

City of

# Cathedral City

## Proposal for Compliance Review/Audit of Gross Receipts for Cannabis Dispensaries

September 17, 2015

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## Transmittal Letter

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September 17, 2015

Ms. Tami Scott, Administrative Services Director  
City of Cathedral City  
68-700 Avenida Lalo Guerrero  
Cathedral City, CA 92234

*Re: MuniServices Proposal for Compliance Initialization Reviews/Audits of Gross Receipts – Cannabis Dispensaries*

Dear Ms. Scott:

MuniServices is pleased to provide this proposal for Compliance Initialization Reviews/Audit of Gross Receipts of Cannabis Dispensaries. We understand that the City seeks services to assist the City in facilitating compliance of the newly establish Cannabis dispensaries, and to subsequently audit those businesses to ensure that compliance with the City's tax levies is at the forefront of their continued operations.

MuniServices is duly qualified to meet the City's objectives in these areas. We are a full-service provider of revenue enhancement services with over thirty-seven (37) years of service history providing similar services to over 950 government partners nationwide.

MuniServices has performed audits for several municipalities with regard to medical marijuana dispensaries thus providing us with the institutional knowledge on regulations, taxation, acquisition, cultivation, production and distribution of medical marijuana, thus uniquely qualifying our firm to perform the work. We understand that many businesses in this industry are heavily cash oriented, experience difficulties with banking due to federal laws, have weak internal controls, lack fluent audit trails, and have inadequate books and records, and that the primary focal points of the examiners' audits center upon probing for unreported income, inventory tracking, and reconstructing sales. The City will fully share in our knowledge and experience of this industry if it elects to do so.

We will cooperatively assist the City in ensuring that the businesses subject to the City's Cannabis and Marijuana Tax levies, Chapter 3.48 *et seq.* of the Cathedral City Municipal Code, are adhering to revenue recognition and tax compliance and remittance requirements set forth therein. The City's levy specifies a tax rate of ten (0.10¢) cents for each one dollar of proceeds or fraction thereof, which include gross receipts of any kind received without limitation. MuniServices intends to ensure that the City receives its due amount of revenues from this levy both at the forefront and annually from the cannabis collectives.

We look forward to working with the City on this project and speaking with you soon.

Respectfully submitted,

Doug Jensen, Senior Vice President of Client Services  
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## Kick Off Meeting

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To begin the Audit project, the service will start with a kick off meeting to establish logistics, communication, and to set forth the procedures the City wants to establish.

1. Initial Meeting. MuniServices meets with the City staff to review the procedures and objectives of the service, business entity relations and logistical matters, including establishing an appropriate liaison with City management and staff and logical checkpoints for measuring progress (the “Initial Meeting”). MuniServices and the City will schedule the meeting within 10 days after MuniServices receives the fully-signed copy of the Agreement from the City.
2. Workplan. Based on the Initial Meeting, MuniServices develops a workplan that incorporates the logistical matters agreed to in the Initial Meeting and describes in detail how the objectives of the LTC service will be met (the “Workplan”).
3. Commencement of Services. After the Workplan is developed, MuniServices will begin providing the services described. MuniServices’ obligation to provide services is contingent upon the City providing the necessary information and cooperation.

## Compliance Initialization and Compliance Audit Services – Medical Marijuana Dispensaries

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Compliance Initialization Audit Services will be designed to identify all licensed businesses operating within the City pursuant to Chapter 9.108 of the Cathedral City Municipal Code, or California Health and Safety Code sections 11362.5, *et seq.*, and to educate those business on necessary measures of compliance with the enabling laws and regulatory provisions applicable to their operations, particularly with regard to taxes levied by the City pursuant to Chapter 3.48 of the Cathedral City Municipal Code. This service will be primarily conducted in an advisory sense, as most businesses will not have sufficiently developed records or filing from which to conduct a compliance audit. The goal of this service will be instill and implement a foundational groundwork of compliance and operations from which the businesses in this industry can develop and augment as they mature.

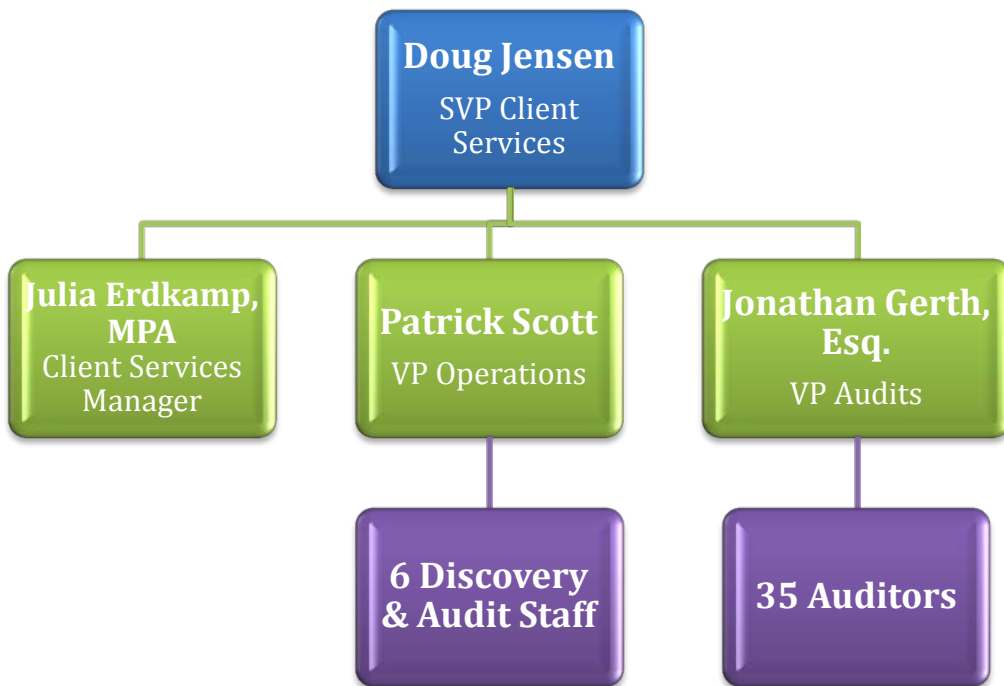
The subsequent and annual Compliance Audit Services are designed to monitor whether the existing businesses are properly implementing and adhering to compliance measures designed ensure complete recognition of proceeds and calculation and remittance of the taxes levied thereon. MuniServices will perform examinations of these entities’ records and systems to ensure proper entry of recording of transactions, inclusion of revenue, proper tracking of purchases, inventory and withdrawals, and compliance with the City’s taxes and State regulations of Medical Cannabis, if desired. In performing the Deficiency Audit Services, MuniServices will:

1. Establish a comprehensive inventory of the registered entities subject to taxation by the City and the database elements needed to facilitate an analysis of records of those entity’s current and prior year’s tax remittance;
2. Compare MuniServices’ internal records, if any, with the City’s records to identify potential under-reporting entities subject to taxation;
3. Meet with designated City staff to review and discuss potential audit candidates and mutually agree which entities will be subject to review. Only entities mutually agreed by



- MuniServices and the City to be reviewed shall be subject to MuniServices’ audit services.
4. MuniServices will obtain authorization from the City to conduct a review of the entities’ records and will provide the City with letters of authorization and information document request that will initiate, set the tone for, and schedule the examination.
  5. The comprehensive field examination will serve to identify any underreported proceeds and the sources from which they are derived, determine the amount of tax due for current and prior periods (plus applicable interest and penalties, where appropriate), and will educate the taxpayer on proper methods of recognition, reporting, and remittance for future compliance.
  6. MuniServices will submit audit reports and summaries to the taxpayers and the City to permit the taxpayer to contest any proposed liabilities and provide the City with knowledge of the initial audit results. MuniServices will calculate as part of the summary the amount we determine that is owed, if any, will work to resolve any arguments posed by the taxpayer as to interpretation or application of governing regulatory provision applied in the audit.
  7. Present and final audit report to the taxpayer and invoice the entity for the amount of identified deficiencies, together with supporting documentation.

## Key Personnel





## Executive and Project Management

Name/ Title	Qualifications/Education/Credentials
<p><b>Doug Jensen</b> SVP Client Services (Since 1991)</p>	<p><b>Role in Project:</b> Doug will have executive management oversight of the entire project.</p> <p>Doug has over 24 years of experience working on sales and use tax audit and information services contracts and has expertise in tax policy, municipal finance, and economic development and consulting. He will work closely with the MuniServices team several times a month on the progress of the project and provide counsel on strategies and approaches. Doug is an expert in the field of municipal revenue enhancement management and local government revenue consulting and ensures the delivery of audit, information, and consulting services, and is the company's west region leader overseeing 90 professionals with breadth and depth of knowledge and experience in local government focused on customer care. <b>Education:</b> Doug has a BS in Business Administration with an emphasis in Accounting from California State University, Fresno. <b>Professional Affiliations:</b> He is an associate member of numerous local government associations such as CSMFO and CMRTA.</p>
<p><b>Patrick Scott</b> VP Operations and Technology Services Executive Manager (Since 1994)</p>	<p><b>Role in Project:</b> Patrick will have responsibility for shaping the project to the client's satisfaction.</p> <p>Patrick will have overall responsibility for the implementation of the collections and compliance projects and is responsible for managing MuniServices Technology Services Group having responsibility for integrating all of MuniServices technologies to maximize revenue and deliver client satisfaction. Patrick joined MuniServices as a Senior Analyst and was subsequently promoted to Vice President East Operations and Technology Services Group. For over 20 years Patrick has been the leader shaping our Business License Tax projects. Patrick is instrumental in the management of tax compliance programs in numerous municipalities, including the District of Columbia, Detroit, Philadelphia, and California. He supervises forty-five employees on and offsite and contributes to contract agreements and specifications. Patrick has over 20 years of direct, day-to-day management experience in the information technology, operations, municipal consulting and compliance. As part of the MuniServices senior management team, Patrick has successfully led partnerships with state and local governments providing revenue enhancement and compliance services to maximize clients revenues, expand their tax base and increase compliance Patrick began his professional career in New York working on a collaboration between IBM, CBS and Sears as a programmer and support specialist in the membership services division. This collaboration gave birth to the first fully graphical online service known today as PRODIGY. <b>Education:</b> Studied Computer Science at Pace University-Pleasantville/Briarcliff Campus.</p>
<p><b>Jonathan Gerth, Esq.</b> VP of Audit (Since 2010)</p>	<p><b>Role in project:</b> Jonathan will have overall responsibility for implementation and successful completion of the auditing services for this contract.</p> <p>Jonathan manages our Audit Division, and Jonathan's professional background provides successful experience representing diverse services in legal, business, and accounting environments; including federal and local governmental functions, advanced federal, state, and local tax compliance and controversy, tax accounting, tax litigation, regulatory and statutory compliance, and alternative dispute resolution. He began his career as a tax attorney for Internal Revenue Service's Division of Chief Counsel and Compliance in Dallas, Texas where he conducted compliance audits, provided legal support for federal tax examinations, and conducted federal tax appeals in both administrative and federal court forums. After moving to Birmingham in 2009, he joined a Birmingham tax firm where he performed varieties of legal and accounting</p>



	<p>functions assisting clients in tax planning and forecasting, estate planning, corporate mergers, acquisitions, and reorganizations, tax preparation, legal research and tax advisory, and representation of taxpayers before federal and state taxing authorities. He joined Revenue Discovery Systems (RDS), a division of PRA Government Services, LLC, in April of 2010, and has since performed a wide latitude of legal and tax functions in the Audit department consisting of regulatory compliance initiatives and reforms in audit, assessment and collection practices, external litigation support, and legal support and analysis on compliance audits in the areas of direct and indirect transactional taxes, utility franchises, license/privilege taxes, revenue sourcing &amp; apportionment, constitutionality of governmental tax systems &amp; levies, taxation of interstate commerce, and advanced nexus and due process concerns. <b>Education:</b> Jonathan has a master’s degree in tax accounting from Spring Hill College (2002), and a law degree (J.D.) from Thomas Goode Jones School of Law in 2006 where he concentrated in the area of taxation. Jonathan is an actively licensed attorney, and a member of the Tax Section of the Alabama State Bar &amp; the Alabama League of Municipal Attorneys. He has also served as the administrative law judge presiding over tax appeals for all RDS represented local governments’ transactional taxes in Alabama since 2010.</p>
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**Project Manager**

Name/Title	Qualifications/Credentials/Education
<p><b>Julia Nichole (McGinnis) Erdkamp, MPA</b></p> <p>Client Services Manager</p> <p>(Since 2014)</p>	<p>Julia is the Account Manager for this project and will be the dedicated Client Services Manager. She will partner with and assist the City’s staff in developing and implementing strategies to preserve and enhance the City’s revenue. She has 14 years of government experience including her most recent work with the County of Orange, managing the budget administration, renewable energy and public information offices. Previous experience also includes serving as chief of the U.S. Department of the Interior’s Enterprise Program Management Office, chief liaison and quality improvement manager for the U.S. Department of Homeland Security, and program analyst for the City of Sacramento. Julia has received many finance, technology and operational awards from a number of government organizations. <b>Affiliations &amp; Membership:</b> Julia serves as an advisor on business and municipal finance education at Coastline Community College in Orange County, CA. She is also a member of Municipal Management Association of Southern California (MMASC), ICMA’s Women Leading Government (WLG), and California Society of Municipal Finance Officers (CSMFO). <b>Education:</b> Julia graduated magna cum laude in Political Science from the University of Southern California (USC) and has a Master of Public Administration magna cum laude from the USC Sol Price School of Public Policy.</p>



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## Compensation Proposal

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### Compliance and Audit Services

MuniServices' compensation for the Cannabis and Marijuana Tax Audit Service will be as follows:

- For the initial compliance review conducted 30 days following commencement of dispensary operations, compensation will be \$150 per hour with a maximum of 20 hours (or \$3,000) per engagement.
- Subsequent compliance and audit engagements conducted 90 and 180 days following the opening of each dispensary shall not exceed 35 hours (or \$5,250) per engagement at each dispensary.
- No audit or compliance activity will be conducted without written authorization from the City. We are proposing a cap on the total number of hours per audit; however, we will likely have many audits fall below the not-to-exceed amounts.

### Out-of-Pocket Expenses

For the Cannabis and Marijuana Tax audit services MuniServices will also charge the City out-of-pocket expenses for reasonable travel costs related to the performance of the audits. "Travel Costs" include but are not limited to the costs of airfare, car rental, gasoline, and traveling time at a reduced hourly rate of \$50 per hour. These out-of-pocket expenses will not exceed \$2,500. If we expect to spend more than \$2,500 we will get prior approval from the City for any amounts over the allotted \$2,500. The out-of-pocket expenses will be invoiced to the City upon delivery of the final report to the City.