

OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

Official Audit Report – Issued August 14, 2025

Cannabis Control Commission

For the period July 1, 2022 through June 30, 2024



OFFICE OF THE STATE AUDITOR
DIANA DIZOGLIO

August 14, 2025

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Dear Executive Director Ahern and Acting Chair Stebbins:

I am pleased to provide to you the results of the enclosed performance audit of the Cannabis Control Commission. As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2022 through June 30, 2024. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and all your efforts at the Cannabis Control Commission. The cooperation and assistance provided to my staff during the audit went a long way toward a smooth process. Thank you for encouraging and making available your team. I am available to discuss this audit if you or your team has any questions.

Best regards,



Diana DiZoglio
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

CCC	Cannabis Control Commission
CIF	Community Impact Fee
CMR	Code of Massachusetts Regulations
CTR	Office of the Comptroller of the Commonwealth
HCA	host community agreement
MassCIP	Massachusetts Cannabis Industry Portal
MMARS	Massachusetts Management Accounting and Reporting System
MRF	marijuana regulation fund
MTC	Medical Marijuana Treatment Center

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Cannabis Control Commission (CCC) for the period July 1, 2022 through June 30, 2024. When designing the audit plan for examining CCC’s employee settlement agreements, we extended the audit period to January 1, 2019 through December 31, 2024.

The purpose of our audit was to determine whether CCC administered the calculation, collection, and accounting for fees and fines collected in the marijuana regulation fund (MRF) in accordance with Sections 5 and 13 of Chapter 94G of the General Laws and Sections 500.005(1)(d) and 500.360(2) and (3) of Title 935 of the Code of Massachusetts Regulations (CMR).

Additionally, we determined whether CCC reviewed, approved, and certified host community agreements (HCAs) and Community Impact Fees (CIFs) in accordance with 935 CMR 500.180(2)–(4).

The above-mentioned regulations were created to further CCC’s mission. According to its website, CCC’s mission is “safely, equitably, and effectively implementing and administering the laws enabling access to medical and adult use marijuana in the Commonwealth.” Proper collection of fees, penalties, and fines, as well as consistent review of HCAs, are critical to CCC’s mission.

Finally, we determined whether CCC followed a process—dating back to January 1, 2019—that was in compliance with the Office of the Comptroller of the Commonwealth’s (CTR’s) “Settlements and Judgments Policy” when determining whether to enter into, and when reviewing and finalizing, employee settlement agreements.

Below is a summary of our findings, the effects of those findings, and our recommendations, with hyperlinks to each page listed.

Finding 1 Page 20	CCC’s mismanagement of prorated fees for license extensions resulted in procedural inequity, revenue loss, and noncompliance with state regulations.
Effect	CCC management failed to take appropriate steps and institute procedures to fully quantify and accurately administer license extensions. A lack of supervision and minimal accountability over licensing staff members contributed to a significant breakdown of the internal controls over requests for and approvals of extensions. As a result, not all fees were billed, which resulted in uncollected fee revenue for the Commonwealth. Furthermore, these procedural inequities created the appearance of potential impropriety, which could erode the public’s trust in CCC.

<p>Recommendations Page <u>26</u></p>	<ol style="list-style-type: none"> 1. CCC should improve its internal processes around the administration of prorated fees to ensure that all money owed to CCC, and therefore the Commonwealth, is collected appropriately, consistently, and equitably. 2. CCC should conduct a full reconciliation to identify the total population of all uncollected license extension fees. 3. CCC should implement a standardized, written procedure for administering license extensions to ensure equity and compliance with applicable regulations. 4. CCC should prioritize adequate staffing, oversight, and automation of the billing process for license extension fees. 5. CCC should update its procedures to ensure that they are demonstrably fair, equitable, and transparent to help increase the public’s trust and prevent the appearance of potential impropriety.
<p>Finding 2 Page <u>32</u></p>	<p>CCC violated state regulations and applicable policies by failing to ensure that fines were assessed and collected within reasonable timeframes and by not designating a hearing officer to oversee related hearings.</p>
<p>Effect</p>	<p>The absence of both timely enforcement and a hearing officer may have allowed unresolved compliance issues at marijuana establishments to persist or worsen. Delays in enforcement undermine regulatory effectiveness by adversely impacting CCC’s ability to enforce applicable laws and regulations and may create an inequitable situation, especially for establishments that lack the resources to independently navigate prolonged enforcement processes. Lengthy timeframes, especially around enforcement action, put customers at potential risk either of purchasing and consuming contaminated or expired marijuana products or of being exposed to other public health risks. Additionally, the lack of a hearing officer may have compromised due process rights for licensees subject to fines and enforcement actions.</p>
<p>Recommendations Page <u>38</u></p>	<ol style="list-style-type: none"> 1. CCC should establish, document, and follow specific timelines for the assessment and collection of fines throughout all phases of its inspection process. 2. CCC should designate a hearing officer pursuant to its regulations.
<p>Finding 3 Page <u>41</u></p>	<p>CCC’s failure to review existing HCAs allowed agreements that contained unenforceable language and noncompliant provisions to remain in effect for between 4 and 16 months longer than stipulated by Chapter 180 of the Acts of 2022.</p>
<p>Effect</p>	<p>Noncompliant HCAs put undue financial burdens on small businesses in a burgeoning industry.</p> <p>We identified 11 new marijuana establishments that were required to make large payments to the municipality before making their first sale—one of these establishments was required to pay over \$100,000. This practice is in violation of applicable regulations and creates an environment in which only the largest businesses, often multi-state operators, can thrive and further incentivizes municipalities to show preferential treatment to large businesses capable of providing more funding.</p> <p>Given the nature of the cannabis industry, this disfavors smaller Massachusetts-based entrepreneurs in favor of non-Massachusetts businesses that have existing cannabis operations in other states, and, therefore, greater financial means to afford such payments. We also identified HCAs in municipalities that had unequal terms between different marijuana establishments of the same license type, even though the establishments were in the same municipality. For example, one marijuana establishment in Brookline had a mandated charitable donation of \$975,000, while another in Brookline had no such requirement.</p>

Recommendation Page <u>43</u>	CCC should review all existing HCAs to ensure that they do not contain noncompliant terms. CCC management should adhere to their responsibilities to ensure functional oversight with respect to proper application of the law.
Finding 4 Page <u>45</u>	CCC did not have a documented and transparent process for employee settlement agreements, including those containing non-disclosure, non-disparagement, or similarly restrictive clauses.
Effect	If CCC does not have a documented and transparent process, which would hold CCC accountable, to handle employee settlement agreements, especially those containing non-disclosure, non-disparagement, or similarly restrictive clauses, then it cannot ensure that employee settlements are handled in an equitable, ethical, legal, and consistent manner.
Recommendations Page <u>46</u>	<ol style="list-style-type: none"> 1. CCC should develop, document, and implement a policy related to employee settlement agreements in accordance with CTR’s guidance. 2. CCC should refrain from using employee settlement agreements that contain non-disclosure, non-disparagement, or similarly restrictive clauses and should implement a policy regarding the use of employee settlement agreements to promote a transparent and equitable process.
Finding 5 Page <u>47</u>	Breakdown of management structure and role consolidation led to turnover of critical personnel at CCC, which contributed to operational and compliance risks.
Effect	<p>CCC’s breakdown of management structure and role consolidation will lead to several additional negative consequences, such as the following:</p> <ul style="list-style-type: none"> • CCC’s increasing reliance on external legal counsel resulted in higher operational expenditures and reduced capacity for internal improvements to CCC’s legal team. While specialized external support can be necessary in certain cases, the absence of sufficient internal legal staffing could limit CCC’s ability to maintain consistent legal administration and oversight. Furthermore, resources used for external counsel could instead support internal staffing or training to enhance long-term legal and compliance capabilities within CCC. • Poor segregation of duties and the assignment of multiple high-level responsibilities to individual staff members increases the likelihood of operational bottlenecks and miscommunications. These conditions could create opportunities for error, mismanagement, employee conflict, and/or conflicts of interest. • Staff members carrying excessive workloads and holding overlapping responsibilities may struggle to provide timely administrative decisions and services. Prolonged strain could lead to burnout, disengagement, and/or additional resignations, further compounding staffing issues. • Frequent leadership changes, combined with ongoing legal challenges, may undermine public and stakeholder confidence in CCC. A lack of continuity in key roles could also impair long-term planning and disrupt the consistent execution of strategic initiatives. • Employees placed in dual executive roles may lack the specific expertise or qualifications necessary to effectively fulfill both sets of responsibilities. The loss of experienced leadership, particularly when internal policies and procedures are undocumented, could result in the erosion of institutional knowledge and increased reliance on informal or inconsistent practices. • The absence of documented controls over the areas reviewed during our audit may indicate broader organizational risks, particularly given CCC’s wide range of statutory responsibilities in regulating the cannabis industry in the Commonwealth.

Recommendations Page <u>50</u>	<ol style="list-style-type: none"> 1. CCC should ensure that it has a succession plan to effectively administer general and executive staff member turnover. 2. CCC should ensure that there is segregation of duties among all CCC executive staff members. 3. CCC should refrain from using external legal counsel to perform core functions.
Finding 6 Page <u>51</u>	<p>CCC failed to implement sufficient controls related to the administration of the MRF and its HCA review process and did not have a fully compliant internal control plan as required by CTR's <i>Internal Control Guide</i>.</p>
Effect	<p>This inadequate internal control environment contributed to several operational and financial risks, including:</p> <ul style="list-style-type: none"> • absence of control activities, which resulted in inconsistent practices, a lack of clearly documented procedures, and diminished organizational accountability; • deficient oversight in licensing, HCA reviews, and management of the MRF, as evidenced by missing documentation of final approvals and unreconciled financial activity raising concerns about transparency, fairness, and regulatory reliability; and • lack of a fully compliant internal control plan, which leaves CCC unprepared to address emerging risk posed by an unstable organizational structure.
Recommendations Page <u>54</u>	<ol style="list-style-type: none"> 1. CCC should ensure that controls around the review processes for both the MRF and HCAs operate effectively. 2. CCC should develop a fully compliant internal control plan and conduct a risk assessment annually.
Finding 7 Page <u>55</u>	<p>CCC failed to identify double payments for license fees and did not ensure that revenues were coded and classified.</p>
Effect	<p>The failure to implement adequate financial controls resulted in several risks and inefficiencies, including the following:</p> <p>Financial Misstatements and Reporting Inaccuracies</p> <ul style="list-style-type: none"> • The commingling of revenue codes undermines accurate revenue tracking, which can distort financial reports, impact budgetary decision-making, and lead to noncompliance with state financial reporting requirements. <p>Erosion of Public and Stakeholder Trust</p> <ul style="list-style-type: none"> • The inability to identify and prevent duplicate payments exposes licensees to potential financial harm, raising concerns about CCC's credibility, financial integrity, and regulatory oversight capacity. • Without proper revenue categorization and duplicate payment detection, there is an increased risk of undetected financial mismanagement, revenue loss, and/or fraud. <p>Operational Inefficiencies</p> <ul style="list-style-type: none"> • The absence of systematic safeguards delays the resolution of discrepancies, which may delay financial reconciliations and impair CCC's overall fiscal management.

Recommendations
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1. CCC should implement automated system controls and validation procedures to monitor and prevent duplicate payments.
2. CCC should assign unique revenue codes to different revenue types.
3. CCC should perform regular reconciliations to detect or prevent duplicate transactions.
4. Until CCC implements a reliable system that detects or prevents duplicate transactions, CCC should make licensees aware of potential duplicate fees so that they may safeguard against improper charges by CCC.

In addition to the conclusions we reached regarding our audit objectives, we also identified issues not specifically addressed by our objectives. See Other Matters for more information.

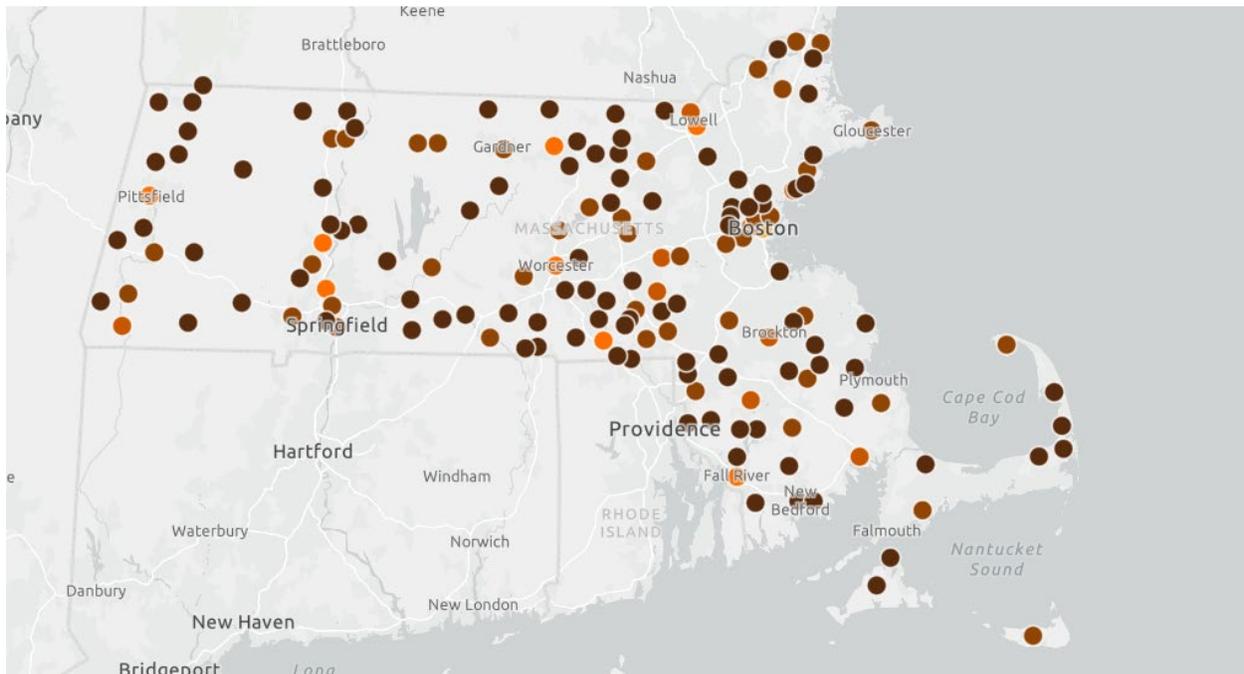
OVERVIEW OF AUDITED ENTITY

Chapter 55 of the Acts of 2017 established the Cannabis Control Commission (CCC) as the independent agency responsible for developing and enforcing regulations over the marijuana industry in Massachusetts. According to its website, CCC’s mission is to “safely, equitably, and effectively [implement and administer] the laws enabling access to medical and adult use marijuana in the Commonwealth.”

CCC is overseen by five commissioners, with one each appointed by the Governor, the Attorney General, and the Treasurer and Receiver General and two appointed by a majority vote of those three officials. The Treasurer and Receiver General designates the chair of CCC and the commissioners appoint an executive director to oversee the day-to-day management of the agency.

CCC is headquartered at 2 Washington Square in Worcester and received total appropriations of \$15,217,877, \$19,218,649, and 19,763,742 in fiscal years 2022, 2023, and 2024, respectively.

Marijuana Establishments in Massachusetts



Note: The dots on this map indicate locations of marijuana establishments and are colored by density—the darker the color of the dot, the more marijuana establishments there are in the area.

Marijuana Regulation Fund

Section 14 of Chapter 94G of the General Laws established a marijuana regulation fund (MRF) consisting of all money received by the Commonwealth for marijuana establishment licensing fees, all penalties imposed on marijuana establishments for violations of Chapter 94G of the General Laws, and all revenue generated by the excise tax on cannabis products established in Section 2 of Chapter 64N of the General Laws.

Money from the MRF is appropriated by the Massachusetts Legislature to support various state agencies, including CCC, as part of the annual budget process. According to Section 14(b) of Chapter 94G of the General Laws, these funds are used for the “implementation, administration and enforcement of [laws and regulations related to cannabis production, distribution, and possession] by the commission and by the department of agricultural resources.” Also, 15% of the MRF is transferred to the Cannabis Social Equity Trust Fund, which was established in Section 14A of Chapter 94G of the General Laws. During fiscal years 2022 through 2024, all money appropriated to CCC came from the MRF.

Licensing

Section 5 of Chapter 94G of the General Laws and Section 500 of Title 935 of the Code of Massachusetts Regulations (CMR) give CCC the authority to review applications for new licenses for prospective marijuana establishments and applications for renewals of existing licenses. This process is administered through the Massachusetts Cannabis Industry Portal (MassCIP). Applicants submit their license applications through MassCIP. The licensing process includes multiple stages, including application submission, provisional license approval, architectural review (if required), final licensing approval, and annual renewal.

Prorated Fees for Extensions

In August 2022, CCC voted to allow license extensions¹ at the discretion of the executive director for up to 120 calendar days. Licensing staff members originally managed extension requests using a Microsoft Excel spreadsheet and prorated the fee for the extension based on the number of days by which the license was extended. CCC voted in May 2024 to extend the authority to grant administrative extensions to the chief of investigations and enforcement, allowing licensees to request an additional 120 to 240 calendar days on top of the original 120-day extension.² Following this change, the licensing team notified

1. Licenses must be renewed annually unless an extension is granted.

2. The additional 120 to 240 calendar days are in addition to the original 120 days approved in August 2022. This means a license can be extended up to 360 days.

the investigations and enforcement team of prorated fees that had not yet been collected from licensees who received extensions. The licensing team created a tracker to document licensees who had received extensions and identified 161 cases where fees were due.

By November 2024, CCC had formalized the extension request process by introducing a License Extension Application in MassCIP, requiring licensees to submit extension requests through the system before their license expiration date. Licensees must submit both their extension request and prorated fee payment through MassCIP, where CCC employees review the request within the system. Once CCC employees have reviewed and approved the request and the fee has been paid, MassCIP sends an automated notification to the licensee through MassCIP confirming the extension.

Revenue Collection

CCC collects revenue through license fees, registration fees, and regulatory fines. CCC's finance and accounting team has distinct procedures for processing each type of revenue, as described below.

License Fees

License fees vary based on the type of license, with waivers or reductions available for eligible license categories such as microbusinesses³ or Social Equity Program participants. Payments can be made through an online portal, by check sent to CCC, or to CCC's bank lockbox.

The finance team reviews payment information for accuracy on a daily basis and works with the licensing team as needed to ensure proper recording. CCC then posts these transactions to the state accounting system (MMARS), which subsequently transfers the collected funds to the Marijuana Regulation Fund (MRF).

Excise Taxes

Marijuana establishments must collect a 10.75% excise tax at the point of sale and submit these payments to the Department of Revenue through monthly tax returns. The Department of Revenue then transfers these funds to the MRF monthly.

3. According to CCC's website, "A Microbusiness is a co-located [marijuana establishment] that can be either a tier 1 Marijuana Cultivator or Product Manufacturer—or both. A Microbusiness that is a Marijuana Product Manufacturer may purchase no more than 2,000 pounds of marijuana per year from other [marijuana establishments]."

Fines

CCC's Investigations and Enforcement Department assesses fines against marijuana establishments for regulatory violations⁴ based on the severity and circumstances. Payments must be made by check and either sent to CCC's designated bank's lockbox or mailed to CCC's Worcester office. The financial team classifies these payments using distinct revenue codes in the Massachusetts Management Accounting and Reporting System (MMARS), the state's accounting system.

Section 13 of Chapter 94G of the General Laws gives CCC the authority to impose fines on marijuana establishments for offenses, including, but not limited to, the following violations noted during the audit:

- exceeding limits of allowed cultivation square footage;
- compromising public safety;
- applying unallowable pesticides;
- failing to maintain sanitary conditions;
- failing to report inventory discrepancies;
- failing to adhere to internal standard operating procedures; and
- failing to maintain training records.

Electronic Payment Processing

CCC uses a third-party online payment portal to process credit and debit card payments. The Office of the Comptroller of the Commonwealth (CTR) receives a daily payment file from the portal and automatically generates the accounting entries in MMARS. These entries transfer the funds to the MRF and to the appropriate revenue accounts associated with the license or application type, as identified by external cash receipt table code. CCC's finance team reviews a monthly MMARS report summarizing all CCC payment activity.

4. Examples of regulatory violations include compromising public safety (e.g., selling products that are not safe for consumption due to contamination), not maintaining sanitary conditions within the marijuana retail establishment, and not reporting inventory discrepancies.

Host Community Agreements

Section 3 of Chapter 94G of the General Laws empowers communities to impose reasonable safeguards on the operation of marijuana establishments in the form of ordinances, bylaws, and host community agreements (HCAs) between a municipality and individual marijuana establishments operating in that municipality. HCAs may include a Community Impact Fee (CIF), to be paid by the marijuana establishment, that meets the following requirements, according to Section 3(d)(2)(i) of Chapter 94G of the General Laws:

The community impact fee shall be: (A) reasonably related to the costs imposed upon the municipality by the operation of the marijuana establishment or medical marijuana treatment center . . . (B) amount to not more than 3 per cent of the gross sales of the marijuana establishment or medical marijuana treatment center; (C) not be effective after the marijuana establishment or medical marijuana treatment center's eighth year of operation; (D) commence on the date the marijuana establishment or medical marijuana treatment center is granted a final license by the commission; and (E) not mandate a certain percentage of total or gross sales as the community impact fee.

According to 935 CMR 500.180, CCC has the authority to review, regulate, enforce, and approve HCAs to guarantee compliance with Section 3 of Chapter 94G of the General Laws. In particular, the executive director or the executive director's delegate is required to review each HCA submitted by a license applicant and to determine whether all language in the HCA is enforceable under the law. CCC began reviewing HCAs for compliance on March 1, 2024.

HCA Review Process Effective Through February 29, 2024

Before March 1, 2024, CCC did not directly review HCAs for compliance with the law.⁵ Instead, license applicants were required to submit attestations confirming that their HCAs met the necessary legal standards. This process relied on self-certification by applicants without formal verification by CCC.

HCA Review Process Effective Starting March 1, 2024

Beginning March 1, 2024, CCC initiated a more rigorous review process for HCAs. The investigations and enforcement team reviews each HCA submitted by a license applicant to determine whether all

5. CCC's oversight of HCAs became effective November 10, 2022. Chapter 94G of the General Laws, as amended, granted CCC oversight of HCAs. CCC did not start reviewing HCAs until March 1, 2024. Agreements that contained unenforceable language and noncompliant provisions remained in effect for between 4 and 16 months longer than stipulated by Chapter 180 of the Acts of 2022. This created a prolonged period in which noncompliant agreements persisted without oversight.

language within the agreement is enforceable under the law. CCC uses a checklist to review applications, ensuring that HCAs meet the requirements outlined in 935 CMR 500.180.

CIFs

We interviewed CCC staff members regarding their review of CIFs included in submitted HCAs. While CCC started to review HCAs as of March 1, 2024, it opted to begin reviewing CIFs within HCAs at least six months later, in November 2024. Since CCC's review of CIFs started five months after the audit period, we were unable to test CCC's review of CIFs. CCC management told us in March 2025 that they have encountered difficulties reviewing CIF documentation because of legal issues and disputes with municipalities.

Settlements and Judgments

As an agency of the Commonwealth of Massachusetts, CCC is subject to Chapter 258 of the General Laws, the regulations on settlements and judgments outlined in 815 CMR 5.00, and CTR's "Settlements and Judgments Policy."

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Cannabis Control Commission (CCC) for the period July 1, 2022 through June 30, 2024. When designing the audit plan for examining CCC’s employee settlement agreements, we extended the audit period to January 1, 2019 through December 31, 2024.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did CCC administer the calculation, collection, and accounting for fees and fines collected in the marijuana regulation fund (MRF) on an equitable basis and in accordance with Sections 5 and 13 of Chapter 94G of the General Laws and Sections 500.005(1)(d) and 500.360(2) and (3) of Title 935 of the Code of Massachusetts Regulations (CMR)?	No; see Findings <u>1</u>, <u>2</u>, <u>6</u>, and <u>7</u>
2. Did CCC review, approve, and certify host community agreements (HCAs) and Community Impact Fees (CIFs) in accordance with 935 CMR 500.180(2)–(4)?	No; see Findings <u>3</u> and <u>6</u>
3. Did CCC follow a process—dating back to January 1, 2019—that was in compliance with the Office of the Comptroller of the Commonwealth’s (CTR’s) “Settlements and Judgments Policy” when determining whether to enter into, and when reviewing and finalizing, employee settlement agreements?	No; see Finding <u>4</u> and <u>5</u>

To accomplish our audit objectives, we gained an understanding of CCC’s internal control environment relevant to our objectives by conducting interviews and walkthroughs with management. Additionally, we reviewed CCC’s internal control plan, employee handbook, strategic goals, and applicable policies and procedures, including standard operating procedures and information technology safety guidelines. As part of our assessment of CCC’s control environment, we performed control testing in key operational

areas, which included testing whether commissioner approval was obtained for all MRF fines issued during the audit period, whether reconciliations of revenue were completed and reviewed in a timely manner, and whether required documentation was maintained for background checks and final licensing checklists.

Note that, while performing our due diligence on CCC's control environment, we identified certain issues within the control environment. See Findings 5, 6, and 7 for issues we identified with CCC's control environment.

In addition to these actions, in order to obtain sufficient, appropriate evidence to address our audit objectives, we performed the procedures described below.

MRF

To determine whether CCC administered the calculation, collection, and accounting for fees and fines collected in the MRF on an equitable basis and in accordance with Sections 5 and 13 of Chapter 94G of the General Laws and Sections 500.005(1)(d) and 935 CMR 500.005(1)(d) and 935 CMR 500.360(2) and (3), we first interviewed knowledgeable CCC staff members and performed walkthroughs of key procedures related to the administration of the MRF. Additionally, we performed the procedures described below.

Fees

We identified a population of 69,645 fee transactions that occurred during the audit period. We split the population into the following two groups:

- transactions with moderate volume and high dollar values, which came to 2,948 transactions with average values of \$10,238, and
- transactions with high volume and low dollar values, which came to 66,697 transactions with average values of \$164.

From the two population groups described above, we selected the following samples:

- We selected a random, statistical⁶ sample of 60 transactions out of the total population of 2,948 high-dollar-value transactions, using a 95% confidence level,⁷ a 0% expected error rate,⁸ and a 5% tolerable error rate.⁹
- We selected a random, statistical sample of 30 transactions out of a total population of 66,697 low-dollar-value transactions, using a 95% confidence level, a 0% expected error rate, and a 10% tolerable error rate.

We determined whether the fees from our sample were calculated accurately; were collected in accordance with effective due dates; and were recorded completely and accurately in accordance with CCC guidelines, policies, and procedures by comparing records from the Massachusetts Management Accounting and Reporting System (MMARS) for each fee transaction to the records in CCC's Massachusetts Cannabis Industry Portal (MassCIP). We also determined whether each fee was subject to proration and whether the proration was calculated, billed, and collected in accordance with CCC guidelines, policies, and procedures and applicable regulations.

For this aspect of our objective, we found certain issues during our testing. See [Finding 1](#) for more information.

Fines

To determine whether the fines were calculated and levied in accordance with 935 CMR 500.360 and CCC's policies and procedures, we identified the population of five fines for regulatory violations that were levied by CCC against noncompliant marijuana establishments during the audit period. We then performed the following procedures:

- We reviewed hardcopy documentation for each of the five fines levied and compared those records with MMARS records to determine whether the hardcopy documentation agreed with the corresponding fine amount billed to and collected from the applicable license.

6. Auditors use statistical sampling to select items for audit testing when a population is large (usually over 1,000) and contains similar items. Auditors generally use a statistics software program to choose a random sample when statistical sampling is used. The results of testing using statistical sampling, unlike those from judgmental sampling, can usually be used to make conclusions or projections about entire populations.

7. Confidence level is a mathematically based measure of the auditor's assurance that the sample results (statistic) are representative of the population (parameter), expressed as a percentage.

8. Expected error rate is the number of errors that are expected in the population, expressed as a percentage. It is based on the auditor's knowledge of factors such as prior year results, the understanding of controls gained in planning, or a probe sample.

9. The tolerable error rate (which is expressed as a percentage) is the maximum error in the population that is acceptable while still using the sample to conclude that the results from the sample have achieved the objective.

- We compared each amount of the five fines levied to the corresponding amount of the agreed-upon fine within the Stipulated Agreements signed by each licensee.
- We compared certain information (i.e., the types of violations and the dollar values for each of the levied fines based on the type of violation noted, the number of violations, the length of time the violation(s) remained open, and the amount of the fine) between hardcopy documentation for each fine and reporting MMARS records.
- We compared the length of time it took CCC to administer the fine process for each of the levied fines with CCC's standard operating procedures.

For this aspect of our objective, we found certain issues during our testing. See [Finding 2](#) for more information.

Prorated Fees

To gain an understanding of CCC's process for administering prorated license fees and license extensions, we interviewed knowledgeable CCC employees. Additionally, we took the actions described below.

CCC's Prorated Fee List

We obtained a list of all prorated licensing fees that CCC identified and charged during the audit period, which contained 161 extensions, valued at \$555,671. To determine whether these extensions were administered in accordance with applicable regulations, we took the following actions:

- We reviewed the list of prorated fees calculated, charged, and collected from licensees that extended their license expirations (161 extensions valued at \$555,671). This list contained 136 unique license numbers.
- We compared the contents of CCC's prorated fee list to the contents of a list of prorated fees from the MassCIP and determined that 114 out of 136 unique license numbers appeared on both CCC's prorated fee list and the MassCIP list.
- We selected a judgmental, nonstatistical¹⁰ sample of 35 unique license numbers from the population of 114 unique license numbers included in CCC's prorated fee list and recalculated the dollar value of the prorated fees.

10. Auditors use nonstatistical sampling to select items for audit testing when a population is very small, the population items are not similar enough, or there are specific items in the population that the auditors want to review.

MassCIP List

We obtained a summary of all extensions processed through MassCIP. This list contained 942 extensions processed during the audit period. To determine whether these extensions were administered in accordance with applicable regulations, we took the following actions:

- We reviewed a list of extensions from MassCIP to determine whether additional licenses should have been included on the list of prorated fees.
- We sorted the MassCIP list of license extensions to ensure that it only included those extensions that occurred during the audit period (942 extensions for 487 unique licenses).
- We compared the contents of the MassCIP list to the contents of CCC's prorated fee list.
- For the manual extensions processed during the audit period (942 extensions for 487 unique licenses), we sorted these extensions into two groups: records contained in CCC's prorated fee list (114) and records not included in CCC's prorated fee list (373).
- We selected a judgmental, nonstatistical sample of 40 license numbers from the population of 373 license numbers not included in CCC's prorated fee list and determined whether CCC identified the extensions by interviewing knowledgeable employees and reviewing fee documentation for the extensions.

For this aspect of our objective, we found certain issues during our testing. See [Finding 1](#) and the [Other Matters](#) section for more information.

HCAs

To determine whether CCC reviewed, approved, and certified HCAs and CIFs in accordance with 935 CMR 500.180(2)–(4), we took the following actions. First, we interviewed knowledgeable CCC staff members and performed walkthroughs of key procedures related to the HCA review process. CCC conducted two different review processes during the audit period.

HCA Review Process Effective Through February 29, 2024

CCC did not collect or review HCAs before March 1, 2024 and instead collected attestation agreements reached and submitted by host communities and individual marijuana establishments. CCC was not able to provide us a complete list¹¹ of HCAs from this period, so we reviewed the population of 14

11. We acknowledge that a complete list of HCAs may not be practical in the strictest sense. While easily accessible under public records law, it may not be practical for CCC to catalog HCAs that were entered into between a marijuana establishment and a host community, where that marijuana establishment never sought licensing from CCC. We do believe, however, that it is reasonable, achievable, and advisable to compile a complete listing of HCAs for all marijuana establishments that were or are licensed to conduct business in Massachusetts.

counties in Massachusetts and found that 13 counties had municipalities that uploaded their HCAs onto their municipal websites, which were available publicly. (We excluded Nantucket County because its HCAs were not available publicly.) From these 13 counties, we then selected HCAs from the following municipalities: Boston, Brookline, Dartmouth, Douglas, Dudley, Greenfield, Holyoke, Newton, Northampton, Plymouth, Provincetown, Salisbury, Sandisfield, Somerville, and Tisbury. We ensured that we selected at least one municipality from each of the 13 counties. We then selected 2 HCAs from each county, totaling 26 HCAs. We inspected the HCAs and determined whether they contained a CIF of 3% or lower, contained no mandated donations to charity, and no mandated donations to the municipality (on top of the CIF).

HCA Review Process Effective Starting March 1, 2024

To determine whether CCC administered its HCA review process that was effective starting on March 1, 2024 in accordance with 935 CMR 500.180(2) and (3), we selected a random, nonstatistical sample of 35 newly reviewed HCAs out of a total population of 139 newly reviewed HCAs. We inspected the HCAs to determine whether they contained a CIF of 3% or lower, contained no mandated donations to charity, and no mandated donations to the municipality (on top of the CIF).

For this objective, we found certain issues during our testing. See [Finding 3](#) for more information.

Employee Settlements

To determine whether CCC followed a process—dating back to January 1, 2019—that was in compliance with CTR’s “Settlements and Judgments Policy” when determining whether to enter into, and when reviewing and finalizing, employee settlement agreements, we first interviewed knowledgeable CCC staff members. Additionally, we inspected hard copies of legal invoices that CCC encumbered for the extended audit period and determined which were related to employee settlements.

During the extended audit period, CCC executed two employee settlement agreements, totaling \$97,969.75. CCC used private, external legal counsel to handle these employee settlement agreements. CCC does not have a standard process for approving settlement agreements with employees; they are handled and approved on a case-by-case basis.

For this objective, we found certain issues during our testing. See [Finding 4](#) for more information.

We used a combination of statistical and nonstatistical sampling methods for testing, and we did not project the results of our testing to any corresponding populations.

Data Reliability Assessment

Fines

To determine the reliability of the list of fines provided to us by CCC management, we checked the list for invalid records, duplicate records, and dates outside the audit period. Then, we selected all five items on the list and traced the license numbers and licensee names to MassCIP. We also traced the monetary amounts of all fines to the signed stipulated agreements used to levy the fines. In addition, we traced the monetary amounts of all fines to cash receipt records or to accounts receivable records if the amounts were uncollected or not yet due to be paid.

Fees

To determine the reliability of the list of fees, including prorated fees, from MMARS that CCC management provided to us, we relied on the 2022 assessment of MMARS performed by Office of the State Auditor. That assessment focused on testing selected system controls (access, security awareness, audit and accountability, configuration management, identification and authentication, and personnel security). As part of this audit we interviewed CCC employees who were knowledgeable about MMARS, which CCC used for accounting and depositing cash receipts into the MRF. In addition, we tested certain general information system controls, including security management (i.e., we obtained and reviewed cybersecurity awareness and training policies and procedures, personnel screenings/Criminal Offender Record Information background checks, and cybersecurity training certificates of completion) and access controls (i.e., supervision and review of user access to MMARS).

Further, we checked the list for invalid records, duplicate records, and dates outside the audit period. Then we selected a random sample of 20 fee transactions from the list and traced the dates, license numbers, and monetary amounts to MassCIP. Additionally, we selected a random sample of 20 fee transactions from MassCIP and compared the transaction data to the information recorded on the list of fees, including dates, license numbers, and amounts.

HCAs

To determine the reliability of the list of HCAs provided to us by CCC management, we checked the list for invalid or unusual data in the license number, license type, and licensee name fields. We also checked the list for dates outside the audit period and duplicate records. Then we selected a random sample of 20 license records from the list and traced the license numbers, licensee names, and establishment locations to MassCIP. Additionally, we selected a random sample of 20 license records from MassCIP and traced the license numbers, licensee names, and establishment locations to the HCA list.

Active Licensees

To determine the reliability of the MassCIP list of active licensees, including licensees with processed extensions, we checked the list for invalid or unusual data in the license number, license type, and establishment location fields. We also checked the list for duplicate records. Then, we selected a random sample of 20 license records from the list and traced the license numbers, licensee names, and establishment locations to MassCIP. Additionally, we selected a random sample of 20 license records from MassCIP and traced the license numbers, names, and establishment locations to the list of active licenses.

Legal Invoices

To determine the reliability of the hardcopy legal invoices provided to us by CCC management, we checked each invoice for invalid or unusual data and duplicate records. Additionally, we compared the total sum of the legal invoices provided by CCC to CCC's legal spending reported in CTHRU, the Commonwealth's statewide spending open records system, for the extended audit period, January 1, 2019 through December 31, 2024.

Additionally, we reviewed MassCIP system controls for access control, configuration management, contingency planning, segregation of duties, and security management.

Based on the results of the data reliability assessment procedures described above, we determined that the information we obtained during the course of our audit was sufficiently reliable for the purposes of our audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Cannabis Control Commission's mismanagement of prorated fees for license extensions resulted in procedural inequity, revenue loss, and noncompliance with state regulations.

We determined that the Cannabis Control Commission (CCC) did not consistently administer prorated license fees during the audit period. Since this process was not administered consistently, CCC's prorated fee process was inadequate and procedurally inequitable, which led to missed revenue collection for the Commonwealth.

Inadequate Process

On August 11, 2022, CCC's executive director sought a delegation of authority from CCC commissioners to administratively extend license expiration dates up to 120 days, which would provide applicants with time to resolve issues with their applications.

The formal delegation to the executive director to authorize license extensions was granted during CCC's vote on August 11, 2022. As of this date, CCC required a prorated fee to be paid for license extensions. However, CCC did not approve a formal standard operating procedure outlining the extension process until November 24, 2023, over a year after extensions began. As a result, there were no consistent procedures in place during that time, and documentation supporting CCC staff members' decision-making on license extensions was minimal. The licensing team maintained a Microsoft Excel spreadsheet to monitor these extensions.

On May 23, 2024, CCC's acting chief of investigations and enforcement sought to expand the prior delegation of authority to further increase the length of license extensions. The purpose of the expansion was to provide licensees and host communities with more time to negotiate compliant host community agreements (HCAs), as HCAs were now subject to review, approval, and certification by CCC. CCC commissioners unanimously approved the additional request for delegation of authority, and licensees could now extend their licenses for up to an additional 240 days, after the initial 120 days (up to 360 days in total). As of May 23, 2024, CCC staff members acknowledged that no prorated fees had been collected from any extended licenses since the delegation of extension authority began in August 2022.

Formal/Documented Extensions—Requested via Email

Licensees could submit a formal/documented request for license extensions from CCC by sending an email. Some licensees followed CCC's process for license extension requests and submitted their requests for extension via email to CCC's Licensing Department. These requests were subject to prorated fees and were identified by CCC in its prorated fee list that contained 161 extensions with associated fees totaling \$555,671.

Informal/Administrative Extensions¹²

Informal/administrative extensions were initiated in one of two ways: Either licensees would request extensions verbally (instead of formally documenting their requests with written confirmation) or CCC would itself execute extensions that were not first requested formally in writing (or at all) by the licensees. CCC did not identify many of these extensions in its review of outstanding extensions, and the corresponding licensees were not required to pay prorated fees.

CCC inconsistently administered the above procedures and failed to determine whether all license expirations were considered during its processing of prorated license fees. Additionally, CCC's failure to implement adequate procedures resulted in noncompliance with applicable regulations, including the following:

- Section 6(a) of Chapter 94G of the Massachusetts General Laws, which generally requires licenses to be renewed annually;
- Section 500.103(4)(a) of Title 935 of the Code of Massachusetts Regulations (CMR), which mandates submission of renewal applications and license fees before expiration; and
- CCC's policy decisions, as reflected in its public meeting minutes and documented delegated authority resolutions.

Inadequate procedures created procedural inequity, favoring the licensees who did not participate in CCC's process for license extension as it penalized licensees who followed CCC's extension process and submitted requests for extensions via email, while those who did not submit requests in line with CCC's process benefitted from informal/administrative extensions for which they were not required to pay prorated fees.

Procedural Inequity

CCC's inconsistent administration of procedures, combined with the absence of a formal policy or procedure governing fee assessment, resulted in the inequitable treatment of licensees.

12. CCC internally refers to informally processed extension requests as simply administrative extensions.

During the audit period, CCC employed multiple methods to process license extensions, and in many cases, multiple extensions were granted under the same license number without documented extension requests or assessed fees.

Missed Revenue Collection

The methodology CCC used to quantify prorated fees for license extensions did not take into account all available data when the prorated fee issue was identified. Additionally, CCC did not have adequate, consistent, or appropriate processes or controls in place to properly administer license extensions. Further, the Massachusetts Cannabis Industry Portal (MassCIP) did not have the functionality to calculate and invoice prorated fees. These issues led to CCC’s failure to process extensions accurately and completely, resulting in uncollected fee revenue for the Commonwealth.

Failure to Administer Prorated Fees

Following a May 2024 public meeting, and after nearly two years of not collecting prorated fees, CCC began the process of identifying outstanding fees. This effort led to the creation of the CCC Licensing Team’s prorated fee list, which included 161 license extension fees, totaling approximately \$555,671.¹³

CCC provided us with data indicating that there were hundreds of extensions approved before the start of the audit period on July 1, 2022. See [Other Matters](#) for more information.

The extensions granted before and during the audit period are summarized in the table below.

Extensions	Number of Licenses*	Number of Extensions
Processed before the audit period**	353	479
Processed during the audit period	487	942
Total	—	<u>1,421</u>

* This column represents unique license numbers. Therefore, it does not add up to the total number of extensions, as license numbers can be extended multiple times during any one period of time.

** See [Other Matters](#) for more information.

In order to determine whether CCC managed the calculation, collection, and accounting for prorated fees on an equitable basis and in accordance with applicable regulations, we compared CCC’s prorated fee list to the MassCIP list.

13. As of March 2025, CCC reported that approximately \$170,000 of the original \$555,671 remains uncollected.

CCC’s Prorated Fee List

CCC’s prorated fee list contained 161 license extensions, granted to 136 unique license numbers, with a value of \$555,671. The list of 161 licenses included only extensions that had been formally requested by licensees via email and did not include extensions that had been categorized as informal/administrative because they were executed by CCC staff members without first being requested by the licensees. According to CCC management, such informal/administrative extensions were not subject to prorated fees.

MassCIP List

The MassCIP list of extensions contained 942 extensions, granted to 487 unique license numbers. We determined that many of these extensions were processed as informal/administrative extensions, although there was some overlap with CCC’s prorated fee list.

Comparison of CCC’s Prorated Fee List to MassCIP List

We determined that 114 out of 136 unique license numbers from CCC’s prorated fee list matched the MassCIP list. The remaining 22 out of these 136 unique license numbers from the prorated fee list were not on the MassCIP list. The 22 unique license numbers not on the MassCIP list included information on the different types of licenses (e.g., medical marijuana facilities) and the licenses granted before the delegation of authority that allowed CCC staff members to provide extensions.

Cross-Comparison of MassCIP List to CCC’s Prorated Fee List

We compared the MassCIP list of 487 unique license numbers to CCC’s prorated fee list and determined that 373 (77%) out of 487 license numbers from the MassCIP list were not on CCC’s prorated fee list. See the table below for more information.

Extensions Processed During the Audit Period	Number of Licenses	Number of Extensions
In Both MassCIP’s and CCC’s Prorated Fee Lists	114	244
Only In MassCIP’s List	373	698
Total	<u>487</u>	<u>942</u>

Because these 373 unique license numbers were included on the MassCIP list but not CCC’s prorated fee list, the fees associated with the license extensions were not included in the \$555,671 in outstanding fees.

We performed testing on the 114 unique license numbers that were on both the MassCIP list and CCC's prorated fee list. Additionally, we performed testing on the 373 unique license numbers that were on the MassCIP list but not on CCC's prorated fee list.

Regarding the 114 unique licenses: We determined that 21 license extensions out of a sample of 35 contained discrepancies because calculations did not include informal/administrative extensions. The value of the 21 discrepancies was \$29,983.

Regarding the 373 unique licenses: We determined that 23 license extensions out of a sample of 40 contained instances of noncompliance. Of these 23 instances, 22 were caused by informal/administrative extensions not being included in the prorated fee calculations, and 1 instance was due to a requested license extension that was omitted from the list of 161 prorated fees but should have been included.

We were unable to determine the total amount of prorated fees associated with the 373 license numbers not included in CCC's prorated fee list because of CCC's use of multiple procedures for identifying and calculating prorated fees during the audit period. However, we exercised due diligence by testing our sample of 40 extensions. Of these 40 extensions, 17 (43%) had prorated fees that were correctly charged and collected by CCC under the new procedures for manual extensions. This indicates that CCC did not fully identify the total population of prorated fees in its initial prorated fee list, which included 161 extensions, totaling \$555,671 in fees.

Because CCC lacked a complete population of prorated fees and the sample size was below the threshold for statistical projection, we conducted an additional analysis of the population of 373 licenses. As a result, our analysis of the prorated fees and their total value differs from CCC's incomplete list.

Based on the analysis, we estimated the unbilled prorated fees for the 373 license extensions not listed. This estimate considers the number of extensions, the number of licenses, the average extension length by license type, the average calculated prorated fee by license type, and the proportion of extensions in the sample that resulted in paid prorated fees. The estimated total value of these unbilled prorated fees is approximately \$246,000. The actual total value could be higher or lower, depending on what process and procedure CCC would have used, had it appropriately and equitably collected fees in these instances.

License Type	Number of Extensions (Population of 373 Licenses) (A)	Average Length of Extension (Population of 698 Extensions) (B)	Average Length of Extension (Population of 161 Extensions) (C)	Average Extension Value (Population of 161) (D)	Estimated Fee (Value of Extension) (E) (AxD÷CxB)
Marijuana Cultivator	171	25.56	92.32	\$2,405.94	\$ 113,905.83
Marijuana Product Manufacturer	159	25.26	98.62	\$2,463.51	100,327.46
Marijuana Retailer	288	30.46	85.88	\$2,090.14	213,503.86
Other	80				
Total Licenses	<u>698</u>				
Total Estimated Fees					<u>\$ 427,737.15</u>
Estimated Fees Paid (42.5%)					\$ 181,788.29
Estimated Fees Not Billed (57.5%)					\$ 245,948.86

We determined that CCC’s prorated fee list of 161 license extensions, totaling \$555,671 in fees, did not consider all the informal/administrative extensions that were contained in the MassCIP list of extensions.

We determined that the 373 license extensions that were on the MassCIP list but were not on CCC’s prorated fee list contained a combination of informal/administrative extension fees, unassessed fees, and fees that were later collected by CCC but were not identified by CCC on the original list of 161 license extensions that totaled \$555,671. We estimated that these 373 extensions could total approximately \$246,000 in fees.

Overall, we estimated that \$530,000 in prorated fees remain uncollected (see [Other Matters](#) for more information). CCC was required to collect appropriate fees for license renewals and extensions. Due to time constraints, our office was unable to test years before the audit period; however, using the same methodology we applied to our calculations regarding the unbilled fees accrued during the audit period, we estimated that the potential uncollected fees could be approximately \$530,000. Although its statute (see the “[Authoritative Guidance](#)” section below for more information) allows CCC to increase the time between license renewals, it does not address CCC’s choice to simply not collect license fees.

CCC management failed to take appropriate steps and institute procedures to fully quantify and accurately administer license extensions. A lack of supervision and minimal accountability over licensing staff members contributed to a significant breakdown of the internal controls over requests for and approvals of extensions. As a result, not all fees were billed, which resulted in uncollected fee revenue for the Commonwealth. Furthermore, these procedural inequities created the appearance of potential impropriety, which could erode the public's trust in CCC.

Authoritative Guidance

Section 76(j) of Chapter 10 of the General Laws states,

The commission shall appoint an executive director. The executive director shall serve at the pleasure of the commission, shall receive such salary as may be determined by the commission, and shall devote full time and attention to the duties of the office. The executive director shall be a person with skill and experience in management, shall be the executive and administrative head of the commission and shall be responsible for administering and enforcing the law relative to the commission and to each administrative unit thereof.

Regarding license terms, Section 6(a) of Chapter 94G of the General Laws states, "Unless the commission authorizes the renewal of a license for a longer period, all licenses under this chapter shall be effective for 1 year from the date of issuance."

According to 935 CMR 500.103(4)(a), "No later than 90 calendar days prior to the expiration date, a Marijuana Establishment shall submit a completed renewal application to the Commission in a form and manner determined by the Commission, as well as the required license fee."

Reasons for Issue

CCC management stated that no formal procedures for the administration of license extensions and prorated fees existed during the first 16 months of the audit period, July 1, 2022 through November 23, 2023. Additionally, CCC management stated that manual processing, limited staffing, and insufficient oversight contributed to the inconsistent administration of the prorated fee process. Plus, CCC lacked standardized tracking and billing for the prorated fee extensions.

Recommendations

1. CCC should improve its internal processes around the administration of prorated fees to ensure that all money owed to CCC, and therefore the Commonwealth, is collected appropriately, consistently, and equitably.

2. CCC should conduct a full reconciliation to identify the total population of all uncollected license extension fees.
3. CCC should implement a standardized, written procedure for administering license extensions to ensure equity and compliance with applicable regulations.
4. CCC should prioritize adequate staffing, oversight, and automation of the billing process for license extension fees.
5. CCC should update its procedures to ensure that they are demonstrably fair, equitable, and transparent to help increase the public's trust and prevent the appearance of potential impropriety.

Auditee's Response

CCC's Recommendation 1 response was as follows:

The Commission implemented new Standard Operating Procedures for the collection of pro-rated fees in April 2025, including creating a MassCIP extension application and the release of several informational bulletins regarding pro-rated fees in 2024, including the one linked here: <https://masscannabiscontrol.com/2024/11/bulletin-extension-application-in-masscip-november-18-2024/>

The main discussion between the Agency and the [Office of the State Auditor] (as well as recent discussions with the [Office of the Inspector General]) centered on the Agency's licensing software (MassCIP) and medical program software ([Medical Use of Marijuana Program Online System (MMJOS)]) which are in need of upgrades or replacement to achieve the functionality desired. This must follow a public procurement process (which has begun), however, the cost to implement improvements or replace these systems was requested in the Agency's [fiscal year] 2025 and [fiscal year] 2026 budget requests, and ultimately has not been funded to-date. The Agency continues to explore a variety of other funding options, including [the Executive Office of Technology Services and Security], as this [information technology] Infrastructure is a priority for the Agency.

CCC's Recommendation 2 response was as follows:

On May 23, 2024, the Licensing department notified the interim Chief of Investigations and Enforcement (CIE) that prorated fees were not collected following the Commission's vote on August 11, 2022, to delegate authority to extend licenses to the [executive director] for up to 120 days. After identifying that there may be gaps in determining whether Licensees paid their prorated fees to cover previously approved extensions, the CIE directed Enforcement Counsel staff and members of the Licensing team to investigate the extent of the issue.

In response, a Licensing staff member provided a list of Licensees that were granted administrative extensions to their awareness. Through this tracker, the team discovered that as of July 11, 2024, one hundred and sixty-one (161) administrative extensions were requested by Licensees but did not pay the prorated fee for the extension. The total amount of money owed for these extensions was initially calculated at \$555,671.23. Upon further review, the amount was reduced to \$535,914.49 to account for an inaccurate fee calculation in the original estimate. At that time, the

CIE learned that the Licensing team did not have a process for collecting prorated fees for administrative extensions. As a result, by November 2024, [Investigations and Enforcement] staff identified solutions such as implementation of an automated mechanism by which licensees could request administrative extensions and submit the appropriate fee through a third-party vendor platform (MassCIP).

Data Discrepancies between [the Office of the State Auditor] and the Commission

Upon review of a data sample from MassCIP, the [Office of the State Auditor (SAO)] utilizes a process to extrapolate that there were hundreds of additional administrative extensions for which pro-rated fees were not collected. There are numerous shortcomings with this approach and the Commission believes the SAO method overestimates the amount of uncollected fees. Of the 161 administrative extensions identified above, the Commission has billed \$535,914.49 in uncollected fees, and collected \$367,777.45. The SAO has identified approximately \$249,000 [(The \$249,000 figure referenced by CCC was part of the draft version of the report sent to CCC for response. After figures were finalized, we arrived at \$246,000.)] in uncollected fees related to administrative extensions in its report. The Commission does not dispute that the previous administration did not have processes and internal controls in place to collect administrative extension fees pursuant to the August 11, 2022 delegation motion but it does take issue with the SAO's \$249,000 estimate and the method by which it is calculated. First, the SAO estimate fails to account for the number of licensees that were granted extensions but are no longer operational. Second, the estimate does not account for extension fees that were actually collected. Third, the estimate does not factor in that certain licensees qualify for fee waivers or discounts (e.g., [Social Equity Program], [Economic Empowerment Priority Applicants] and [Diverse Business Enterprises]). Fourth, the approach does not account for Medical Marijuana Treatment Centers (MTCs) which are not captured in the MassCIP data, since MTCs are managed in the [Medical Use of Marijuana Program Online System] platform. Several MTCs were billed for extensions as noted above, however, this data is unaccounted for in the SAO analysis.

Notwithstanding these shortcomings, the Commission is committed to conducting a full reconciliation of all administrative extensions to ensure that no prorated fees were missed in this subcategory. This reconciliation is currently underway. Additionally, in response to a recently received OIG letter (received: March 27, 2025) the CCC accepted a recommendation to engage an external auditor and used end-of-[fiscal year] 2025 funds to procure auditing services (CLA) to review pro-rated fees and provisional fees. This engagement should be completed in July-August 2025.

CCC's Recommendation 3 response was as follows:

Standard Operating Procedures related to collecting prorated fees from administrative extensions were created in April 2025 and have been provided to the SAO. Additionally, the Agency will proceed with public procurement of a [System and Organization Control (SOC)] 2 audit (assuming available funding), but has started preparation for said SOC audit with end-of-[fiscal year] 2025 available funding.

CCC's Recommendation 4 response was as follows:

As noted above, the Agency's immediate prioritization of this issue resulted in updates and configurations to MassCIP to allow for collection of fees within the platform. Additionally, payment of extension fees is now required prior to granting an extension. For [Medical Marijuana Treatment Centers (MTCs)], administrative extensions are still being manually processed by Licensing staff since these Licensees are not housed within MassCIP. The Agency has begun the process to move the older MTC's licensing management from [Medical Use of Marijuana Program Online System (MMJOS)] to MassCIP in order to be able to manage, track and report on all license from one platform. This transition is actively being worked on.

Regarding the [Office of the State Auditor's] recommendation of prioritizing adequate staffing, the Agency is currently in a hiring freeze, effective May 2025 for the end of [fiscal year] 2025 and the beginning of [fiscal year] 2026 based on a reduction in the operation budget and a flat or reduced operating budget from [fiscal year] 2024 to [fiscal year] 2025 to [fiscal year] 2026. The Agency is not able to achieve adequate staffing or invest in automation due to the ongoing budget restraints; however, the Agency is prioritizing its current resources for hiring purposes and proceeding with public procurement for [information technology] infrastructure (to enhance or replace MMJOS and MassCIP) despite not receiving the funding requested from the Legislature to-date.

CCC's Recommendation 5 response was as follows:

See response to FINDING 1, Recommendations 1 through 4. The Commission fosters a fair, equitable, and transparent environment through educational bulletins and regulatory reminder bulletins, listening sessions held with Licensees, and discussions at public meetings. Additionally, the Investigations and Compliance team serves as points of contact for each Licensee, providing timely responsiveness to Licensee inquiries.

Auditor's Reply

1. CCC stated in its response that in April 2025 it implemented new standard operating procedures for the collection of prorated fees. Based on CCC's response, it has been taking steps to address the concerns expressed in this finding. As part of our post-audit review process, we will follow up on these matters in approximately six months.

CCC's reliance on outdated systems (MassCIP) and lack of manual reconciliations between licensing data and the Massachusetts Management Accounting and Reporting System (MMARS) created control failures. Budget constraints are valid concerns and create risks for CCC, but they do not remove CCC's responsibility to design compensating controls (e.g., manual reconciliations, supervisory sign-offs) to prevent missed revenue.

2. CCC stated in its response that the previous administration did not have processes and internal controls in place to collect administrative extensions fees. This admission directly supports our finding that CCC lacked adequate controls. For this reason, we were unable to identify the total amount of prorated fees and instead relied on an analysis based on the data CCC was able to make available to us. Our \$246,000 figure is not speculation, but is based on a documented, valid analysis that was applied to the 373 extensions that CCC did not consider when it developed its estimate of lost

revenue. CCC's claims that our analysis overstates the amount due (due to waivers, closed licensees, or Medical Marijuana Treatment Centers [MTCs]). This may be true or not, but reflects CCC's own failure to maintain accurate extension data in written form that is appropriately collected, managed, and reconciled. We state in our report that the actual amount of lost revenue could be higher or lower as a result of CCC's failure to assemble and maintain appropriate written records of its licensing activities. If CCC had a complete population of data and an appropriate audit trail, estimation would not have been necessary. We encourage CCC to recognize and resolve its own failure to appropriately assemble and maintain its financial documents. CCC used its time responding to attempt to discredit the estimation, which would not have been necessary if CCC actually assembled and maintained appropriate written documentation. CCC and the public would be better served if CCC instead used its time, energy, and resources to focus on improving its operational and financial management.

Regarding the data discrepancies mentioned by CCC in its response:

Non-Operational Licensees

CCC states that our analysis fails to exclude licensees who were granted extensions but are no longer operational. However, the data provided by CCC did not identify which licensees had ceased operations. During interviews with CCC management and licensing staff, the audit team was informed that CCC becomes aware of licensee closures only after licenses are not renewed or balances remain unpaid. Additionally, CCC did not update its licensing system to track closures in real time.

Because this data was unavailable and unquantified, it could not be factored into our analysis. While CCC raises this as a limitation of our analysis, it has similarly not provided a breakdown of these closures, either during the audit or in its written response. Moreover, CCC indicated during a meeting that \$168,137.04 in outstanding fees out of the \$535,914.49 billed were associated with inactive licensees. However, CCC's own analysis did not adjust for this amount.

Collected Fees

We did account for collected fees in our analysis. A reduction was applied to reflect fees already paid, based on our analysis of the sample tested. This is explicitly documented in the "Estimated Fees Paid" line item in the table on page 25 of our report. We stand by the reasonableness of our analysis in this regard.

Licensees Eligible for Waivers or Discounts

CCC notes that some licensees may have qualified for fee waivers or discounts (e.g., Social Equity Program, Economic Empowerment Priority Applicants, and Diverse Business Enterprises), which were not reflected in our analysis. However, the data provided by CCC did not identify which licensees were eligible for such waivers. Through discussions with CCC staff members and analysis of MassCIP, we understand that the system does not have a built-in capability to flag waiver eligibility. In the absence of this information, it was not possible for the audit team to apply fee waivers or discounts to our analysis. CCC did not provide any quantified data or list of eligible licensees to support its claim.

Exclusion of MTCs

Our analysis did not include MTCs. As noted in our report, the audit scope was limited to the three primary license types tracked within the MassCIP system—retailers, cultivators, and product manufacturers. MTCs, which are managed in a separate platform, were outside the scope of this audit. Therefore, our analysis accurately reflects the subset of license types under review. Notably, inclusion of MTCs in our analysis would have likely increased the total of uncollected fees.

CCC stated in its response that in July/August 2025 it will have completed an engagement with the audit firm Clifton Larson Allen, during which prorated fees and provisional fees will be reviewed. CCC's decision to engage with Clifton Larson Allen demonstrates that CCC recognizes that failures exist with respect to prorated fees. We are glad to see that CCC is committed to continuing work in order to address this issue. As part of our post-audit review process, we will follow up on this matter in approximately six months.

3. CCC stated that standard operating procedures were provided to us in April 2025 and referenced plans for a System and Organization Control 2 audit. While these are forward-looking steps, they were implemented after the audit period and, therefore, do not change the conditions observed during the review. We appreciate CCC's commitment to strengthening its controls, and we encourage the agency to ensure that its procedures are applied consistently, fairly, and equitably across all licenses. As part of our standard post-audit follow-up, we will review the progress of these measures in approximately six months, once the new procedures are fully implemented and operational.
4. CCC stated in its response that it has updated its licensing platform to allow for the collection of fees within the platform, as well as requiring payment prior to an extension being granted. Additionally, CCC stated that it has begun the process of centralizing its licensing management software. As part of our post-audit review process, we will follow up on these matters in approximately six months.

We acknowledge that CCC is currently facing budgetary challenges. We encourage CCC to prioritize oversight of its licensing process to ensure that all licensing staff members perform their job responsibilities in accordance with the updated standard operating procedures described in CCC's response. As part of our post-audit review process, we will follow up on this matter in approximately six months.

5. CCC states that it fosters fairness and transparency through bulletins, listening sessions, and public meetings. Our finding addresses operational control failures, not communication with licensees, which is important in its own right. While outreach efforts are valuable, they were not the subject of this particular audit topic and do not constitute internal controls over fee collection or reconciliations. The absence of a consistent, documented extension fee process (pre-April 2025) undermines CCC's ability to ensure fair and equitable fee collection and creates the potential appearance of favoritism for certain licensees.

2. The Cannabis Control Commission violated state regulations and applicable policies by failing to ensure that fines were assessed and collected within reasonable timeframes and by not designating a hearing officer to oversee related hearings.

CCC did not consistently administer its fine process within the timeframes established by its own policies and applicable regulations pertaining to the completion of the notice of deficiency issued phase of the inspection process within 48 hours (see the image and table below for more information). In all five fines assessed by CCC during the audit period, key procedural steps, including the issuance of deficiency notices, the initiation of enforcement actions, and the finalization of stipulated agreements, were significantly delayed. Additionally, CCC did not have a designated hearing officer throughout the entire audit period, further impeding the inspection process.

The image below shows the workflow for CCC’s established inspection process. Note that the average number of days between each milestone was calculated based on the five fines levied during the audit period.



	Notice of Deficiency Issued	Enforcement Action Initiated	Letter of Enforcement Issued	Agreement Reached
Timeline Required by Regulation/Policy	48 Hours After Inspection	Not Specified	Not Specified	Not Specified
Actual Average Time	24 days	176 days	408 days	266 days

Fines

Fines Identified	Violation Summary	Assessed Amount
Fine 1	<ul style="list-style-type: none"> • Exceeding cultivator tier limit • Disregard for authority • Compromise of public trust 	\$ 22,275
Fine 2	<ul style="list-style-type: none"> • Application of illegal pesticide • Failure to maintain sanitary conditions 	10,000
Fine 3	<ul style="list-style-type: none"> • Failure to maintain sanitary conditions • Failure to promote workplace safety • Failure to mitigate environmental impact during cultivation 	200,000
Fine 4	<ul style="list-style-type: none"> • Failure to record sale of product • Failure to report inventory discrepancy • Failure to follow standard operating procedures • Failure to cooperate with investigation 	60,000
Fine 5	<ul style="list-style-type: none"> • Failure to follow standard operating procedures • Failure to maintain training records • Failure to process products safely • Failure to implement policies and procedures • Submission of inaccurate information 	350,000
Total		<u>\$ 642,275</u>

Inspection and Notice of Deficiency

During the audit period, there were five inspections that had notices of deficiency resulting in fines. We determined that, for each of the five inspections resulting in a fine, a notice of deficiency was not delivered to the marijuana establishment within 48 hours of the date of inspection, in accordance with CCC’s Notice of Deficiency process document. We determined the following:

- In three of the five cases, the notice of deficiency was delivered between 5 and 10 days after the inspection.
- In the two remaining cases, the notification of deficiency was delivered over one month after the inspection.¹⁴

14. For one of the fines tested, CCC noted a process exception that would have reduced the number of days used to calculate our test results. This process exception was not communicated to us during the audit, and even if we had adjusted the values accordingly, CCC would still be in noncompliance.

Enforcement Action Notification

We determined that, for each of the five fines tested, CCC notified the marijuana establishments that enforcement action would occur following alleged failures by the marijuana establishment to remediate identified deficiencies. We determined the following:

- In one case, it took 14 days for CCC to notify the marijuana establishment of enforcement action.
- In the four remaining cases, it took over 60 days for CCC to notify the marijuana establishments of enforcement action.
 - In one of these four cases, it took over 400 days for CCC to notify the marijuana establishment of enforcement action.

Letter of Enforcement Issued and Agreement Reached

We determined that, after enforcement action was initiated, it took an average of 408 days for CCC to issue a letter of enforcement to the marijuana establishment and an average of 266 days after the letter of enforcement was issued for both parties to reach a stipulated agreement.

Overall Process

Overall, it took an average of 873 days from the initial inspection date to the date that a stipulated agreement was reached.

CCC's enforcement process was marked by significant delays. Additionally, the absence of a designated hearing officer further disrupted the timely processing of enforcement appeals.

While regulations and policies do not specify a timeline for all subsequent steps of the inspection process, they do require that enforcement action be initiated and carried out in a reasonable time.¹⁵

Hearing Officer

During the audit period, CCC did not have a designated hearing officer to oversee administrative hearings related to fines, sanctions, and/or other enforcement actions taken against marijuana establishments.¹⁶ The hearing officer position became vacant at the beginning of the audit period in July 2022 and remained

15. CCC uses the term reasonable time in 935 CMR 500.360 and does not define it further.

16. For the notices of deficiency issued during the audit period, CCC used fines as its only enforcement mechanism and did not use sanctions or other enforcement actions.

unfilled through June 2024. (See [Finding 5](#) for more information regarding staffing issues.) As a result, CCC was unable to conduct timely administrative hearings or facilitate the appeals process for licensees.

The absence of both timely enforcement and a hearing officer may have allowed unresolved compliance issues at marijuana establishments to persist or worsen. Delays in enforcement undermine regulatory effectiveness by adversely impacting CCC's ability to enforce applicable laws and regulations and may create an inequitable situation, especially for establishments that lack the resources to independently navigate prolonged enforcement processes. Lengthy timeframes, especially around enforcement action, put customers at potential risk either of purchasing and consuming contaminated or expired marijuana products or of being exposed to other public health risks. Additionally, the lack of a hearing officer may have compromised due process rights for licensees subject to fines and enforcement actions.

Authoritative Guidance

CCC's Notice of Deficiency Process states,

A Notice of Deficiency (NOD) must be cited for every violation identified at the time of inspection. Even if the licensee corrects the deficiency at the time of inspection, the lead Investigator (INV) or Compliance Officer (CO) must proceed with the issuance of an NOD.

- A. *The lead INV or CO drafts the NOD using the approved template found in the Teams folder labeled Templates & Forms.*

The NOD must be sent to the licensee within 48 hours of the inspection unless the INV/CO provides justification for sending it after that timeframe.

CCC's Breakdown of Investigations & Enforcement Process states,

- *If noncompliance is found during the inspection, the lead Investigator or Compliance Officer ("Lead") will draft a Notice of Deficiency (NOD), which outlines each regulatory violation in detail. . . . The NOD is then sent to the Licensee. This begins the NOD/Plan of Correction (POC) process ("NOD/POC Process"). . . .*
- *Once the NOD is received the Licensee, it then has 10 business days to draft and submit a POC that outlines how the Licensee plans on bringing their facility or operation back into compliance with the regulations. . . . This must include "specific corrective steps to be taken, a timetable for such steps, and the date by which compliance will be achieved." 935 CMR 500.320(2) and 501.320(2). The Commission has considered and approved extensions to the 10-day deadline on a case-by-case basis if requested by the Licensee.*
- *If the POC satisfies the above requirements, the Lead will accept the POC and notify the Licensee. . . . The Lead will also request proof of corrective actions taken by the Licensee.*

- *If the POC does not satisfy those requirements, the Lead will notify the Licensee that the POC has been rejected and the reasons for that rejection. . . .*
- *A POC may be rejected or accepted in whole or in part. . . .*
- *After the Licensee receives a notice of rejection, it then has 5 business days to amend and resubmit a satisfactory POC. . . .*
- *During this time, the Lead may conduct further inspections in order to ensure that the Licensee is complying with/meeting the milestones laid out in their POC.*
- *If an adequate POC cannot be submitted, or the Licensee is otherwise unable to bring their operation into compliance with the regulations, Investigators will then begin an investigation to examine the Licensee's noncompliance and to determine if the violation is ripe for an enforcement action. Even if the Licensee has submitted an accepted POC, this does not preclude the Commission from conducting further investigation. . . . This is a fact dependent determination.*

According to 935 CMR 500.320,

- (1) A Marijuana Establishment or Host Community shall submit to the Commission a written plan of correction for any violations cited in the deficiency statement issued pursuant to 935 CMR 500.310, within ten business days after receipt of the statement.*
- (2) A plan shall state, with respect to each deficiency, the specific corrective step(s) to be taken, a timetable for such steps, and the date by which compliance will be achieved. The timetable and the compliance dates shall be consistent with achievement of compliance in the most expeditious manner possible.*
- (3) The Commission shall review the plan of correction and shall notify the Marijuana Establishment or Host Community of either the acceptance or rejection of the plan or any component of the plan.*
- (4) An unacceptable plan shall be amended and resubmitted within five business days after receipt of such notice.*
- (5) The approval of a plan of correction shall not preclude the Commission from issuing an order for further corrective action fixing a reasonable time for correction of the violation, assessing an administrative fine, or taking any other administrative action authorized under the Commission's regulations.*
- (6) A Marijuana Establishment or Host Community shall notify the Commission once the plan of correction has been fully implemented and completed.*

According to 935 CMR 500.360,

- (1) Notice of Fines or Sanctions. The Commission or a Commission Delegee shall send written notice of the action taken against a Licensee, Registrant, or Host Community and the basis(es) for that action which shall include, but not be limited to, the following information:*

-
- (a) The Commission's statutory and regulatory authority, including its jurisdiction over the subject matter and its authority to issue the order with regards to the License, registration, or HCA;*
 - (b) The factual basis(es) of the order;*
 - (c) The alleged violation(s) of law;*
 - (d) An assessment of an administrative fine of up to \$50,000 per violation, or an order for corrective action fixing a reasonable time for correction of the violation or both; and*
 - (e) Notice to the Licensee, Registrant, or Host Community that they may request a hearing in accordance with 935 CMR 500.500.*

According to 935 CMR 500.500,

- (4) Hearing Request. The hearing request shall be submitted in a form and a manner determined by the Commission or a Commission Delegee including, but not limited to, the request shall be made no later than 30 days after the effective date of the notice. A request for a hearing is filed on the date the request is received by the Commission.*
 - (a) A timely request for a hearing shall specifically identify each issue and fact in dispute and state the position of the Licensee, Registrant, or Host Community, the pertinent facts to be adduced at the hearing, and the reasons supporting that position. The Commission's statutory and regulatory authority, including its jurisdiction over the subject matter and its authority to issue the order with regards to the License, registration, or HCA;*
 - (b) The failure to timely file a request for a hearing or to state the basis of the hearing request will result in dismissal of the challenge to the findings set forth in the notice of violation(s) or action(s).*
 - (c) If a timely request for an hearing is made, the Licensee, Registrant, or Host Community may also seek to stay any action until there has been a final agency action pursuant to 935 CMR 500.500(7) or (12); provided, however, that if the Commission issues an order or notice on the basis of information that ongoing operations pose an immediate or serious threat to the public health, safety or welfare, and that operations without restrictions during the pendency of the administrative appeal could reasonably be expected to endanger the health, safety or welfare of the public, there will be no stay.*
 - (d) Nothing in 935 CMR 500.500 shall preclude the Commission or a Commission Delegee from issuing a stay.*
- (5) Hearing Officer. The Commission shall designate a Hearing Officer or delegate this designation to the Executive Director. . . .*
- (7) Commission's Authority to Review, Approve or Reject Informal Dispositions. At any time, the Commission or a Commission Delegee may, in its discretion, review, approve or reject an*

informal disposition, but only on a showing that the alleged violations have been corrected, and a submission of a written waiver of its right to judicial review.

(8) Hearing Notice. If a hearing is requested in a timely manner under 935 CMR 500.500(4) the Hearing Officer shall provide notice and a hearing within a reasonable time after that request, or as soon as is practicable, or at a time mutually agreed by the parties.

(a) The hearing notice should comply with [Section 11(1) of Chapter 30A of the General Laws].

(b) Prior to the commencement of a proceeding, a Hearing Officer may conduct conference(s) and refer or require the parties to participate in settlement negotiations. If the parties reach a settlement, the Hearing Officer shall suspend the proceedings pending Commission consideration of the matter under 935 CMR 500.500(7).

(9) Conduct of the Hearing

(a) To the extent that a Hearing Officer conducts a proceeding, it shall be conducted pursuant to [Chapter 30A of the General Laws] and the Standard Adjudicatory Rules of Practice and Procedure, which includes 801 CMR 1.01: Formal Rules, 801 CMR 1.02: Informal/Fair Hearing Rules, and/or 801 CMR 1.03: Miscellaneous Provisions Applicable to All Administrative Proceedings.

(b) In the case of an Order to Show Cause why a License should not be suspended or revoked, the hearing shall be conducted pursuant to [Sections 10, 11, and 12 of Chapter 30A of the General Laws].

(c) If after the commencement of the hearing, the parties reach a settlement, the Hearing Officer shall suspend the proceedings pending Commission consideration of the matter under 935 CMR 500.500(7).

Reasons for Issue

CCC moved the hearing officer to a different position within CCC and did not fill the hearing officer position after this staffing change because, CCC stated, there was minimal hearing activity at the time. CCC's Investigation and Enforcement Counsel relied on negotiated settlements rather than the hearing process, resulting in lengthy enforcement periods.

Based on our review, existing regulations and CCC's current standard operating procedures do not establish specified timelines for enforcement actions to be completed.

Recommendations

1. CCC should establish, document, and follow specific timelines for the assessment and collection of fines throughout all phases of its inspection process.

2. CCC should designate a hearing officer pursuant to its regulations.

Auditee's Response

CCC's Recommendation 1 response was as follows:

The [Office of the State Auditor's (SAO's)] finding misapprehends the Commission's Investigations and Enforcement process and misapplies the applicable rules and regulations to reach a conclusion that fails to acknowledge the case-specific nature of each enforcement action. The calculations of the average time for each step of the investigation and enforcement process are overly simplistic and fail to consider important parts of the process.

As a general matter, Investigations related to routine matters of non-compliance are often addressed within weeks of discovery after providing the Licensee with a Notice of Deficiency and an opportunity to provide the Commission with acceptable Plan of Correction. Some complaints that are received by the Commission may not fall within the agency's jurisdiction; these matters are resolved quickly through referrals to other agencies (e.g., [the Office of the Attorney General or the Massachusetts Commission Against Discrimination]) or law enforcement when appropriate. Additionally, some matters and inquiries are resolved within weeks of initiating an investigation without further administrative or enforcement action. More complex investigations may take months, or in some instances years, depending on the specific matters of noncompliance, which are at times egregious in nature, and in some instances requires collaboration with other agencies that share jurisdiction (e.g., [Department of Public Health], [Massachusetts Department of Agricultural Resources (MDAR)], [Occupational Safety and Health Administration], U.S. Coast Guard, [Drug Enforcement Administration], etc.).

First, it is important to note that a referral from Investigations to Enforcement Counsel should not be considered the "initiation of an enforcement action." In some instances, a referral may result in no further action, or identify the need for additional investigative steps. The majority of enforcement actions reviewed by the SAO were initiated via a Letter of Enforcement Intent, which is an informal notice to the Licensee indicating that the Commission intends to take formal enforcement action—in these cases, because they were resolved via a stipulated agreement, no formal enforcement action was initiated.

Second, the SAO seems to conflate issuance of a Notice of Deficiency (NOD) with the start of an investigation. Instead, NODs are a routine compliance tool used to notify a licensee of any observed or discovered deficiencies. NODs are issued following regular compliance examinations or through focused investigative inspections and interviews. Equally important as the NOD is the Plan of Correction (POC), a process by which the licensee is responsible for identifying its proposed corrective steps to address areas of non-compliance outlined in the NOD. This process is completely left out of the SAO's analysis.

Third, the SAO criticizes the Commission for issuing NODs more than 48 hours after inspection. However, pursuant to the process on NODs makes clear, there are situations in which the 48-hour turnaround is neither expected nor appropriate. Numerous factors contribute to when an NOD is issued, including whether additional follow up is needed to substantiate the NOD, the Investigator/[Compliance Officers] additional workload, as well as to accommodate internal review

processes. The 48-hour rule is not a regulatory expectation or requirement, it is a self-imposed goal contained in a [standard operating procedure].

Finally, contrary to the SAO’s conclusion that lengthy enforcement actions may subject the public to health and safety risks, the Commission routinely takes steps to ensure public health and safety in instances where Marijuana or Marijuana Products may be contaminated or present a risk to public health or safety. These include Administrative Holds, Summary Suspension Orders and Quarantine Orders, to name a few. Moreover, in instances where pesticide contamination is detected, the Commission coordinates with MDAR as the primary authority relative to regulation of application and use of pesticides in the Commonwealth. MDAR routinely requires products to be held and/or destroyed following an unauthorized pesticide detection.

CCC’s Recommendation 2 response was as follows:

Pursuant to CCC regulations (935 CMR 500.500(5)), the Commission has designated a Hearing Officer. The Hearing Officer began working with the Commission on October 20, 2024. All matters before the Hearing Officer are current and there is no backlog.

Auditor’s Reply

1. For testing, we isolated the parts of the fine process that are administered by CCC itself, not those that are completed by the licensees. Even if the regulation does not mandate a specific enforcement timeline, CCC internal policies do establish a timeline, and CCC failed to meet them. We acknowledge that the 48-hour turnaround for notices of deficiency is not a regulatory requirement, however it is a requirement of CCC’s Notice of Deficiency Process—“The [Notice of Deficiency] **must** be sent to the licensee within 48 hours of the inspection” (emphasis added). It was communicated to us during interviews that the Notice of Deficiency Process was being followed by CCC personnel. However, as CCC itself acknowledges in its response, that is not the case, even though CCC itself set this timeline to govern its own activities. We find it concerning that CCC is defending its consistent violation of its own standards and policies rather than acknowledging its failure to meet them. If CCC disagrees with its own policies, it is within the Commission’s authority to modify them.

Our finding is that fines were not assessed and collected in established timeframes. We would expect to see established timeframes set for the administration of fines, regardless of their complexity, and in the event that timeframes cannot be adhered to, a process to document these challenges and assign new timeframes. Furthermore, the lack of a designated hearing officer meant that CCC had no formal process for holding timely and independent hearings of disputes, which contributed to the timeliness issues with the stipulated agreements that CCC relied on during the audit period. In this instance and others highlighted in this report, the lack of documentation during the audit period has created multiple risks for CCC, the public, and the industry regulated by the agency.

2. CCC stated that it designated a hearing officer who began to work with the Commission in October 2024. While this occurred after we highlighted this issue as part of our audit, we applaud this change and will follow up on this matter in approximately six months as part of our post-audit review process.

3. The Cannabis Control Commission's failure to review existing host community agreements allowed agreements that contained unenforceable language and noncompliant provisions to remain in effect for between 4 and 16 months longer than stipulated by Chapter 180 of the Acts of 2022.

Before a change in regulations related to HCAs that CCC implemented in March 2024, CCC did not review new and/or renewed HCAs for unenforceable or noncompliant provisions. CCC was authorized to regulate HCAs in 2022, as further described below. Following this change in regulations in 2024, CCC did not review existing HCAs for unenforceable or noncompliant provisions. During the audit period, CCC operated under two distinct processes for reviewing HCAs: One procedure was in place until March 2024 and the other was in place from March 1, 2024 through the end of the audit period.

HCA Review Process Effective Starting March 1, 2024

CCC did not conduct a historical review of existing HCAs entered into before March 1, 2024, allowing noncompliant agreements to remain in effect during a critical regulatory transition period.¹⁷

On August 11, 2022, the Massachusetts Legislature passed Chapter 180 of the Acts of 2022, enabling CCC to create regulations on HCAs between individual marijuana establishments and municipalities. Effective November 10, 2022, Chapter 94G of the General Laws, as amended, granted CCC oversight of HCAs. CCC finalized these regulations on October 27, 2023 but allowed an implementation period extending until March 1, 2024. As a result, there was a 14-month regulatory development period and an additional four-month implementation window, during which CCC did not enforce the new HCA requirements, and it did not review existing agreements. This created a prolonged period in which noncompliant agreements persisted without oversight. For example, some HCAs from this period contained Community Impact Fees (CIFs) that exceeded the 3% statutory limit or mandated donations to municipalities or charities.

CCC staff members confirmed that the HCA review process that was effective starting on March 1, 2024 did not include a review of HCAs executed before March 1, 2024. Therefore, HCAs executed before this

17. Since its inception in 2017, CCC has had the authority to research issues related to HCAs and inform public opinion on the matter. Chapter 180 of the Acts of 2022, enacted on August 11, 2022, afforded CCC one year to promulgate regulations for reviewing and approving HCAs. Although CCC had until August 2023 to meet this deadline, the regulations were not finalized until October 27, 2023 and implementation did not start until March 1, 2024. Starting in November 2023, CCC should have implemented the new HCA review process instead of taking an additional four months. CCC has the authority to determine when and how regulations are created, and we believe that the regulations CCC created limited its own oversight and interfered with its ability to conduct HCA reviews during this period.

date would be reviewed for compliance only after a corresponding licensee submits a renewal application, potentially allowing noncompliant terms to remain in effect for a full license year or longer.

Marijuana establishments continued to operate under agreements that violated statutory requirements, in some cases paying excessive or improper fees. CCC's decision not to review existing HCAs may potentially lead to noncompliant agreements remaining in effect for a year, or possibly longer, depending on whether extensions were granted, before CCC reviews them for noncompliant terms. This process is procedurally unfair to marijuana establishments that submitted HCAs before the March 1, 2024 cutoff.

HCA Review Process Effective Through February 29, 2024

Under the prior regulatory framework, CCC did not conduct compliance reviews of HCAs submitted by marijuana establishments. As a result, the municipalities and marijuana establishments negotiated HCA terms that led to widespread inconsistencies and terms that violated statutory requirements.

We selected a sample of 26 HCAs executed between July 1, 2022 and March 1, 2024. Of these 26 HCAs, we found that 18 were noncompliant. Specifically, we found the following instances of noncompliance:

- Of the 18 noncompliant HCAs in our sample, 1 contained a CIF of 3.5%.
- Of the 18 noncompliant HCAs in our sample, 1 mandated that the CIF be \$100,000, regardless of the 3% maximum.
- Of the 18 noncompliant HCAs in our sample, 9 required mandatory charitable donations.
- Of the 18 noncompliant HCAs in our sample, 11 required mandatory donations to the municipality, separate from the CIF.
- Of the 18 noncompliant HCAs in our sample, 3 had no expiration dates.

Noncompliant HCAs put undue financial burdens on small businesses in a burgeoning industry.

We identified 11 new marijuana establishments that were required to make large payments to the municipality before making their first sale—one of these establishments was required to pay over \$100,000. This practice is in violation of applicable regulations and creates an environment in which only the largest businesses, often multi-state operators, can thrive and further incentivizes municipalities to show preferential treatment to large businesses capable of providing more funding.

Given the nature of the cannabis industry, this disfavors smaller Massachusetts-based entrepreneurs in favor of non-Massachusetts businesses that have existing cannabis operations in other states, and, therefore, greater financial means to afford such payments. We also identified HCAs in municipalities that had unequal terms between different marijuana establishments of the same license type, even though the establishments were in the same municipality. For example, one marijuana establishment in Brookline had a mandated charitable donation of \$975,000, while another in Brookline had no such requirement.

Authoritative Guidance

Section 3(d)(2)(i) of Chapter 94G of the General Laws states,

The community impact fee shall . . . (B) amount to not more than 3 per cent of the gross sales of the marijuana establishment or medical marijuana treatment center; (C) not be effective after the marijuana establishment or medical marijuana treatment center's eighth year of operation; (D) commence on the date the marijuana establishment or medical marijuana treatment center is granted a final license by the commission; and (E) not mandate a certain percentage of total or gross sales as the community impact fee.

Reasons for Issue

HCA Review Process Effective Through February 29, 2024

CCC management told us in a post-audit meeting that, before March 1, 2024, they did not have statutory authority to review the HCAs reached by marijuana establishments and host municipalities.

HCA Review Process Effective Starting March 1, 2024

CCC management told us in a post-audit meeting that, after March 1, 2024, they did not have statutory authority to review an HCA that is not actively going through the renewal process or new application process.

Recommendation

CCC should review all existing HCAs to ensure that they do not contain noncompliant terms. CCC management should adhere to their responsibilities to ensure functional oversight with respect to proper application of the law.

Auditee's Response

As explained to the [Office of the State Auditor] Audit team in a meetings throughout the course of the audit, the Commission's statutory oversight authority underwent significant revision during

the course of the audit period. See Chapter 180 of the Acts of 2022 (Chapter 180). Prior to the passage and implementation of Chapter 180, the Commission did not have oversight authority over HCAs. Chapter 180 went into effect 90 days after it was enacted on August 11, 2022—thus the effective date was November 9, 2022. Per Section 28 of Chapter 180, the Commission had 1 year to promulgate or amend regulations consistent with Chapter 180, and the Commission's updated regulations relative to its authority to review and approve HCAs became effective on March 1, 2024. All new license and renewal applications since March 1, 2024, have included review and approval of HCAs for statutory compliance and all Post Provisional License inspections have required a statutorily complaint HCA since March 1, 2024. Accordingly, the CCC has been acting fully in accordance with its statutory and regulatory obligations.

In addition, as explained to the Audit team in the March 25, 2025, meeting, a significant number of municipalities have taken the position that Chapter 180 did not grant the Commission the authority to review HCAs executed prior to the statutory effective date. In fact, the only Court that has reviewed the issue thus far has ruled in the municipalities' favor in a case in which the Commission was not a party. See Haverhill Stem v. Fiorentini et al, Essex Superior Court (C.A. No. 2177CV00375). As the Commission strenuously disagrees with that Court's decision and believes that it rests upon a fundamental misunderstanding of the Commission's licensing process, it has moved to intervene in a Middlesex Superior Court case that presents the identical question regarding the Commission's authority to review HCAs which pre-date Chapter 180. See Theory Wellness, Inc. et al v. Town of Great Barrington, Middlesex Superior Court (C.A. No. 2481CV693). A hearing was held on the Commission's motion on June 9, 2025, and the motion is currently under advisement. The Commission is also actively looking at other pending cases which raise the same issue in which it might seek to intervene. Until the courts definitely resolve the issue, the Commission's ability to review HCAs which pre-date Chapter 180's effective date will continue to be challenged. Many licensees across the Commonwealth are trapped in legal limbo until the issue is resolved as their license renewals cannot be approved without a compliant HCA (which, to date, certain municipalities have declined to provide). For this reason, the Commission has authorized the granting of administrative extensions to licensees for HCA compliance purposes.

Auditor's Reply

Our finding is that upon obtaining regulatory authority, effective March 1, 2024, CCC failed to proactively review existing HCAs and delayed implementation of the new HCA review process even after the new regulations passed. Although CCC implemented the new regulations in March 2024, nearly 16 months passed without review of existing HCAs despite the known pattern of excessive fees, mandatory donations, and other noncompliant terms. It is our opinion that the CCC was in a position to grant regulatory relief by proactively reviewing existing HCAs for unenforceable terms and chose not to do so.

Additionally, CCC stated in its response that litigation issues with the municipalities are to blame for the limited effectiveness of the new HCA review process. We agree with CCC that it has the authority to review HCAs that predate Chapter 180 of the Acts of 2022 and understand CCC's position regarding the

complications caused by litigation surrounding this issue; however, we maintain that CCC unnecessarily delayed implementing the HCA review process even after the new regulations were approved. The litigation issues do not negate our finding regarding the untimely promulgation of regulations and the failure to begin to implement oversight in accordance with said regulations and law.

4. The Cannabis Control Commission did not have a documented and transparent process for employee settlement agreements, including those containing non-disclosure, non-disparagement, or similarly restrictive clauses.

CCC did not have a documented process for entering into, reviewing, and finalizing its employee settlements during the extended audit period, January 1, 2019 through December 31, 2024. The table below summarizes the dates, amounts, and payment methods of the two employee settlement agreements CCC entered into during the extended audit period. Additionally, as of the conclusion of our audit, there was one other settlement agreement still in the process of being executed; therefore, it was not made available to us for review.

Were Allegations Specified in the Agreement?	Year Signed	Amount	Method of Payment	Did the Agreement Include Non-disclosure, Non-disparagement, or Similarly Restrictive Clauses?
Yes*	2023	\$5,000.00	Internal Revenue Service Form 1099	Yes
Yes**	2023	\$92,969.75	Payroll	Yes

* The allegations associated with this settlement were for claims of alleged sexual and racial discrimination, subjection to a hostile work environment based upon sex and race, and failure to provide equal pay in violation of state and federal statutes.
 ** The allegations associated with this settlement were for claims of defamation, interference with rights under the Family and Medical Leave Act, retaliation for family medical leave, invasion of privacy, subjection to intentional infliction of emotional distress, and intentional interference with business relationships, all in violation with common law and various state and federal statutes.

If CCC does not have a documented and transparent process, which would hold CCC accountable, to handle employee settlement agreements, especially those containing non-disclosure, non-disparagement, or similarly restrictive clauses, then it cannot ensure that employee settlements are handled in an equitable, ethical, legal, and consistent manner.

Authoritative Guidance

The Office of the Comptroller of the Commonwealth's (CTR's) "Settlements and Judgments Policy"¹⁸ states,

Departments may not process payments or adjustments for a settlement, judgment, or administrative award as a routine payroll entry, but must follow this policy to ensure appropriate tax reporting, withholdings, and funding.

Although CCC is not required to follow this policy, we consider it a best practice that individual Commonwealth agencies create agency-specific policies based on CTR's policy for employee settlement agreements.

Reasons for Issue

CCC management stated that they do not have a process for administering employee settlements because they occur infrequently and are handled on an ad hoc basis.

Recommendations

1. CCC should develop, document, and implement a policy related to employee settlement agreements in accordance with CTR's guidance.
2. CCC should refrain from using employee settlement agreements that contain non-disclosure, non-disparagement, or similarly restrictive clauses and should implement a policy regarding the use of employee settlement agreements to promote a transparent and equitable process.

Auditee's Response

CCC's Recommendation 1 response was as follows:

On January 27, 2025, following the audit period, the Governor issued a directive which formalized the prohibition of the use of non-disclosure language in settlement agreements. Despite being an independent agency which is not under the direction of the Governor's Office, the CCC has adjusted its procedures to no longer include non-disclosure language. The Agency will formalize a policy for employee settlement agreements in accordance with CTR's revised guidance and provide said policy to the [Office of the State Auditor] within 60 days.

18. CTR updated this policy on May 12, 2025, which was between the end of the audit period and the publication of this report. In this report, we reference the policy as it was documented during the audit period (unless stated otherwise).

CCC's Recommendation 2 response was as follows:

This recommendation is overly broad. Settlement agreements are an important tool to resolve disputes before resorting to costly and time-consuming litigation. Per the Governor's policy, the CCC has discontinued the use of [non-disclosure agreements]. See above response to Recommendation 1.

Auditor's Reply

CCC stated in its response that it will adjust its procedures to no longer use non-disclosure language as well as formalize a policy for employee settlement agreements in accordance with CTR's revised guidance. While these are forward-looking steps, we also encourage CCC not to use settlement agreements containing non-disparagement or similarly restrictive clauses. We look forward to receiving a copy of the new policy, and as part of our post-audit review process, we will follow up on this matter in approximately six months.

5. Breakdown of management structure and role consolidation led to turnover of critical personnel at the Cannabis Control Commission, which contributed to operational and compliance risks.

CCC experienced a breakdown in its management and personnel structure during the audit period, particularly among key administrative and legal personnel. As a result, CCC increasingly relied on external legal counsel to fill critical gaps, while remaining staff members have assumed multiple high-level roles without appropriate support or succession planning. These conditions have contributed to limited resources, increased legal costs, and elevated operational risk. Key observations include those described below.

Loss of Critical Personnel Members

CCC meeting minutes dated September 23, 2024 documented the departure or suspension of several high-level staff members, including the chief communications officer and the director of human resources. These departures left key positions vacant during a period of significant regulatory and operational activity at CCC.

Consolidation of Key Roles

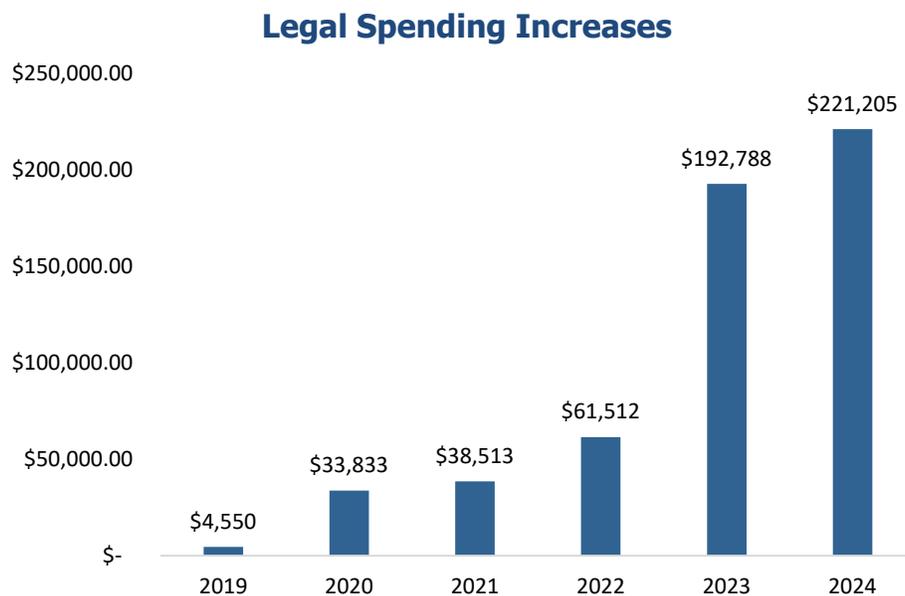
CCC organizational charts indicated that administrative personnel members held multiple high-level positions simultaneously. The acting executive director retained their role as chief people officer and the acting general counsel retained their responsibilities as chief of staff. These dual-role assignments raise

concerns about the capacity, objectivity, and effectiveness of internal leadership, as well as oversight of critical functions and segregation of duties.

Increased Reliance on External Legal Counsel

We confirmed through staff member interviews and document reviews that CCC had increasingly turned to external legal firms to address employment-related matters, internal investigations, and compliance issues. This reliance on contracted services resulted in elevated legal costs for CCC.

During our audit, we determined that throughout the audit period, CCC’s spending on legal fees increased significantly over time. See the chart below for more information.



Note: Legal spending figures are presented by calendar year. The amount shown for 2024 only includes the first six months of the year.

CCC’s breakdown of management structure and role consolidation will lead to several additional negative consequences, such as the following:

- CCC’s increasing reliance on external legal counsel resulted in higher operational expenditures and reduced capacity for internal improvements to CCC’s legal team. While specialized external support can be necessary in certain cases, the absence of sufficient internal legal staffing could limit CCC’s ability to maintain consistent legal administration and oversight. Furthermore, resources used for external counsel could instead support internal staffing or training to enhance long-term legal and compliance capabilities within CCC.
- Poor segregation of duties and the assignment of multiple high-level responsibilities to individual staff members increases the likelihood of operational bottlenecks and miscommunications. These

conditions could create opportunities for error, mismanagement, employee conflict, and/or conflicts of interest.

- Staff members carrying excessive workloads and holding overlapping responsibilities may struggle to provide timely administrative decisions and services. Prolonged strain could lead to burnout, disengagement, and/or additional resignations, further compounding staffing issues.
- Frequent leadership changes, combined with ongoing legal challenges, may undermine public and stakeholder confidence in CCC. A lack of continuity in key roles could also impair long-term planning and disrupt the consistent execution of strategic initiatives.
- Employees placed in dual executive roles may lack the specific expertise or qualifications necessary to effectively fulfill both sets of responsibilities. The loss of experienced leadership, particularly when internal policies and procedures are undocumented, could result in the erosion of institutional knowledge and increased reliance on informal or inconsistent practices.
- The absence of documented controls over the areas reviewed during our audit may indicate broader organizational risks, particularly given CCC's wide range of statutory responsibilities in regulating the cannabis industry in the Commonwealth.

Authoritative Guidance

According to CTR's *Internal Control Guide*, CCC is required to establish a clear organizational structure and ensure proper segregation of duties to prevent inefficiencies, financial risks, and compliance failures.

Section 3 of Chapter 1 of CTR's *Internal Control Guide* states the following:

3.01. Organizational Structure

An organizational structure is necessary to enable a department to plan, execute, control, and assess the achievement of its objectives. Management develops and assigns these responsibilities to groups (divisions, offices, subunits, etc.) to enable the department to operate in an efficient and effective manner, comply with applicable laws and regulations, and reliably report quality information. Periodically, management should evaluate the organizational structure to ensure it meets its objectives (and makes changes accordingly).

3.02. Assignment of Responsibility and Delegation of Authority

As noted above, management develops and assigns responsibility. Management also evaluates the delegation for proper segregation of duties within the unit and in the organizational structure. Segregation of duties helps prevent fraud, waste, and abuse in the entity by considering the need to separate authority, custody, and accounting in the department.

3.03. Documentation of the Internal Control System

Effective documentation helps with the design an effective internal control as it communicates the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge

limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as auditors.

Reasons for Issue

CCC stated that it did not prioritize creating documented policies to support succession management or workforce planning because of the agency's young age and small size.

Recommendations

1. CCC should ensure that it has a succession plan to effectively administer general and executive staff member turnover.
2. CCC should ensure that there is segregation of duties among all CCC executive staff members.
3. CCC should refrain from using external legal counsel to perform core functions.

Auditee's Response

CCC's Recommendation 1 response was as follows:

The Agency is in agreement with the [Office of the State Auditor's] recommendation. Succession planning efforts, as well as general recruitment and retention efforts, are a focus of the new Executive Director.

CCC's Recommendation 2 response was as follows:

The Agency is in agreement with the [Office of the State Auditor's] recommendation and it is the responsibility of the Executive Director to ensure this is achieved. It should be noted that implementation of structural changes to the organizational chart may be delayed substantially given the multi-year stagnation of the Agency's budget.

CCC's Recommendation 3 response was as follows:

The Agency is in agreement with this recommendation specific to the reference of "core functions" but is noting that use of external legal counsel will need to continue (as needed) to ensure access to any expertise that cannot be hired and maintained on-staff. Staffing constraints that impact this note can also be found in the [executive director] response to FINDING 1, Recommendation 4.

In addition, the Commission points out that external legal fees appear to be artificially inflated for 2023 and 2024 due, in part, to the fact that numerous investigations relating to employment issues took place during those years. Billing for the investigations was submitted through external legal counsel. As a result, external legal counsel fees did not spike as dramatically as suggested in the audit report. It is also worth noting that core legal functions were not outsourced but, rather, external legal counsel were used to supplement staff resources where specialized legal expertise was not available in-house.

Finally, the Commission’s Legal Department has added new attorneys, a paralegal and a legal assistant during the latter part of and subsequent to the audit period. This infusion of talent has enabled the Commission to reduce its reliance on outside counsel and perform more functions in-house. However, the flat budget for [fiscal year 2026] will limit the Commission’s ability to hire additional legal staff to keep up with the agency’s ever growing regulatory workload, and the current hiring freeze approved by the Executive Director may impact future backfilling of open legal positions.

Auditor’s Reply

1. CCC stated in its response that succession planning efforts and general recruitment and retention efforts are a focus of the new executive director. As part of our post-audit review process, we will follow up on this matter in approximately six months.
2. We believe that dual role assignments should be avoided, particularly in areas that involve both operational responsibilities and oversight functions. We reiterate that CCC’s assignments violated the principles of segregation of duties and internal control risk set by CTR. CCC should implement controls to mitigate the risks created by the absence of segregation of duties.
3. CCC stated in its response that it will continue to use external legal counsel to ensure access to legal expertise that cannot be hired and maintained by CCC itself. As part of our post-audit review process, we will follow up on this matter in approximately six months.

Our finding is that this increased spending was the result of CCC’s dependence on external firms to resolve labor issues, which resulted from the breakdown of its management structure. We would normally expect these issues to be investigated and resolved utilizing less costly internal resources. The lengthy investigations mentioned by CCC in its response are tied to the settlement agreements reviewed as part of this audit, and those labor issues, regardless of how they were billed, are costly for the taxpayers and may undermine the public’s confidence in CCC.

CCC stated in its response that its legal department has added several new staff members. As part of our post-audit review process, we will follow up on this matter in approximately six months.

6. The Cannabis Control Commission failed to implement sufficient controls related to the administration of the marijuana regulation fund and its host community agreement review process and did not have a fully compliant internal control plan as required by the Office of the Comptroller of the Commonwealth’s *Internal Control Guide*.

During our audit, we identified the significant deficiencies in CCC’s internal control system described below. Of the four controls we tested—commissioner approval of fines, reconciliation of revenue, and two supervisory reviews of licensing documents—only commissioner approval of fines was consistently documented and determined to be operating effectively. The remaining three controls were not operating as intended, as described below.

Marijuana Regulation Fund Administration

Supervisors did not consistently perform or review CCC's monthly revenue reconciliations for the marijuana regulation fund (MRF), including fines. For seven of the eight months tested, CCC did not complete the required reconciliations, and there was no documentation showing that CCC's chief financial and accounting officer reviewed them, as required.

Licensing and HCAs

CCC was unable to provide documentation demonstrating that supervisors completed required review procedures. Specifically, supervisors could not provide documentation of approvals of final application checklists and background checks. For all 25 of the licensing background checks tested, CCC could not provide evidence that licensing managers had reviewed and approved the background checks for owners and managers of the sampled licensees. Additionally, for all 25 of the final licensing application checklist controls tested, CCC was unable to produce records verifying that licensing managers had completed the final reviews prior to licensure.

Lack of Fully Compliant Internal Control Plan

CCC did not maintain a fully compliant internal control plan during the audit period. Although CCC had an internal control plan in place, our audit determined that it was not sufficiently aligned with established internal control standards, such as those set forth in the Committee of Sponsoring Organizations of the Treadway Commission framework and CTR's internal control guidance, to effectively manage operational and regulatory risks.

High turnover among CCC's executive leadership inhibited CCC's capacity to maintain a stable organizational structure and preserve institutional knowledge. The reliance on interim replacements with overlapping responsibilities further strained internal operations, as individuals were required to manage multiple high-level roles simultaneously. Furthermore, the elimination of key leadership roles disrupted CCC's organizational structure and reduced oversight capability.

After reviewing the internal control documentation provided by CCC for calendar years 2022, 2023, and 2024, we found no evidence that risks were analyzed or that control activities had been performed. Although general control activities were described, the related policies and procedures were not clearly cited, limiting the plan's usefulness as a tool for assessing whether controls were both implemented and

operating effectively. Moreover, several controls were marked as either partially or not implemented, indicating that CCC has not yet fully put its internal control framework into practice. These failures indicate that key controls were not functioning as intended and reinforce broader concerns regarding the design, implementation, and operating effectiveness of CCC's internal control system.

This inadequate internal control environment and inadequate internal control plan contributed to several operational and financial risks, including:

- absence of control activities, which resulted in inconsistent practices, a lack of clearly documented procedures, and diminished organizational accountability;
- deficient oversight in licensing, HCA reviews, and management of the MRF, as evidenced by missing documentation of final approvals and unreconciled financial activity raising concerns about transparency, fairness, and regulatory reliability; and
- lack of a fully compliant internal control plan, which leaves CCC unprepared to address emerging risk posed by an unstable organizational structure.

Authoritative Guidance

According to the Committee of Sponsoring Organizations of the Treadway Commission's Enterprise Risk Management Framework, which is the basis of CTR's *Internal Control Guide*, organizations must use 17 principles to create an internal control plan. These principles include the following, which are relevant to this audit:

- **Principle 3** requires organizations to establish a clear structure of roles, authority, and responsibilities to maintain accountability and operational efficiency.
- **Principle 4** requires organizations to recruit, develop, and retain qualified employees and provide training and professional development to sustain institutional knowledge and achieve objectives.
- **Principle 6** requires organizations to define strategic goals and objectives to guide risk identification and management efforts.
- **Principle 7** requires organizations to continuously identify and assess risks, including emerging risks and fraud risks, to maintain alignment with objectives.
- **Principle 8** requires organizations to evaluate risks dynamically and update risk management strategies in response to evolving threats.
- **Principle 9** requires organizations to respond to risks promptly through appropriate mitigation strategies, such as updating policies, reallocating resources, or strengthening controls.

Reasons for Issue

Regarding the MRF, CCC did not maintain sufficient documentation of financial oversight activities, including reconciliations and review processes. CCC did not have documented policies or procedures to ensure that reconciliations were conducted on a regular basis.

Regarding HCAs, CCC did not consistently document critical controls, such as background check reviews and final checklist approvals.

Regarding CCC's lack of a fully compliant internal control plan, CCC provided us two documents labeled as internal control plans; however, both closely resembled risk assessments and lacked risk analysis and control activities. Additionally, multiple controls were marked as either partially or not implemented.

Related to the control environment, CCC experienced high turnover of executive staff members, overly relied on interim roles, and eliminated key positions, which further compounded leadership instability and diluted accountability.

Related to risk assessment, CCC's lack of ongoing documentation and updates to the risk assessment framework left CCC without a reliable mechanism to evaluate emerging risks, limiting its ability to adapt to changing conditions.

Recommendations

1. CCC should ensure that controls around the review processes for both the MRF and HCAs operate effectively.
2. CCC should develop a fully compliant internal control plan and conduct a risk assessment annually.

Auditee's Response

CCC's Recommendation 1 response was as follows:

The MRF is appropriated by the Legislature and further controlled by the Comptroller, not administered the CCC. The Agency transfers revenue collected by the Commission to the MRF, and the Agency only has visibility as to what is transferred from the Commission to the MRF. Other receipts into the MRF through other sources, include deposits of tax revenue from [the Massachusetts Department of Revenue] (see Section 5 of Chapter 64N [of the General Laws]). Prior to [fiscal year] 2025, monthly reconciliations were done to ensure all payments received by the Commission were transferred to the MRF, however, reconciliation with Licensing records did not occur during this period. As of [fiscal year] 2025 the Finance Department began receiving automated reports of payments entered into MassCIP and [Medical Use of Marijuana Program Online System]. These

reports are now being reconciled to bank deposits as well as entries transferring funds to the MRF. Reconciliations are prepared monthly for Supervisor review and sign-off.

HCA review process is explained in [executive director] response to FINDING 3.

CCC's Recommendation 2 response was as follows:

With limited and time-constrained available funding at the end of [fiscal year] 2025 the Commission engaged [Clifton Larson Allen] to perform a pre-[System and Organization Control] audit review. The new Executive Director will utilize the outcome of this engagement and the expertise of the [Chief Technology and Innovation Officer] and [Chief Financial and Accounting Officer] to ensure all internal control plans are updated in line with Comptroller recommendations and other best practices, no later than the end of Calendar Year 2025.

Auditor's Reply

1. CCC stated in its response that prior to fiscal year 2025, reconciliations were made to ensure that all payments received by CCC were transferred to the MRF. While performing our audit work, we determined that, although these reconciliations were occurring, they were not always occurring monthly and reliably. Additionally, CCC stated that there was no reconciliation performed between payments received (which ultimately transfer to the MRF) and licensing records, but that reconciliations are now prepared monthly and reviewed and signed off by a supervisor. As part of our post-audit review process, we will follow up on this matter in approximately six months.
2. CCC stated that it will update all internal control plans in line with CTR's recommendations and other best practices no later than the end of this year. As part of our post-audit review process, we will follow up on this matter in approximately six months.

7. The Cannabis Control Commission failed to identify double payments for license fees and did not ensure that revenues were coded and classified.

We determined that CCC lacked the ability to identify when license fees had been paid more than once. In our review of transaction data, we identified multiple identical payments (22 instances, totaling \$3,445 in overpayments) made by licensees for the same fee. CCC had not previously detected these overpayments.

Additionally, while performing testing on the larger population of fees identified during the audit period, we found that CCC was comingling revenue codes, leading to multiple revenue sources being classified under one unique identifier. For example, revenue code 638 contained 21 revenue source codes, which were found to include a mix of different fee types.¹⁹

19. Examples of different fee types include agent registration fees, change of address fees, and architectural review fees.

The failure to implement adequate financial controls resulted in several risks and inefficiencies, including the following:

Financial Misstatements and Reporting Inaccuracies

- The commingling of revenue codes undermines accurate revenue tracking, which can distort financial reports, impact budgetary decision-making, and lead to noncompliance with state financial reporting requirements.

Erosion of Public and Stakeholder Trust

- The inability to identify and prevent duplicate payments exposes licensees to potential financial harm, raising concerns about CCC’s credibility, financial integrity, and regulatory oversight capacity.
- Without proper revenue categorization and duplicate payment detection, there is an increased risk of undetected financial mismanagement, revenue loss, and/or fraud.

Operational Inefficiencies

- The absence of systematic safeguards delays the resolution of discrepancies, which may delay financial reconciliations and impair CCC’s overall fiscal management.

Authoritative Guidance

Regarding the commingling of revenue codes, CTR establishes accounting rules and guidelines for all state agencies, including the proper classification and tracking of revenue. CTR’s *Revenue Handbook* states the following:

IV. REVENUE SOURCE CODE DEFINITIONS/DESCRIPTIONS

Revenue Source Codes are created by the Office of the Comptroller (CTR) for use in collecting, identifying, tracking and reporting revenue received by the Commonwealth. . . . Some Revenue Source Codes are broad and are used by more than one department; others are created and used for a specific purpose.

If a Department thinks it needs to create a new Revenue Source Code, it should contact CTR’s General Accounting Bureau. Departments must provide the legislation authorizing the revenue to be collected, type of revenue and indicate whether the revenue is to be linked to a specific account number, etc.

Regarding the inability to identify the double charging of fees, CTR’s “Cash Recognition and Reconciliation Policy” states the following:

Reconciliation of Cash Receipts

Daily system assurance must be performed by departments to ensure that there is a matching deposit for each cash transaction. This process involves comparing the results from all sources that produce or contain payments and deposit information, and ensuring that they match. These information sources should include any delegated system reports, all relevant MMARS tables and/or reports, and Information Warehouse reports. Departments needing assistance in establishing system assurance procedures should contact CTR's Revenue Bureau.

Reasons for Issue

CCC lacks automated system controls or alerts within MassCIP to identify double payments. No reconciliation process was in place to detect or prevent duplicate transactions during the audit period.

CCC has not implemented proper accounting procedures to ensure that each revenue source is assigned a distinct classification.

Recommendations

1. CCC should implement automated system controls and validation procedures to monitor and prevent duplicate payments.
2. CCC should assign unique revenue codes to different revenue types.
3. CCC should perform regular reconciliations to detect or prevent duplicate transactions.
4. Until CCC implements a reliable system that detects or prevents duplicate transactions, CCC should make licensees aware of potential duplicate fees so that they may safeguard against improper charges by CCC.

Auditee's Response

CCC's Recommendation 1 response was as follows:

The Commission has a contract with a payment processor to process credit card payments. Licensees are directed to the payment page from the third-party software to enter their credit card information to initiate payment for their license or fee. In random incidents it appears the payments were being resubmitted by the processor multiple time before timing out, resulting in duplicate charges to the payee's credit card. The payment processing service provider has implemented an update to correct the issue of duplicates transactions processing during the time-out period. The CCC has also added a reconciliation process to catch payments made that are not recorded in the internal licensing software. This reconciliation process will identify duplicate payments if this "glitch" with the payment processor occurs again.

CCC's Recommendation 2 response was as follows:

The CCC uses unique [external cash receipt table (ECRT)] codes for each fee type, which directs electronic fee payments to the specific revenue / transaction codes in the State's Accounting

System (MMARS) for all electronic payments. These codes have always been used to identify specific fees on electronic payments. These codes were added to manual payment transactions (i.e. checks) at the beginning of [fiscal year] 2025. Reporting by fee type is completed through ECRT reports. Additional Revenue Source codes were also added in [fiscal year] 2025 and remapping of fees has been completed—currently, 14 separate application fees exist with their own separate ECRT codes that are then directed into one (1) Revenue Code for Applications Fees, but the reporting can be broken out by revenue code or ECRT, as needed. This process improvement is an approved method of reporting revenue, per the Office of the Comptroller.

CCC's Recommendation 3 response was as follows:

The Finance Department began receiving weekly reports from MassCIP and [Medical Use of Marijuana Program Online System] in March 2025 which are now reviewed and reconciled to payments received. See further information on duplicate payments in response to recommendation 1 of FINDING 7.

CCC's Recommendation 4 response was as follows:

Finance conducts daily manual checks as a short-term control. Since this process was implemented in April 2025, no duplicate payments have been identified. Long-term system improvements will require investment in the Commission's [information technology] Infrastructure, referenced in response to FINDING 1, Recommendation 1.

Auditor's Reply

1. CCC stated in its response that its payment processing service provider has implemented an update to prevent duplicate transactions from occurring. Additionally, CCC stated that a reconciliation process has been added to catch payments that are not recorded in its internal licensing software. As part of our post-audit review process, we will follow up on this matter in approximately six months.
2. CCC stated in its response that, starting at the beginning of fiscal year 2025, it used unique external cash receipt table codes for each fee type. We are happy to see that CCC has started using unique revenue codes after this issue was identified by our audit. As part of our post-audit review process, we will follow up on this matter in approximately six months.
3. CCC stated in its response that its Finance Department began reviewing and reconciling reports from its licensing system in March 2025. We are happy to see that CCC has started reviewing and reconciling payment information after this issue was identified by our audit. As part of our post-audit review process, we will follow up on this matter in approximately six months.
4. CCC stated in its response that, starting April 2025, the CCC Finance Department conducts daily manual checks to determine whether duplicate payments have occurred. As part of our post-audit review process, we will follow up on this matter in approximately six months.

OTHER MATTERS

The Cannabis Control Commission did not collect prorated license fees before July 1, 2022, leading to uncollected revenue.

The issue of prorated fees has persisted for several years. As part of our data request related to the prorated fees, the Cannabis Control Commission (CCC) provided us with data indicating that there were hundreds of extensions approved before July 1, 2022. During our interviews with CCC staff members, CCC indicated that no prorated fees were calculated or charged for this population of extensions.

May 2020 CCC Discussion

Public meeting minutes from May 7, 2020 show that CCC discussed operational relief measures for licensees during the COVID-19 pandemic state of emergency. These discussions included potential strategies to support licensees affected by business disruptions, such as waiving or reducing license fees, extending license expiration dates, and prorating fees when renewal dates were extended. Although CCC did not vote to adopt any formal policy at that time, this is significant to our audit work because it shows that the concepts of license extensions and prorated fees were present in CCC's policy environment as early as May 2020. These deliberations indicate that CCC had sufficient opportunity and information to have formalized a process for license extension and proration of fees before and after the August 2022 vote to delegate this authority to the executive director.

Extensions Before August 2022

Before August 2022, CCC was responsible for overseeing license extensions, as the statutory language in Section 6(a) of Chapter 94G of the Massachusetts General Laws grants CCC the authority to extend license terms. This activity falls outside the scope of our audit, so we did not evaluate the process or decisions associated with extensions before July 1, 2022. Additionally, CCC did not clearly establish the fee requirement for extensions before July 1, 2022. On August 11, 2022, CCC voted to delegate the authority to extend license expiration dates to the executive director. In accordance with that vote, the executive director issued an internal memorandum describing how this delegated authority would be exercised. Notably, the memorandum stated that any licensee receiving an extension would also be required to pay a prorated license fee to cover the extended term.

Despite this new requirement, and based on our audit work, CCC did not implement a documented policy or process to ensure that prorated fees were calculated, billed, and collected in a consistent manner. Additionally, CCC data provided to us included 479 license extensions granted between May 2020 and August 2022, corresponding to 353 unique license numbers. Although these extensions occurred before the August 2022 delegation, and thus fell outside the scope of our audit, they provide additional context regarding the volume of manual extensions issued before a documented process was in place.

Potential Financial Impact

To assess the potential financial impact, we prepared an estimate of unbilled prorated fees. This estimate was based on the number of extensions, the number of licensees, the average length of extensions by license type, and the average value of calculated prorated fees by license type in the population of calculated prorated fees. The estimated value of uncollected prorated fees for the 479 extensions is approximately \$284,000. See the table below for more information.

License Type	Number of Extensions (Population of 353 Licenses)	Average Length of Extension (Population of 353)*	Average Length of Extension (Population of 161)**	Average Extension Value (Population of 161)	Estimated Fee (Value of Extension) (E) (AxD÷CxB)
	(A)	(B)	(C)	(D)	
Marijuana Cultivator	143	26.03	92.32	\$2,405.94	\$97,006.14
Marijuana Product Manufacturer	107	27.20	98.62	\$2,463.51	72,701.27
Marijuana Retailer	175	26.93	85.88	\$2,090.14	114,698.50
Other	54				
Total Licenses	<u>479</u>				
Total Estimated Fees					<u>\$284,405.91</u>

* This population represents extensions granted before the audit period.

** This population represents extensions that CCC identified during the audit period as cases where fees were (1) due and (2) either paid already or were not yet paid.

Authoritative Guidance

Section 76(j) of Chapter 10 of the General Laws states,

The commission shall appoint an executive director. The executive director shall serve at the pleasure of the commission, shall receive such salary as may be determined by the commission, and shall devote full time and attention to the duties of the office. The executive director shall be a person with skill and experience in management, shall be the executive and administrative head of the commission and shall be responsible for administering and enforcing the law relative to the commission and to each administrative unit thereof.

Regarding license terms, Section 6(a) of Chapter 94G of the General Laws states, “Unless the commission authorizes the renewal of a license for a longer period, all licenses under this chapter shall be effective for 1 year from the date of issuance.”

Section 500.103(4)(a) of Title 935 of the Code of Massachusetts Regulations states,

No later than 90 calendar days prior to the expiration date, a Marijuana Establishment shall submit a completed renewal application to the Commission in a form and manner determined by the Commission, as well as the required license fee.

Reasons for Issue

CCC management stated that no formal procedures for the administration of license extensions and prorated fees existed before the audit period. Additionally, CCC management stated that manual processing, limited staffing, and insufficient oversight contributed to the inconsistent administration of the prorated fee process. Plus, CCC lacked standardized tracking and billing for the prorated fee extensions.

Recommendations

1. CCC should improve its internal processes around the administration of prorated fees to ensure that all money owed to CCC, and therefore the Commonwealth, is collected appropriately, consistently, and equitably.
2. CCC should conduct a full reconciliation to identify the total population of all uncollected license extension fees.
3. CCC should implement a standardized procedure for administering license extensions to ensure equity and compliance with applicable regulations.
4. CCC should prioritize adequate staffing, oversight, and automation of the billing process for license extension fees.

APPENDIX

License Extensions Before the Audit Period

Table 1: Calculation of Average Number of Days per Extension by License Type*

License Type	Population of 161 License Extensions				Population of 479 License Extensions			
	Number of Extensions (A)	Number of Licenses (B)	Cumulative Days of Extensions (C)	Average Days of Extension [C÷A] (D)	Number of Extensions (E)	Number of Licenses (F)	Cumulative Days of Extensions (G)	Average Days of Extension [G÷E] (H)
Marijuana Cultivator	41	34	3,785	92.32	143	106	3,723	26.03
Marijuana Producer	34	28	3,353	98.62	107	81	2,910	27.20
Marijuana Retailer	60	46	5,153	85.88	175	135	4,713	26.93
Other	26	6	2,392		54	31	4,499	
Total	<u>161</u>	<u>114</u>	<u>14,683</u>		<u>479</u>	<u>353</u>	<u>15,845</u>	

* We calculated the results in this table by dividing the total number of days an extension lasted (organized by license type) by the number of extensions granted. This table provides the average number of days that a license, by type, was extended.

Table 2: Calculation of Average Prorated Fee by License Type*

License Type	Population of 161 License Extensions					
	Number of Extensions (A)	Number of Licenses (B)	Cumulative Annual Fees (C)	Average Annual Fee [C÷A] (D)	Average Days of Extension [Table 1] (E)	Average Prorated Fee [D÷365xE] (F)
Marijuana Cultivator	41	34	390,000	\$9,512.20	92.32	\$2,405.94
Marijuana Producer	34	28	310,000	\$9,117.65	98.62	\$2,463.51
Marijuana Retailer	60	46	533,000	\$8,883.33	85.88	\$2,090.14
Other	26	6	899,000			
Total	<u>161</u>	<u>114</u>	<u>2,132,000</u>			

* We calculated the results in this table by dividing the total number of annual fees (organized by license type) by the number of extensions granted. The resulting average annual fee was then divided by 365 and multiplied by the average number of days by which the license type was extended. This table provides the average prorated fee that a license, by type, would cost.

Table 3: Calculation of Potential Unbilled Prorated Fees Before the Audit Period*

License Type	Population of 479 License Extensions		Population of 161 License Extensions		Population of 479 License Extensions	Estimated Unbilled Fees [AxC÷DxE] (F)
	Number of Extensions (A)	Number of Licenses (B)	Average Prorated Fee [Table 2] (C)	Average Days of Extensions [Table 1] (D)	Average Days of Extensions [Table 1] (E)	
Marijuana Cultivator	143	106	\$2,405.94	92.32	26.03	\$97,006.14
Marijuana Producer	107	81	\$2,463.51	98.62	27.20	72,701.27
Marijuana Retailer	175	135	\$2,090.14	85.88	26.93	114,698.50
Other	54	31				
Total Extensions/Licenses	<u>479</u>	<u>353</u>				
Total Fees						<u>\$284,405.91</u>

* We calculated the results in this table by multiplying the number of extensions granted by the average prorated fee and dividing that result by the average number of days that a license type was extended. The result is the estimated unbilled prorated fee.

License Extensions During the Audit Period

Table 4: Calculation of Average Number of Days per Extension by License Type*

License Type	Population of 161 License Extensions				Population of 698 License Extensions			
	Number of Extensions (A)	Number of Licenses (B)	Cumulative Days of Extension (C)	Average Days of Extension [C÷A] (D)	Number of Extensions (E)	Number of Licenses (F)	Cumulative Days of Extension (G)	Average Days of Extension [G÷E] (H)
Marijuana Cultivator	41	34	3,785	92.32	171	96	4,370	25.56
Marijuana Producer	34	28	3,353	98.62	159	86	4,016	25.26
Marijuana Retailer	60	46	5,153	85.88	288	152	8,773	30.46
Other	26	6	2,392		80	39	1,866	
Total	<u>161</u>	<u>114</u>	<u>14,683</u>		<u>698</u>	<u>373</u>	<u>19,025</u>	

* We calculated the results in this table by dividing the total number of days an extension lasted (organized by license type) by the number of extensions granted. This table provides the average number of days that a license, by type, was extended.

Table 5: Calculation of Average Prorated Fee by License Type*

Population of 161 License Extensions						
License Type	Number of Extensions	Number of Licenses	Cumulative Annual Fees	Average Annual Fee [C÷A]	Average Days of Extension [Table 4]	Average Prorated Fee [D÷365xE]
	(A)	(B)	(C)	(D)	(E)	(F)
Marijuana Cultivator	41	34	390,000	\$9,512.20	92.32	\$2,405.94
Marijuana Producer	34	28	310,000	\$9,117.65	98.62	\$2,463.51
Marijuana Retailer	60	46	533,000	\$8,883.33	85.88	\$2,090.14
Other	26	6	899,000			
Total	<u>161</u>	<u>114</u>	<u>2,132,000</u>			

* We calculated the results in this table by dividing the total number of annual fees (organized by license type) by the number of extensions granted. The resulting average annual fee was then divided by 365 and multiplied by the average number of days by which the license type was extended. This table provides the average prorated fee that a license, by type, would cost.

Table 6: Calculation of Potential Unbilled Prorated Fees During the Audit Period*

License Type	Population of 698 License Extensions		Population of 161 License Extensions		Population of 698 License Extensions	
	Number of Extensions	Number of Licenses	Average Prorated Fee [Table 5]	Average Days of Extension [Table 4]	Average Days of Extension [Table 4]	Estimated Unbilled Fees [AxC÷DxE]
	(A)	(B)	(C)	(D)	(E)	(F)
Marijuana Cultivator	171	96	\$2,405.94	92.32	25.56	\$113,905.83
Marijuana Producer	159	86	\$2,463.51	98.62	25.26	100,327.46
Marijuana Retailer	288	152	\$2,090.14	85.88	30.46	213,503.86
Other	80	39				
Total Extensions/ Licenses	<u>698</u>	<u>373</u>				<u>\$427,737.15</u>
Estimated Fees Paid (42.5%)						-\$181,788.29
Estimated Fees Not Billed (57.5%)						\$245,948.86

* We calculated the results in this table by multiplying the number of extensions granted by the average prorated fee and dividing that result by the average number of days that a license type was extended. The result is the estimated unbilled prorated fee.