



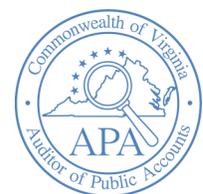
CANNABIS CONTROL AUTHORITY

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2024, AND JUNE 30, 2025

Auditor of Public Accounts
Staci A. Henshaw, CPA
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AUDIT SUMMARY

Our audit of the Cannabis Control Authority (Authority) for the fiscal years ended June 30, 2024, and June 30, 2025, 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;
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to prior audit findings identified as complete in the [Findings Summary](#) included in the Appendix.

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 and Compliance

First Reported: Fiscal Year 2023

The Cannabis Control Authority (Authority) continues to develop policies and procedures for its significant fiscal processes. Since the prior audit, the Authority hired additional finance personnel, identified its significant fiscal processes, and developed policies and procedures for its accounts payable, capital assets, human resources, information system security, and payroll processes. However, the Authority has not fully developed policies and procedures over its contract procurement and management processes.

Due to the extent of the necessary corrective actions, the Authority was not able to complete corrective action for all of its significant fiscal processes. The Authority adopted the Alcoholic Beverage Control Authority's contract procurement and management policies and procedures to govern its contract procurement and management processes. However, the Authority has not updated its Contract Procurement and Management Guidelines Manual (Guidelines Manual) to reflect its current operations. In several instances, the Guidelines Manual still references the Alcoholic Beverage Control Authority and includes references to related documents that do not exist or apply to the Authority. Additionally, the summary of procurement thresholds outlined in the Guidelines Manual does not align with the thresholds approved by the Authority's Board of Directors. Specifically, the Guidelines Manual states that purchases up to \$10,000 follow the single quote policy; however, the Authority's Board of Directors increased this threshold to \$50,000 in May 2022.

Section 4.1-604 of the Code of Virginia states that the Authority, through the powers of its Board of Directors, is responsible for developing policies and procedures generally applicable to the procurement of goods, services, and construction, based on competitive principles. As an independent state agency, the Authority is given discretion to develop its own policies and procedures over its significant fiscal processes through the Code of Virginia. Policies and procedures, which are approved by Authority management, establish clear expectations for how the Authority intends to maintain proper internal control over its significant fiscal processes. 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 for all of its significant fiscal processes. Therefore, the Authority should continue its efforts to develop written policies and procedures for all of its significant fiscal processes.

Establish Internal Controls to Comply with Employment Eligibility Requirements

Type: Internal Control and Compliance

First Reported: Fiscal Year 2023

The Authority continues to strengthen its internal controls to comply with the United States Citizenship and Immigration Services' (Citizenship and Immigration Services) employment eligibility requirements. In response to the prior year's audit recommendation, the Authority hired human resource professionals with training and experience with employment eligibility requirements and

signed a Memorandum of Understanding with the United States Department of Homeland Security (Homeland Security) in July 2024 to participate in the e-Verify program. However, we identified the following instances of non-compliance during our review of the Authority's employment records for individuals hired between July 2023 and March 2025:

- The Authority did not complete all parts of Section 2 of the Employment Eligibility Verification Form (I-9) within three business days after the employees' first day of employment for three out of the eight (37.5%) employees selected. Chapter 4 of the U.S. Citizenship and Immigration Services' Handbook for Employers M-274 (Handbook) requires employers to complete Section 2 of the I-9 form within three business days of the date employment begins.
- The Authority did not confirm that the employee signed Section 1 of the I-9 form on or before their first day of employment for one out of the eight (12.5%) employees selected. Chapter 3 of the Handbook states that employees must complete Section 1 of the I-9 form no later than the employee's first day of employment.
- The Authority did not confirm that the employee's information, including their first name, last name, and employer's business or organization name, reported in Section 1 of the I-9 form matched Section 2 for one out of the eight (12.5%) employees selected, as required by Chapter 4 of the July 2023 Handbook. To avoid redundancies and reduce errors, Homeland Security removed the first name, last name, and employer's business or organization name from Section 2 in its August 2023 release of the I-9 form. Employers began using the August 2023 release of the I-9 form in November 2023.

The Authority did not identify these instances of non-compliance during the normal course of its operations because it did not have a formal policy and procedure and/or compliance monitoring checklist outlining critical employment eligibility requirements. Not complying with federal requirements related to employment eligibility could result in civil and/or criminal penalties for both the employee and the employer and debarment from government contracts. Therefore, the Authority should continue to strengthen its internal controls over employment eligibility requirements by establishing a formal policy and procedure and/or compliance monitoring checklist to prevent and detect future instances of non-compliance.

Strengthen Internal Controls over Reporting of Subscription Based Information Technology Arrangements

Type: Internal Control

The Authority did not report certain Subscription Based Information Technology Arrangements (SBITA) in the Commonwealth's lease accounting system. Between July 2023 and March 2025, the Authority incurred approximately \$460,000 in expenses from seven SBITAs. Of the four SBITAs tested, which constitute 95 percent of the SBITA expenses, the Authority did not properly report three (75%) SBITAs totaling \$396,000 in the lease accounting system.

The Authority did not properly report these SBITAs in the lease accounting system because it did not inventory all requirements in Governmental Accounting Standards Board (GASB) Statement No. 96 and ensure they were included in its SBITA policies and procedures. Additionally, the Authority's Finance Division did not fully understand the nature of the SBITAs because it did not review the contract terms and conditions with the Authority's Information Technology Division. Without adequate policies and procedures, there is an increased risk that the Authority will not properly report SBITAs in the lease accounting system accurately.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 96 prescribes the applicable accounting standards surrounding the proper accounting and financial reporting for SBITAs, and the Department of Accounts' Commonwealth Accounting Policies and Procedures Manual Topic 31205 requires all agencies to follow guidelines as required by the GASB Statement and states that the Commonwealth's lease accounting system users should review the specific requirements of those statements. Therefore, the Authority should strengthen its internal controls over SBITA reporting by updating its policies and procedures to consider all GASB Statement No. 96 requirements and ensuring Finance personnel adequately understand the nature of the SBITAs to confirm proper reporting in the lease accounting system.

AUTHORITY HIGHLIGHTS

The Cannabis Control Authority (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 Virginia Cannabis Control Act requires that the Auditor of Public Accounts audit the Authority's annual financial statements. However, the Authority has not prepared financial statements yet since the Commonwealth has not created an adult-use retail market for cannabis sales and as a result has not engaged in any activities that are subject to the financial reporting requirements in the Virginia Cannabis Control Act.

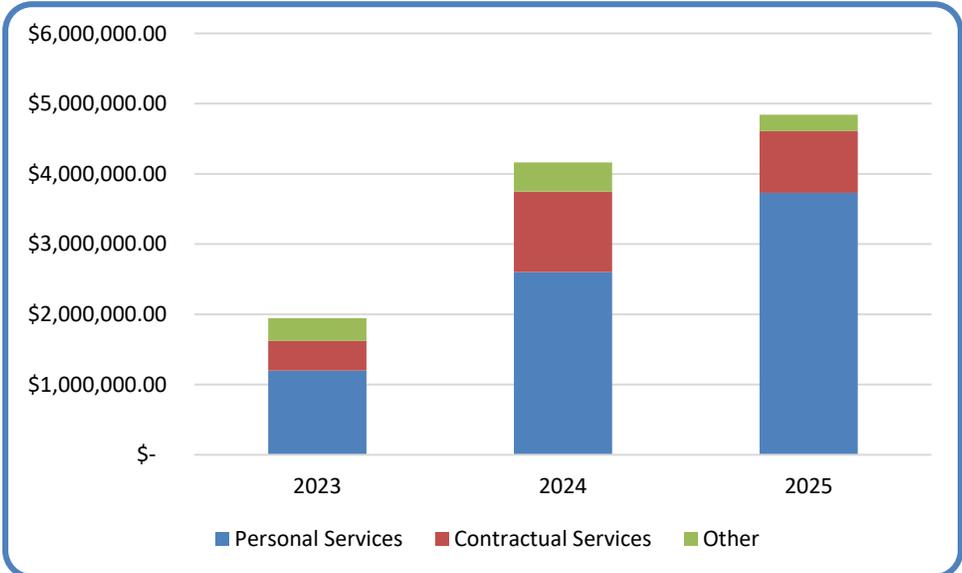
A five-member Board of Directors governs the Authority's operations. Board members are Commonwealth citizens who are appointed by the Governor and confirmed by the General Assembly. The Authority's leadership team consists of a Chief Executive Officer, Chief Administrative Officer, Chief Officer of Regulatory, Policy, and External Affairs, Human Resources Director, Information Technology Director, and Finance Director.

The Authority employed 25 individuals as of June 30, 2025, to support its operations, which represents a 92 percent increase in employment from the end of fiscal year 2023. During fiscal years 2024 and 2025, the Authority hired finance, human resources, and information technology personnel to support its administrative operations. Additionally, the Authority hired compliance and programmatic staff to support its administration and oversight of the Commonwealth's medical cannabis program. The Authority assumed responsibility for the Commonwealth's medical cannabis program from the Board of Pharmacy effective January 1, 2024.

As shown in Chart 1, below, personal services account for most of the Authority's fiscal year 2024 and 2025 expenses. However, the Authority also experienced a significant increase in its contractual services expenses in these fiscal years. This increase is attributed to the Authority engaging a contractor to launch a multimedia safe driving campaign to raise awareness about the dangers of driving while under the influence of cannabis and encourage behavioral change. Further, the Authority entered into contractual arrangements to procure new seed-to-sale and licensing systems to support its administration of the Commonwealth's medical cannabis program.

**Operational Expenses by Type
Fiscal Years 2023, 2024, and 2025**

Chart1



Source: Commonwealth accounting and financial reporting system

The Authority uses licensing, product registration, and application fees from the Commonwealth’s medical cannabis program to offset administrative expenses. The Authority collected approximately \$1.8 million in fiscal year 2024 and \$2 million in fiscal year 2025 as part of its administration of the Commonwealth’s medical cannabis program. The remainder of operations is funded with general funds.



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 29, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Directors
Cannabis Control Authority

Jamie Patten, Acting Chief Executive Officer
and Chief Administrative Officer
Cannabis Control Authority

We have audited the financial records and operations of the **Cannabis Control Authority** (Authority) for the years ended June 30, 2024, and June 30, 2025. 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; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from the prior year's report. See the [Findings Summary](#) included in the Appendix for a listing of prior year findings and the status of follow-up on management's corrective action.

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
- Contract procurement and management
- Human resources
- Medical cannabis program revenues and compliance
- Operational expenses
- Payroll
- System access controls

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.”

The Authority has taken adequate corrective action with respect to the audit finding reported in the prior year that is not repeated in this report.

Exit Conference and Report Distribution

We discussed this report with management on December 19, 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

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FINDINGS SUMMARY

| Finding Title | Status of Corrective Action* | First Reported for Fiscal Year |
|---|------------------------------|--------------------------------|
| Establish Internal Controls over Retirement Benefits System Reconciliations | Complete | 2023 |
| Develop Policies and Procedures for Significant Fiscal Processes | Ongoing | 2023 |
| Establish Internal Controls to Comply with Employment Eligibility Requirements | Ongoing | 2023 |
| Strengthen Internal Controls over Reporting of Subscription Based Information Technology Arrangements | Ongoing | 2024 |

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



December 19, 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 audit of the Virginia Cannabis Control Authority (CCA), for the years ended June 30, 2024, and June 30, 2025. CCA has reviewed the Audit Findings and Recommendations provided by the Auditor of Public Accounts and agrees, in principle, with all three of the findings submitted. The CCA values the feedback of the Auditor of Public Accounts.

The authority has, in most cases, already completed the necessary steps to address the areas identified in your 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 remains committed to continuous improvement and thanks the APA for their assistance during our review.

Sincerely,

A handwritten signature in black ink that reads "JCA". The letters are stylized and connected.

Jamie C. Patten
Acting Head

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