

COUNTY OF MONTEREY

AUDITOR – CONTROLLER

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June 28, 2024

Via Electronic Mail and Hand Delivery

Honorable Stephanie Hulsey
Judge of the Superior Court
c/o Office of the County Counsel
Attention: Sandra Ontiveros
168, West Alisal Street, 3rd Floor
Salinas, CA 93901

Dear Judge Hulsey:

Pursuant to Penal Code section 933.05(f), please consider this letter as the formal response from the County of Monterey Auditor-Controller to the 2023-24 Monterey County Civil Grand Jury Final Report entitled "Cannabis Tax Revenues: Highs and Lows" transmitted on May 3, 2024.

I thank the Civil Grand Jury for their efforts and the opportunity to respond to their findings and recommendations.

Sincerely,

DocuSigned by:

Rupa Shah

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Rupa Shah, CPA
Auditor-Controller



Office of the Auditor-Controller

Response to the May 2024

Monterey County Civil Grand Jury Report

“CANNABIS TAX REVENUES: HIGHS AND LOWS”

RESPONSE TO: Findings F4, F5

FINDINGS

- F4. An internal audit of the Cannabis Program, recommended by the Citygate Report, was not completed, thus risking inefficient operating practices and the potential for inaccurate record keeping.

Response F4:

Disagree

Upon securing a resource approved by the Board in Fiscal Year 2021-22 to provide fiscal oversight over the Program, the Auditor-Controller's Office (ACO) has provided fiscal analysis, guidance, and training to County departments. The ACO assessed operating practices and record keeping, working in collaboration with the Cannabis Program Division of the County Administrative Office and all participating departments. This work resulted in updates to the accounting structure capturing relevant information accurately and in improved accounting and reporting of the Cannabis Program.

This effort provided more consistent fiscal support and oversight required of the Program negating need for an audit.

- F5. More than 50 cannabis businesses have closed or filed bankruptcy leaving the County with \$6M in unpaid taxes, resulting in reduced revenues for community services.

Response F5:

Neither agree nor disagree

The information is not attested by the Auditor-Controller's Office.

RESPONSE TO: Recommendations R4, R5

RECOMMENDATIONS

- R4. The Office of the Auditor-Controller's Internal Audit Division (IAD) conduct an internal audit on the Cannabis Program in FY 2023-24 by January 31, 2025.

Response R4:

Disagree

The Auditor-Controller's Office (ACO) Internal Audit Division develops its work plan based on an audit strategy with a potential to add value and reduce risk while working within the confines of limited audit resources. Tax revenues generated from the Cannabis Program significantly declined from approximately \$20 million in Fiscal Year 2021 to estimated \$3.5 million in Fiscal Year 2024, causing the Program to drop to a lower risk level. The suggested audit approach in the Citygate Report is not warranted currently. Furthermore, ACO's fiscal support and oversight effort (stated in response to Finding # 4) during this same period alleviated the audit need.

- R5. The Office of the Auditor-Controller's Internal Audit Division (IAD) conduct an internal audit of cannabis businesses with tax deferral payment plan agreements, including those in tax delinquency by January 31, 2025.

Response R5:

Disagree

At this time, the balance remaining to be collected on tax deferral is \$ 226,783 and pertains to a three-year payment plan offered to ten (10) operators in fiscal year 2021-22. As of June 24, 2024, the County Treasurer-Tax Collector's Office reported four (4) delinquent operators for a total of \$105,548 in unpaid taxes pertaining to the current Fiscal Year 2023-24. With this pertinent information being tracked and monitored by the County, the audit is not expected to reveal any new information. Additionally, the low combined tax deferral and delinquent balance does not raise the risk level to warrant an audit effort.