



# CANNABIS CONTROL AUTHORITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2023

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

Our audit of the Cannabis Control Authority (Authority) for the fiscal year ended June 30, 2023, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- matters involving internal control and its operation necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

In the section titled "Audit Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings. Those corrective actions may include additional items beyond our recommendations.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### **Develop Policies and Procedures for Significant Fiscal Processes**

**Type:** Internal Control

The Cannabis Control Authority (Authority) does not have documented policies and procedures that govern its significant fiscal processes. During the period under review, the Authority adopted the Department of Accounts' Commonwealth Accounting Policies and Procedures (CAPP) Manual provisions to govern its significant fiscal processes. CAPP Manual Topic 10305 states that agencies must identify their significant fiscal processes and document them using tools such as narratives, flowcharts, data diagrams, etc. Additionally, the CAPP Manual does not eliminate the need and requirement for each agency to publish its own internal policy and procedure documents, approved in writing by agency management.

We noted the following deviations from the CAPP Manual requirements:

- The Authority has not developed a receiving report to document the satisfactory receipt of goods, materials, equipment, and supplies as required by CAPP Manual Topic 20305. CAPP Manual Topic 20305 states that the receiving report format and method of implementation are at the agency's discretion; however, agencies must ensure that the following items of information, at a minimum, are included on receiving reports: date received, date receiving report was created, vendor name, purchase order or requisition number (if applicable), quantity and description of the item received, and authorized signature verifying that the items were received in good condition.
- The Authority did not retain documentation to demonstrate that it sought prior approval from the Comptroller for lodging rates that exceeded more than 50 percent of the United States General Services Administration's (GSA) guidelines for one of seven (14.3%) travel reimbursements tested. CAPP Manual Topic 20335 states that only the Comptroller or designee may grant exceptions for expenses over 50 percent of the GSA guidelines. Such approvals must be requested and granted prior to the travel and the approved request must be attached to the expense report.
- The Authority did not approve a travel reimbursement within five working days of receipt from the employee for one out of seven (14.3%) travel reimbursements tested. CAPP Manual Topic 20336 states that the agency's fiscal office should process travel reimbursements for payment within five working days after receipt from the employee.
- The Authority did not process payments for goods or services within 30 calendar days after receipt of the goods, services, or invoice, whichever is later, or due date specified

in the vendor's contract for 4 of 31 (12.9%) payment vouchers tested, as required by CAPP Manual Topic 20315.

- The Authority did not record capitalized assets, which have an expected useful life of greater than one year or \$5,000, in the Commonwealth's capital asset system as required by CAPP Manual Topic 30305.

During the period under review, hiring freezes limited the Authority's ability to fully staff its fiscal and human resource positions, and management was not able to devote the necessary resources to develop policies and procedures for its significant fiscal processes. Policies and procedures, which are approved by Authority management, establish clear expectations for how the Authority intends to maintain proper internal control. Authority management limits its ability to hold its employees accountable and operate in an effective and efficient manner without adopting its own policies and procedures. Therefore, Authority management should dedicate the necessary resources to document policies and procedures for its significant fiscal processes. Thereafter, Authority management should approve these policies and procedures and incorporate them into its operations.

#### **Establish Internal Controls to Comply with Employment Eligibility Requirements**

**Type:** Internal Control and Compliance

The Authority is not maintaining adequate internal control to comply with the United States Citizenship and Immigration Services' (Citizenship and Immigration Services) employment eligibility requirements. Citizenship and Immigration Services is an agency within the United States Department of Homeland Security (Homeland Security) that is responsible for establishing mechanisms, such as the Employment Eligibility Verification Form (I-9) and E-Verify, to ensure individuals are eligible to work in the United States. During our review of the employment records, we identified the following instances of noncompliance:

- Four out of the eight (50%) employees selected did not sign Section 1 of the I-9 form before their first day of employment. Chapter 3 of the U.S. Citizenship and Immigration Services' Handbook for Employers M-274 (Handbook) states that employees must complete Section 1 of the I-9 form no later than the employee's first day of employment.
- For two out of the eight (25%) employees selected, the Authority did not complete and sign Section 2 of the I-9 form within three business days after the employee's first day of employment. Chapter 4 of the Handbook requires employers to complete Section 2 of the I-9 form within three business days of the date employment begins.
- For one out of the eight (12.5%) employees selected, the Authority did not include the expiration date for an employee's driver's license in Section 2 of the I-9 form. Chapter 4 of the Handbook requires employers to enter the expiration date for the document used to verify the employee's identity in Section 2 of the I-9 form.

- For all eight employees selected (100%), the Authority did not use E-Verify to confirm the individual's employment eligibility. Section 40.1-11.2 of the Code of Virginia requires all agencies in the Commonwealth of Virginia to enroll in the E-Verify program.

During the period under review, the Authority was in its first year of existence and was subject to hiring freezes, which limited its ability to fully staff its fiscal and human resource positions. As a result, the individuals performing the employee onboarding function had limited knowledge of the employment eligibility requirements. Additionally, the Authority did not have the resources to develop and implement its own policies and procedures outlining how it intends to comply with the employment eligibility requirements. Not complying with federal requirements related to employment verification could result in civil and/or criminal penalties for both the employee and the employer and debarment from government contracts.

The Authority has since hired a team of human resource professionals who have training and experience with the employment eligibility requirements and have signed a Memorandum of Understanding with Homeland Security to participate in the E-Verify program. The Authority should adopt policies and procedures covering how it intends to comply with the employment eligibility requirements.

#### **Establish Internal Controls over Retirement Benefits System Reconciliations**

**Type:** Internal Control

The Authority is not sufficiently reconciling creditable compensation in the Commonwealth's retirement benefits system before confirming to the Virginia Retirement System that retirement data is correct. As a result, the Authority did not identify that the creditable compensation reported in the Commonwealth's retirement benefits system was five percent higher than the authorized salary in the Commonwealth's human resource and payroll management system for six of the ten (60%) eligible Authority employees as of the end of the period under review. The Authority was limited in its ability to fully staff its fiscal and human resource positions during the period under review because of hiring freezes. As a result, the Authority only reconciled creditable compensation at a summary level and did not have the resources to develop formal policies and procedures for reconciling creditable compensation at an employee level.

CAPP Manual Topic 50470 stipulates that agencies must reconcile creditable compensation for eligible employees in the Commonwealth's retirement benefits system to the Commonwealth's human resource and payroll management system monthly. Insufficient reconciliation processes can affect the integrity of the information in the Commonwealth's retirement benefits system and can lead to an employee accruing or receiving more post-employment benefits than authorized. The Authority should develop policies and procedures for reconciling creditable compensation in the Commonwealth's retirement benefits system that align with CAPP Manual Topic 50470 and perform the processes outlined in its policies and procedures prior to confirming to the Virginia Retirement System that the retirement data is correct.

## AGENCY HIGHLIGHTS

The Cannabis Control Act (§ 4.1-600 et seq. of the Code of Virginia) created the Virginia Cannabis Control Authority (Authority) in 2022, with limited operations beginning during fiscal year 2022. The Authority is an independent political subdivision of the Commonwealth, and its mission is to promote public safety, advance public health, and protect communities through effective medical cannabis oversight and balanced and inclusive cannabis regulation, policy, and education. The Cannabis Control Act requires that the Auditor of Public Accounts audit the Authority's annual financial statements. Due to limited activity, the Authority has not prepared financial statements yet. Therefore, we performed an audit over their financial activity in the Commonwealth's accounting and financial reporting system.

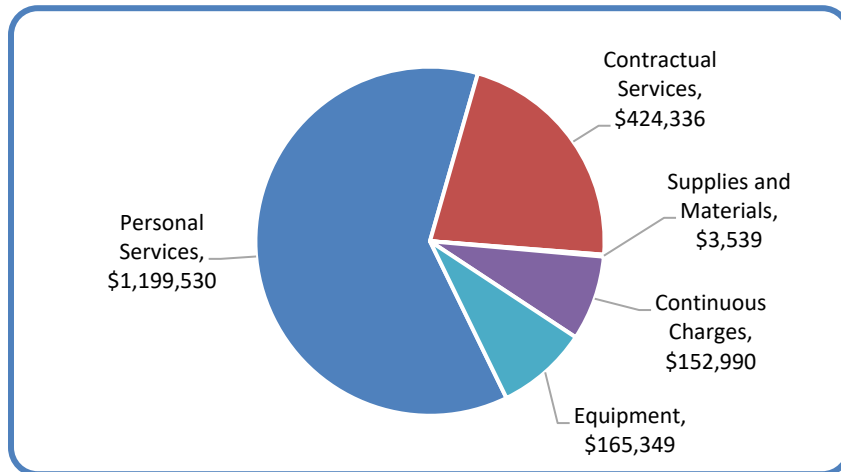
A five-member Board of Directors governs the Authority's operations. Board members are Commonwealth citizens who are appointed by the Governor and confirmed by the General Assembly. During fiscal year 2023, the Authority employed 13 individuals to support its operations, of which one position was responsible for fiscal and human resource operations. The Authority's leadership team consists of a Chief Executive Officer, Chief Administrative Officer, and Chief Officer of Regulatory, Policy, and External Affairs. The Authority has a maximum employment level of 37 positions but was unable to fill all positions during the period under review because of hiring freezes.

The Authority's total operational budget for fiscal year 2023 was \$8.8 million in general funds. The Authority ended the fiscal year with \$1.9 million in expenses, which is significantly lower than the amount budgeted and is due to hiring freezes and the Authority continuing to establish its infrastructure and administrative functions.

As shown in Chart 1 below, personal services accounted for approximately \$1.2 million (63%) of the Authority's fiscal year 2023 expenses. The remaining expenses consist primarily of building rental, information technology equipment and professional services, consulting and media services, and reimbursements for travel and training. The Authority incurred these expenses to furnish its office space, launch a safe driving campaign to warn citizens of the dangers of cannabis-impaired driving, provide outreach efforts to introduce the Commonwealth's communities to the Authority and solicit feedback from them, deliver presentations to various professional groups, and to develop and implement the Authority's website and social media presence.

## Operational Expenses by Type for Fiscal Year 2023

Chart 1



Source: Commonwealth accounting and financial reporting system





# Commonwealth of Virginia

## Auditor of Public Accounts

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

December 20, 2024

The Honorable Glenn Youngkin  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Jeremy Preiss, Acting Chief Executive Officer  
Cannabis Control Authority

We have audited the financial records and operations of the **Cannabis Control Authority** (Authority) for the year ended June 30, 2023. 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.

### **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, review the adequacy of the Authority's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

### **Audit Scope and Methodology**

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Capital assets  
Human resources  
Operational expenses  
Payroll  
System access

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Authority's operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

### **Conclusions**

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section titled "Audit Findings and Recommendations."

### **Exit Conference and Report Distribution**

We discussed this report with management on March 4, 2025. Management's response to the findings identified in our audit is included in the section titled "Authority Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, the Authority's Board of Directors, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

DBC:clj

## FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Develop Policies and Procedures for Significant Fiscal Processes	Ongoing	2023
Establish Internal Controls to Comply with Employment Eligibility Requirements	Ongoing	2023
Establish Internal Controls over Retirement Benefits System Reconciliations	Ongoing	2023

\* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



March 14, 2025

Ms. Staci A. Henshaw, CPA  
The Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Henshaw,

Thank you for the opportunity to respond to the first annual audit of the Virginia Cannabis Control Authority (CCA) for the year ending June 30, 2023. CCA has reviewed the Audit Findings and Recommendations provided by the Auditor of Public Accounts (APA); we agree, in concept, with each of the three findings submitted. We appreciate the APA's recognition that the CCA began initial operations shortly before the period under review and lacked staff and faced challenges in hiring staff to meet all required processes during much of the time under review.

The authority has begun or, in some cases, already completed the necessary steps to address the issues identified in the report. We will keep all necessary parties advised on our progress in addressing the findings. The CCA will also submit a formal Corrective Action Workplan within thirty days, as required by CAPP Manual Section 10205.

The CCA is committed to continuous improvement and thanks the APA for its assistance during our review.

Sincerely,

A handwritten signature in black ink, appearing to read "J. O. Preiss".

Jeremy O. Preiss  
Acting Head

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