



STATE OF WASHINGTON

August 1, 2018

The Honorable Pat McCarthy
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor McCarthy:

Thank you for the opportunity to review and respond to the State Auditor's Office (SAO) performance audit report, "Improving Cannabis Risk Management Tools Using Business Transaction Data."

This SAO report is in response to a 2016 request for assistance by the Washington State Liquor and Cannabis Board (WSLCB). At that time, the WSLCB had requested analytical and technical assistance from the SAO with reporting capabilities of the state's marijuana traceability system to further enhance auditing and enforcement efforts, such as markers that would indicate suspicious activity warranting additional investigation.

Since the initial request, the WSLCB has procured a new traceability system. A contract was awarded in July 2017 and the new traceability system was implemented on February 1, 2018. The WSLCB and its vendor will roll out additional software updates, completing the full system implementation by year's end.

The functionality of the new system is aligned with the recommendations in this report. While the system today has the ability to analyze data for compliance, it will provide much greater capacity and functionality to assist with auditing functions when it is complete. Additionally, the system customer support functions, such as troubleshooting for licensees using the system, are now contracted with the vendor, allowing select WSLCB staff to devote more resources to data analysis.

Ensuring a tightly regulated, legal marijuana marketplace is central to our public safety mission. The WSLCB is committed to continuous improvement of our system and ensuring its flexibility to meet the needs of a dynamic regulatory environment.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Schumacher".

David Schumacher
Director
Office of Financial Management

A handwritten signature in black ink, appearing to read "Rick Garza".

Rick Garza
Director
Liquor and Cannabis Board

cc: David Postman, Chief of Staff, Office of the Governor
Kelly Wicker, Deputy Chief of Staff, Office of the Governor
Keith Phillips, Director of Policy, Office of the Governor
Inger Brinck, Director, Results Washington, Office of the Governor
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
Scott Frank, Director of Performance Audit, State Auditor's Office

OFFICIAL STATE CABINET AGENCY RESPONSE TO PERFORMANCE AUDIT ON IMPROVING CANNABIS RISK MANAGEMENT TOOLS USING BUSINESS TRANSACTION DATA – AUGUST 1, 2018

This management response to the State Auditor's Office (SAO) performance audit report received July 9, 2018, is provided by the Office of Financial Management and the Liquor and Cannabis Board.

SAO PERFORMANCE AUDIT OBJECTIVES:

The SAO sought to answer these questions:

1. What data could help identify high-risk cannabis business transactions?
 2. How can LCB use cannabis licensee tracking data to focus its audit and enforcement efforts on high-risk transactions?
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SAO Recommendation 1: LCB should complete its plans to develop reasonable ranges for data at the higher-risk transactions of the cannabis production, processing and retail processes.

STATE RESPONSE: We agree with the opportunity for improvement identified by the SAO. In alignment with the full traceability system realization scheduled for fall 2018, the LCB will complete the development of its data utilization plan and the thresholds therein.

Action Steps and Time Frame

By October 31, 2018:

- Analyze research and information to inform our methodology for range establishment.
 - Review and ensure alignment of thresholds with Washington state policy.
 - Review and confirm information with agency division subject-matter experts.
 - Align final data policies (including reasonable ranges) with traceability system functionality and confirm with IT and product vendor.
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SAO Recommendation 2: LCB should complete its plans to establish automatic notifications in its new tracking system that will alert staff when data at those higher-risk transactions fall outside established ranges, indicating potential data entry errors or product diversion.

STATE RESPONSE: We agree with the opportunity for improvement identified by the SAO and believe that it aligns with the agency's plans for the highest and best use of the system configuration. To that end, the traceability system in progress has alert capabilities. Full alert development is part of the IT project implementation plan, and simplified alerts have already been established. A more robust suite of alerts will be developed upon completion of the data utilization plan and analysis of the alerts needed as part of the response to Recommendation 1.

Action Steps and Time Frame

- Contingent upon evaluation of the data needed and plan created in response to Recommendation 1, the LCB will implement automatic notifications in the traceability system. *By December 31, 2018.*
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