OFFICIAL RESPONSE TO PERFORMANCE AUDIT ON EVALUATING WASHINGTON STATE OVERSIGHT OF THE CANNABIS INDUSTRY: FOLLOW-UP ISSUES – OCTOBER 9, 2024

The Liquor and Cannabis Board (LCB) and Office of Financial Management (OFM) provide this cabinet response to the State Auditor's Office (SAO) performance audit report received on September 11, 2024.

SAO PERFORMANCE AUDIT OBJECTIVES

The SAO's performance audit addressed two questions:

1. What, if any, barriers have the Liquor and Cannabis Board faced in implementing effective risk management methods to reduce risks identified during the previous audit?

2. What methods has the agency used to ensure it effectively prioritizes its enforcement activities?

Recommendations 1-4 to the Liquor and Cannabis Board in brief:

SAO Recommendation 1: To address inaccurate licensee data, continue to identify and implement improvements to the Cannabis Central Reporting System (CCRS) to make it as functional as possible to aid enforcement actions until a new system can be procured. For example:

- Evaluate the highest risk data fields that are necessary to ensure public safety.

- Design controls to help ensure data in these fields are accurate while operating with CCRS. These could be input controls, or, if not possible, mitigating controls that would help ensure data accuracy in those fields.

STATE RESPONSE: Although a series of improvements have been made to CCRS, the LCB recognizes that additional enhancements may be needed to aid in the enforcement of public safety and health. The agency is committed to reviewing the need for increased data controls and implementing them as possible.

Action Steps and Time Frame

➢ Review internal program and prioritize highest risk data fields. *By November 15, 2024.*
➢ Develop a plan and schedule to address highest risk data fields. *By December 15, 2024.*

SAO Recommendation 2: To increase the likelihood of success for future projects and address project management issues, identify and incorporate leading practices that can help it more effectively manage agency projects, including the project to implement a new tracking system. Formalize these practices, as well as those practices already in place, and make them available as agencywide guidance to anyone in charge of managing projects. By following these guidelines, the agency can help ensure project leaders:

- Consult system users and incorporate their feedback as much as possible

- Obtain user buy-in at the start of the project

- Ensure project staff have sufficient capacity to be successful on the project

- Make lessons learned and other key documents centrally available, and advise staff to consult them before starting new projects

STATE RESPONSE: The agency has established the operating principles for a project management office (PMO) in the Director's Office. A senior IT project manager has been hired to support the effort and focus on traceability as the first major initiative. This effort is part of a larger strategic portfolio management and

intake process that enables the executive leadership to prioritize initiatives (projects) to address the changing business and political landscape more quickly. At both the PMO and IT project management level, project management standards based on the PMBOK and Agile principles have been adopted to ensure the proper rigor is brought to bear for every level of initiative.

In addition to the PMO and Strategic Portfolio Management, the LCB has established a product management group in the Information Technology Services organization, which has drafted and adopted business requirement standards and product management principles. The product management group has also put systems in place to plan product roadmaps and define product features that enable projects, including prioritized strategic initiatives, to move forward without blockers. This process creates a feedback loop to LCB leadership so they can evaluate, support and promote initiatives in an organized manner and address resource constraints that may delay related projects.

Action Steps and Time Frame

➢ Conduct information sharing and collaboration sessions to learn more about project management. *By January 30, 2025.*

➢ Construct intranet SharePoint website for project management repository. *By March 30, 2025.*

➢ Research and develop agency-wide policies and procedures for project management. *By June 30, 2025.*

SAO Recommendation 3: To improve the agency's efforts to prioritize and address risks in cannabis transactions, develop more formal guidance for prioritizing risk, such as policies and procedures around triaging complaints.

STATE RESPONSE: Enforcement and Education Division leaders prioritize issues relating to public safety for enforcement efforts, triaging incoming complaints to ensure officers are first addressing those with the highest impact on public safety. In addition, traceability alerts have allowed staff to identify flags for inversion, diversion, and other violations electronically rather than manually; this process should be formalized.

Action Steps and Time Frame

➢ Memorialize the cannabis case prioritization process. *By December 30, 2024.*

➢ Formalize licensee education framework and procedures related to traceability alerts. *By April 30, 2025.*

➢ Track diversion and inversion cases not involving licensees. *By June 30, 2025.*

SAO Recommendation 4: Consult 2018 audit recommendations on risks and thresholds when developing future alerts.

STATE RESPONSE: As the SAO states in this audit report, the recreational cannabis market has changed since legalization. While the 2018 report is useful in understanding the need for regulation and control of the market, further research should be conducted to ensure that the recommendations are still relevant today and for the future regulation of the market.

Since the previous audit, the LCB has made efforts to decrease risk and identify possible diversion through data enhancements and utilization efforts. Those efforts include:

• System Alerts – The building and implementation of system alerts allows monitoring for missed reporting, entry errors, and other reporting issues to detect possible diversion and facilitate prioritization of enforcement. This was a recommendation in the 2018 audit.

- Financial Audits – Revenue auditors perform audits based on the data either entered or not entered. This allows them to identify possible reporting and diversion issues to enforcement for investigation.

- Data Dictionary Enhancements – Enhancing the data dictionary by tying an articulated business value to the data as it is stored on the back end. This will lead to faster response times and reduce staff hours needed to pull or evaluate data.

- Future Enhancements – The LCB's application team is exploring many other data and reporting enhancements in CCRS for future implementation.

Action Steps and Time Frame

➢ Review future enhancement and system alerts lists for integration. *By December 30, 2024.*

➢ Review data dictionary enhancements. *By December 30, 2024.*

➢ Identify and document process to perform audits based on traceability data. *By June 30, 2025.*