

2020-21 CANNABIS WORK PLAN

Office of the City Auditor

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OUR MISSION

The Office of the City Auditor is an essential element of the City of Sacramento's public accountability. Our mission is *"To provide a catalyst for improvements of municipal operations, promote credible, efficient, effective, fair, focused, transparent, and a fully accountable City Government."*

The Office of the City Auditor provides independent, objective, and reliable information regarding the City's ability to meet its goals and objectives, and establish an adequate system of internal controls. In many cases, this involves verifying compliance with laws and regulations, assessing the efficiency and effectiveness of the City's operations, and identifying internal control weaknesses and failures.

On January 14, 2020, the City Council adopted a resolution approving the establishment of a Cannabis Compliance Auditor in the Office of the City Auditor. The Cannabis Compliance Auditor is responsible for continuously monitoring and reporting on areas of risk through frequent and proactive audits of the administration and regulation of the City's cannabis programs.

On February 18, 2020, the Office of the City Auditor hired a Cannabis Compliance Auditor who immediately got to work becoming familiar with the City's cannabis program. Primary methods for gaining an understanding included assisting with an ongoing cannabis audit, investigating cannabis related whistleblower complaints and conducting a citywide cannabis risk assessment. The citywide cannabis risk assessment laid the groundwork for development of a cannabis focused work plan.

As part of the City Auditor's Annual Audit Plan a separate work plan for the Cannabis Compliance Auditor has been established. I am pleased to present you the FY2020/21 Proposed Cannabis Work Plan. My team and I look forward to providing the City Council and the Public with recommendations on improving the efficiency and effectiveness of City operations.

Sincerely,

City Auditor
Jorge Oseguera



CONTINUOUS MONITORING

Cannabis Activities under Continuous Review

Finance Department	Monthly Business Operations Tax (BOT) Payments	Cannabis businesses are required to pay a business tax of 4% of gross receipts to the City on a monthly basis. This review will continuously monitor gross receipts reported and tax payments remitted by cannabis businesses operating in the City.
Office of Cannabis Management	Business Permitting	The Office of Cannabis Management manages the business permitting process for local cannabis businesses. This review will continuously monitor the adequacy of controls over approved permits.
Community Development Department	Cannabis Code Enforcement Activities	The Cannabis Code Enforcement Unit assists the Office of Cannabis Management with the enforcement of commercial cannabis regulations. This review will continuously monitor compliance with City cannabis regulations by permitted cannabis businesses.
Office of Cannabis Management	Cannabis Policymaking, Education and Community Outreach	The Office of Cannabis Management (OCM) develops cannabis policy and provides cannabis education and community outreach in the City of Sacramento. This review will continuously monitor the evolving regulatory environment and OCM's community education efforts.



CANNABIS COMPLIANCE AUDITS

Priority 1 Audits (In Tentative Order)

Community Development Department	Cannabis Code Enforcement Unit	The Cannabis Code Enforcement Unit assists the Office of Cannabis Management with the enforcement of commercial cannabis regulations. This audit will assess the adequacy of cannabis code enforcement activities over local cannabis businesses.
Office of Cannabis Management	Cannabis Opportunity Reinvestment and Equity (CORE) Program	The CORE program was created to assist individuals who face barriers to entering the cannabis industry due to historical disparate enforcement of cannabis crimes. This audit will evaluate the effectiveness of the City's social equity program since its inception in 2018.
Finance Department	Business Operations Tax (BOT) Cash Collection Process	Due to federal regulations that prohibit banks from working with cannabis businesses, the City must collect large cash tax payments on a monthly basis. This audit will assess the adequacy of controls over BOT cash collection processes for cannabis businesses.

Priority 2 Audits (In Tentative Order)

Police Department	Illegal Cannabis Cultivation	Unlicensed and criminal cannabis activity continues to run rampant throughout the state. This audit will evaluate the City's ongoing efforts to crack down on illegal cannabis grow operations.
Office of the City Attorney	Cannabis Administrative Penalty Appeal Process	A unique process has been established to conduct appeals for cannabis administrative penalties. This audit will review the efficiency and effectiveness of the cannabis administrative penalty appeal process.
Community Development Department	Cannabis-Related Conditional Use Permits (CUP)	The City requires that cannabis businesses obtain a Conditional Use Permit (CUP). This audit will assess the efficiency and effectiveness of the cannabis CUP process.
Citywide	Impact of Cannabis Business Operations on the Community	This audit will seek to evaluate potential community impacts associated with cannabis business activities.

AUDIT SELECTION PROCESS

The City Auditor's Audit Plan is developed on an annual basis; however, the City Council may add audits to the workplan during the year and the City Auditor may propose additional audits should new risks emerge.

Audit topics are selected using a combination of quantitative and qualitative factors that come from a variety of sources. Areas of risk that may be assessed when evaluating risks related to a department or division include, but are not limited to:

- ✓ Annual Budget
- ✓ Number of Employees
- ✓ Funding Sources
- ✓ Age of Programs
- ✓ Fiscal Sustainability
- ✓ Customer Satisfaction
- ✓ Regulatory Compliance
- ✓ Significant Changes
- ✓ Criticality
- ✓ Emerging Areas of Risk

Input from elected officials, city management, the whistle blower hotline, and the public is also taken into account when developing the annual audit plan.

AUDITOR'S AUTHORITY

The City Council appoints the City Auditor to promote efficient, effective, transparent, and accountable City government. The City Auditor reports directly to City Council and has full responsibility for the direction and management of the Office of the City Auditor. The City Auditor works closely with the City Council, Audit Committee, Charter Officers, Department Directors, and Division Managers when conducting audits and evaluating programs.

The City Auditor conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) and provides City Council and the public with objective, timely, and accurate information about the City government. Findings and recommendations are designed to save tax dollars and improve City operations.

In November 2018, the Sacramento City Government Accountability and Efficiency Act (Measure K) was passed by voters. This established the City Auditor as a charter officer and combined the duties of the City Auditor and the Independent Budget Analyst. City Code 2.18 *Office of the City Auditor* outlines the office's duties and establishes the City Auditor's unrestricted access to information, unless prohibited by law.