



## MAY 19, 2021, CERTIFIED PUBLIC ACCOUNTANT WORKGROUP ANNUAL FINANCIAL STATEMENT (AFS) FEEDBACK

1. The AFS requires information regarding a licensee's revenues in Procedure 2 – Revenues.
  - a. Please identify aspects of the reporting requirements in Procedure 2 where you encountered challenges when providing the required financial information related to the licensee's revenue transactions.

- Secured transporters are not recording revenue in METRC. Multiple manifests may be included within a single invoice.

**Response:** The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2 may be omitted in fiscal year 22 (FY22) while retaining Procedure 2 Total Revenue. If Procedure 2 individual samples are retained, the MRA will consider modifications to Procedure 2 for secure transporter's requirements for both medical and adult-use licensees for FY22 to address the issues raised.

- Some licensees do not have sophisticated accounting/record keeping.
  - It becomes difficult to reconcile transactions for medical vs. adult-use in a licensee's General Ledger. Many licensees are not differentiating between their medical and adult use licenses when entering revenue in the General Ledger.
  - Licensees are recording batch entries for cash.
  - Licensees are not differentiating revenue by license type when batch recording revenue in the General Ledger.
  - Licensees (provisioning centers) are not differentiating non-cannabis sales when batch recording revenue in the General Ledger.
  - Difficult to see a specific transaction hit the General Ledger.

**Response:** The MRA will consider this feedback when considering modifications to the AFS report for both medical and adult-use licensees for FY22. In addition, the MRA intends to inform and educate licensees via bulletins, email blasts, and other types of media regarding the accounting and recordkeeping issues identified by the workgroup.

- METRC issues:

- Unable to correct METRC data entry errors. Limited ability to update METRC entries makes it difficult to reconcile revenue.
- POS & METRC interfacing issues. Difficult to tie POS to METRC due to interfacing errors. During POS interfacing with METRC, it has “timed out.” The licensees have assumed that the interfacing has been successful when in fact it has not. Licensees are not always reconciling this to make sure that it is successful.

**Response:** This feedback will be presented to the MRA Operations Support Section (OSS) within the Enforcement Division for review and consideration. OSS is the MRA’s main point of contact with METRC. The Financial Compliance Section will follow up with OSS and determine if the section has any recommendations regarding the issues raised. Please note that the POS and METRC interfacing issues can be addressed by licensees without the MRA taking any action. As a standard operating procedure, licensees should audit and reconcile their POS data with the METRC data on a regular basis. This will ensure that errors are identified, and interface issues can be addressed timely.

- Significant discrepancies between METRC and General Ledger for growers and processors:
  - Manifests are generated at the time of the sale, but revenue amount is not paid until after the yield is known. The product is being transferred before the product is actually sold/generating revenue.
  - METRC revenue amounts are rarely correct. Sometimes the product is entered in as a penny, an estimated price, or actual price. There are typically discrepancies.
  - Processors are sometimes only receiving a processing fee, not a fee for the product itself. For example: a grower or provisioning center that is selling to their own custody but transfers product to a processor facility to be processed will only pay the processing fee.
  - Processors “splitting” the transaction type and keeping part of the biomass. The incoming/outgoing transfers may be recorded in METRC as a penny, leading to a significant discrepancy between General Ledger and METRC.

**Response:** This feedback will be presented to the MRA Operations Support Section (OSS) within the Enforcement Division for review and consideration. OSS is the MRA’s main point of contact with METRC. The Financial Compliance Section (FCS) will follow up with OSS and determine if the section has any recommendations regarding the issues raised. In addition, the FCS will work with the OSS and licensees to identify and implement potential solutions for these issues. Implementation of any solutions by the MRA will include informing and educating licensees via bulletins, email blasts, and other types of media.

- Vertically integrated licensees:

- Should transfers to vertically integrated facilities be included in the sample?

**Response:** The AFS report requirements for FY 2021 for medical and adult-use licensees do not exclude internal transfers between vertically integrated facilities. The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2 may be omitted in FY 22 while retaining Procedure 2 total revenue. If Procedure 2 individual samples are retained, the MRA will likely exclude internal transfers to vertically integrated facilities for both medical and adult-use licensees for FY 22.

- This becomes specifically problematic for licensees that have created multiple legal entities (different licensees) but are related. Should these transfers be included in the sample?

**Response:** Licensees that have created multiple legal entities are entirely separate licensees for licensing and reporting purposes. Transfers between those licensees should be included in AFS report samples.

- Total Revenue:

- Difficult to reconcile total revenue.
- Revenue in General Ledger rarely reconciles with METRC.

**Response:** The Financial Compliance Section (FCS) will work with the MRA Operations Support Section to determine licensee best practices regarding these issues. FCS will disseminate this information to licensees via bulletins, email blasts, and other types of media.

- What is the purpose of testing total revenue?

**Response:** The testing of total revenue provides an overall view of the licensee's revenue operations that is not captured by individual revenue samples. It additionally provides information related to the sales and excise tax that the licensee may be required to remit.

**b. Did you recommend any changes to the licensee's operations or record-keeping to address those challenges?**

- General Ledger accounts for medical and adult use licenses.
- Reconciling revenue between the POS, METRC and General Ledger.
- If entering revenue amounts in METRC that will not tie to invoices (growers/processors), have a way to tie the METRC tags to the invoices.

**Response:** Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

**c. Are there any modifications to the revenue procedure that MRA should consider?**

- Procedure achieves its intended purpose.
- Further instructions or educational resources for licensees to understand the expectations of the MRA for compiling with the revenue procedures. Providing a minimum requirement for a General Ledger.

**Response:** Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

- Rename the P2 Schedule of Total Revenue (not referring to it as “P2”).

**Response:** The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2 may be omitted in FY22 while retaining Procedure 2 total revenue. If Procedure 2 individual samples are retained, the MRA will consider this recommendation.

- Revise the Schedule of Total Revenue instructions. Instead of asking for Total Revenue per the General Ledger, request total revenue for Medical per the General Ledger and Adult-Use per the General Ledger, for each respective report.

**Response:** If Procedure 2 individual samples are retained, the MRA will make this recommended modification.

- Looking at the entity (as a whole) when reconciling total revenue instead of reconciling for each particular license.

**Response:** The MRA will likely not make this change as reconciling each license individually provides a more accurate picture of the licensee’s operations for each particular license. However, the MRA will monitor and evaluate data to determine whether allowing the reconciling of each license type as opposed to each license would still provide the necessary information while making it easier to report on Procedure 2 – Total Revenue.

- Consider if reconciling individual transactions is necessary when reconciling total revenue.

**Response:** The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2 may be omitted in FY22 while retaining Procedure 2 total revenue.

- Remove tracing revenue to the General Ledger (or beyond) for provisioning centers/retailers and trace METRC to POS only.

**Response:** The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2 may be omitted in FY22 while retaining Procedure 2 total revenue. Omitting individual samples in Procedure 2 for FY22 would address this concern.

**2. The AFS requires information regarding certain operational costs in Procedure 3 – Disbursements; Procedure 4 – Vendors; Procedure 7 – Licensing Agreements; and Procedure 8 – Outsourced Services.**

- a. Please identify aspects of the reporting requirements in those procedures where you encountered challenges when providing financial information related to the licensee’s operational costs.**

**Procedure 2 – Schedule of Revenue:**

- Selection of samples.
- Extensive number of samples.
  - Time-consuming to make selections.
  - Overlap of samples between procedures.
  - For smaller operations, almost all transactions within their General Ledger are being tested.

**Response:** The MRA will monitor and evaluate data to determine whether Procedure 3 may be omitted in FY22.

**Procedure 6 – Schedule of Vendors:**

- Licensees are choosing how to name/identify the vendor. A licensee may not be consistently naming the same vendor. Because of this, there may be transactions that are missed when relying on the General Ledger to come up with a list of the top vendors.

**Response:** Licensees should record vendors accurately and consistently. Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

- For many smaller operations, owners/employees are purchasing items personally or by credit card and are then reimbursed. The disbursement is being paid to an individual/credit company who is not actually the vendor.

**Response:** Licensees should maintain accurate records. A licensee purchasing items personally or by credit card must keep records in a manner that allows for accurate vendor information to be compiled and reported. Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

- Overlap between medical and adult-use:
  - Shared expenses.
  - There is a likelihood that the same transactions will be selected when conducting the procedures for a medical and adult-use report.
  - How should the top 10 vendor list be handled for medical/adult-use? Can they be the same?

**Response:** The current AFS report requirements must be fulfilled by licensees during fiscal year 2021 (FY21) for both medical and adult-use licensees. Currently, the instructions require separate transactions for the medical and adult-use AFS reports. If a transaction that has previously been reported on a medical AFS report is randomly selected while the CPA is conducting a procedure for the adult-use AFS report, the CPA should randomly select a new transaction to replace it. The MRA will consider this feedback when considering modifications to the AFS report for both medical and adult-use licensees for FY22.

- Noting items as exceptions for a lack of support (licensee cannot find invoice/support) when the transaction seems to be insignificant.

**Response:** If the licensee does not have support documentation for a transaction, it is an exception that should be noted, however, this does not necessarily subject the licensee to possible disciplinary action. The MRA considers all the relevant information when determining whether a licensee should be referred for possible disciplinary action. If the CPA considers an item to be insignificant, the CPA may indicate that in the results section for the relevant procedure. Please note, however, while an item may not be significant from an accounting perspective, it may be significant from a regulatory perspective.

- Testing:
  - MRA asking for further information on vendors that were not chosen for testing.
  - MRA asking the CPA to perform a test or provide further information that is not written in the procedure.

**Response:** The CPA concern regarding this is noted and appreciated. Based upon the discussion regarding this issue, the MRA may consider changing the vendor procedure to require haphazard sampling for testing rather than random sampling. The requirement that sampling be random resulted in vendors of low risk being chosen for individual testing while vendors with higher risk for noncompliance were not chosen. The MRA did follow-up and ask for additional testing or explanation for some vendors.

**Procedure 8: Management/Outsourced Services Agreements:**

- Management rarely has a list of services/agreements.
- Services can be month to month, yearly, or have no agreement at all. What should be included?

**Response:** The CPA should report all services that meet the description in the required procedure for Procedure 8. If there is no agreement, the CPA should note “none” for the title of the contract or agreement. If the vendor is chosen for individual testing, the CPA may note the relevant information where appropriate on the schedule, and/or in the results section of the schedule.

- It’s a challenge to know if management gives an accurate list of management agreement.

**Response:** This challenge is noted; however, this challenge is applicable to the entire report. The CPA’s responsibility is to report the information identified in the CPA’s application of the procedure requirements based upon the information and records provided by the licensee. If the licensee fails to report relevant information to the CPA, the licensee is responsible for that failure.

- P8 appears to be an under-utilized procedure because licensees do not know what they have or what falls within this procedure.

**Response:** This challenge is noted. The required procedure for Procedure 8 was further defined in the adult-use AFS report for FY 21 to assist the CPA and licensee to identify services that must be reported. Additionally, new rules have been proposed that define these agreements and require submission to MRA for review. These new rules, if enacted, should help with identification of the services covered by this procedure.

**b. Did you recommend any changes to the licensee’s operations or record-keeping to address those challenges?**

- Improve file and General Ledger organization (i.e., organizing support by license type, organizing by vendor, keeping track of all agreements, etc.).
- Tagging vendors for medical and adult-use.
- Using a class and location classification in Quickbooks to tag vendors.

**Response:** Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

**c. Are there any modifications to these procedures that MRA should consider?**

- All disbursement testing to be reported on one AFS report (either medical or adult-use) to avoid overlap/repeated testing.

**Response:** The MRA is unable to combine medical and adult-use facility testing due to the difference in the reporting requirements in the MMFLA and Rule 20. Statutory changes would be required to allow for combined reporting.

- Reordering of procedures or provide further instructions on the chain of testing (conduct P8, P7, P4, then P3).

**Response:** The MRA will monitor and evaluate data to determine whether the individual samples portion of Procedure 2, Procedure 3, and Procedure 5 may be omitted in FY22. If those procedures are omitted, the MRA will re-order the remaining procedures. If those procedures are not omitted, the MRA will modify the instructions to call more attention to the recommendations as to the order in which these procedures should be conducted.

- Provide further instructions on the types of disbursements that MRA wants to review (or not review).

**Response:** In addition to the procedures to be considered for omission referenced above, the MRA will be revising instructions to remaining procedures to provide further refinement to the disbursements to be reviewed.

- Consolidate disbursement testing/schedules:
  - Limit the number of sampling required.
  - Schedule for product purchases/inventory acquisition only and schedule for all other expenses.
  - Limit the types of disbursements to be tested. What is the purpose of testing utility bills, food, etc.?

**Response:** As referenced above, if Procedure 3 is omitted and further instructions are provided, this should address the listed concerns.

- Implementing “Rotating Selection” or “Rolling Procedures” (not keeping the procedures the same for all reports). This could minimize fraud risk as licensees will not know what to expect. By knowing what to expect, licensee can classify disbursements a certain way knowing that it may not be chosen.

**Response:** This recommendation will be considered in the future development of the financial compliance processes.

- “Haphazard Sampling” (picking higher risk areas):
  - Consider revising procedures to have samples selected haphazardly instead of randomly.



- P4, P7, and P8 – samples should be selected haphazardly.
- P3 – samples can remain being selected randomly.
- Pros:
  - Selecting areas that appear to be riskier.
  - Limiting MRA's request for information on vendors that were not chosen during the random sample but appear to be high risk areas.
- Cons:
  - Run the risk of having practitioners selecting to benefit the licensee and not the intention of the MRA.
  - AUP reports are not audits and should not introduce a practitioner's judgement or risk assessment.
- Implementation:
  - Must design/write the procedure to allow for haphazard sampling without introducing the auditor's judgement or risk assessment. The procedure must be clear on exactly what the practitioner must do.
  - Have the CPA document how they made the selections.

**Response:** The MRA intends to modify appropriate procedures to require haphazard sampling rather than random sampling and will seek input from CPAs on the language of the procedure to address the implementation concerns.

**3. Taxes are addressed in Procedure 5 – Payroll Tax, Procedure 9 – Excise Tax (AU only) and Procedure 11 – Sales Tax.**

**a. Please identify aspects of the reporting requirements in those procedures where you encountered challenges when providing financial information related to the licensee's tax payments.**

- Procedure 5: Schedule of Payroll Tax:
  - How to report/explain payroll that is under a different FEIN, essentially operating under a management agreement, that is the same structure as the licensee.
  - Some licensees do not have sophisticated accounting/record keeping.
    - Licensees recording contract labor as wages in the General Ledger (not separating independent contractor vs employee wage).
    - Difficulty tying wages to the general ledger and reconciling wages when licensees are not segregating these wages.
    - Difficulty finding all wages in the General Ledger. Some licensees are documenting wages in different areas within the General Ledger.

- Licensees using “accrual wages” (growers). The wages per General Ledger do not reconcile with the 941 wages.
- Note: Most licensees run a payroll report to determine the wages to report on the 941 (not relying on the General Ledger).
- Having the CPA document how they made the selections.

**Response:** Procedure 5 is being strongly considered for removal from AFS requirements for FY 22.

- Procedure 9: Schedule of Excise Tax:
  - Some licensees have not been able to fully comply with their tax liabilities (on a payment plan).

**Response:** Licensees are expected to remit tax payments as required by the Michigan Department of Treasury. If the licensee is on a payment plan, the CPA should so indicate in the results section for Procedure 9.

**b. Did you recommend any changes to the licensee’s operations or record-keeping to address those challenges?**

- None were discussed.

**c. Are there any modifications to this procedure that MRA should consider?**

- Procedure 5: Schedule of Payroll Tax:
  - Remove the Total Wages per General Ledger Column.
  - P5 Questionnaire Part 1 (a) – determine if this is repeated information of the P1 Schedule (part a).

**Response:** Procedure 5 is being strongly considered for removal from AFS requirements for FY 22.

- Procedure 9: Schedule of Excise Tax:
  - Given that some licensees have not been able to fully comply with their tax liabilities (on a payment plan) – is there a specific way the MRA wants this information reported?

**Response:** Licensees are expected to remit tax payments as required by the Michigan Department of Treasury. If the licensee is on a payment plan, the CPA should so indicate in the results section for Procedure 9.

- For all tax procedures:
  - Given that the P2 is testing METRC/revenue, how important is it to see reconciliation on these procedures?

**Response:** Reconciliation in the procedures related to all taxes is very important. The MRA has identified instances where the licensee has failed to report or under-reported revenue on required tax returns.

- Consider if it is necessary to look at gross receipts per METRC.

**Response:** The MRA will continue to require tracing of gross receipts beginning with METRC. The MRA will include requirements for METRC accuracy in the information to be disseminated to licensees in an accounting and recordkeeping best practices advisory bulletin.

**4. Procedure 10 – Schedule of 1099 Independent Contractors requires information about payments made to independent contractors.**

- a. Please identify aspects of the reporting requirements in Procedure 10 where you encountered challenges when providing financial information related to the licensee’s tax payments.

- 1099s are issued on a calendar year basis. Reporting Periods may overlap quarters, years, etc., so a 1099 employee may be picked for sampling that did not actually receive payment within the reporting period.
- Licensees issue 1099s to entities; the P10 Schedule was designed with individuals in mind.
- There is an overlap between the P8 and the P10.

**Response:** The challenges identified for Procedure 10 are noted. This procedure was written with individuals in mind. The MRA will consider this feedback when considering modifications to the AFS report for both medical and adult-use licensees for FY22.

- Licensees are issuing 1099s to entities that should not be receiving a 1099.

**Response:** This is noted; however, this is a taxation issue over which the MRA has no oversight.

- Concern that the information the licensee gives the CPA may not be completely accurate. How can CPAs be confident that they have received complete information?

**Response:** This challenge is noted; however, this challenge is applicable to the entire report. The CPA’s responsibility is to report the information identified in the CPA’s application of the procedure requirements based upon the information and records provided by the licensee. If the licensee fails to report relevant information to the CPA, the licensee is responsible for that failure.

- b. Did you recommend any changes to the licensee’s operations or record-keeping to address those challenges?**

- None were discussed.

**c. Are there any modifications to this procedure that MRA should consider?**

- Reword the procedure to not use “inquire and obtain from management a list” as many licensees do not have a list. The procedure does not allow for CPAs to know they have received complete information.
  - Suggestion: obtain copy of 1096 (which would provide a list of 1099s issued within a time period). By receiving 1096 and all 1099s that accompany it, CPAs can see if they have an accurate list for sampling.

**Response:** The MRA will modify this procedure as suggested.

- Define the testing to only test transactions that occur within the reporting period. Note or explain why the number of transactions does not total the full amount of the 1099.

**Response:** The MRA will modify this procedure as suggested.

- Reword the P8 and P10 instructions and further clarify the instructions making a distinction between the P8 and P10 based on individuals vs companies.
  - May be difficult to distinguish between individuals vs companies. Some individuals have EINs and would be considered independent contractors.
  - Rent, attorneys, etc. are issued a 1099 – what is the intention of the procedure and who does MRA want to be tested?

**Response:** The MRA will further consider these issues when addressing proposed modifications to P8 and P10.

- Consider combining the P8 and P10. Instead of trying to determine what goes on each schedule, combine the schedules, and expand the testing.
  - A materiality discussion could play a role in keeping these procedures together or separate.

**Response:** The MRA will consider whether combining P8 and P10 and expanding the testing would address the purposes behind each procedure. As discussed during the workgroup, materiality from an accounting perspective differs from materiality from a licensing perspective.

**5. “Materiality” has been advanced as an accounting concept that should be incorporated into the AFS.**

**a. Please define “materiality” as an accounting concept.**

**b. Please indicate why “materiality” should be addressed in the AFS and provide pros and cons to its incorporation.**

**c. How would you suggest MRA incorporate “materiality” into the AFS and to which procedures should it be applied?**

- Materiality Defined:
  - Threshold amount based on what would be considered trivial to a company based on the company’s size/revenue they are generating.
  - Whether a certain transaction has an impact on if a report will be misleading.
- Materiality Considerations:
  - Consider the cost/benefit of the exception. Many licensees may find that it is not worth the cost and effort to dig into a discrepancy further.
  - Consider the “substance” of the transaction.
  - Materiality may vary client to client.
  - Consider if the threshold will change the sort of testing.
  - Consider what to call an exception or not.
  - MRA to use judgement when questioning exceptions.
- Implementation:
  - If there is a difference between the source document and General Ledger, it should be noted. However, materiality threshold will determine if this should be noted as an exception.
  - Set the materiality threshold based on total revenue to apply a “baseline.”
  - Suggested to not apply materiality based on a testing perspective, but rather from an exception perspective and whether MRA would request further follow up.
  - If a discrepancy/exception is under the threshold, it would be noted but not explained. If a discrepancy/exception is over the threshold, it would be noted and further explanation is required.
  - Provide further instructions on AFS report/instructions/results section on what a CPA should note as an exception and when to provide further clarification.
  - Each procedure could warrant a different materiality threshold.
    - When looking at a vendor as a whole, the materiality threshold might be larger than the materiality threshold of an individual transaction.
      - Looking at something as a “whole” instead of transaction based is where materiality may matter most.
      - Total Revenue Schedule – set a threshold (% of total revenue). If the discrepancy is over the threshold, the discrepancy must be investigated further. The discrepancy should be reconciled within a certain percentage.

- Suggested to set up a workgroup/test run to discuss only materiality and see how it would apply within each schedule.

**Response:** Discussion about the materiality concept resulted in a consensus between MRA and the CPAs that materiality will be an MRA consideration for the AFS internal review process. The MRA has set some initial internal review thresholds and will continue to refine them as we collect more data.

**6. The topic of “risk” and low-risk vs. high-risk licensees was identified as an item for discussion.**

- Please define “risk” as an accounting concept.**
- Please indicate whether “risk” should be a concept that is considered when defining the requirements of the AFS?**
- How would you suggest MRA incorporate “risk” into the AFS and provide pros and cons to its incorporation?**
- How would you suggest MRA determine which licensees are low risk vs high risk?**

The following addresses the discussion related to all the topics/questions for risk:

- Two types of risk: Risk of Material Misstatement, and Risk of Compliance
- Implementation:
  - Consider a licensee’s compliance history (timely filing, correct reporting, other compliance issues, etc.). Based on criteria, develop a low and high-risk status to:
    - Reduce or increase testing.
    - Rotate procedures (unpredictability). For example: less procedures for compliant licensees, all procedures for licensee with compliance history.

**Response:** Currently, the MRA will continue to test all licensees as the financial compliance program is in its inception. The MMFLA requires annual reporting, however, in the future development of the financial compliance processes the MRA may consider whether an adult-use licensee’s reporting requirements could be reduced based upon the licensee’s compliance history. The MRA will also consider rotating procedures in the future development of the financial compliance processes.

- Determine areas of “high risk” – where MRA has uncovered issues:

- Revenue is a high-risk area.
- Payroll typically low risk area.

**Response:** Based upon these comments, Procedure 5 is being strongly considered for removal from AFS requirements for FY22. Additionally, the MRA is considering whether the P2 Total Revenue adequately addresses the risk such that the individual samples of P2 could be omitted.

- Incorporate more questions into the questionnaire. Certain indicators on how they are operating may help to determine a licensee's risk (accounting system, employee turnover).

**Response:** The MRA will consider this feedback when considering modifications to the AFS report for both medical and adult-use licensees for FY22.

**7. Reporting periods and timing of reports was identified as an item for discussion.**

**a. What challenges have you encountered with the current reporting periods and report due dates?**

- Some licensees have more time to prepare for reports based on the end date of their reporting period.
- Licensees provide CPA with incorrect initial license date, resulting in incorrect reporting periods being chosen.
- Licensees that have created different entities/FEINs may have different reporting periods, although the entities are all related.
- Licensees with medical and adult-use licenses may have different reporting periods, while others have the same reporting period (overlap of information).
- Licensees have expressed difficulty finding CPAs to do the AFS report or do it timely.

**b. Are there any modifications MRA should consider in order to address those challenges?**

- Provide licensees with their ERG number, initial licensure dates for each license, and reporting period.

**Response:** This was instituted with adult-use for FY21 and will be continued moving forward.

- Allow related licensees (separate entities with same ownership) to have the same reporting periods.

**Response:** Separate entities are separate entities for licensing and reporting requirements. Reporting periods are determined by the licensee's first licensure date.

- Consider limiting the reporting for medical that has already been tested on an adult-use AFS report.

**Response:** Medical and adult-use licensees are licensed under two different statutory provisions. Currently, we are unable to differentiate reporting requirements between medical-only licensees and those with dual licensure.

**8. The AFS is required for medical licenses pursuant to Section 701 of the Medical Marihuana Facilities Licensing Act and for adult-use licenses pursuant to Rule 20 in the Marihuana Licenses rule set. Would it be beneficial if the MMFLA was amended so that licensees with both medical and adult-use licenses could file a combined AFS report? Why or why not?**

- All participants in favor of consolidation based on information/topics already discussed during the workgroup. No additional comments.
- No cons were discussed.

**9. Are there additional educational resources needed to assist licensees regarding the AFS or AFS review process?**

- Education for licensees on what is expected from a general accounting perspective.
- Communication with licensees on minimum expectations to comply with procedures (needing a certain type of ledger at a minimum).
- Communication with licensees on where and how their records will be tested, and the type and quality of record keeping that licensees should make.
- Providing "tips" or "best practices" to licensees.
- Hold a workgroup/educational session for licensees to provide tips/best practices as it relates to bookkeeping.

**Response:** Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

- Providing licensees with their ERG number, initial licensure date and reporting period (including this on the licensee's notification letter) or providing clear instructions on where licensees can locate this information.



**Response:** This was instituted with adult-use for FY 21 and will be continued moving forward.

- Provide additional information on who the licensees should designate to be their contact (application/license contact vs AFS contact).
  - Many CPAs are in favor of the licensee being their own contact and not designating the CPA. Expressed concerns with independence and that the licensees should be involving the CPA only with information pertaining to the report/procedures that the CPA conducted.

**Response:** This is an issue to be discussed and determined by the CPA and the licensee.

- Providing licensees a list of participating CPA firms available to conduct AFS reports.

**Response:** This is being considered for addition to the MRA website.

**10. Are there additional educational resources needed to assist CPAs regarding the AFS or AFS review process?**

- Creating a group of CPAs to use as a resource for discussion and questions.
  - Suggestion: Facebook group.
  - Suggestion: Email listserv for roundtables/monthly emails.
  - MRA will send out a contact list to all workgroup participants.

**Response:** A contact list of all workgroup participants was emailed after the workgroup meeting. CPAs should consider contacting the MICPA to explore creating a CPA cannabis-related group.

**11. Are there modifications to the functionality of the AFS report that MRA should consider?**

- Text wrapping, ability to format cells, ability to spell check.
- “Linkage” between tabs (ex: entering in reporting period dates one time and populating on all tabs).

**Response:** These modifications are being researched and may be able to be addressed prior to FY22. Any such modification will be addressed by e-blast and the modified form made available on the MRA website.

- Unprotect the report.

**Response:** The procedures are protected to maintain the integrity of the report. If there are particular fields causing problems, please submit those to MRA at [MRA-AFS@michigan.gov](mailto:MRA-AFS@michigan.gov) and those fields may be addressed.

**12. Keeping in mind that any accounting or record-keeping rules MRA would institute for licensees would need to apply to licensees of all license types and business operations from sole proprietors, LLCs, private corporations, to publicly traded companies, should MRA consider instituting any accounting or record-keeping rules upon licensees? If yes, what rules should be considered and why?**

- Requiring a “double-entry” record keeping system (debit/credit for every entry).
- Requiring a balance sheet and Profit/Loss Statement.
- Cons to instituting any rules:
  - There is no requirement on how to maintain books/records for other industries (i.e., Liquor).
  - From a licensee’s perspective, rules on accounting/bookkeeping may be overreaching. MRA may receive pushback from the industry when.
- Based on the discussion of why instituting rules for accounting/bookkeeping should not be done, the following was proposed:
  - MRA provide educational resources for accounting/bookkeeping best practices.

**Response:** Education regarding record keeping best practices will be provided to licensees via bulletins, email blasts, and other types of media.

- CPAs can address the issues of un-sophisticated or bad accounting/bookkeeping by educating licensees and charging more/less to complete a report based on the licensee’s records.

**13. What aspects of the AFS review process have been effective or beneficial to CPAs and/or licensees?**

- MRA analysts have been very helpful and available to answer questions.
- No additional comments discussed.

**14. What aspects of the AFS review process have been challenging to CPAs and/or licensees? What changes to the AFS review process should MRA consider?**

- Testing is extensive and time-consuming.

- Consideration: no additional comments discussed; refer to considerations/modifications already discussed.
- MRA requesting further information/testing on vendors or transactions that were not chosen during random sampling by the CPA.
  - Consideration: MRA should not be requesting CPA to complete something that was not written in the procedure.

**Response:** The CPA concern regarding this is noted and appreciated. The MRA will consider modification to the “Independent Accountants Report on Applying Agreed-Upon Procedures: language on the cover sheet to account for follow up.

- Deficiency deadline of 10 days is too short (specifically in January and March).
  - Consideration: 15-20 business days depending on length of NOD (30 calendar days). This allows for adequate time of back and forth between licensees, licensee’s CPA, and the CPA who is conducting the AFS report.

**Response:** The MRA believes that 10 days is a reasonable time in which to respond to deficiency requests. The licensee or CPA may request additional time, and if an extension is warranted, it may be granted.

- Receiving multiple deficiency notices.
  - Addressing information from an NOD and receiving additional questions after a substantial amount of time has passed. CPAs/licensees think the issue is resolved.
  - New information is asked that was not addressed on previous NODs.

**Response:** As explained during the workgroup, financial analysts have 30-40 AFS reports under review at any time. Review of deficiency responses may take time, and the analyst may need to discuss the responses with the manager before additional questions are formulated and sent. A deficiency response may necessitate further investigation.

- Reissuing of AFS reports.
  - MRA has been asking CPAs to address information on the report. This requires the report to be reissued by the firm.
  - Each time the MRA asks CPAs to make a revision to a report that is not because the report is wrong (i.e., wrong information, did not follow procedure, incorrect sample, etc.), the report becomes the MRA’s report, not the CPA’s report.
  - Consideration: Only reissuing report if the report is wrong; other deficiencies can be addressed in a NOD response.

**Response:** This was agreed to during the workgroup and has been incorporated into the MRA review process.

- If MRA is going to continue to have the reports be revised/reissued, consider modifying the “Independent Accountants Report on Applying Agreed-Upon Procedures” language on the cover sheet.

**Response:** The CPA concern regarding this is noted and appreciated. The MRA will consider modification to the “Independent Accountants Report on Applying Agreed-Upon Procedures: language on the cover sheet to account for follow up.