

RESOLUTION NO. 19-177, SERIES 2019

**RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE CONTRACT
WITH HDL COMPANIES FOR FINANCIAL AUDITS AND COMPLIANCE REVIEWS
ON RETAIL CANNABIS ESTABLISHMENTS**

WHEREAS, the City desires to audit the operations of cannabis businesses as part of the overall regulatory process; and

WHEREAS, the City has received a total of five proposals for Financial Audits and Compliance Reviews on retail cannabis establishments; and

WHEREAS, HdL Companies was deemed the highest rated proposer by City staff, and is well positioned to perform the services the City requires.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Davis does hereby authorize the City Manager to execute a Consultant Agreement with HdL Companies, in an amount not to exceed \$200,000 for the scope of work attached hereto; and

BE IT FURTHER RESOLVED that the City Manager is directed and authorized to execute the agreement, including any minor technical or clarifying changes as necessary.

PASSED AND ADOPTED by the City Council of the City of Davis on this 17th day of December, 2019, by the following vote:

AYES: Arnold, Carson, Frerichs, Partida, Lee

NOES: None



Brett Lee
Mayor

ATTEST:



S. Mirabile, CMC
City Clerk

Scope of Services

HdL will conduct financial and operational audits of permitted cannabis businesses annually, as directed by the City, to verify the accuracy of the revenue reported to the City during the review period and to ensure that tax revenues submitted to the City are correct and based upon the true amount of gross receipts for the business. If the audit(s) should reveal any unreported revenue, HdL will recommend a tax assessment and any penalties due.

Annual Financial Audit and Operational Audit

The City will provide HdL a list of all licensed cannabis businesses and will inform HdL when any new cannabis business receives permission to operate (i.e., through the issuance of a development agreement, conditional use permit, certificate of occupancy or other indication the business has opened). HdL will then work with the City to schedule financial audits and will coordinate with the City as the time for each audit approaches.

As part of the process, HdL will conduct a risk based analytical review of the businesses to ensure there is no diversion of product or cash. HdL audit staff will also use information gathered as part of the onsite compliance inspection to assist with the financial audit. The audit shall include all of the following:

- Field visit
- Gross receipts verification
- Risk based CATS™ Analytic Review
- Inventory review (subject to access to the track and trace system)
- POS data entry requirements review
- Preparation and issuance of report
- Exit conference with the City

HdL will help the City prepare a notification letter to send to the business to start the audit. The letter will contain pertinent information about the audit, including a list of the records requested and a request for access to the business' point of sale system.

HdL shall then work with each business to schedule a field visit and desk audit. The audit shall include an examination of all inventory records, Point-of-Sale (POS) and other software systems.

The audit shall also review the business's plan of operations and facility security plan, and shall specifically examine all visitor logs, membership records, tax records, complaints and testing documentation. The audit shall also include any additional items requested by the City in consultation with HdL.

HdL will provide a draft audit report to the commercial cannabis business. The business will be given the appropriate time to respond or appeal the report in accordance with the City ordinance.

HdL will review any documentation provided by the business to dispute the findings and will adjust the tax assessment as necessary prior to issuing the final report to the City.

Annual Compliance Reviews

HdL will conduct a series of up to two on-site compliance reviews annually, as directed by the City, for each permitted cannabis business to determine compliance with State and/or local laws. If HdL identifies any non-compliant activities, it will provide the City with a recommended appropriate action to address the deficiency and to ensure future compliance by the permittee. The cost for these services includes all of the following:

- Notifying permittee of pending inspection
- 2-hour on-site inspection to ensure that each business complies with all State laws and with the City's cannabis ordinances and regulations. The inspection shall specifically examine and address all of the following:
 - o Inventory management
 - o Cash handling procedures
 - o Access control
 - o Video surveillance maintenance and retention
 - o Product safety
 - o Hazardous materials storage and handling
 - o RFID tags or other identification methods
 - o Alarm system maintenance and safety
 - o Lock standards
 - o State packaging and labeling requirements
 - o Waste management and disposal
 - o Transportation manifests and documentation
 - o Surveillance equipment maintenance
 - o Employee records
 - o Occupational badges
 - o Business records
 - o Other items as necessary to ensure compliance with laws
- Preparation of a draft report detailing the findings of the inspection and providing recommendations for improvement where needed. If the inspection identifies any violations of law or other non-compliance issues, then HdL will prepare a notice to comply as an included part of the report.
- All travel costs associated with the inspection
- All phone, email and other communications involved in preparing for, scheduling and coordinating the inspections and providing the report