



California Department of Cannabis Control

Performance Audit

Report No. 24-1115-103
June 2025

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Final reports are available on our website at <https://oreports.dof.ca.gov/report.html>.

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Gavin Newsom ■ Governor

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Transmitted via e-mail

June 30, 2025

Nicole Elliott, Director
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Final Report—California Department of Cannabis Control Performance Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its performance audit of the California Department of Cannabis Control (DCC).

The enclosed report is for your information and use. DCC's response to the report findings and our evaluation of the response are incorporated into this final report. DCC generally agreed with the findings and recommendations, and Finance appreciates DCC's willingness to implement the report's recommendations. Additionally, after the issuance of the draft report, and in collaboration with DCC, Finance made various technical revisions to further clarify DCC's organization and processes. This report will be placed on our website.

A detailed Corrective Action Plan (CAP) addressing the findings and recommendations is due from DCC within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies. The CAP should be sent to: OSAEReports@dof.ca.gov. After the initial CAP is submitted, it should be updated every six months thereafter, until all planned actions have been implemented. Finance may perform a desk review or separate audit to ensure corrective actions were completed as reported.

If you have any questions regarding this report, please contact Zachary Stacy, Manager, or Zuber Tejani, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Amy Manasero, Deputy Secretary of Fiscal Policy and Administration, California
Business, Consumer Services, and Housing Agency
Clint Kellum, Chief Deputy Director, California Department of Cannabis Control
Eric Colwell, Internal Audits Manager, California Department of Cannabis Control



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Transmitted via e-mail

June 30, 2025

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Final Report—California Department of Cannabis Control Performance Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its performance audit of the California Department of Cannabis Control (DCC) in accordance with Business and Professions Code section 26191.

The enclosed report is for your information and use. DCC's response to the report findings and our evaluation of the response are incorporated into this final report. A detailed Corrective Action Plan addressing the findings and recommendations is due to Finance from DCC within 60 days from issuance of our report, and every six months thereafter, until all planned actions have been implemented. This report will be placed on Finance's website.

Additionally, a one-page summary of this report has been provided to you for issuance to each member of the Legislature as required by Government Code section 9795.

If you have any questions regarding this report, please contact Zachary Stacy, Manager, or Zuber Tejani, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Joe Stephenshaw, Director, California Department of Finance
Nicole Elliott, Director, California Department of Cannabis Control

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EXECUTIVE SUMMARY

In accordance with Business and Professions Code section 26191, the California Department of Finance, Office of State Audits and Evaluations, conducted a performance audit of the California Department of Cannabis Control (DCC). The audit objectives were to determine the:

1. Actual costs of the cannabis program.
2. Overall effectiveness of DCC's enforcement programs.

DCC regulates and licenses all commercial cannabis activity in California. Established in 2021, DCC inherited all the powers, duties, purposes, functions, responsibilities, and jurisdiction of the three former commercial cannabis licensing entities: the California Department of Consumer Affairs' Bureau of Cannabis Control, the California Department of Food and Agriculture's CalCannabis Licensing Division, and the California Department of Public Health's Manufactured Cannabis Safety Branch. DCC's mission is to advance and facilitate a well-regulated, legal market that benefits all Californians through innovative policies and effective implementation.

During fiscal years 2021-22, 2022-23, and 2023-24, the Cannabis Control Fund, Fund 3288, expenditures totaled \$133.8 million, \$173.2 million, and \$154.2 million, with revenues received of \$151.2 million, \$139.7 million, and \$127.5 million, respectively. Although fiscal controls are established, we identified opportunities for improvement over excess lodging requests, fleet cards, and employee timesheet reviews.

To evaluate the overall effectiveness of the enforcement programs, we assessed DCC's overall regulatory framework and its Licensing, Compliance, and Laboratory Services Divisions. Since its establishment, DCC has developed the structural foundation to function as the main licensing and regulatory authority for all commercial cannabis activity in California. Additionally, the Licensing, Compliance, and Laboratory Services Divisions were generally effective in performing their required responsibilities in accordance with applicable guidelines and regulations. However, opportunities exist to strengthen the overall effectiveness of DCC's enforcement programs as follows:

- Formally establish and enforce performance goals.
- Utilize DCC's licensing system more effectively.
- Review and revise operational policies and procedures to reflect current practices.
- Establish policies requiring the review of license renewal documents.
- Consider a more proactive approach for conducting licensee inspections.
- Enhance controls over certain compliance activities.
- Continue developing testing methods for some cannabis compounds.
- Adhere to regulatory deadlines.

The Findings and Recommendations noted within this report are intended to assist DCC in strengthening the effectiveness of its enforcement programs and fiscal management.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In 2015, a trio of bills (Assembly Bill 243, Assembly Bill 266, and Senate Bill (SB) 643), known originally as the Medical Marijuana Regulation and Safety Act and later as the Medical Cannabis Regulation and Safety Act, established a comprehensive regulatory framework for the cultivation, manufacture, transportation, storage, distribution, and sale of medical cannabis to be administered by the California Department of Consumer Affairs' Bureau of Cannabis Control (BCC), the California Department of Food and Agriculture's CalCannabis Licensing Division (CDFA), and the California Department of Public Health's Manufactured Cannabis Safety Branch (CDPH).

In November 2016, Proposition 64, the Adult Use of Marijuana Act, was passed by voters, legalizing the use of cannabis by adults aged 21 and over. In 2017, the two sets of laws were merged through SB 94, the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA), which created a single licensing and regulatory framework for both medicinal and adult-use commercial cannabis activity. The first state regulations related to commercial cannabis activity became effective in late 2017, and the first state-issued licenses became effective on January 1, 2018.

Subsequently, in July 2021, the Department of Cannabis Control (DCC) was created to function as a single licensing authority for all commercial cannabis activity, inheriting all the powers, duties, purposes, functions, responsibilities, and jurisdiction of the three former commercial cannabis licensing entities. DCC regulates and licenses all commercial cannabis activity in California.¹ Its mission is to advance and facilitate a well-regulated, legal market that benefits all Californians through innovative policies and effective implementation.²

Regulatory Framework

In its early development, DCC established its vision, mission, and values, and created its first strategic plan covering the years 2023 through 2025. DCC inherited existing processes, including related policies and procedures, from the former licensing entities, which have been further developed, updated, and expanded as processes evolve and the organization matures. DCC continues to base its workload on relevant Business and Professions Code sections established through MAUCRSA and has developed California Code of Regulations sections to regulate licensed commercial cannabis businesses.

¹ Excerpt obtained from DCC Hemp Report, January 2023.

² Excerpt obtained from <https://cannabis.ca.gov/about-us/about-dcc/>.

Organizational Structure

DCC is headquartered in Sacramento County, with field offices in Eureka and North Hollywood, and has several Enforcement Division facilities statewide. DCC licenses and regulates commercial cannabis activity, advancing a safe, sustainable, and equitable marketplace that best serves all Californians.^{3,4} DCC's divisions are as follows:



Administration

Responsible for directing the administrative functions of DCC and providing employee services, including but not limited to human resources, budgets, fiscal management, contracts, procurement, and facilities and fleet management.



Compliance

Supports the integrity of the cannabis market by educating licensees on compliance requirements like track-and-trace, conducting routine inspections and investigations, and helping licensees resolve challenges.



Enforcement

Partners with other law enforcement entities to eliminate illegal operators and criminal enterprises that threaten public and consumer safety, undermine the legal market, and harm the environment.

Additionally, in 2022, the Unified Cannabis Enforcement Taskforce was created to increase coordination between state, local, and federal partners in cannabis enforcement. The taskforce includes more than two dozen local, state, and federal partners, including DCC, working together to disrupt the illegal cannabis market.⁵



Equity and Inclusion

Works to support individuals and entrepreneurs harmed by cannabis criminalization, and lower barriers to the cannabis industry for those hardest hit by the War on Drugs.



Government Affairs

Advances DCC's mission and strategic priorities through legislative engagement at the state, local, and federal levels. Serves as the primary liaison with stakeholders and tracks and oversees the analysis of all relevant bills that may impact DCC. Engages with stakeholders to better understand statutory policy initiatives.



Information Technology Services

Implements DCC's information technology policies and delivers centralized solutions and services. Provides coordination of technology operational activities, including desktop support, information security, telecom, network/server maintenance, project management, and application development and maintenance.

³ Excerpt obtained from https://cannabis.ca.gov/wp-content/uploads/sites/2/2023/04/what_we_do.pdf.

⁴ Excerpt obtained from <https://cannabis.ca.gov/about-us/about-dcc/#department-divisions>.

⁵ Excerpts obtained from <https://cannabis.ca.gov/about-us/about-dcc/unified-cannabis-enforcement-taskforce-ucetf/>.



Laboratory Services

Requires all cannabis products to be tested for safety and accuracy before they can be sold. Works with licensed laboratories across the state and runs its own internal testing laboratories as well.



Legal Affairs

Provides legal services to all DCC's divisions and the executive office. This includes conducting research in complex and emerging areas of law and advising programs, drafting and reviewing legal documents and responses, responding to Public Records Act requests, drafting regulations, representing DCC programs in administrative actions and appeals, and liaising with the Attorney General's office about DCC litigation.



Licensing

Provides technical assistance and support to applicants and licensees throughout the licensing process. Actively engages with local and state partners to provide environmental, outreach, and natural resource management guidance.



Policy and Research

Helps guide the development of cannabis regulations through expert-led and DCC-funded scientific research around public health, criminal justice, and economic and environmental impacts.



Public Affairs

Develops and supports DCC's internal and external communications, community engagement, and stakeholder relations. This includes, but is not limited to media strategy, public engagement and outreach efforts, customer service, Cannabis Advisory Committee meetings, event participation, and the dissemination of educational resources. The division oversees and manages DCC's website and social media channels, as well as its digital outreach to licensees and stakeholders.

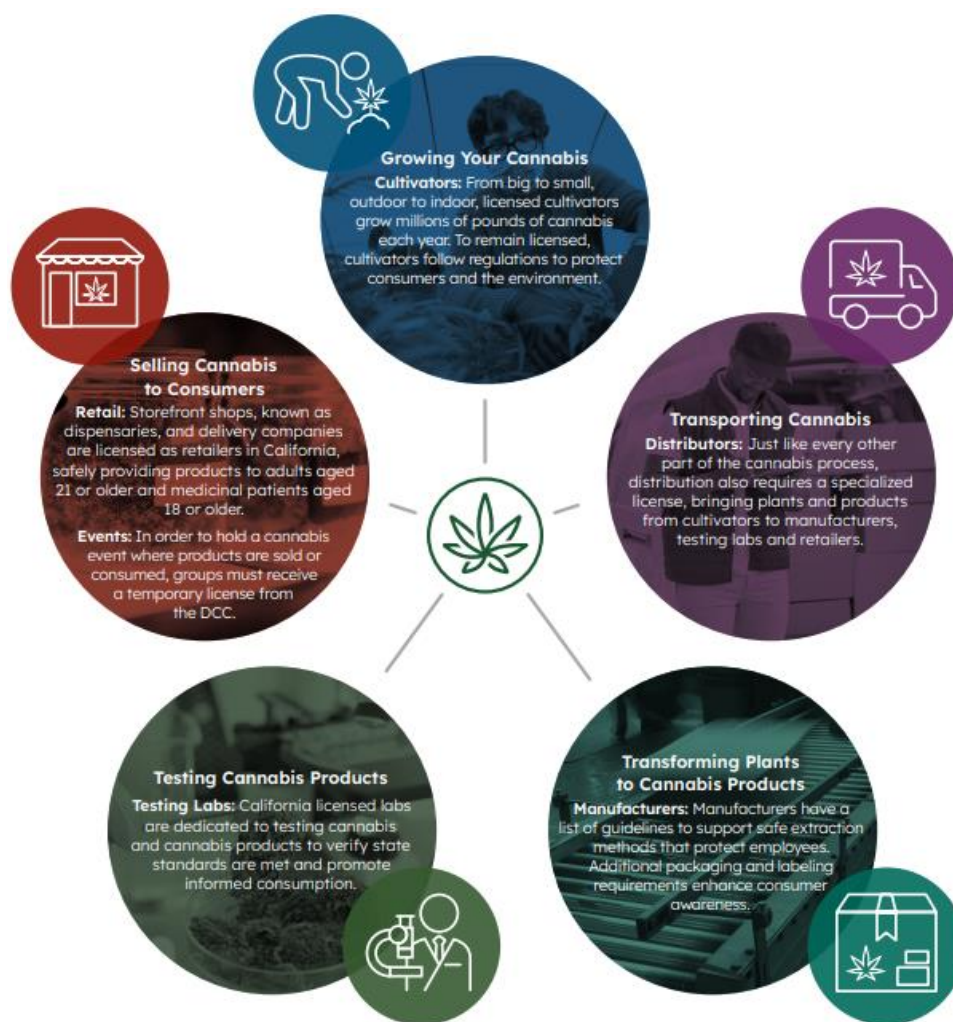
Our audit focused on the Licensing, Compliance, and Laboratory Services Divisions.

Licensing Division

License Types

The Licensing Division processes and issues the following license activity types: cultivation, manufacturing, distribution, testing laboratory, retail (storefront and non-storefront), and event. Each license type has several subtypes that are more specific to the business activity. A business that performs at least three of the following activities at one location is considered a microbusiness: cultivation, manufacturing, distribution, or retail. See Figure 1 for license activity types and definitions.

Figure 1: Commercial Cannabis License Activity Types and Definitions



Source: https://cannabis.ca.gov/wp-content/uploads/sites/2/2023/04/what_we_do.pdf.

Cannabis businesses apply for a license via the online Accela system. Applicants are also required to submit supporting documents and pay an application fee based on the license type. After applicants submit the application, upload the required documents, and pay the application fee, DCC's licensing employees begin their review. See the textbox for the general annual license application document requirements.

Licensing Division Offices

The Licensing Division is comprised of five offices. Three of the offices process license applications, each sequentially reviewing a separate component of the license application. The other two offices assist with fee collection and post-licensure actions.

General Annual License Application Document Requirements

- Legal Right to Occupy
- Premise Diagram
- Surety Bond
- Limited Waiver of Sovereign Immunity
- CEQA Compliance
- Ownership Information
- Financial Interest Holder Information
- Labor Peace Agreement
- Financial Information Documents
- Seller's Permit
- California Occupational Safety and Health Agency Compliance
- Tax Identification Number(s)

Source:

<https://cannabis.ca.gov/2023/10/annual-license-application-checklist/>.

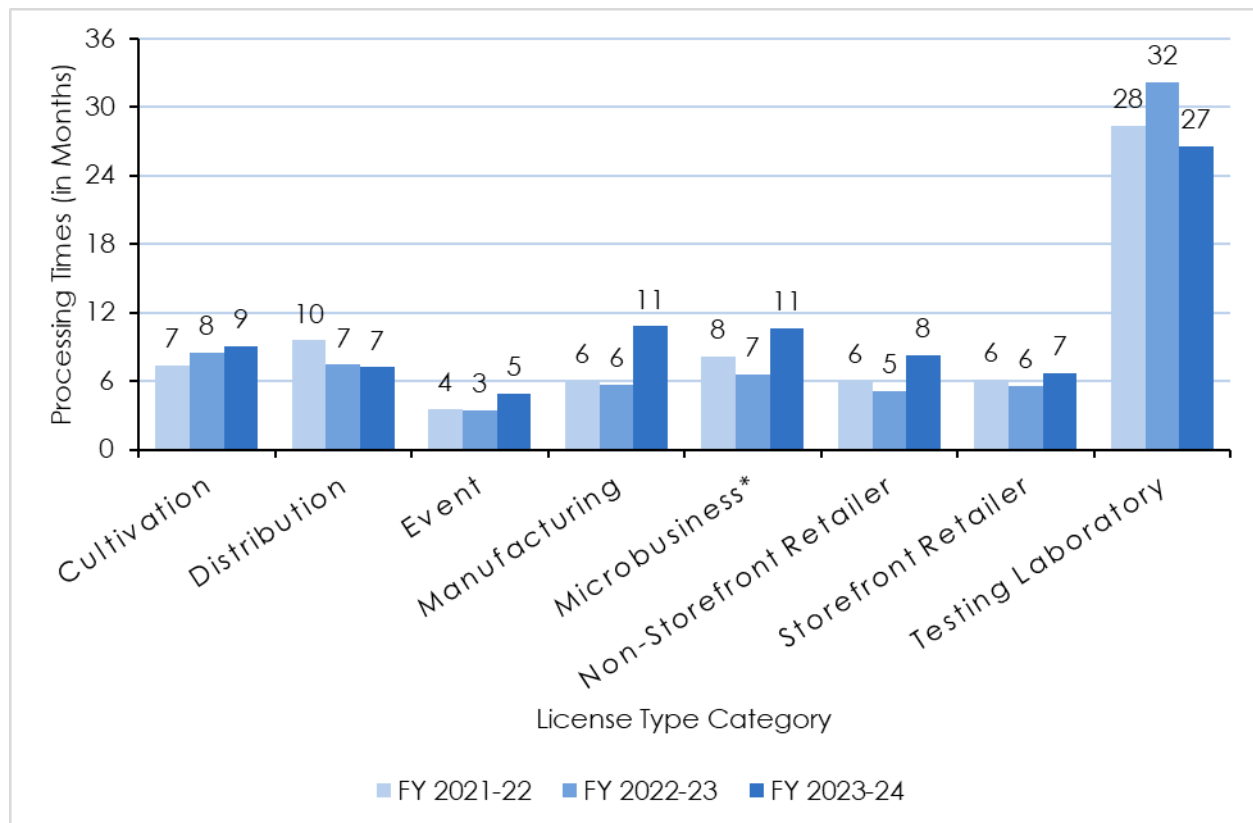
All licensing offices use procedures, manuals, and checklists to process applications. The Regulatory Branch under the Laboratory Division also assists in the review of license applications for Testing Laboratory licenses. The five Licensing Division offices are as follows:

- Application Review Office (ARO) reviews license applications *first* and verifies administrative requirements, such as local authority, premise diagrams, surety bonds, etc. A local verification review is also conducted to verify that the applicant has authorization from the business's local jurisdiction to engage in cannabis activities.
- Criminal Offender Record Information/Cannabis Ownership Review Office (CORI/CORO) reviews license applications *second* and verifies licensee ownership documents for the designated responsible party and all persons with a financial interest in the cannabis business for new license applications. This includes verifying business entity formation documents, licensed premise diagrams and modifications, government-issued identification, and Live Scan fingerprinting.
- The Office of Environmental Evaluation (OEE) reviews license applications *third* and works with license applicants and local jurisdictions to meet environmental requirements, including the California Environmental Quality Act (CEQA) compliance. The office assists in the license application review process by reviewing permits, premise diagrams, and CEQA documentation.
- The Division Resource Office oversees the collection, processing, and depositing of licensing fees. It also tracks revenue and reports the revenue received to DCC's Budget Office.
- Licensing Review Office houses the Post Licensing, License Modifications, and Licensing Action units. These units are responsible for license renewals and processing license modification requests such as changes in ownership, contact information, legal business name, and physical premises submitted by licensees. It also implements authorized actions taken on a licensee. These actions include surrender, suspension, revocation, denial, or inactivation of a license.

Processing Times

DCC tracks the time taken to process a license application based on dates captured in Accela. Current Accela capabilities and DCC procedures only allow for the capture of the date the application review began and the date the license was issued. As such, processing times do not include additional details, such as the days on which DCC was not actively working on the application due to awaiting inquiry responses from applicants. Deficiency notices, communications, and other requests may be sent to the applicant, for which applicants have 180 days to respond before an application is considered abandoned and closed due to inactivity. DCC reports its license application processing times by license type in its Annual Reports, as further detailed in Figure 2.

Figure 2: Average License Application Processing Time by License Category and Fiscal Year (in Months)



*A business with a microbusiness type license performs at least three of the following activities at one location: cultivation, manufacturing, distribution, or retail.

Source: DCC Annual Reports for Fiscal Years 2021-22, 2022-23, and 2023-24.

Temporary, Provisional, and Annual Licenses

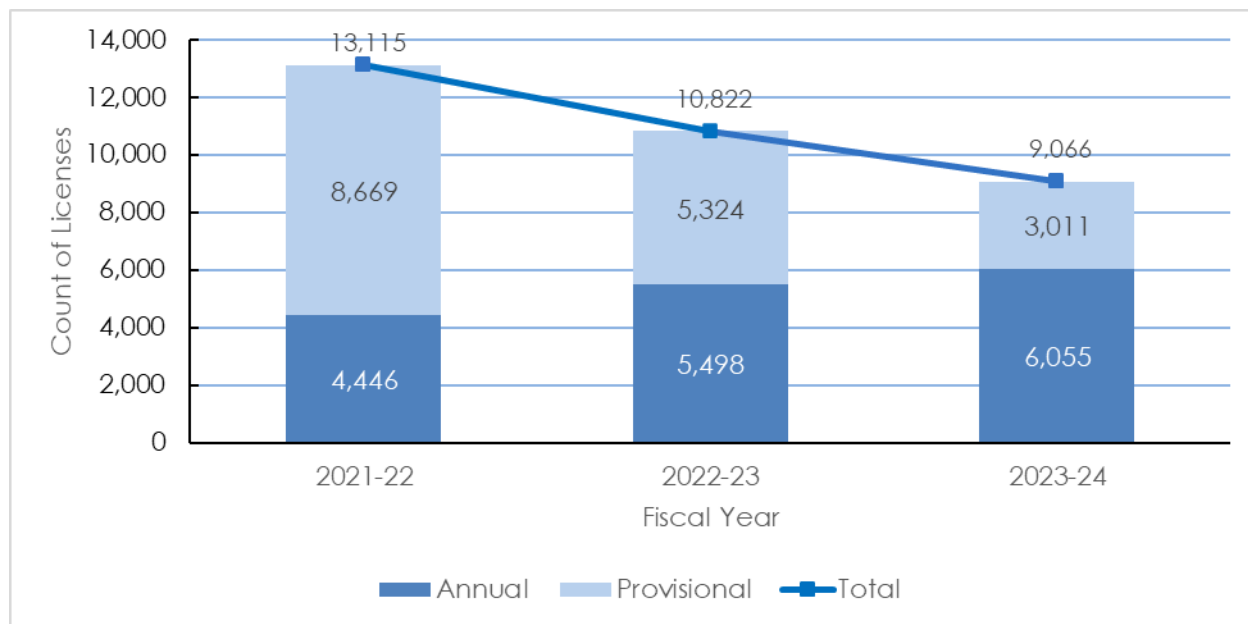
All commercial cannabis operators are required to obtain an annual license to operate legally in California. To comply with the statutory deadline to begin issuing commercial cannabis licenses by January 1, 2018, BCC, CDFA, and CDPH were authorized through emergency rulemaking to issue temporary cannabis licenses from January 1, 2018 through December 31, 2018. A temporary license was a conditional license that allowed a business to engage in commercial cannabis activity for a period of 120 days, with possible 90-day extensions if the licensee had applied for an annual license.

Temporary license holders who applied for an annual license could receive a provisional license, which required approval or certification from local authorities to operate in their respective jurisdiction. Chapter 857, Statutes of 2018 (SB 1459) authorized the issuance of provisional cannabis licenses to prevent gaps in licensure between the expiration of the temporary license and the approval of an annual license. Provisional licenses were effective for a 12-month period and were issued at DCC's sole discretion. Provisional licenses could not be renewed after January 1, 2025, except for local equity retailers. Locally verified equity retailers may be eligible for renewal until January 1, 2031, or until five years from when the provisional license was initially issued, whichever is earlier.⁶

⁶ Excerpts obtained from Business and Professions Code section 26050.5 and DCC employee interviews.

As of June 30, 2024, DCC reported 6,055 active annual licenses and 3,011 active provisional licenses, for a total of 9,066 active licenses. These values indicate a decrease in overall active licenses, but a greater proportion of annual licenses to provisional licenses as compared to the prior two fiscal years. See Figure 3 for the number of annual and provisional licenses by fiscal year.

Figure 3: Active Licenses as of June 30 for Each Fiscal Year



Source: DCC Annual Reports for Fiscal Years 2021-22, 2022-23, and 2023-24.

Compliance Division

DCC's Compliance Division is responsible for supporting and enforcing regulatory compliance of licensed commercial cannabis activity to promote accountability and consumer and public safety. In collaboration with the Laboratory Services Division, the Compliance Division also oversees the remediation and destruction of cannabis and cannabis products that fail testing, as well as consumer recalls. The division is responsible for the administration of the California Cannabis Track-and-Trace (CCTT) system and works closely with DCC's Enforcement Division and other state and local regulatory and enforcement entities on cases that could result in administrative or civil penalties.⁷ The Compliance Division is divided into two branches: the Investigative Services Branch (ISB) and the Environmental Compliance and Manufacturing Safety Branch (ECMSB).

⁷ Excerpt obtained from <https://cannabis.ca.gov/about-us/about-dcc/>.

Investigative Services Branch

ISB primarily conducts complaint-based inspections and investigations of all license types. See the textbox for differences between inspections and investigations. ISB's Special Investigators may collaborate with ECMSB or the Laboratory Services Division's Regulatory Branch to investigate cultivation, manufacturing, or testing laboratory licensees. ISB units are divided by geographical areas.

Within ISB is the Complaints Unit, which receives and triages incoming complaints submitted through DCC's Online Complaint Entry System. The Complaints Unit conducts high-level reviews of complaints to determine if sufficient detail has been provided for the complaint to be actionable. Complaints that are duplicates of previously submitted complaints, are part of an active inspection/investigation, or do not describe a violation are closed out. Actionable complaints are assigned a priority based on the described violation and assigned to a unit for further investigation, as described in Figures 4 and 5. In addition, inspections are conducted in accordance with the priority assigned based on the Inspection Prioritization Table, as described in Figure 6.

An **inspection** is the proactive, routine evaluation of a licensee's compliance with cannabis regulations and statutes. Inspections can also be triggered by previously documented violations, complaints received by DCC, requests related to investigations, or joint inspections.

An **investigation** is a targeted, in-depth evaluation of a licensee's premises and business activities, aimed at gathering evidence to substantiate an allegation of an egregious violation of cannabis regulations or statute.

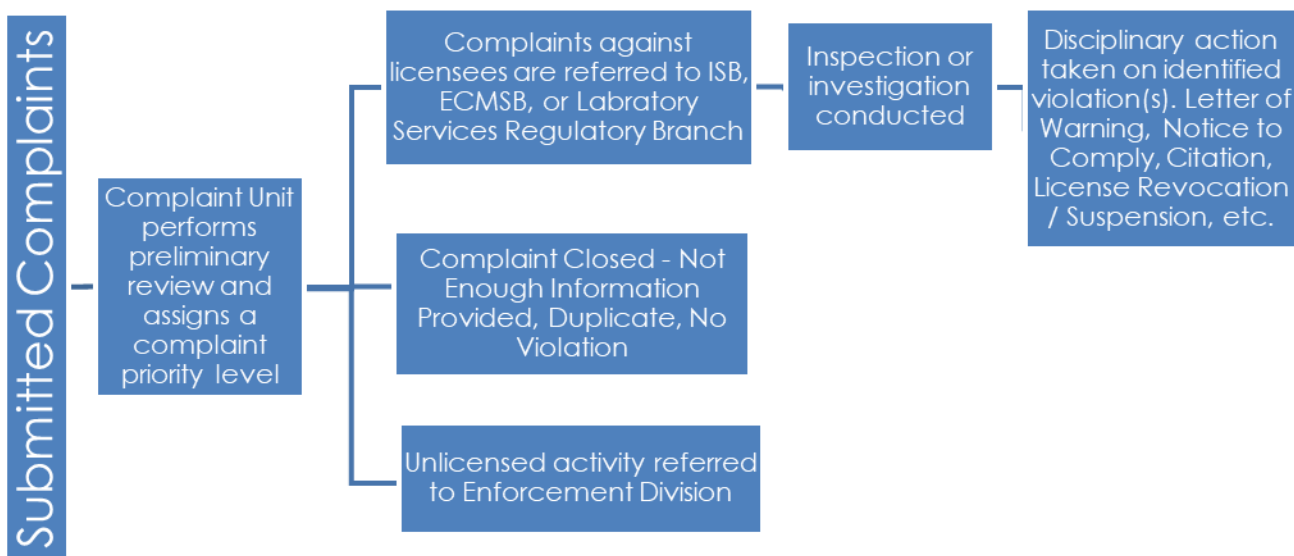
Source: DCC internal document.

Figure 4: Complaint Prioritization Table

Priority 1	Priority 2	Priority 3
<ul style="list-style-type: none">• Immediate risk to the public• Unlicensed activity	<ul style="list-style-type: none">• Serious, but not immediate risk to the public	<ul style="list-style-type: none">• Minor violations

Source: Excerpts obtained from the Complaint Prioritization Table and various interviews with DCC employees.

Figure 5: Complaint Review Hierarchy



Source: DCC Complaints Unit - Analyst Desk Manual and various interviews with DCC employees.

Figure 6: Inspection Prioritization Table

Priority 1	Priority 2	Priority 3
<ul style="list-style-type: none"> • Complaints • Partner agency referrals/requests • Inspection of sites with previous egregious compliance issue(s) 	<ul style="list-style-type: none"> • Compliance inspections of licensees that have not been previously inspected • Complaints deemed not an immediate risk to the public 	<ul style="list-style-type: none"> • Re-inspections of licensees for minor and moderate violations

Source: Excerpts obtained from the Inspection Prioritization Table and various interviews with DCC employees.

Environmental Compliance and Manufacturing Safety Branch

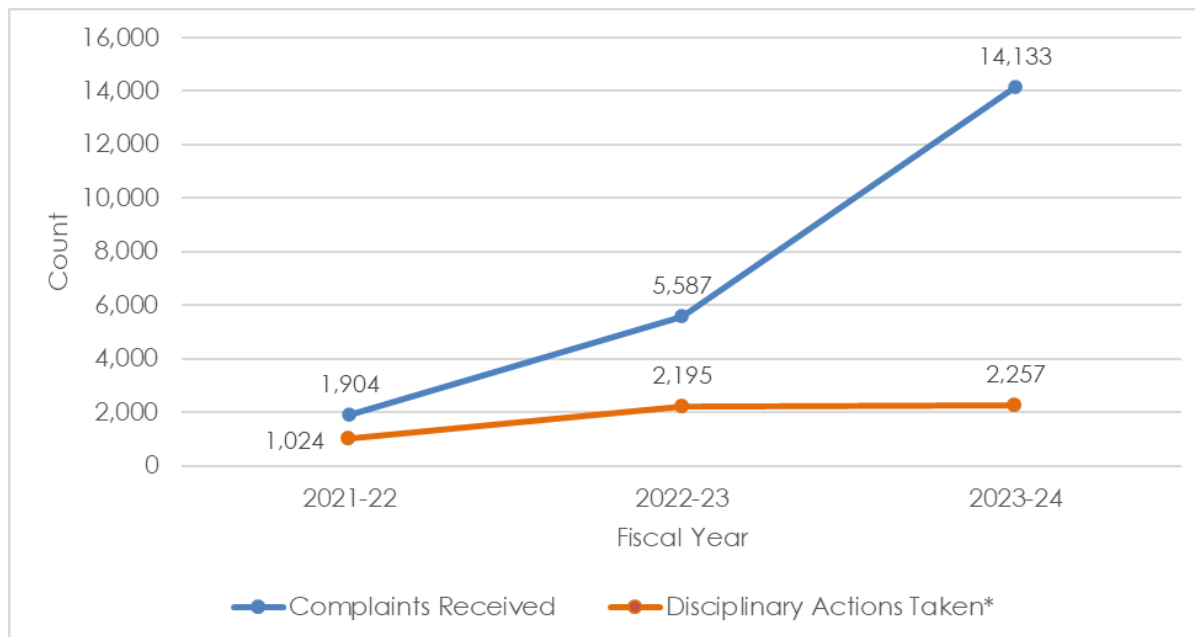
ECMSB conducts compliance inspections and investigations of cultivation and manufacturing licenses, specifically for environmental and safety compliance. ECMSB is further separated into the Environmental Compliance Office (ECO) and the Manufacturing Safety Office (MSO). ECO and MSO are also divided by geographical areas and are mostly staffed by Environmental Scientists.

When product batches fail laboratory testing, the licensee is issued a Notice to Comply. Within 30 days, the licensee must provide a remediation plan outlining the steps to be taken to either bring the failed products into compliance or provide evidence that the products were destroyed. The Remediation and Recalls Unit (RRU) within the MSO is responsible for evaluating the remediation plans submitted by licensed manufacturers and distributors and provides timely responses that either approve or deny the plan. Once remediated, the products are retested for compliance before they can be sold.

Complaints and Disciplinary Actions

The Compliance Division primarily performs inspections and investigations based on complaints received through the Online Complaint Entry System. DCC has received an increasing number of complaints over the past three fiscal years, with a modest increase in the number of disciplinary actions taken, as depicted in Figure 7.

Figure 7: Complaints and Disciplinary Actions Involving Licensees by Fiscal Year



* Disciplinary actions include letters of warning, notices to comply, administrative citations, embargoes, voluntary condemnations and destructions, and mandatory recalls.

Source: DCC Annual Reports for Fiscal Years 2021-22, 2022-23, and 2023-24.

Laboratory Services Division

DCC's Laboratory Services Division is separated into the Regulatory Branch and the Cannabis Testing Laboratory Branch (CTLB).

Regulatory Branch

The Regulatory Branch is responsible for licensing and compliance matters relating to testing laboratories, including reviewing testing laboratory license applications, performing or assisting in compliance inspections and investigations of licensed testing laboratories, and enforcing regulations specific to testing laboratories.

The Regulatory Branch also receives all Certificates of Analysis from testing performed by licensed testing laboratories. See the textbox for a definition of a Certificate of Analysis. Further, the Regulatory Branch assists licensees with CCTT issues and reviews and evaluates testing laboratory licensee compliance with all laboratory-specific requirements, including test methods, standardized operating procedures (SOPs), test method verifications/validations, and proficiency testing.

A **Certificate of Analysis** is a results report of whether a batch of cannabis product passes or fails testing for each substance.

Source:
<https://cannabis.ca.gov/licensees/testing-laboratories/>.

Cannabis Testing Laboratory Branch

CTLB is DCC's laboratory responsible for developing test methods and performing testing of cannabis and cannabis products for DCC and external clients, such as local law enforcement and other state agencies. CTLB scientists develop and validate test methods to identify the compounds regulated in cannabis and cannabis products. CTLB performs testing based on requests from internal and external clients, which may be based on a failed Certificate of Analysis, compliance investigation, search warrant, product recalls, etc. DCC also contracts with other state testing laboratories at CDFA, the California Department of Toxic Substances Control, and the University of California, San Diego, to expand its testing capability range and capacity. See the textbox for the cannabis tests required.

Required Cannabis Testing

- Cannabinoids and terpenes
- Residual solvents and processing chemicals
- Residual pesticides
- Heavy metals
- Microbial impurities
- Mycotoxins
- Moisture content and water activity
- Foreign material

Source: <https://cannabis.ca.gov/licensees/testing-laboratories/>.

Administration Division

In addition to the licensing and regulatory divisions described above, DCC's Administration Division plays a vital role in overseeing program expenditures, including the following offices:

- The Budget Office oversees budget appropriations for DCC's divisions, performs budget drills, and reviews actual compared to projected expenditures quarterly.
- The Accounting Office compiles and submits the Detailed Fund Balance Report to the California Department of Finance and helps generate reports to aid the Budget Office. Several units reside within the Accounting Office as follows:
 - The Accounts Payable Unit processes vendor invoices for DCC. After review and approval, the expenditures are input into the appropriate accounts in the Financial Information System for California (FI\$Cal) and payment is processed.
 - The Travel, Revolving Fund, and Disbursement Unit reviews travel claims, disbursements, and salary advances. It also reviews and approves excess lodging request forms and short-term vehicle justification forms while overseeing DCC's lodging credit cards.
 - The Accounts Receivable Unit reconciles licensing fees collected by DCC by the form of payment, i.e., cash, check, or online card payment and inputs the revenue into the appropriate FI\$Cal accounts.

- The Business Services Office (BSO) oversees the usage of fleet cards that are used to purchase gasoline and for emergency maintenance costs for DCC's fleet vehicles. BSO's Fleet Unit Coordinator is responsible for the oversight of DCC's entire fleet, fleet cards, reporting for the California Department of General Services (DGS), and California Department of Motor Vehicles tracking.

Program Fleet Liaisons in the Compliance and Enforcement Divisions serve as intermediaries between the Fleet Unit Coordinator and division management and employees. The Program Fleet Liaisons provide training, communication, and policy updates to program employees, including the collection of monthly travel logs, accident reporting, and any other documented tracking of the assigned fleet vehicles to that program area.⁸ The Program Fleet Liaisons also review fleet card invoices and trace transactions to employees' receipts before approval and forwarding to the Accounts Payable Unit.

Information Systems

DCC uses several information systems to license and regulate the commercial cannabis industry, including:

Financial Management System

DCC uses FI\$Cal to manage its financial information.

Licensing and Compliance Information System

DCC continues to use the Accela software for its licensing and compliance activities. The software was initially developed by BCC and was transferred over to DCC in July 2021, when BCC, CDFA, and CDPH were consolidated. DCC also transferred all manufacturing license and application data from CDPH's legacy Pega Manufacturing Cannabis License System to the Accela: Cannabis Licensing, Enforcement, and Renewals (CLEaR) system in November 2023. In Accela, the Cultivation Licensing System is used for cultivation licenses, and the CLEaR system is used for all other license types.

The public-facing portions of the Accela systems are used for license application submissions and filing complaints.⁹

California Cannabis Track-and-Trace System

In January 2018, the CCTT system was launched using the Marijuana Enforcement, Tracking, Reporting, and Compliance software. CCTT uses unique identifiers for reporting and tracking the movement of cannabis and cannabis products from seed to sale.¹⁰ All licensees, except event organizers, are required to use CCTT.

⁸ Excerpts obtained from DCC's Fleet Management and Vehicle Use Policy.

⁹ Excerpts obtained from Business and Professions Code section 26050 and DCC employee interviews.

¹⁰ Excerpts obtained from <https://cannabis.ca.gov/2023/10/5-steps-to-using-the-track-and-trace-system/>.

SCOPE

In accordance with Business and Professions Code section 26191, the California Department of Finance, Office of State Audits and Evaluations, conducted a performance audit of DCC for the period July 12, 2021 through June 30, 2024. Our audit objectives were to determine the:

1. Actual costs of the cannabis program.
2. Overall effectiveness of DCC's enforcement programs.

For Objective 1, our audit focused on the Cannabis Control Fund, Fund 3288, DCC incurred expenditures. For Objective 2, our audit focused on DCC's overall regulatory framework and its Licensing, Compliance, and Laboratory Services Divisions.

METHODOLOGY

To plan the audit, we gained an understanding of DCC's various divisions and programs, and identified relevant criteria, by interviewing DCC employees and reviewing applicable sections of the Business and Professions Code, Government Code, California Code of Regulations, State Administrative Manual, California Department of Human Resources' (CalHR) Human Resources Manual, DGS's State Fleet Card Oversight Usage and Responsibilities Guide (Fleet Card Guide), and DCC policies and procedures.

We conducted a risk assessment, including evaluating whether DCC's key internal controls significant to our audit objectives were properly designed, implemented, and/or operating effectively. Key internal controls evaluated focused on expenditure accounting processes, methods for reviewing and approving license applications and complaints, and monitoring of licensee activity. Our assessment included interviewing DCC employees, observing walkthroughs of processes, and analyzing relevant documentation and reports.

Additionally, we assessed the reliability of data generated from DCC's fleet card vendor's Purchase Activity Report. To assess the reliability of data generated by this system, we traced selected data to source documents. We determined the data was sufficiently reliable to address the audit objectives. Further, we assessed the reliability of data generated from DCC's security management system, Velocity. To assess the reliability of data generated by this system, we performed data testing of selected elements. We determined the data was sufficiently reliable to address the audit objectives. We determined verification of the reliability of data from FI\$Cal, CLEaR, and the Cultivation Licensing System was not necessary because other sufficient evidence was available to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies in Appendix A.

Except as described in the following paragraph, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Finance and DCC are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

CONCLUSION

Based on the procedures performed and evidence gathered, we determined the actual costs of the cannabis program, and that DCC's Fund 3288 expenditures are generally accurate, complete, and supported for fiscal years 2021-22 through 2023-24. However, controls over certain program expenditures can be strengthened, as described in Finding 1.

Additionally, we assessed the overall effectiveness of DCC's enforcement programs, specifically related to DCC's regulatory framework, and its Licensing, Compliance, and Laboratory Services Divisions' activities. Based on the procedures performed and evidence gathered, we assess DCC's program effectiveness as follows:

- **Regulatory Framework** – DCC has developed the structural foundation to function as the main licensing and regulatory authority for all commercial cannabis activity in California. Overall, DCC's established policies, procedures, and practices follow applicable Business and Professions Code sections and are effective. However, as noted in Finding 2, performance goals for DCC's processing times or the number of required activities to be performed are not formally established or enforced. Therefore, our assessment of program effectiveness was limited. Additionally, DCC's overall program effectiveness could be strengthened by utilizing DCC's licensing system more effectively and updating policies and procedures to reflect current practices, as described in Findings 3 and 4.
- **Licensing Division** – DCC's Licensing Division, in general, effectively carries out its responsibilities, including, but not limited to, the review, issuance, renewal, and modification of licenses. However, as noted above, we were unable to assess whether the Division's processing times or the number of licensing activities performed were reasonable or consistent with established goals. Additionally, the Division's effectiveness could be strengthened by implementing the review of license renewals, as described in Finding 5.
- **Compliance Division** – DCC's Compliance Division, in general, effectively carries out its responsibilities, including, but not limited to, routine inspections, investigations, complaints, support for licensees, and collaboration with other DCC divisions and other state and local regulatory and enforcement entities. However, as noted above, we were unable to assess whether the Division's processing times or the number of compliance activities performed were reasonable or consistent with established goals. Further, the majority of compliance inspections/investigations are reactive, as they are initiated by complaints. The Division should consider whether a more proactive approach, such as an increased number of unannounced routine inspections, would be more effective as described in Finding 6. Additionally, the Division's effectiveness could be strengthened by enhancing controls over certain compliance activities, as described in Finding 7.

- Laboratory Services Division – DCC's Laboratory Services Division, in general, effectively carries out its responsibilities, including, but not limited to, providing oversight over licensed cannabis testing laboratories and establishing a framework for product testing and consumer safety. The Division also provides the scientific expertise needed for DCC's other divisions to perform their responsibilities. However, as noted above, we were unable to assess whether the Division's processing times or the number of laboratory services activities performed were reasonable or consistent with established goals. Additionally, the Division's effectiveness could be strengthened by developing testing methods for all cannabis compounds and adhering to regulatory deadlines, as described in Findings 8 and 9.

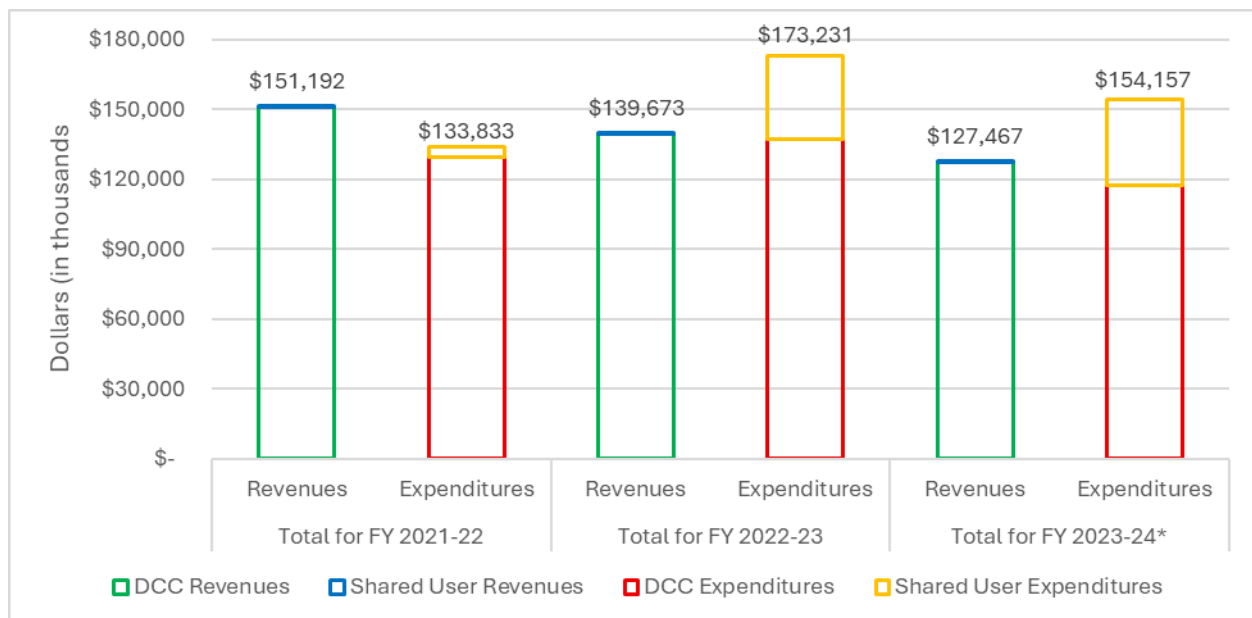
FINDINGS AND RECOMMENDATIONS

PROGRAM COSTS

DCC's activities are primarily funded by the Cannabis Control Fund, Fund 3288. Fund 3288 is a shared fund between DCC, the Cannabis Control Appeals Panel, CDFa, and CDPH. Fund 3288 revenues are generated by DCC through cannabis licensing fees, delinquent fees, renewal fees, and other regulatory fees. Additional revenues are recognized from investment income, escheat, and miscellaneous revenue. Most Fund 3288 expenditures are used by DCC for state operations in carrying out its mission.

During fiscal years 2021-22, 2022-23, and 2023-24, the Cannabis Control Fund, Fund 3288, expenditures totaled \$133.8 million, \$173.2 million, and \$154.2 million, with revenues received of \$151.2 million, \$139.7 million, and \$127.5 million, respectively. See Figure 8 for Fund 3288 revenues and expenditures for fiscal years 2021-22 through 2023-24.

Figure 8: Fund 3288 Revenues and Expenditures (in thousands)



* In fiscal year 2023-24, DCC had approximately \$94,000 in scheduled reimbursements and a \$30 million appropriation for implementation support, effectively reducing expenditures on DCC's Fund 3288 Detailed Fund Balance Report.
Source: DCC Fund 3288 Fund Balance Reconciliation Packets for Fiscal Years 2021-22, 2022-23, and 2023-24

Finding 1: Controls Over Certain Program Expenditures can be Strengthened

Internal controls over excess lodging costs, fleet cards, and employee timesheet reviews can be strengthened to ensure expenses incurred are appropriate and supported.

Excess Lodging Costs

Excess lodging costs were not always approved in accordance with established policies. Specifically, of the 49 trips tested where an Excess Lodging Rate Request/Approval Form (STD 255C) was submitted, 33 were not approved by the Accounting Office ten or more days before the trip occurred. Additionally, several of the forms reviewed did not contain the required justifications. Not providing sufficient time for the Accounting Office to review and approve excess lodging requests can lead to employees incurring more travel costs than necessary by not securing lodging that is in the best interest of the state.

DCC employees frequently travel statewide to, among other things, attend trainings and conferences, perform inspections and investigations, and execute search warrants. In conducting state business requiring an overnight stay, employees book lodging via the online booking tool, Concur Travel. Compliance and Enforcement Division employees are often notified of travel on short notice. However, DCC policies do not include guidance for requesting an excess lodging rate when travel is required on short notice, nor do the policies include any exceptions to the 10-day advance approval requirement. Of the 33 trips not approved by the Accounting Office ten or more days before the trip occurred, 16 pertained to short-notice emergency travel.

CalHR establishes maximum lodging reimbursement rates by county for state business travel. If state employees cannot find acceptable lodging within the maximum lodging reimbursement rate, they must submit a STD 255C for approval of a higher lodging rate prior to traveling. CalHR Human Resources Manual section 2201, as referenced in the textbox, and DCC's Travel Guide require employees to complete a STD 255C, including justification for the higher rate and three "good faith" quotes, and obtain approval from the Accounting Office at least ten days before travel occurs.

Fleet Cards

Direct supervisors of fleet card users within the Compliance and Enforcement Divisions do not review fleet vehicle usage for accuracy or appropriateness. Specifically, direct supervisors do not review employees' receipts, Monthly Travel Logs, or fleet card invoices. The supervisor's lack of review increases the risk of inappropriate expenses.

CalHR Human Resources Manual section 2201

To secure lodging that is in the best interest of the state, employees should submit their Excess Lodging Rate Request/Approval Forms for the least expensive moderately priced lodging which is within a reasonable distance of their state business.

Excess Lodging Rate Request/Approval Forms must include:

- Three "good faith" comparison quotes for the requested travel dates
- Justification for the requested lodging rate.

In the event that the nightly cost of the room exceeds the applicable state rate, employees must complete a STD 255C (Excess Lodging Rate Request/Approval Form) and submit the form for approval at least ten days before the trip takes place.

Source:

<https://hrmanual.calhr.ca.gov/Home/ManualItem/1/2201>.

DCC has approximately 160 fleet vehicles, the majority of which are assigned to Compliance and Enforcement Division employees, and the remainder are available for use by the Administration Division as needed. Fleet vehicles assigned to employees are used for the employees' commute between their home and office, and for traveling to locations in the field. DCC uses fleet cards for employees to purchase gasoline, car washes, and emergency items for their fleet vehicle. Employees retain and submit receipts for costs charged to the fleet cards along with Monthly Travel Logs to their division's Program Fleet Liaison (Liaison) for review. The Liaison's review entails reviewing the fleet card invoice against employees' receipts for accuracy and completeness.

DCC relies on the Liaison's review of fleet card costs; however, the Liaison is not as familiar with the employees' workload and does not assess whether the charges were work-related, only that the receipts reconcile to the fleet card invoice. The employees' supervisors are knowledgeable of the employees' workload and are best suited to determine whether costs are appropriate.

Additionally, the Monthly Travel Logs do not document sufficient details of the travel conducted for the Liaison to substantiate fleet card expenditures. The Monthly Travel Log is a DGS form that requires fleet vehicle users to capture information about the trip, including departure and arrival times and locations, odometer mileage at the start and the end of the trip, trip miles, and travel reason. Per the form's directions, vehicle users are only required to make daily entries at the beginning and end of each day's use of the vehicle. DCC employees often travel to more than one location in a day and will only document the furthest point traveled for that day on the Monthly Travel Log. With insufficient details collected in the employees' Monthly Travel Log, the ability to verify whether gasoline costs are accurate or for business-related travel is diminished.

Per the DGS Fleet Card Guide, fleet card users' supervisors must monitor fleet card usage to ensure fleet card charges are accurate and appropriate; review and verify monthly activity and expenditure reports generated by the fleet card online system or the Liaison, and reconcile the monthly billing statement to actual usage of the fleet cards by using transaction reports, vehicle odometers, mileage logs, receipts, etc.

Employee Timesheet Reviews

Inconsistent timekeeping and workload management practices were observed across DCC divisions. It is unclear whether supervisors are thoroughly reviewing employees' timesheets for accuracy, as email correspondence, Microsoft Outlook calendars, and badge usage logs did not always substantiate the days reported as worked on employees' monthly Absence and Additional Time Worked Reports (STD 634). Inadequate timesheet reviews could result in misreported and erroneous leave accounting, allowing employees to be compensated for time not spent working on job-related activities, which is a waste of state resources.

DCC employees complete and submit a STD 634 monthly to report hours worked and paid-time off. The STD 634s are certified by the employee and reviewed by the employee's direct supervisor for accuracy before being recommended for approval. DCC uses inconsistent methods across divisions to document employees' time-off requests. It also uses a range of methods to monitor employee work, from employees

submitting daily reports that account for the work that was completed to weekly check-in meetings with their supervisors.

Pursuant to California Code of Regulations, title 2, section 599.665, departments are responsible for maintaining accurate and timely leave accounting records for their employees.

Recommendations:

- A. Strengthen controls over excess lodging form submissions and approvals, requiring all the elements of STD 255C to be completed and submitted at least ten days before trips occur. Ensure the controls include reviewing excess lodging requests to ensure their validity and allow for an expedited review when travel is required on short notice.
- B. Strengthen controls over fleet card usage to comply with DGS's Fleet Card Guide, requiring supervisors to review claimed costs for appropriateness and document evidence of their review. Enhance the required data elements on the Monthly Travel Log to aid in the supervisor's and Liaison's review of gasoline usage.
- C. Establish division-wide time tracking policies and procedures that provide management with the necessary information to thoroughly review timesheets prior to approval.

PROGRAM EFFECTIVENESS – REGULATORY FRAMEWORK

Finding 2: Some Performance Goals are not Formally Established or Enforced

Performance goals for DCC workload processing times and the number of activities to be performed are not formally established or enforced, resulting in a wide range of processing times and inconsistent service provided to licensees. Several divisions and units within DCC record and report workload statistics to upper management and have established performance goals for processing times and the number of activities to be performed. However, these goals are not always documented or monitored, and have often only been communicated verbally.

DCC's processing times during the audit period were as follows:

- ECMSB cultivation inspections – Processing times ranged from 7 to 1,368 days, averaging 381 days for the 18 cases tested.
- ECMSB manufacturing inspection/investigations – Processing times ranged from 37 to 956 days, averaging 216 days for the 23 cases tested.
- ISB inspections/investigations – Processing times ranged from 0 to 827 days, averaging 187 days for the 32 cases tested.
- License application reviews – Pursuant to DCC's Annual Reports, processing times ranged from 102 to 964 days, averaging 292 days.

Without established performance goals, it is unclear whether the above processing times are reasonable or whether current practices are efficient and effective. Establishing performance goals sets expectations for employees in managing their workload. Additionally, by monitoring performance goals, management can evaluate resources

and reevaluate processes to improve efficiencies when goals are not consistently met. For example, to the extent license application review times consistently exceed established goals, DCC may consider whether certain aspects of the ARO, CORI/CORO, OEE, and the Regulatory Branch's application review can be conducted concurrently, versus sequentially, which is the current practice. Further, processing times that unreasonably exceed performance goals may negatively impact licensees.

According to DCC, processing times are unpredictable and assessed on a case-by-case basis, and it is difficult to establish hard deadlines/goals that would require constant oversight.

Government Code sections 11816, 13401, and 13403 require agency heads to establish and maintain effective systems of internal controls including the development of a strategic plan and identification of performance measures therein.

Recommendations:

- A. Establish, document, and monitor performance goals for DCC's workload.
- B. Reassess workloads periodically and make necessary updates to performance goals as needed to ensure efficiency and effectiveness of operational processes.

Finding 3: DCC's Licensing System Could be Used More Effectively

DCC's licensing system, Accela, is often missing supporting documents and could be more organized. Most workload information is documented in Accela, including supporting documents such as checklists, photos, and communications sent to licensees. DCC employees also document analysis directly into Accela. Additionally, some emails are system-generated and auto-sent by Accela, such as license renewal notices. However, the system-generated information was not always accurate or complete. Specifically, we identified:

- Data fields in Accela were not always completed, such as assignment priority levels for complaints, and investigation status fields were not updated to closed once an investigation was completed.
- Several system-generated license renewal reminder notices did not populate the license expiration date field correctly.
- There is no established naming convention for documents uploaded into Accela, making it difficult to locate specific documents among the hundreds that may be associated with a license record.
- The categories assigned to uploaded documents in Accela are too broad to effectively filter reference documents.
- Some licensing-related checklists in Accela did not identify the licensee's business name or license number.
- Documents were uploaded into Accela under the wrong licensee. For example, the status letter for a testing laboratory was found to be uploaded under another testing laboratory.

- Several documents were not uploaded into Accela, for example, documents supporting license application reviews, ECMSB and ISB inspections, and SOP reviews.

Various DCC employees noted difficulties working in Accela and have developed workarounds. The most consistent workaround is the creation of Microsoft Excel tracking spreadsheets. Each division utilizes several tracking spreadsheets because Accela's capabilities are limited and prevent employees from utilizing reports to effectively track workloads. Most of these tracking spreadsheets rely on manual input from multiple analysts and serve as a central location for management to monitor workload progress. However, because of the manual input from multiple employees, the spreadsheets contain missing cells, and the data captured is inconsistent. Further, the data within these spreadsheets did not always agree with the data in Accela.

Documents that are incomplete, inaccurate, inaccessible, or unidentifiable within Accela prevent employees from adequately reviewing licensee records and making consistent and appropriate decisions. Additionally, having inaccurate or incomplete data within Accela or on Microsoft Excel tracking spreadsheets inhibits DCC's ability to run reports, monitor workload progress, and assist management in making informed operational decisions. Having to maintain tracking spreadsheets in addition to Accela creates inefficiencies and increases the risk of inconsistent data among multiple sources.

DCC employees indicated the documents that were unretrievable were due to employees not uploading them into Accela prior to separating from DCC, and corrupted files. Additionally, information and uploaded documents in Accela are not adequately reviewed for completeness or accuracy.

Government Code sections 13401 through 13403 require agency heads to establish and maintain effective internal control systems, including active oversight of processes for the prevention and early detection of fraud and errors in program administration.

Recommendations:

- A. Establish a review process to verify that data entered into Accela is complete, accurate, and supported by uploaded source documents.
- B. Establish a review process to verify data entered into Microsoft Excel tracking spreadsheets is complete, accurate, reconciles with the data in Accela, and is supported by source documents uploaded into Accela.
- C. Establish a consistent naming convention for documents uploaded into Accela.
- D. Ensure the system-generated license renewal reminder email notices processed in Accela are populating the correct information before being sent to licensees.
- E. Work with either the vendor or DCC Information Services employees to enhance the reporting features within Accela to support oversight of workloads and reduce reliance on Microsoft Excel tracking spreadsheets.

Finding 4: Some of DCC's Policies and Procedures Require Revision

Policies, procedures, and checklists (reference documents) for several DCC divisions are outdated, contradictory, or non-existent, which could negatively impact DCC employees' ability to effectively perform their assigned responsibilities. Specifically:

- Several reference documents include references to legacy agencies and systems. For example, references are made to BCC, CDFA, CDPH, the Manufacturing Cannabis License System, and specific employees who are no longer with DCC. Reference document versions are dated as early as January 2021, demonstrating they have not been reviewed or revised since before DCC's formation in July 2021.
- Several policies and procedures were provided in draft or "living" form as the only version available.
- Some reference documents were contradictory. For example, the DCC Travel Guide states that STD 255C forms are to be submitted both 10 and 15 days before travel. There were also conflicting procedures for following up on the disposal of cannabis products from businesses with expired or revoked licenses.
- Several processes did not have written policies and procedures for employees to reference. For example, ISB employees did not have procedures for investigating licensees participating in illicit activity, following up on licensee compliance with issued Notices to Comply, or following up on the disposal of cannabis products from businesses with expiring licenses.

Insufficient policies and procedures can result in inefficient and inconsistent work products. Additionally, these inconsistencies can affect licensees if similar cases are treated differently. Further, outdated documents that do not accurately reflect the current agency, standards, and processes may confuse employees and create further inefficiencies.

DCC stated it has work groups that continually review and revise internal reference documents, but those groups have not had time to update all the respective reference documents.

Government Code sections 13401 through 13403 require agency heads to establish and maintain effective internal control systems, including the development of policies and procedures that are routinely monitored and continuously evaluated and improved.

Recommendations:

- A. Prioritize the review of all reference documents periodically for accuracy and ensure revised policies reflect the date of the last update. Timely communicate policy updates to employees and provide training as necessary.
- B. Ensure all processes being performed by employees are adequately documented within policies and procedures for consistency.

PROGRAM EFFECTIVENESS – LICENSING DIVISION

Finding 5: License Renewal Documents are not Reviewed by DCC Employees

DCC's Licensing Division does not have policies and procedures requiring the review of the gross revenue documentation submitted by licensees, which determines license fees. Of 49 renewals tested, 8 licensees did not pay the correct license fees based on the reported gross revenue. Two of the eight licensees overpaid, while six underpaid, resulting in a net license fee underpayment of \$53,000. An additional five licensees did not submit adequate documents to confirm if appropriate license fees were paid.

Licenses expire 12 months after issuance and must be renewed annually to remain active. Accela sends an automated license renewal email to current licensees 60 days before the license is due to expire. Licensees submit their license renewal through Accela, during which they will be required, among other things, to upload documentation to support the past 12-month period's gross revenue.¹¹ After paying the license fees, and if no other outstanding issues remain, the licensee can access the renewed license online. License renewal submissions are automatically processed by Accela after receipt of payment.

DCC's website states that licensees need to upload documentation demonstrating their gross revenue for the 12-month period of expiring licenses, and acceptable documentation includes a state tax return filed with the California Department of Tax and Fee Administration (CDTFA) or a profit and loss statement.¹² Additionally, California Code of Regulations, title 4, section 15020, subdivision (d) (4) requires that a license renewal contain documentation demonstrating the licensee's gross revenue for the current licensed period, such as a copy of the licensee's state tax return filed with CDTFA.

However, these guidelines do not provide sufficient details about the types of documents and specific information required to support a business's past 12-month period gross revenue. For example, in some instances, documents submitted did not indicate the business they pertained to or did not report the entire previous 12-month period.

Absent sufficient details on the types of allowable documents, licensees are submitting a broad range of documents. Further, not reviewing submitted documents has resulted in unsupported gross revenues and licensees paying inaccurate renewal fees, which may, over time, impact Fund 3288's revenue and DCC's ability to fund its activities.

Government Code sections 13401 through 13403 require agency heads to establish and maintain effective internal control systems. The elements of a satisfactory internal control system include providing active oversight of processes for the prevention and early detection of fraud and errors in program administration.

Recommendations:

- A. Develop and implement comprehensive license renewal review policies and procedures for DCC employees to perform, including the types of

¹¹ For non-cultivation licenses only. Cultivation license fees are based on the size and type of production or lighting. Source: <https://cannabis.ca.gov/applicants/application-license-fees/>.

¹² Excerpts obtained from <https://cannabis.ca.gov/licensees/how-to-renew-your-license/>.

acceptable documents and necessary information to support the business's past 12-month period gross revenue.

- B. Communicate the types of acceptable documents and necessary information, such as gross revenue, reporting period, and business name, to licensees.
- C. Retroactively review licenses and determine the accuracy of fees collected. Resolve underpayments by collecting additional fees and resolve overpayments by offsetting future fees or providing refunds, as legally permissible.

PROGRAM EFFECTIVENESS – COMPLIANCE DIVISION

Finding 6: Consider a More Proactive Approach in Conducting Inspections

The Compliance Division should consider a more proactive approach, such as an increased number of unannounced routine inspections, to effectively promote accountability and consumer and public safety. Additionally, the Division should consider establishing minimal intervals for all licensees to be physically inspected.

Currently, the majority of compliance inspections are reactive in nature, as they are initiated by complaints that are prioritized, as noted in Figure 4, and then investigated based on their severity. As noted in Figure 7, DCC has received a significant number of complaints over the past three fiscal years, with only a modest increase in the number of disciplinary actions taken. While having a robust complaint program is necessary in responding to public safety issues and ensuring compliance with regulatory requirements, expanding inspections to be more proactive may improve the Division's effectiveness and, over time, reduce the number of complaints received by the Division.

By primarily focusing on complaints, some licensees operate without inspections, increasing the risk of non-compliance with regulatory requirements. Additionally, the risk of a surprise routine inspection could elevate the level of compliance, and conducting periodic inspections will allow Division inspectors to develop a rapport with their licensees and proactively address issues before they escalate to complaints.

DCC's strategic plan for fiscal year 2023 through 2025 indicates a priority to "develop a legal, sustainable, and equitable cannabis framework for California" and one of the strategies listed to achieve that priority is to "incorporate equity in all facets of policy and programmatic development." Conducting periodic inspections of all licensees could promote equity. Additionally, other established regulatory oversight agencies such as the CDTFA, the United States Food and Drug Administration, and the California Department of Alcoholic Beverage Control conduct routine unannounced inspections of businesses that distribute and sell alcohol and tobacco products, suggesting a best practice.

Recommendation:

- A. Consider a more proactive approach for conducting licensee inspections, such as an increased number of unannounced routine inspections and establishing minimal intervals for all licensees to be physically inspected.

Finding 7: Controls Over Certain Compliance Activities can be Enhanced

Internal controls over the Compliance Division's remediation plan reviews, case prioritization, and inspections can be enhanced to strengthen the Division's effectiveness.

Remediation Plans

Remediation plans, which outline the steps to be taken to either bring cannabis products that failed testing into compliance or provide evidence of destruction, are not always reviewed within 21 days, as required. Of the 26 licensees tested with remediation plans, 11 plans were reviewed between 4 and 96 days late. Additionally, it is not evident that remediation plans are enacted. Of the 26 tested licensees, 20 had remediation plans that required the remediation of products, and the other 6 had remediation plans that required the destruction of products. For 12 of the 20 licensees tested, DCC could not provide sufficient evidence that cannabis products were remediated as required. Additionally, there was no evidence to support the destruction of products for 2 of the 6 licensees tested.

Without timely review and confirmation of whether remediation plans were enacted, potentially harmful products may continue to be sold in the market, negatively impacting consumer safety. Additionally, not confirming whether remediation plans were enacted negates the work already performed by RRU.

DCC stated RRU had limited employees during the audit period to review remediation plans and did not ensure the plans were enacted.

California Code of Regulations, title 4, section 17305, subdivisions (a) and (g) state that finished products that fail testing shall be destroyed unless they are approved for remediation by a DCC-approved corrective action plan, and all remediated products shall undergo regulatory compliance testing prior to being transported to a licensed retailer. California Code of Regulations, title 4, section 15306, subdivision (f), states that video or photo evidence of destruction shall be provided to DCC upon request. DCC's Remediation Corrective Action Plan Review Procedures state that a final approval or denial should be provided to the licensee within 21 days of the case assignment.

Case Prioritization

Inspection and investigation cases were not always prioritized in accordance with DCC policy. Specifically, 10 of the 72 tested inspections/investigations that were conducted by ISB and ECMSB were either not assigned a priority (two instances) or were assigned the incorrect priority (three instances where a higher than actual priority was assigned, and five instances where a lower than actual priority was assigned). In addition, case records for four of the tested inspections/investigations could not be located by DCC.

Improper prioritization of inspections resulted in higher priority issues being delayed while lower priority cases were prioritized, decreasing the effectiveness of the inspection/investigation process.

The incorrect prioritizations were due to employee errors that were not remedied by supervisory reviews.

Pursuant to the Complaints Unit Desk Manual, analysts are assigned several cases at the same time, and review deadlines are established based on the assigned priority. Additionally, DCC created a Complaints Prioritization Table, as noted in Figure 4, and an Inspections Prioritization Table, as noted in Figure 6, to aid employees in prioritizing inspections and investigations.

Inspections

DCC does not currently conduct random Quality Assurance Reviews (QAR) of licensed distributors, and DCC did not document whether licensee employees were at least 21 years of age in 53 of the 54 tested site inspections. QARs ensure that labeling and packaging of cannabis and cannabis products conform to requirements, test results are confirmed, taxes collected and paid are accurate, and retailers receive products that meet regulatory requirements. Random QARs also increase accountability among distributors because they pose the threat of unannounced inspections. Additionally, verifying the minimum age of workers helps prevent minors from accessing cannabis and cannabis products, which they are prohibited from purchasing.

DCC stated it is currently meeting the QAR requirements since it performs some verifications of labeling and packaging requirements as part of its announced inspections/investigations. However, DCC does not conduct inspections/investigations randomly, verify that the required taxes are being collected and paid under Revenue and Taxation Code sections 34011 and 34012, or have a designated employee or contractor assigned to QARs. Additionally, there are no written policies and procedures to verify compliance with the age requirement for licensee employees. Inspectors may document the enforcement of the age requirement regulations within the case notes or inspection checklist; however, such information is not required or documented consistently.

Business and Professions Code section 26110, subdivision (f) requires a quality assurance compliance monitor, an employee or contractor of DCC, to conduct random QARs at a distributor's licensed premises before distribution. Additionally, Business and Professions Code section 26140, subdivision (a) (3) requires licensees to employ persons who are 21 years of age or over.

Recommendations:

- A. Establish procedures to ensure remediation plans are reviewed within 21 days of the case assignment and that the remediation plans are enacted by the licensee.
- B. Thoroughly review complaints to ensure they are assigned the correct priority level and provide employees with feedback and training as needed to promote consistency. Clarify and update the Complaints Prioritization Table and the Inspections Prioritization Table as needed.
- C. Establish and implement policies to conduct random QARs that comply with Business and Professions Code section 26110, subdivision (f).

- D. Update investigation checklists to include verification that licensee employees are at least 21 years of age.

PROGRAM EFFECTIVENESS – LABORATORY SERVICES DIVISION

Finding 8: DCC is Still Developing Testing Methods for Some Cannabis Compounds

As of June 2024, DCC and its contracted state laboratories had validated test methods for some, but not all regulated compounds. Development, verification, and validation of test methods can be a lengthy process with delays caused by improper equipment and difficulties with procuring supplies. DCC also stated that standard testing methods for some of the regulated compounds do not exist industry-wide and therefore must be developed by DCC.

Absent DCC's ability to conduct its own product testing for all regulated compounds, DCC cannot effectively enforce the presence of restricted compounds in commercial cannabis and cannot ensure licensees are in compliance with regulations.

Business and Professions Code section 26010.5, subdivision (d) grants DCC the power, duty, purpose, responsibility, and jurisdiction to regulate commercial cannabis activity. To enforce regulated compound requirements in accordance with California Code of Regulations, title 4, sections 15717 through 15725, DCC must be able to conduct its own product testing as support for disciplinary actions taken based on failed product testing.

Recommendation:

- A. Prioritize the development and validation of test methods for compounds that do not have a validated test method available.

Finding 9: Missed Regulatory Deadline Delayed Cannabinoid Standardized Testing

DCC's standard cannabinoids test method and SOPs were approved and filed with the California Secretary of State on July 28, 2023, approximately seven months after the January 1, 2023 due date. See the textbox for definitions of a cannabinoid and a SOP. This resulted in the implementation of the standardized cannabinoids test method and SOP being delayed by one year. These delays allowed licensed testing laboratories to continue using various cannabinoid test methods that may have caused consumers to receive inaccurate or inconsistent cannabinoid content information for cannabis and cannabis products they consumed.

A **Cannabinoid** is a group of substances found in the cannabis plant. Most commonly known cannabinoids are tetrahydrocannabinol or THC and cannabidiol or CBD.

Standard Operating Procedures for cannabinoid testing are to provide licensed laboratories with a validated test methodology to test the cannabinoid content of cannabis and cannabis products. SOPs provide licensed laboratories with universal procedures and criteria for the standardized testing of cannabinoids. This provides consistency in cannabinoid testing across all licensed laboratories and is to reduce the potential for misunderstandings regarding the relevant test method criteria and requirements.

Sources: https://cannabis.ca.gov/wp-content/uploads/sites/2/2022/06/DCC_Cannabinoids-Test-Method_ISOR_2022-0603_CD.pdf and <https://www.cdph.ca.gov/Programs/CCDPHP/sapb/cannabis/Pages/Terms-and-Definitions.aspx>.

DCC filed its initial notice and proposed rulemaking on June 17, 2022, with modifications made in August 2022, October 2022, and May 2023. After each modification, public hearings and written comment periods were held to allow stakeholders to share their input. Due to the number of modifications and time taken to hold public meetings and go through written comment periods, the regulatory deadline was missed. Additionally, the new regulations did not become effective until October 1, 2023, and compliance was not required until January 1, 2024.

Missing a regulatory deadline diminishes the public trust in the state's ability to monitor and enforce a legal cannabis market.

Business and Professions Code section 26100, subdivision (f) (2) required DCC to establish a standard cannabinoids test method, including SOPs, to be utilized by all testing laboratories on or before January 1, 2023.

Recommendation:

- A. Implement controls that monitor timelines and progress made for meeting regulatory deadlines.

Table of Methodologies

Determine if DCC's Fund 3288 expenditures are accurate, complete, and supported for the period of July 12, 2021 through June 30, 2024.	<ul style="list-style-type: none"> Selected quantitatively and qualitatively significant Fund 3288 expenditure accounts within the audit period and made further selections of transactions from each of the selected expenditure accounts. Specifically, personnel, excess lodging, gasoline, non-state rent, information technology, consulting and professional services, administration, and alterations expenditure accounts were selected, as further detailed below. Interviewed DCC budget and accounting employees to gain an understanding of processes and procedures for tracking, recording, and approving expenditures. Reviewed accounts payable and other cost-specific procedures and identified additional expenditure requirements from CalHR and DGS. Obtained and reviewed DCC's Fund 3288 FI\$Cal financial activity records for fiscal years 2021-22, 2022-23, and 2023-24. <p>Personnel Costs</p> <ul style="list-style-type: none"> Interviewed Licensing, Compliance, and Laboratory Services Division employees to obtain an understanding of the processes and procedures established to track employees' time and monitor workload. Selected employees based on qualitative factors to determine whether salaries, health insurance benefits, retirement benefits, OASDI, and other benefits were accurate for a selection of months. <ul style="list-style-type: none"> Reviewed FI\$Cal Labor Distribution reports, California State Controller's Office (SCO) Payroll Benefit reports, and employee paystubs to verify selected personnel costs trace between FI\$Cal records and SCO records. Selected employees based on qualitative factors to determine whether employees worked on the days as reported on their approved STD 634 for a selection of months. <ul style="list-style-type: none"> Reviewed employee timesheets, sent emails, badge reports, travel expense claims, Microsoft Outlook calendar items, and monthly travel logs for evidence of employees' activity on working days. <p>Excess Lodging</p> <ul style="list-style-type: none"> Identified relevant DCC and CalHR policies related to excess lodging costs. Selected the most quantitatively significant instances of business travel in which a STD 255C form was submitted from each fiscal year within the audit period.

	<ul style="list-style-type: none"> ○ Reviewed STD 255Cs, hotel invoices, bank statements, bank statement reconciliation spreadsheets, and travel expense claims to determine the following: <ul style="list-style-type: none"> ▪ The trip was supported by a complete STD 255C, including justification and three good-faith quotes. ▪ The STD 255C was approved at least ten days prior to travel. ▪ Amounts in FI\$Cal are accurate and supported by the hotel invoices and, as applicable, bank statements for DCC's lodging credit card. <p>Gasoline</p> <ul style="list-style-type: none"> • Identified relevant DCC and DGS policies related to state fleet vehicles and gasoline costs. • Selected the three most quantitatively significant months of gasoline expenditures within the audit period. <ul style="list-style-type: none"> ○ Reviewed fleet card invoices from WEX, Inc. to verify amounts in FI\$Cal are accurate and supported by invoices. Evaluated the reasonableness of gasoline costs by reviewing the Monthly Travel Logs. <p>All Other Expenditure Accounts</p> <ul style="list-style-type: none"> • Selected the most quantitatively or qualitatively significant transactions within the audit period for non-state rent, information technology, consulting and professional services, administration, and alterations. <ul style="list-style-type: none"> ○ Reviewed invoices, contracts, and/or purchase orders to determine whether amounts in FI\$Cal are program-related, accurate, and supported by invoices.
Objective 2: Determine the overall effectiveness of DCC's enforcement programs.	
Sub-Objectives	Methods
Evaluate DCC's regulatory framework for enforcing a regulated cannabis market in California.	<p>Regulatory Framework</p> <ul style="list-style-type: none"> • Reviewed Business and Professions Code and California Code of Regulations to identify significant enforcement requirements. • Selected Business and Professions Code and/or California Code of Regulations requirements that fall under the responsibility of the Licensing, Compliance, and Laboratory Services Divisions: <ul style="list-style-type: none"> ○ Reviewed the Licensing, Compliance, and Laboratory Services Divisions' policies and procedures to determine whether they aligned with legislative requirements, including updates to align with changing regulations, and were implemented through DCC activities/actions. ○ Selected licenses to determine whether DCC implemented the selected requirements and whether they were in compliance with the relevant criteria. Specifically, we determined compliance with the following Business and Professions Code sections that were selected based on a random selection and that had the ability to be tested: <ul style="list-style-type: none"> ▪ Section 26100, subdivision (f) (2) - Establish standard cannabinoids test method, including SOPs that shall be utilized by all testing laboratories on or before

	<p>January 1, 2023, for a selection of testing laboratory licenses issued within the audit period and active as of November 2024.</p> <ul style="list-style-type: none"> ▪ Section 26130, subdivision (c) (5) - Edible cannabis products are manufactured and sold under sanitation standards established by DCC that are similar to the standards for preparation, storage, handling, and sale of food products, for all manufacturing (type N) licenses issued in 2023. ▪ Section 26140, subdivision (a) (3) - A licensee shall not employ or retain persons under 21 years of age, for a selection of site inspections/investigations conducted by ECMSB and ISB. ▪ Section 26160, subdivision (a) (b) - A licensee shall keep and retain accurate records of commercial cannabis activity for a minimum of seven years, for a selection of site inspections/investigations conducted by ECMSB and ISB. <p>Internal Performance Metrics</p> <ul style="list-style-type: none"> • Obtained and reviewed DCC policies and procedures and strategic plan to determine whether performance goals are established and documented. • Interviewed DCC employees to obtain an understanding of any performance tracking or established performance goals for activities under the Licensing, Compliance, Laboratory Services, and Enforcement Divisions. <p>Cannabis Product Testing Capabilities</p> <ul style="list-style-type: none"> • Obtained and reviewed DCC policies and procedures for testing cannabis product samples. • Interviewed DCC employees to obtain an understanding of processes and procedures for testing cannabis product samples at the CTLB or other contracted state testing laboratories. <ul style="list-style-type: none"> ○ Reviewed test method validation documents from CTLB, CDFA, California Department of Toxic Substances Control, and the University of California, San Diego, to determine whether DCC had validated test methods, itself or by proxy, for all compounds regulated in cannabis products made and sold by licensees.
<p>Evaluate DCC's ability to issue cannabis licenses in accordance with cannabis regulations and DCC policies and procedures.</p>	<ul style="list-style-type: none"> • Obtained and reviewed DCC policies and procedures for Licensing Division activities. • Interviewed Licensing Division employees to obtain an understanding of the processes and procedures established for reviewing and approving license modifications and license renewals. <p>License Modifications</p> <ul style="list-style-type: none"> • Selected license modifications completed within the audit period based on qualitative factors. • Reviewed documents submitted by the licensee and information in Accela to determine the following: <ul style="list-style-type: none"> ○ The modification request was submitted by an authorized representative. ○ Required documents were received and uploaded into Accela.

	<ul style="list-style-type: none"> ○ Analyst review of the license modification was completed. <p>License Renewals</p> <ul style="list-style-type: none"> • Selected license renewals completed within the audit period based on a random selection. <ul style="list-style-type: none"> ○ Reviewed renewal notice emails, renewal documents submitted by the licensee, license and payment information in Accela, issued licenses, and DCC license fee schedule to determine the following: <ul style="list-style-type: none"> ▪ A renewal notice was issued to the licensee. ▪ The renewal fee charged was appropriate. ▪ Supporting documents submitted by the licensee were appropriate. ▪ The licensee paid the renewal fee. ▪ An updated license was issued.
Evaluate DCC's ability to monitor cannabis licensees in accordance with cannabis regulations and DCC policies and procedures.	<ul style="list-style-type: none"> • Obtained and reviewed DCC policies and procedures for Compliance Division activities. • Interviewed Compliance Division employees to obtain an understanding of the processes and procedures established for the intake and processing of complaints, performing licensee inspections and investigations, and processing remediation plans. <p>Complaints, Inspections, and Investigations</p> <ul style="list-style-type: none"> • Selected manufacturing inspections and investigation cases, cultivation cases, and ISB cases, originating from complaints received. Cases were selected based on qualitative factors. <ul style="list-style-type: none"> ○ Reviewed case documents and information in Accela to determine the following: <ul style="list-style-type: none"> ▪ The time taken to process the complaint through case close-out. ▪ Whether the assigned priority level was appropriate. ▪ Whether the disciplinary actions taken related to the original complaint. ▪ Whether the case was closed appropriately. <p>Remediation Plans</p> <ul style="list-style-type: none"> • Selected remediation plans within the audit period based on quantitative factors. More than one remediation plan may be assigned to a particular case. <ul style="list-style-type: none"> ○ Reviewed remediation case reports and checklists, emails, and product destruction evidence to determine whether the remediation plans were reviewed in a timely manner and whether a compliance check was completed to ensure the remediation plan was implemented.

List of Acronyms and Abbreviations

ARO	Application Review Office
BCC	Bureau of Cannabis Control
BSO	Business Services Office
CalHR	California Department of Human Resources
CCTT	California Cannabis Track-And-Trace System
CDFA	California Department of Food and Agriculture
CDTFA	California Department of Tax and Fee Administration
CDPH	California Department of Public Health
CEQA	California Environmental Quality Act
CLEaR	Accela: Cannabis Licensing, Enforcement, and Renewals
CORI	Criminal Offender Record Information
CORO	Cannabis Ownership Review Office
CTLB	Cannabis Testing Laboratory Branch
DCC	California Department of Cannabis Control
DGS	California Department of General Services
ECMSB	Environmental Compliance and Manufacturing Safety Branch
ECO	Environmental Compliance Office
FI\$Cal	Financial Information System for California
ISB	Investigative Services Branch
MAUCRSA	Medicinal and Adult-Use Cannabis Regulation and Safety Act
MSO	Manufacturing Safety Office
OEE	Office of Environmental Evaluation
QAR	Quality Assurance Reviews
RRU	Remediation and Recalls Unit
SB	Senate Bill
SCO	California State Controller's Office
SOP	Standardized Operating Procedures



June 19, 2025

Cheryl L. McCormick, CPA, Chief
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California Department of Finance
915 L Street, 6th Floor
Sacramento, CA 95814

SUBJECT: DOF Audit Report No. 24-1115-103

Ms. McCormick,

The Department of Cannabis Control (DCC) would like to thank you for the opportunity to review and respond to the report issued by the Office of State Audits and Evaluations' (OSAE) following its statutorily required performance audit of DCC for the period of July 12, 2021, to June 30, 2024.

DCC truly appreciates that OSAE's report captures the significant dedication and accomplishments of our staff in establishing a new, functional government department while also providing sufficient and appropriate context and basis for each of its findings. While we expressed this sentiment during the exit conference, DCC would like to reiterate that it values the professionalism and courtesy that was demonstrated by your staff throughout the entire audit process. We are optimistic that implementation of the targeted recommendations put forth by OSAE will assist our organization in enhancing the effectiveness and efficiency of, and accountability within, our current enforcement programs and fiscal management practices.

In the sections below, we have set forth our responses to each of OSAE's findings and recommendations which includes additional historical background, description of progress made since June 20, 2024, and planned corrective actions, as applicable.

Program Costs

Finding 1: Controls Over Certain Program Expenditures can be Strengthened

Recommendation:

- A. *Strengthen controls over excess lodging form submissions and approvals, requiring all the elements of STD 255C to be completed and submitted at least ten days before trips occur. Ensure the controls include reviewing excess lodging requests to ensure their validity and allow for an expedited review when travel is required on short notice.*
- B. *Strengthen controls over fleet card usage to comply with DGS's Fleet Card Guide, requiring supervisors to review claimed costs for appropriateness and document evidence of their review. Enhance the required data elements on the Monthly Travel Log to aid in the supervisor's and Liaison's review of gasoline usage.*

C. Establish division-wide time tracking policies and procedures that provide management with the necessary information to thoroughly review timesheets prior to approval.

DCC Response:

DCC agrees with OSAE's overall recommendation that controls over select expenditure categories can be strengthened to ensure their accuracy and appropriateness. In response to OSAE's recommendations, DCC has enacted the following changes:

Controls Over Excess Lodging Requests

While we acknowledge that the deadline was not met in all cases, it is important to note that, in every instance tested by OSAE, the travel reimbursements issued did not exceed what would have been approved had the requests been submitted on time.

The Administration Division has updated the DCC Travel Guide to include guidance on after-the-fact excess lodging requests; this guidance aligns with CalHR's Delegation of Authority issued on September 19, 2023. DCC may approve these requests on a case-by-case basis when exceptional circumstances apply, such as: emergency or short-notice travel; reasonable accommodation needs; transportation costs to alternative lodging brings overall costs to an amount equal to or greater than requested lodging; no viable transportation available to alternate lodging; no available alternate lodging; or other extenuating circumstances with sufficient explanation. After-the-fact requests must include three "good faith" rate comparisons from the state's authorized booking tool (for the original or current travel dates), a justification for the higher rate, and a written explanation for why the request could not be submitted in advance.

In recognition of the last-minute nature of some assignments, DCC's Accounting Office has implemented an expedited review process for short-notice travel. If travel is assigned fewer than 10 days in advance, employees are required to submit their STD 255C and required documentation as soon as possible, ideally no later than three business days before the trip. These requests must include the reason for the higher lodging rate, an explanation of the short notice, and three rate comparisons. Accounting will prioritize these requests and aim to issue a decision within one business day. If travel occurs before approval is received, the request will be handled under the after-the-fact process. This expedited-review process has been incorporated into the DCC Travel Guide to provide clear direction and to promote consistent understanding and application department-wide.

To help ensure consistency and completeness, DCC's Accounting Office has also adopted a checklist review process to confirm each STD 255C is fully documented before approval. Requests missing required elements, such as justification, comparisons, or timely submission, will be returned for correction when possible. Additionally, DCC's Accounting Office will track instances where employees submit multiple late or incomplete requests; DCC's Accounting Office will schedule meetings with employees and their supervisors to review the requirements, clarify expectations, and provide additional guidance as needed.

Updated training will also be provided to staff and supervisors on excess lodging procedures, including how and when to submit a request, what qualifies for after-the-fact approval, and how to use Concur Travel for rate comparisons. This training will be included in new employee

onboarding and refreshed periodically to support continued compliance. A training is set for June 10, 2025, and tentatively scheduled October 9, 2025.

Lastly, DCC's Accounting Office will conduct quarterly reviews of excess lodging activity to monitor timeliness and accuracy, identify patterns in after-the-fact or short-notice requests, and recommend improvements where needed. These efforts reflect DCC's commitment to responsible travel practices, compliance with CalHR policy, and strong financial stewardship of state resources.

Controls over Fleet Card Usage

DCC's Business Services Office (BSO) will revise the Fleet Management and Vehicle Use Policy, last updated on April 29, 2024, and establish a new Fleet Use Department Procedure Memorandum by September 1, 2025, which will require enhanced documentation by users of DCC vehicles. This procedure will provide detailed guidelines for supervisors on how to use this enhanced tracking to review and approve Fleet Card transactions and monthly travel logs. Supervisors will be responsible for auditing Fleet Card transactions to ensure they reasonably align with the trips recorded in employees' monthly travel logs. Division Fleet Liaisons will provide a second level of review of the monthly travel logs and Fleet Card transaction receipts upon receiving them from the employees' direct supervisors. In addition to these monthly reconciliations, BSO will perform a quarterly audit of departmental Fleet Card transactions to detect potential spending irregularities and to ensure accuracy of invoiced amounts.

Controls Over Time Sheet Review

Following OSAE's exit conference with DCC, DCC's Human Resources Office sent an annual reminder to all staff regarding the requirement to use the Manage Office Time Off (MOTO) System, a web-based application for all staff to submit leave requests and supervisors to access to reconcile, review, and approve leave used on timesheets. The reminder included reiteration that DCC's Workplace Guidelines and Employee Expectations document requires all DCC employees to submit requests for planned and unplanned absences through this system and that supervisors and managers are required to reconcile their employees' monthly timesheets with any absence requests prior to approval and signature.

Program Effectiveness – Regulatory Framework

Finding 2: Some Performance Goals are not Formally Established or Enforced

Recommendation:

- A. *Establish, document, and monitor performance goals for DCC's workload.*
- B. *Reassess workloads periodically and make necessary updates to performance goals as needed to ensure efficiency and effectiveness of operational processes.*

DCC Response:

DCC acknowledges the audit's finding regarding the absence of some formally established and

enforced performance goals and agrees with OSAE's recommendations concerning the development and ongoing recalibration of these goals on a department-wide basis.

The implementation of the above recommendations is still ongoing, however, DCC would like to highlight significant strides made by its Compliance Division aimed at reducing the processing times for its inspections and investigations, both before and following the conclusion of the audit period:

- a) In April 2024, with revisions occurring in October 2024, the Compliance Division distributed the first version of its procedural guidance document for field visits and inspections to staff members of its Environmental Compliance and Manufacturing Safety Branch. The document established timelines requiring that Notices to Comply (NTCs) must be: (1) drafted within 15 calendar days of the initial inspection; (2) reviewed and edited by peers and supervisors within 45 calendar days of the initial inspection; and (3) issued to the licensee no later than 60 days following the initial inspection. Staff were required to review the document and sign an acknowledgement form confirming receipt, understanding, and acceptance of the expectations.
- b) The division acknowledges that there are no required timelines governing the closure of its inspections because inspection record closure is heavily dependent on a licensee responding to its NTC and returning certain completed documents to DCC in a timely manner. Based on results from 2021 to 2024, the division estimates that routine inspection closure involving responsive and proactive licensees requires a maximum of 45 days processing time; this maximum processing time is comprised of 30 days allowed for licensee response and 15 days allowed for DCC review. In instances involving nonresponsive licensees, the average processing time becomes significantly more unpredictable as inspection records cannot be closed out until completed documents are received, approved, and uploaded into Accela. To prevent protracted processing times when corresponding with nonresponsive licensees, the division has instituted a requirement that staff are now required to follow-up with any nonresponsive licensee after 30 days of the initial issuance of the NTC. If the licensee fails to respond with completed documents after 15 days of that reminder, staff must send the licensee a Letter of Warning (LOW) informing them that disciplinary action may be taken against their license if they do not respond within 15 days of the LOW issuance. Should the licensee fail to respond after the issuance of the LOW, the division will issue a citation which the licensee must pay prior to renewing their license. Although nonresponsive licensees may extend the processing times for select inspection cases, the division's new requirements help to ensure that such cases do not extend beyond their required renewal date.
- c) DCC noted that several of the inspection and investigation records examined by OSAE included closed cases for which there was no record of closure, leading to inflated processing times. As also referenced in DCC's responses to Findings 3 and 4, the Compliance Division has since established the Accela Workgroup and the Divisional Information Notices Workgroup, both of which continue to develop standardized processes and procedures guiding the work of division staff. It is the intent of these workgroups to identify and establish uniform Accela practices to support consistency and accuracy of compliance records within both CLS and CLEaR.

- d) In Fall 2024, the Compliance Division implemented formalized timeframes over its investigative case work. According to the updated expectations, staff are required to initiate and complete investigations within 90 days. Following the completion of field work, supervisors are provided an additional 30 days to conduct a quality assurance review and to finalize the work product. This timeline establishes a maximum 120-day period from initiation to final review for all investigations, which is now tracked by management via reports available in CLS and CLEaR. Along with the timeframes for investigations, a branch-based Quality Assurance (QA) Program was initiated to provide structured oversight for investigations and to ensure that work products meet established standards.

In addition to the progress made by the Compliance Division, as of May 2025, the Licensing Division has already begun the process of mapping and developing modifications to its application review process that incorporates concurrent reviews performed by its Application Review Office (ARO), its Criminal Offender Record Information/Cannabis Ownership Review Office (CORI/CORO), and its Office of Environmental Evaluation (OEE). These modifications are being made with the intent to reduce application processing time and to promote efficiency throughout the application review process. As the Licensing Division continues to develop and finalize this new process, it will establish and track relevant metrics that provide feedback in terms of both divisional and individual staff performance.

Finding 3: DCC's Licensing System Could be Used More Effectively

Recommendation:

- A. *Establish a review process to verify that data entered into Accela is complete, accurate, and supported by uploaded source documents.*
- B. *Establish a review process to verify data entered into Microsoft Excel tracking spreadsheets is complete, accurate, reconciles with the data in Accela, and is supported by source documents uploaded into Accela.*
- C. *Establish a consistent naming convention for documents uploaded into Accela.*
- D. *Ensure the system-generated license renewal reminder email notices processed in Accela are populating the correct information before being sent to licensees.*
- E. *Work with either the vendor or DCC Information Services employees to enhance the reporting features within Accela to support oversight of workloads and reduce reliance on Microsoft Excel tracking spreadsheets.*

DCC Response:

DCC agrees with OSAE's recommendations aimed at improving the department's use of its two Accela-based licensing systems, CLS and CLEaR.

Since the conclusion of the audit period, the Compliance Division has established its Accela Workgroup to review the division's use of CLS and CLEaR and to identify areas where system functionality is being underutilized. The Accela Workgroup is assigned responsibility for

analyzing the current state of both systems' capabilities with the intent of providing standardized guidance on the creation and management of case records; developing standards and minimum requirements for data entry and the upload of supporting documentation; and for reviewing and updating existing reporting functions used to track and monitor the division's workload. To facilitate this effort, the Compliance Division has an established quality assurance/quality control process in place for review of staff field work and to ensure the Accela Workgroup's recommendations are implemented effectively; part of this process will include verifying that all required data fields are properly filled out by staff when logging their case work. Compliance Division management and DCC's Information Technology Services Division (ITSD) will continue to pull and analyze all available data with the goal of adapting existing reports, and developing new ones, that improve DCC's oversight capabilities. Moving forward, the workgroup will incorporate the above recommendations and considerations into its ongoing work, especially as the division integrates the existing responsibilities of the Laboratory Services Division into its regular operations.

Furthermore, as addressed in the response to Finding 2, the Licensing Division is reorganizing its application review process to allow for concurrent review. Currently, the Licensing Division is collaborating with ITSD to make necessary alterations to CLS and CLEaR to accommodate this change. As the Licensing Division continues to define the steps within this revised process, it will incorporate the above recommendations into the relevant workflows. ITSD and the Licensing Division have a targeted completion date of December 2025.

Finding 4: Some of DCC's Policies and Procedures Require Revision

Recommendation:

- A. *Prioritize the review of all reference documents periodically for accuracy and ensure revised policies reflect the date of the last update. Timely communicate policy updates to employees and provide training as necessary.*
- B. *Ensure all processes being performed by employees are adequately documented within policies and procedures for consistency.*

DCC Response:

DCC agrees with OSAE's overarching recommendations concerning the department's prioritization of the regular review and, when appropriate, revision of policies and procedures throughout the department where not currently being completed. With respect to implementing the above recommendations, DCC believes it is important to distinguish between its approach to department-wide policies and procedures and division-specific policies and procedures.

At present, DCC continues to develop and establish its own department-wide policies and procedures, as was the case during and through the conclusion of the audit period. For policies that have yet to be established, DCC continues to use existing Department of Consumer Affairs' policies and procedures in the interim as authorized to do so under state law. DCC's Department Policy Coordinator is charged with the annual review of all department-wide policies and procedures in collaboration with the respective policy owners to ensure applicability, compliance, and accuracy.

Concerning implementation of the recommendations at a divisional level, the audit report correctly identifies that the impacted divisions have established division-specific work groups instructed to review and revise internal reference documents. Currently, the Compliance Division is in the process of merging its operations with those of the Laboratory Services Division to unify and standardize compliance efforts as they apply to all cannabis license types. The Compliance Division is capitalizing upon this organizational shift to re-evaluate policies and procedures that were previously division- or branch-specific with the intent of updating those documents to ensure applicability to the entire division. To facilitate this goal, the Compliance Division recently established the Divisional Information Notices (DIN) Workgroup to manage the update and distribution of relevant policies and procedures to division staff. The DIN Workgroup, established in November 2024, continues to identify existing policies and procedures requiring revision; to create new policies and procedures responsive to new responsibilities and/or statutory and regulatory changes; and to establish a revision schedule for existing policies and procedures. The DIN Workgroup's intent is to serve as the central location for all procedural information and the primary resource for instructing current and future staff. Moving forward, the DIN Workgroup Coordinator will ensure staff receive training when new policies and procedures are enacted and communicated to the Division. This training will follow a set schedule upon its implementation and incorporated into both onboarding and ongoing training. Over time, all new policies and procedures will be compiled into a division-wide manual.

Lastly, as referenced in the responses to Findings 2 and 3, the Licensing Division has begun to overhaul its current application review process, moving away from sequential reviews of applications to concurrent reviews. This programmatic shift involves significant updates to the Licensing Division's internal policies and procedures. As these new processes are defined and finalized, guidance documents will be reviewed, updated, and disseminated at appropriate intervals.

Program Effectiveness – Licensing Division:

Finding 5: License Renewal Documents are not Reviewed by DCC Employees

Recommendation:

- A. Develop and implement comprehensive license renewal policies and procedures for DCC employees to perform, including the types of acceptable documents and necessary information to support the business's past 12-month period gross revenues.*
- B. Communicate the types of acceptable documents and necessary information, such as gross revenue, reporting period, and business name, to licensees.*
- C. Retroactively review licenses and determine the accuracy of fees collected. Resolve underpayments by collecting additional fees and resolve overpayments by offsetting future fees or providing refunds, as legally permissible.*

DCC Response:

For context, DCC's licensing renewal regulations were designed to accommodate the auto-renewal of licenses following receipt of applications for renewal, similar to the structure of other professional licensing organizations within state government. While this structure does include

the immediate renewal of a license, DCC can still hold licensees accountable for administrative errors, including failing to submit appropriate documentation or for failing to pay the appropriate licensing fee. It is also noteworthy that the only license renewal documents that are required is documentation to support their gross revenue category selected at renewal of their license. If a licensee is found to have submitted improper documentation or to have paid an incorrect licensing fee, DCC will initiate disciplinary action, as appropriate. Currently, DCC conducts post-renewal reviews of licensees through compliance inspections and licensing record reviews. DCC has since expanded the scope of its reviews to include post-renewal desk reviews of non-cultivation licensees to ensure that submitted documentation sufficiently substantiates the applicant's previous 12 months' gross revenue compared to the revenue tier selected when renewing their license. The Licensing Division anticipates standardizing its policies and procedures governing the review of license renewal application packages by the end of July 2025; these policies and procedures will be distributed to Licensing Division staff upon finalization. The department is also considering regulatory changes that would align calculation and documentation requirements for non-cultivations license renewals to improve this review process.

Program Effectiveness – Compliance Division

Finding 6: Consider a More Proactive Approach in Conducting Inspections

Recommendation:

- A. *Consider a more proactive approach for conducting licensee inspections, such as an increased number of unannounced routine inspections and establishing minimal intervals for all licensees to be physically inspected.*

DCC Response:

DCC recognizes the importance of proactively enforcing compliance and agrees with the recommendation above. Since the conclusion of the audit period, the Compliance Division has issued a division-wide directive requiring that all routine inspections shall be unannounced unless prior department approval is granted for an announced inspection – often performed in the interest of staff safety. To best leverage its current set of limited resources, the division will continue prioritizing its responses to high-priority complaints as these unannounced visits allow staff to not only address the submitted complaint, but it also allows them to detect additional violations by proactively conducting regular inspection duties while already being onsite at the licensed premises. However, as the department continues to increase the number of staff within the Compliance Division, it is the division's intent to establish a more frequent cadence for its routine inspections. Currently, staffing limitations force DCC to make decisions about whether to open new complaints or complete already open complaints timely, all the while balancing the complaint workload with inspection visits. DCC has requested additional staffing resources to expand capacity through a Budget Change Proposal in the 2025-26 May Revision, which would add two more teams to conduct inspections. Despite the addition of more staff, recent changes to operations, such as the introduction of conditions on legal cases leading to increased visits while on probation, continue to compel the DCC to adopt a more reactive approach.

Finding 7: Controls Over Certain Compliance Activities can be Enhanced

Recommendation:

- A. Establish procedures to ensure remediation plans are reviewed within 21 days of the case assignment and that the remediation plans are enacted by the licensee.*
- B. Thoroughly review complaints to ensure they are assigned the correct priority level and provide employees with feedback and training as needed to promote consistency. Clarify and update the Complaints Prioritization Table and the Inspections Prioritization Table as needed.*
- C. Establish and implement policies to conduct random QARs that comply with Business and Professions Code section 26110, subdivision (f).*
- D. Update investigation checklists to include verification that licensee employees are at least 21 years of age.*

DCC Response:

With respect to its recommendations impacting review and enactment of remediation plans, DCC agrees with OSAE's recommendations, nor does it dispute the audit's finding that not all remediation plans were reviewed within the 21-day window as stipulated within the relevant processes and procedures. Following review of the cases sampled by OSAE, DCC identified several causes for the delays: insufficient licensee documentation, communication breakdowns between DCC and licensees, licensee requests for extensions, understaffing within the Compliance Division, and staff redirection to higher priority tasks such as recalls. Although the timeline for completing a remediation review is an internal process and is not mandated by current regulations, it is still DCC's goal to perform these reviews and approvals within 21 days. At present, the Recalls and Remediations Unit (RRU) performs daily monitoring of the Remediations email inbox, and same-day logging of each Corrective Action Plan submitted for review. RRU is also modifying its tracking system for submitted Corrective Action Plans to log confirmation that: (1) each submitted Corrective Action Plan is reviewed by staff within 21 days of assignment; (2) each approved Corrective Action Plan has received supplemental review and approval from the RRU Supervisor or the RRU's Senior Environmental Scientist (Specialist); and (3) a compliance check has been performed within 45 days of supervisory approval to ensure that the approved plan has been fully enacted according to the approved specifications. The Compliance Division anticipates implementation of these changes to be completed by the end of June 2025.

Similarly, DCC agrees with OSAE's finding related to the incorrect assignment of priority levels to select complaints and agrees with the recommendation that its complaints review process should be strengthened. Historically, complaints received by the department were subjected to one level of supervisory review by the Complaints Unit prior to referral to one of the Compliance Division's Supervising Special Investigators. The Compliance Division believes it has made improvements in this area by requiring an additional level of review by the Supervising Special Investigators of the unit to which the case was referred. Following the restructuring of the original review process, the Supervising Special Investigator receiving the case referral from the Complaints Unit may now revise the initial case prioritization should errors be identified prior to

assignment to staff. In addition to this procedural improvement, the division's Accela Workgroup has been assigned the recurring task of analyzing how complaints are prioritized and reviewing the underlying circumstances that may factor into a complaint's prioritization. This workgroup is responsible for informing potential updates to the Complaints Prioritization Table as needed.

While DCC understands the rationale behind OSAE's third recommendation to establish and implement policies to conduct random quality assurance reviews (QARs) compliant with Business and Professions Code (BPC) section 26110, subdivision (f), DCC respectfully disagrees with OSAE on the grounds that the Compliance Division's Investigative Services Branch (ISB) already performs checks for compliance of labeling and packaging of cannabis and cannabis products at the distribution level. While BPC § 26110(f) requires that there be a quality assurance compliance monitor who is an employee or contractor of the department that conducts random quality assurance reviews, a single person would never be sufficient for the number of licensees in California nor the volume of products. Therefore, the Bureau of Cannabis Control, the legacy agency previously tasked with this requirement, created an entire compliance branch to conduct investigations and inspections of distributors at not only the distribution premises but also testing laboratory and retail premises. Currently, DCC inspects products from these licensees and determines whether the distributor conducted appropriate quality assurance. An example of this process can be seen in within DCC's recalls process and its ongoing reviews of cannabis products that are potentially attractive to youth. As an aside, DCC has recommended changes to the Medicinal and Adult-Use Cannabis Regulation and Safety Act to clarify that the role of "compliance monitor" is currently being filled by DCC's Compliance Division. Additionally, as of January 1, 2023, the cannabis excise tax is now required to be paid by licensed retailers, and no longer by licensed distributors. The Compliance Division receives referrals from its partners at the California Department of Tax and Fee Administration (CDTFA) regarding licensees that fail to pay the cannabis excise tax or do not hold a valid seller's permit. The division has taken, and continues to take, progressive disciplinary actions against these licensees including issuing NTCs and revoking licenses.

Lastly, DCC agrees with OSAE's recommendation that the Compliance Division should update its inspection checklists to include verification that licensee employees are at least 21 years of age. As of February 2025, DCC's Inspection Checklist requires staff to verify and attest that all employees of the licensee being inspected are 21+ years of age; this verification occurs for all inspections regardless of license type.

Program Effectiveness – Laboratory Services Division

Finding 8: DCC is Still Developing Testing Methods for Some Cannabis Compounds

Recommendation:

- A. Prioritize the development and validation of test methods for compounds that do not have a validated test method available.*

DCC Response:

DCC does not object to OSAE's conclusions as the audit evaluated the testing capabilities of DCC and its contracted state labs within the California Department of Food and Agriculture (CDFA), the California Department of Toxic Substances Control (DTSC), and UC San Diego as

of June 30, 2024, the cutoff date for the period under audit. Since June 30, 2024, DCC has successfully enhanced the capabilities of its testing network by having established validated test methods for most of the remaining required analytes. This increase in testing capabilities has been evidenced by a significant increase in the number of product safety recalls that have occurred since the beginning of January 2025. As of the year to date, DCC has issued 52 product safety recalls, which is well on pace to exceed the number of recalls issued in all of 2024 (63). For those remaining analytes that have yet to have an associated validated test method, DCC has since begun the process of validating those methods. DCC expects the validation of the remaining test methods to be completed by the end of July 2025.

Finding 9: Missed Regulatory Deadline Delayed Cannabinoid Standardized Testing

Recommendation:

- A. Implement controls that monitor timelines and progress made for meeting regulatory deadlines.*

DCC Response:

DCC acknowledges that the audit report accurately documents the timeline related to the approval and filing of its standardized cannabinoid test method and the associated standard operating procedures with the California Secretary of State. However, it is important to note that the January 1, 2023, deadline was imposed by Senate Bill 544 (2021), which took effect January 1, 2022, effectively giving DCC one year to establish the requirement. It is likely that when the January 2023 deadline was set, neither the Legislature nor DCC stakeholders anticipated the complexity and time required to adopt final regulations.

As the report correctly notes, DCC developed and published the proposed methodology and initiated the rulemaking process to formally adopt the method into regulation on June 17, 2022, acting swiftly to operationalize this statutory mandate. As demonstrated by the three rounds of notice, public comment, and revisions that followed, the Department made a deliberative decision to prioritize a rulemaking process defined by scientific rigor, legal defensibility, and stakeholder engagement. While falling short of the statutory target is disappointing, the resulting final regulations are grounded in a robust methodology and informed by a process that, while lengthy, upholds the integrity of California's Administrative Procedures Act and preserves the public trust.

Concluding Remarks

In summary, DCC recognizes the value in OSAE's audit report and understands the importance of adopting its recommendations in a timely manner. DCC looks forward to monitoring the implementation of those recommendations and updating OSAE at the appropriate intervals.

Should OSAE have any questions or concerns related to the department's response, please do not hesitate to contact DCC at your convenience.

Respectfully,

Original signed by:

Nicole Elliott

Director, Department of Cannabis Control

DCC's response to the draft report has been reviewed and incorporated into the final report. We appreciate DCC's willingness to implement the report's recommendations. In evaluating its response, we note DCC agreed with the findings and recommendations, except for a portion of Finding 7, for which we provide the following comments:

Finding 7: Controls Over Certain Compliance Activities can be Enhanced

DCC agreed with most of the recommendations for Finding 7; however, it disagreed with Recommendation C to establish and implement policies to conduct random QARs that comply with Business and Professions Code section 26110, subdivision (f). DCC contends it already complies with Business and Professions Code section 26110, subdivision (f) through ISB's compliance checks. However, as of the end of the audit period, ISB's inspections and investigations were largely based on complaints. As such, these compliance checks do not meet the random nature of QARs, as required in the statute.

DCC also stated that a single person assigned to conduct QARs, as the Business and Professions Code section 26110, subdivision (f) requires, would not be sufficient for the number of licensees in California or the volume of products, and that DCC has recommended changes to MAUCRSA to clarify that DCC's Compliance Division is currently acting as its compliance monitor. Additionally, DCC stated the cannabis excise tax is no longer paid by distributors, and thus would not require confirmation during a QAR of a licensed distributor. DCC should continue to recommend further changes to Business and Professions Code section 26110, subdivision (f), to reflect current practices as needed.

For the reasons stated above, we continue to recommend that DCC establish and implement policies to conduct random QARs that comply with Business and Professions Code section 26110, subdivision (f). Therefore, Finding 7, including Recommendation C, will remain unchanged.