



**COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor-Controller-Treasurer- Tax Collector	(2) MEETING DATE 12/9/2025	(3) CONTACT/PHONE Jim Hamilton (805) 781-5043 Kari Lekvold (805) 781-4846	
(4) SUBJECT Submittal of a report of the tax compliance audits of operators subject to the County Commercial Cannabis Business Tax Ordinance for the period July 1, 2023 through June 30, 2024.			
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the report of the tax compliance audits of operators subject to the County Commercial Cannabis Business Tax Ordinance for the period July 1, 2023 through June 30, 2024, and provide direction as deemed necessary.			
(6) FUNDING SOURCE(S) Fees	(7) CURRENT YEAR FINANCIAL IMPACT \$0	(8) ANNUAL FINANCIAL IMPACT \$0	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business (Time Est. _____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date <u>05/21/2024</u>	
(17) EXECUTIVE OFFICE REVIEW Zachary A. Lute			



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: James W. Hamilton, CPA, Auditor – Controller – Treasurer – Tax Collector

DATE: December 9, 2025

SUBJECT: Submittal of a report of the tax compliance audits of operators subject to the County Commercial Cannabis Business Tax Ordinance for the period July 1, 2023, through June 30, 2024.

RECOMMENDATION

It is recommended that the Board receive, review, and file the report of the tax compliance audits of operators subject to the County Commercial Cannabis Business Tax Ordinance for the period July 1, 2023 through June 30, 2024, and provide direction as deemed necessary.

DISCUSSION

The Cannabis Business Tax (CBT) was established on June 5, 2018, following the approval of Measure B-18 by 76.37% of San Luis Obispo County Voters. The Auditor division within the County's Auditor-Controller-Treasurer-Tax Collector (ACTTC) is responsible for ensuring the accuracy of collected CBT revenue. On June 20, 2023, the Board decided to maintain a 6% Commercial Cannabis Business Tax for FY 2023-24. As of December 2025, there are 19 operators with 23 licenses in the County's unincorporated area. As of our previous report in May 2024, there were 25 operators and 36 licenses in the unincorporated area. The 36% decrease in cannabis business licenses reflects both the consolidation of multiple licenses into ACTTC's new microbusiness license type, introduced in July 2024, and closure of several businesses.

The objective of our audits was to verify the accuracy of the Commercial Cannabis Business Tax-related amounts remitted to the County and to ensure that the tax calculated was in accordance with Chapter 3.05 of the San Luis Obispo County regulations. To achieve this, we engaged HdL Companies (HdL), an experienced cannabis auditing firm, to conduct revenue audits and site visits. ACTTC and HdL conducted site visits and reviewed the operators' reporting systems to ascertain if the gross receipts reported to the County were accurate, the commercial cannabis business tax owed was calculated correctly, and there was no diversion of product or cash.

Out of the four establishments audited, two were found to owe a total of \$38,221. One establishment has paid in full while the other has an outstanding balance and is at risk of license revocation. One establishment overpaid \$3,552 and was issued a refund. One establishment's audit was inconclusive since HdL was unable to verify the necessary information. ACTTC did not pursue the audit further since the business is now closed.

The reasons for underreporting revenue were not always identifiable, but in some instances, they stemmed from incomplete accounting records and lack of standardized point-of-sale processes. Conversely, overreporting of revenue mostly occurred due to reporting the value of finished products rather than the raw value.

Additional noteworthy audit observations comprised of the following:

- Failure to report revenue for the months it was earned.
- Incomplete documentation of business records needed to complete review.

Detailed findings by establishment are provided in the attached Summary of Monetary Audit Findings.

HdL provided operators with recommendations to address all findings and additional observations. The Auditor-Controller-Treasurer-Tax Collector-Public Administrator will continue to enhance the County's Cannabis tax compliance program using HdL services to conduct additional revenue audits.

OTHER AGENCY INVOLVEMENT/IMPACT

Individualized audit reports were issued to each operator. The Sheriff's Office and Planning and Building were involved in the risk assessment. The Sheriff's Office will continue site visit inspections which enhance the County's Commercial Cannabis Tax Compliance Monitoring Program.

FINANCIAL CONSIDERATIONS

The following is a recap of the Commercial Cannabis Business Tax collected for the last five fiscal years:

Fiscal Year	Commercial Cannabis Business Tax Collected
2020-21	518,130
2021-22	348,840
2022-23	597,745
2023-24	708,313
2024-25	504,720
Total	\$ 2,677,748

RESULTS

Cannabis Tax compliance audits play a critical role in verifying the accuracy of reported tax revenues in the unincorporated area. The audits improve transparency, enhance compliance, and protect public resources, all of which support the County's vision of a prosperous and well-governed community.

ATTACHMENTS

1. Cannabis Business Tax Compliance Summary of Monetary Audit Findings

**County of San Luis Obispo
Commercial Cannabis Business Tax Audits
Summary of Monetary Audit Findings**

<u>TAXABLE REVENUES</u>						<u>AMOUNT DUE BY AUDIT FINDINGS</u>			
Establishment *	Period Under Review	Reported	Audited	Difference	% of Reported Amount	Taxes/Fees			Total
						Due/(Refund)	Penalties**	Interest**	Due/(Refund)
1	FY 2023-24	14,360	594,507	580,147	4040.0%	34,809	-	-	34,809
2	FY 2023-24	171,661	112,460	(59,201)	-34.5%	(3,552)	-	-	(3,552)
3	FY 2023-24	733,568	790,443	56,875	7.8%	3,412	-	-	3,412
4	FY 2023-24	109,039	-	-	-	-	-	-	-
		\$ 1,028,628	\$ 1,497,410	\$ 577,821		\$ 34,669	\$ -	\$ -	\$ 34,669

* Establishment names have been removed for purposes of confidentiality.

** The County will not assess penalties and interest on additional taxes due for the first cannabis audit if paid within thirty days of final report date.