentation and to conduct data analysis or portfolio analysis with artificial intelligence tools. In addition, artificial intelligence may assist the various CIRM teams in analyzing the data on applicants and awardees that has been accumulated over the lifetime of the award. There are concerns for both external and internal users that using AI tools to analyze confidential data in grant applications or from awards may put such data at risk of disclosure.

Control: Establish an AI use policy internally at CIRM

CIRM has issued a preliminary AI use policy understanding such policy may need to be updated as the AI field matures.

Control: Evaluation of AI risk by external entities interacting with CIRM

CIRM is evaluating approaches to identify and address potential risks associated with the use of artificial intelligence by external entities interacting with CIRM, including providing guidance and warnings regarding the handling of confidential information, as appropriate. Any such approaches would be implemented consistent with applicable agreements and legal requirements.

CIRM will provide preliminary warnings to external entities interacting with CIRM to refrain from using AI when dealing with confidential data of CIRM or its applicants/awardees. Entities with repeated instances of noncompliance may be subject to additional contractual controls, enhanced review, or other remedial actions, as permitted by applicable agreements and law. Any such actions would be implemented consistent with CIRM's contractual policies and applicable legal requirements. Any such tools would supplement, and not replace, existing reporting obligations of Awardees.

Risk: Increased acquisitions of Awardees and increased licensing of Awardees' assets

While the increasing number of acquisitions of Awardees or the licensing of Awardees' data and intellectual property is good news as validation of the research funded by CIRM, it does provide more difficulties in tracking CIRM-funded assets. CIRM previously has added an additional level of certification for clinical assets to determine if they had been licensed or acquired. However, there appears to be a need to have additional verifications in the event of an omission on the part of an Awardee.

Control: Use commercial databases to identify transactions

CIRM plans to evaluate the use of commercially available life sciences deal databases to support identification of transactions that may involve CIRM-funded intellectual property, and to assess whether such tools can be integrated into existing monitoring and compliance processes. CIRM will utilize an existing FTE with business research experience to identify potential deals or potential approved therapeutics that may include a CIRM funded project. Then after such identification, CIRM legal will research whether CIRM funded assets were involved. If not involved, there is no further action. If there is involvement, CIRM will ensure compliance with the reporting requirements and any other requirements in the CIRM Intellectual Property Regulations.

Control: Change existing database rules in CIRM's reporting system on Awardees' intellectual property assets

CIRM has a current reporting system linked to a reporting entity which is always the Awardee. As more acquisitions of an entire company (Awardee) occur, it has caused database issues since the Awardee institution is the one designated for reporting which is also linked to the actual award data. CIRM will work on changing the existing rule structure from a database perspective to allow follow-on reporting by an acquiring entity or licensee (as appropriate).

CONCLUSION

The California Institute for Regenerative Medicine strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Rafael Aguirre-Sacasa, General Counsel

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency