The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver’s government. He also chairs the City’s Audit Committee.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City’s finances and operations, including the integrity of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Ms. Judy Steele, Deputy Director
Department of Excise and Licenses
City and County of Denver
Re: Audit Follow-Up Report

Dear Ms. Steele:

In keeping with professional auditing standards and the Audit Services Division’s policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure audit findings are being addressed and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Medical Marijuana Licensing audit issued July 18, 2013. Our review determined that the Department of Excise and Licenses has implemented thirteen of the fifteen recommendations made in the audit report.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation. In addition to the thirteen recommendations that were implemented, one recommendation was not implemented because, at the time of the audit’s release, it was no longer applicable based on new State of Colorado forms used. However, it is still counted toward the total number of recommendations in the report. For the final recommendation, we found that it has not yet been implemented because doing so requires assistance from the City Attorney’s Office. However, it is currently being worked on by the Department of Excise and Licenses.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to the Department of Excise and Licenses personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5029 or Chris Wedor, Internal Audit Supervisor, at 720-913-5021.

Sincerely,

Kip Memmott, MA, CGAP, CRMA
Director of Audit Services

KRM/cw
cc: Honorable Michael Hancock, Mayor
    Honorable Members of City Council
    Members of Audit Committee
    Ms. Cary Kennedy, Deputy Mayor, Chief Financial Officer
    Ms. Janice Sinden, Chief of Staff
    Mr. David P. Edinger, Chief Performance Officer
    Ms. Beth Machann, Controller
    Mr. Scott Martinez, City Attorney
    Ms. Janna Young, City Council Executive Staff Director
    Mr. L. Michael Henry, Staff Director, Board of Ethics
    Ms. Stacie Loucks, Executive Director, Excise and Licenses

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.
Medical Marijuana Licensing
Follow-up Report: December 2014

The Department of Excise and Licenses has implemented thirteen of the fifteen recommendations made in the July 2013 audit report.

Background
In 2000, Colorado voters approved constitutional Amendment 20, which legalized the medical use of marijuana by patients suffering from certain debilitating medical conditions. After the amendment took effect in July 2001, medical marijuana dispensaries began opening, but it was not until 2010 that the state legislature passed the Colorado Medical Marijuana Code to regulate the industry. Under a system of dual licensure, medical marijuana businesses must obtain a state and local license. The Department of Excise and Licenses handles the City's medical marijuana program and all related application, licensing, and renewal processes. The Denver Revised Municipal Code allows the City to collect application fees, license fees, and City sales tax from medical marijuana businesses.

Purpose
The purpose of the audit was to assess the policies and practices of the Department of Excise and Licenses’ medical marijuana licensing operations, focusing on the associated processes and controls and their efficiency and effectiveness.

Highlights
The audit found that the Department of Excise and Licenses (Department) does not have a basic control framework in place for effective governance of the City’s medical marijuana program. Seven key issues emerged from the audit findings:

1. The City’s medical marijuana records and data are incomplete, inaccurate, and at times inaccessible.
2. The Department lacks formal policies and procedures to govern the medical marijuana business licensure process.
3. The coordination between the City and the state for dual medical marijuana licensure has been poor.
4. Deadlines are either not established or not enforced for key steps in the medical marijuana licensure process.
5. The medical marijuana licensure process lacks management oversight, adequate staffing, and proper segregation of duties.
6. The medical marijuana licensure fee was established arbitrarily.
7. Key information has not been kept up-to-date as medical marijuana policies have evolved.

The Department’s lack of follow-up on license applications, and in conjunction with State law, has allowed some medical marijuana businesses to operate in the City without a valid City license. Further, the Department does not know how many medical marijuana businesses are operating in Denver.

Findings at Follow-up
The Department has completed thirteen of the fifteen recommendations made in the 2013 audit report. One recommendation was not implemented because, at the time of the report’s publication, the process was no longer in use. The remaining open recommendation requires collaboration with the City Attorney’s Office, which is in progress.

For a complete copy of this report, visit www.denvergov.org/auditor
Audit Contact Person: Chris Wedor | 720.913.5021 | chris.wedor@denvergov.org
### Recommendations: Status of Implementation

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<th>Recommendation</th>
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<tr>
<td><strong>Finding 1: The City’s Medical Marijuana Licensing Practices are Inefficient and Ineffective</strong></td>
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<tr>
<td>1</td>
<td><strong>Internal Controls</strong> – The Department of Excise and Licenses should develop a framework of internal controls to ensure proper monitoring of processes and controls, which should include: 1.1 Developing and implementing medical marijuana policies and procedures to document processes and controls. 1.2 Providing cross training on the medical marijuana licensing process so all Licensing Technicians can process medical marijuana applications. 1.3 Establishing a process for following up on outstanding medical marijuana applications. 1.4 Establishing deadlines for completing the application process, specifically with regard to inspections. 1.5 Amending and updating the inspection report template for each specific license type. 1.6 Ensuring quality control review has defined criteria and is adequately documented with outcomes.</td>
<td>Auditors were able to verify that all sub-parts of this recommendation were completed. Excise and Licenses has completed implementing policies and procedures for the department, provided training across the department, established a process for outstanding applications, establish application deadlines, and completed a new checklist to review applications for all types of medical marijuana businesses.</td>
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<td><strong>2 Segregation of Duties</strong> – The Department of Excise and Licenses should establish segregation of duties in the Medical Marijuana Program to strengthen internal controls, specifically in the areas of cash handling and data entry.</td>
<td>Payments are now being handled by the Department of Community Planning and Development. Segregation of duties related to payment handling and application processing and data entry appears to have been implemented.</td>
<td><strong>Implemented</strong></td>
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<td><strong>3 Staffing</strong> – The Department of Excise and Licenses should develop a plan to request an increase in staff support for the Medical Marijuana Program to enhance the efficiency of the process and strengthen internal controls.</td>
<td>The Department has added ten full-time equivalent employees, and some of these new hires have been assigned to licensing and inspection activities.</td>
<td><strong>Implemented</strong></td>
</tr>
<tr>
<td><strong>4 Cost Analysis</strong> – The Department of Excise and Licenses should conduct a cost analysis to determine if the medical marijuana license fees are appropriate and adequate, proposing any changes to City Council for consideration.</td>
<td>The Department presented to City Council an analysis of predicted costs to City departments for regulating and licensing retail marijuana. This analysis was based on actual costs of regulating medical marijuana.</td>
<td><strong>Implemented</strong></td>
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<tr>
<td><strong>5 Outstanding Applications</strong> – The Department of Excise and Licenses should review outstanding medical marijuana applications and follow up with applicants to request completion of outstanding inspections or other steps required for full City licensure.</td>
<td>The Department has established a process to address this recommendation. Specifically, the Department worked with the City’s Peak Performance initiative to address the medical marijuana application backlog. Further, language was added to the City’s medical marijuana code to set the licensing deadline of July 1, 2014, for all medical marijuana establishments that had not been licensed during the moratorium.</td>
<td><strong>Implemented</strong></td>
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<td><strong>6 Application Data</strong> – The Department of Excise and Licenses should review and amend, for accuracy, the electronic medical marijuana license data as recorded in the Department’s Production information system so that medical marijuana data transferred to Accela will be useful.</td>
<td>The Department has initiated a data clean-up process, starting with reconciliation of City data with that of the State of Colorado by adding the state license number as a data field to the City’s dataset. This will help the Department in the next step of the process, which is updating the status of each file in the system and getting the data cleaned in preparation for any future migration to a new system.</td>
<td>Implemented</td>
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<td><strong>7 Paper Files</strong> – The Department of Excise and Licenses should ensure that medical marijuana paper files are complete and filed correctly, including date stamping on all applications.</td>
<td>The Department has initiated and is making good progress towards proper management of paper files. Files reviewed by auditors included none of the errors identified by the original audit.</td>
<td>Implemented</td>
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<tr>
<td><strong>8 Data Safeguarding</strong> – The Department of Excise and Licenses should ensure that all sensitive medical marijuana information contained in paper and digital files is secure and that controls are in place to monitor the safeguarding of this information.</td>
<td>Two entrances to areas containing sensitive information have been secured with badge swiping devices, and Facilities Management is in the process of contracting for installation of security glass windows in the area outside the location designated for processing retail marijuana applications. The Department has also been approved for security and counter improvements.</td>
<td>Implemented</td>
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<td><strong>9</strong> PeopleSoft Reconciliation – The Department of Excise and Licenses should develop and implement a method of reconciling all medical marijuana application and license payment information recorded in the Department’s Production information system with payment information recorded in the City’s PeopleSoft information system.</td>
<td>The Department of Community Planning and Development (CPD) generates reports of payments collected for all types of licenses, including but not limited to medical marijuana, which are forwarded to the Department of Excise and Licenses on a daily and monthly basis. The CPD financial data is regularly transferred to the City’s PeopleSoft financial system through an interface. These reports show payment for each license and associated application fees. The Department is also working with the City’s Technology Services department to fine-tune financial activity reports from the Production system.</td>
<td>Implemented</td>
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<td><strong>10</strong> Customer Service – The Department of Excise and Licenses should ensure that the Department’s website is updated with the most current medical marijuana information and forms.</td>
<td>The website has been updated with the most current marijuana information and forms. Auditors only found one form that still needed to be updated on the website related to modification of premises.</td>
<td>Implemented</td>
</tr>
<tr>
<td><strong>11</strong> State and City Data Integration – The Department of Excise and Licenses should develop and implement a system to compare the state of Colorado’s medical marijuana license registry to the City’s registry and reconcile any differences.</td>
<td>The Department hired a Records Manager, who has started to reconcile City and state medical marijuana data by adding state license numbers. The Records Manager is working closely with the state and Technology Services as records are updated in the Production system. At the time of our follow-up activities, more than 29 percent of the data had been reconciled.</td>
<td>Implemented</td>
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<td>12 <strong>License Length</strong> – The Department of Excise and Licenses should recommend to City Council that Council amend the City’s two-year medical marijuana license duration to match the state’s one-year medical marijuana license duration for consistency.</td>
<td>The Department is working with the City Attorney’s Office to draft a proposal for a change to the ordinance language to match the license period with that of the state.</td>
<td>Agree/Not Implemented</td>
</tr>
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<td>13 <strong>License Renewal Fees</strong> – The Department of Excise and Licenses should recommend to City Council that Council amend the Denver Revised Municipal Code to authorize the Department to collect the full amount of medical marijuana license renewal fees at the time of renewal.</td>
<td>The Department is collecting the full amount of the two-year license fees up front.</td>
<td>Implemented</td>
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<td>14 <strong>Local Verification Forms</strong> – The Department of Excise and Licenses should enlist the help of the City Attorney’s Office to clarify the state’s purpose for using the local verification form and work with the state to revise the form if necessary to serve the intended purpose.</td>
<td>This recommendation is no longer relevant. It will be considered “Agree/Not Implemented.”</td>
<td>Agree/Not Implemented</td>
</tr>
<tr>
<td>15 <strong>Inspection Process</strong> – The Department of Excise and Licenses should work with the City agencies that are involved in the medical marijuana inspection process to identify opportunities for increased efficiency in the inspection process to improve the overall medical marijuana application process cycle time.</td>
<td>The Department has created a process to address all back-log items and also added language to the D.R.M.C., which established a licensing deadline of July 1, 2014, for all medical marijuana businesses that had not been licensed during the moratorium. Additionally, the Department has hired ten new positions to process applications and perform inspections.</td>
<td>Implemented</td>
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Conclusion

While the Department of Excise and Licenses has implemented thirteen of the fifteen recommendations made in the Medical Marijuana Licensing Performance Audit report, one has yet to be fully implemented and the other is no longer valid based on the new licensing process. Despite the Department’s efforts, auditors determined that the risk associated with the audit team’s initial findings has not been fully mitigated. The risk associated with the City issuing two-year licenses while the State of Colorado issues one-year licenses may still cause reconciliation problems and decrease efficiency until ordinance is changed to match the state license length. As a result, the Audit Services Division may revisit this risk area in a future audit to ensure that appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Department of Excise and Licenses for their cooperation during our follow-up effort and for their dedicated public service.