



California State Treasurer Fiona Ma, CPA Statement

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FOR IMMEDIATE RELEASE
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Treasurer Fiona Ma Statement on the Oversight Hearing Accountability and Administrative Review Committee

SACRAMENTO – Members, thank you for having me here today. I would like to start by thanking everyone who is sheltering at home and essential workers working during these trying times. You are keeping us safe and making it work. I have felt this crisis personally both at the State Treasurer’s Office and at home as my husband is a firefighter and first responder.

Also I want to thank you Madam Chair and Members for holding this hearing. This has been an unprecedented learning moment and as Madam Chair said, “A cautionary tale.” But ultimately, this is a success story in that we have not lost any taxpayer money, as OES Director Mark Ghilarducci stated a number of times.

I’d like to take a moment to introduce my office and what we do.

I am your State Treasurer or the Banker as prescribed in our constitution in 1849. I oversee three Divisions; chair 16 Boards, Commissions and Authorities, administer all outstanding bond committees and am a voting member of about a dozen other financial boards.

Over \$2 trillion comes through our office every year. Presently, we are managing \$100 billion in short term investments for the state itself, and more than 2,000 local governments. The office oversees the sale of all state bonds and actively manages about \$90 billion in outstanding bonds.

We are a small but mighty team of 420 professionals at the State Treasurer's Office (STO). Overall, I am incredibly proud of how our state government is handling this crisis, and, in particular, my team at the Treasurer's Office.

California taxpayers must know that our government is working diligently towards keeping us safe, protecting the financial resources entrusted to us, and functioning as normally as possible under extremely difficult circumstances.

Today's focus is on my Centralized Treasury & Securities Management Division. There are about five dozen people who work in this Division. Since I started as State Treasurer on Jan 7, 2019, I have found this Division to be hardworking, ethical, high functioning professionals dedicated to safeguarding the assets of our state, first and foremost.

I'd like to introduce the Director and Deputy Director who are here with me today to answer any technical questions you may have:

1. Mark Hariri, the Division Director, is a veteran of more than 32 years of state service;
2. Andre Rivera, Deputy Director, who is also a veteran financial professional with more than 22 years of state service.

As accountants, I included, our job is to "tick and tie." Each day, we balance all of the state's major accounts. We also ensure there are adequate controls on payments from the state treasury. For example: four different individuals need to approve a wire transfer before it is released.

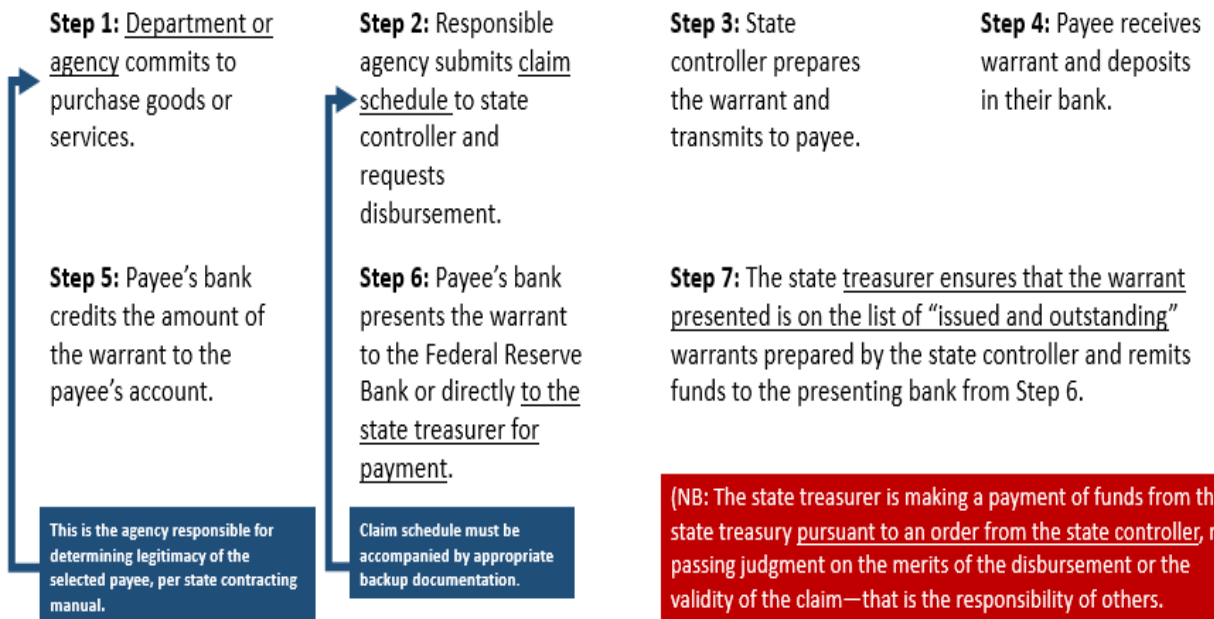
In 1849, our forefathers established in our constitution a separation of duties and responsibilities. The Governor, Treasurer and Controller are independent of one another because the functions are different for each of our agencies and this separation is what

enables better checks and balances. In our daily course of business, we work “hand in glove” with the Department of Finance and the State Controller’s Office.

COVID-19 has disrupted the way in which we live and do business. The first school closed on March 2 here in Sacramento. The Governor issued his stay at home order beginning on March 19 and after that day, every aspect of our lives has been impacted, including how our government runs.

As a Certified Public Accountant licensed in the State of California since 1992, my background in accounting, auditing, proper record keeping and oversight has been put to good use and has pushed me and my team to demand higher levels of scrutiny since standard payment processes have been disrupted. After March 26th, I directed Andre Rivera to alert me whenever there is a large COVID-10 related wire transfer request and have taken it upon our office to vet these vendors the best we can.

The Warrant Payment Process Illustrated



From the handout titled: The Warrant Payment Process Illustrated, you will see that my office normally gets involved in Step 6 and 7: when a payee presents a warrant (think of this as a normal check from a checking account) for payment and we verify that the warrant presented is on the list of “issued and outstanding” warrants prepared by the State Controller.

The other way we get involved is when a wire transfer is requested. In this instance, we have prescribed wire transfer protocols we follow before we release any money.

As of today, my office has received 14 Public Records Act Requests re four vendors so I will address those now as they related to my office:

1. The Blue Flame Medical LLC payment occurred on March 26th. The sense of urgency and panic -- trying to get the supplies, rushing to compete with the federal government and other states -- created the need for expediency which colored the normal processes in selecting and vetting approved vendors.

After being reassured from the folks in Step 1-3 in “The Warrant Payment Process”, my office initiated the \$457 million wire transfer through one of our depository banks who flagged the transaction with concerns about possible fraudulent activity.

Simultaneously the Virginia bank that received the wire, called Director Mark Hariri and informed him the account was opened a day before by a Washington DC lobbyists and the bank was not comfortable accepting this large wire transfer which is why we clawed the money back pending further confirmation of the legitimacy of the payments.

2. The second vendor was Hitchens, Harrison and Co. for ventilators. On April 3rd, we wired \$8.75 million to their bank. That deal fell through since they couldn't secure the equipment so they agreed to refund us back the money. On April 9th, we received \$6.48 million. And on April 14th, we received the remaining \$2.27 million.

3. The third case is BYD and the request to wire \$495 million dollars on April 10th, as a down payment for the \$1.1 billion total contract for surgical masks and N95 masks. In this instance, we specifically asked whether the proper vetting was done by the folks in Step 1-3. After being assured it was, we wired the money to the named bank account. As of today, some of the surgical masks have arrived however the N95 masks have been delayed. BYD refunded us \$247.5 million which was deposited back with us last Friday, May 8th.

4. And the last vendor is Bear Mountain Development Co., LLC. According to the Los Angeles Times article on May 9th, the article said that DGS cancelled the Bear Mountain contract on May 2nd. My office did not wire any money to any bank account and we do not have any paperwork on this transaction.

In closing, let me reiterate that the need to immediate action and to produce immediate results impacted the normal, careful and deliberate, checks and balances, processes that were in place. As we move forward, as control agencies, we must continue to be disciplined to adhere to the protocols or develop new emergency protocols that we all agree upon.

And lastly, during times of crisis, we all need to increase communication and cooperation amongst various departments, agencies and with the Executive Branch so we can be completely accountable to you, as representatives of the people of California.

I thank the Governor for his leadership and steady hand in protecting our residents and first line responders during the past two months. I am especially proud of my team who have stepped up during these past 8 weeks. We/I stand ready to be accountable and transparent in my duty as State Treasurer. Thank you and we will get this through this stronger together.

Fiona Ma is California's 34th State Treasurer. She was elected on November 6, 2018 with more votes (7,825,587) than any other candidate for treasurer in the state's history. She is the first woman of color and the first woman Certified Public Accountant (CPA) elected to the position. The State Treasurer's Office was created in the California Constitution in 1849. It provides financing for schools, roads, housing, recycling and waste management, hospitals, public facilities, and other crucial infrastructure projects that better the lives of residents. California is the world's fifth-largest economy and Treasurer Ma is the state's primary banker. Her office processes more than \$2 trillion in transactions within a typical year. She provides transparency and oversight for the government's investment portfolio and accounts, as well as for the state's surplus funds. Treasurer Ma oversees an investment portfolio of about \$98 billion, more than \$28.2 billion of which are local government funds. She serves as agent of sale for all State bonds, and is trustee on outstanding debt of more than \$98.1 billion.

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