



Office of the  
Washington  
State Auditor  
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# PERFORMANCE AUDIT

## Report Highlights

# Evaluating Washington State Oversight of the Cannabis Industry: Follow-up issues

The Washington State Liquor and Cannabis Board (LCB) is responsible for ensuring a well-regulated cannabis market. The regulations it enforces have three essential goals: prevent diversion to illegal distribution, ensure products are safe and collect taxes. The agency takes multiple steps to minimize the risks posed by illegal or unsafe activities in the cannabis industry. Its enforcement and education division staff conduct inspections of licensees and follow up on complaints the agency receives from the public. Its finance division audit team conducts revenue audits, including audits of cannabis licensees to confirm they have paid all necessary taxes. Both teams are supported by data specialists.

Our 2018 performance audit recommended that LCB use its cannabis tracking system for a data-driven, automated approach to enforcement. However, when we prepared to conduct a follow-up audit to see how the agency fared at implementing our recommendations, we learned that it currently lacks a data tracking system that easily and reliably tracks cannabis products. For these reasons, this audit sought to find out why and what LCB does instead to identify risky transactions and prioritize its activities.

## Historical project management problems, compounded by leadership turnover, left LCB with less effective data tools to manage risk

Today's LCB leaders inherited historical problems in project management, following significant turnover in multiple essential roles since our 2018 performance audit, but are making strides to improve. Our 2018 audit concluded with recommendations that LCB maximize the analytical value of its cannabis data-tracking system; agency managers in charge at the time said LCB's new tracking system, LEAF, would have these capabilities. The agency launched LEAF in 2018, but it ultimately failed due to project management and vendor issues. After deeming LEAF too unreliable, LCB deployed

a stopgap data reporting system known as CCRS (the Cannabis Central Reporting System) in 2021, which had its own significant limitations. For example, enforcement officers lack real-time tracking information, and limited data input protections mean the agency relies heavily on licensees to report accurate and complete information. Additionally, licensees cannot easily access or correct their data after they upload it, and the lack of a single identification number makes it difficult to track products for quick product recalls.

LCB's agencywide project to replace legacy information technology (IT) systems has taken priority over replacing CCRS, delaying full implementation until 2031. Continuing to address project management issues will help ensure future project success.

## **LCB has made improvements to its enforcement processes, but is still limited in its ability to efficiently address risks**

LCB improved how it prioritizes enforcement, but additional alerts and updating policies can further their efforts. Recent steps such as regularly conducting proactive “premises checks” and updating processes to triage complaints have helped LCB more strategically address risks. Additionally, LCB implemented some automated alerts, but they do not fully address the previous performance audit's recommendations. Enforcement efforts were also limited by reduced staffing.

## **State Auditor's Conclusions**

When Washingtonians authorized growing and selling cannabis for recreational purposes in 2012, they did so through an initiative that also promised tight control of a newly legal market. In 2018, we found that a robust, computerized tracking system then under development would allow the Washington State Liquor and Cannabis Board (LCB) to track any plant or product, ensure licensee compliance, and prevent diversion to the illegal market.

With the present audit, however, we discovered that the cannabis tracking system subsequently failed. Facing the need to replace other aging information technology systems, LCB does not expect to fully implement a more efficient tracking system until 2031 – nearly 20 years after the legal recreational cannabis market was authorized by voters.

In my view, this performance audit offers two important benefits. First, we do make recommendations intended to help LCB make the best use of the tracking tools at its disposal today.

Second, this report serves as an important status update to elected leaders, including legislators and the governor. A robust, “seed-to-sale” tracking system has been under development for 12 years but has yet to be fully realized. The recreational cannabis market has changed throughout those years. At this time, I believe this report can serve as an important framework through which state leaders can engage with LCB to establish clear goals for ensuring accountability in our modern recreational cannabis system.

## **Recommendations**

We made a series of recommendations to LCB to help it improve licensee data, ensure likelihood of future project success through addressing project management issues, and improve its efforts to prioritize and tend to risks in cannabis transactions.