



COLORADO
Department of Revenue
Executive Director's Office

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November 8, 2024

Kerri L. Hunter, CPA, CFE
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Hunter:

In response to your request, we have prepared the attached status report on the implementation status of audit recommendations contained in the Marijuana Enforcement Division performance audit. The report provides a brief explanation of the actions taken by the Department of Revenue to implement each recommendation.

The Department appreciates the work of the Office of the State Auditor (OSA) in identifying opportunities for improvement in terms of policy, procedure, and documentation. Following the issuance of the report the Department began implementing the recommendations and has met all target implementation timelines to date. Please also note that one of the OSA's recommendations has a future implementation date that the Department remains on track to complete.

If you have any questions about this status report and the Department of Revenue's efforts to implement the audit recommendations, please contact Kyle Lambert at 720-648-8538 or kyle.lambert@state.co.us.

Sincerely,

Heidi
Humphreys

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Humphreys
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Heidi Humphreys
Executive Director, Department of Revenue

Audit Recommendation Status Report

Audit Name:	Marijuana Enforcement Division
Audit Number:	2255P
Agency:	Department of Revenue
Date of Status Report:	November 8, 2024

Section I: Summary

Rec. Number	Response from Audit Report	Original Implementation Date	Current Implementation Status	Current Implementation Date
1A	Agree	July 2024	Implemented	July 2024
1B	Agree	July 2024	Implemented	July 2024
2A	Agree	January 2025	Implemented	October 2024
2B	Agree	July 2024	Implemented	July 2024
2C	Agree	June 2026	Partially Implemented	June 2026
3	Agree	January 2024	Implemented	January 2024

Section II: Narrative Detail

Recommendation 1A

The Marijuana Enforcement Division (Division) should improve its retail marijuana store inspections process and ensure that it effectively prioritizes stores for on-site inspections based on risk. This should include:

A. Modifying the targeted inspection reports to include information on which newly licensed stores are operational, and modifying the targeted inspection and underage compliance check reports to include data on risk factors that indicate if a store should be considered high-risk.

Current Implementation Status	Implemented
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Current Implementation Date	July 2024
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Status Update Narrative	The Division has updated the monthly reports sent from the Data Analytics Team to its Field Office Supervisors to include insights on whether the business is operational and include risk factors to indicate high risk. The modifications included the addition of the last sales date and last transfer date to articulate whether the business is operational. In addition, risk factor columns regarding the last touch point with the license and for the production management tab the volume of potential non-compliance were added to help determine risk. In addition, the queries that pull the reports include risk factors that inform a license being added to the list to include previous history of large quantity sales and active inventory thresholds that have been added per policy.
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Recommendation 1B

The Marijuana Enforcement Division (Division) should improve its retail marijuana store inspections process and ensure that it effectively prioritizes stores for on-site inspections based on risk. This should include:

B. Developing and implementing a policy and procedure for regional offices on (i) how to utilize monthly targeted inspections and underage compliance check reports to prioritize inspections and (ii) how investigators should take into account all the risk factors and time requirements when deciding which businesses are a priority.

Current Implementation Status	Implemented
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Current Implementation Date	July 2024
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Status Update Narrative	Division leadership engaged and collaborated with investigations staff to develop a new policy for using the monthly report that was modified as a part of recommendation 1A. This policy provides direction and expectations for utilizing the report and the risk factors and time requirements that would determine priority. The report has three parts that contribute to preventing youth access efforts and within the policy, the risk factors and
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	prioritization criteria are clearly stated. In addition, procedures for the different inspections were amended to reflect any necessary changes to align with the policy.
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Recommendation 2A

The Marijuana Enforcement Division (Division) should ensure that it regulates Colorado's retail marijuana industry in a consistent and transparent manner by:

A. Working with the State Licensing Authority (i.e., Executive Director of the Department of Revenue) to revise rules so they (i) clearly specify which violations are considered to be the highest severity, and (ii) reference violations that are not appropriate to resolve with a verbal or written warning.

Current Implementation Status	Implemented
Current Implementation Date	Final Rules adopted October 2024 and will take effect December 2024.
Status Update Narrative	The Division initiated permanent rulemaking on August 15, 2024. The permanent rulemaking process included holding a public stakeholder meeting dedicated to discussing rule revisions specifying which violations are considered to be the highest severity and clearly specifying which violations are not appropriate to resolve with a verbal or written warning. The final rulemaking hearing was held on October 1, 2024. The State Licensing Authority adopted final rules on October 11, which will become effective December 4, 2024.

Recommendation 2B

The Marijuana Enforcement Division (Division) should ensure that it regulates Colorado's retail marijuana industry in a consistent and transparent manner by:

B. Revising Division policy to (i) specify which violations are considered to be the highest severity versus other types of violations that may warrant a broader range of actions informed by aggravating and mitigating factors, (ii) specify which types of violations would not be appropriate to address through a verbal or written warning, and (iii) provide guidance on how Division investigators should identify and assess mitigating or aggravating factors that could influence which disciplinary action to recommend.

Current Implementation Status	Implemented
Current Implementation Date	July 2024
Status Update Narrative	The Division implemented this recommendation by modifying an existing Business Inspection policy that now more clearly identifies the highest severity violations, including those violations that shall not be resolved through non-disciplinary approaches, and how investigators should assess mitigating and aggravating factors to inform resolution.

Recommendation 2C

The Marijuana Enforcement Division (Division) should ensure that it regulates Colorado's retail marijuana industry in a consistent and transparent manner by:

C. Including in its Request for Proposals that the Division's new licensing system be programmed with the capability to store and report data related to specific violation types that are substantiated through Division investigations, and incorporating this functionality in the new system if deemed available and cost-effective.

Current Implementation Status	Partially Implemented
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Current Implementation Date	June 2026
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Status Update Narrative	The Department of Revenue has published the Invitation to Negotiate (ITN) which was determined to be the best procurement vehicle for the new licensing database and case management system. There is language included in the ITN that references the desire for the ability to track and report on custom data elements created for business purposes, enabling comprehensive analysis and tailored reporting capabilities specific to the organization. This capability will continue to be pursued and tracked through the contract negotiation and system implementation processes.
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Recommendation 3

The Department of Revenue (Department) should ensure that it complies with state procurement requirements when procuring the Marijuana Enforcement Division's (Division) seed-to-sale inventory tracking system by revising its purchasing guidance to explain how staff should determine when a sole source procurement is appropriate, what information is needed to support that decision, and what information should be documented in sole source justifications.

Current Implementation Status	Implemented
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Current Implementation Date	January 2024
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Status Update Narrative	The Department has completed revisions to its purchasing guidance for sole source procurements. The Division has amended rules to allow for broader consideration of track and trace technology beyond RFID and DOR plans to publish a competitive solicitation for an inventory tracking system later this fiscal year.
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