August 27, 2025

Massachusetts Cannabis Control Commission

Accounts Receivable and Collections

Performance Audit

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Independent Auditors' Report

Commissioners and Members of Management
Massachusetts Cannabis Control Commission

This report represents the results of the performance audit of accounts receivable and collections of the Massachusetts Cannabis Control Commission (the Commission) related to pro-rated license extensions and provisional licenses that were administered by the Commission from August 2022 through June 2024.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the American Institute of Certified Public Accountants (AICPA) standards for attestation engagements. The performance audit did not include an assessment of the sufficiency of internal control over financial reporting or other matters not specifically outlined in the enclosed report.

CliftonLarsonAllen LLP's (CLA) cautions that projecting the results of our performance audit to future periods is subject to the risks that conditions may have materially changed from their current state. The information included in the report was obtained from the Commission on or before August 27, 2025. We have no obligation to update our report or revise the findings contained therein to reflect events and transactions occurring subsequent to the report date.

CLA's policy requires that we obtain a management representation letter associated with the issuance of a performance audit citing GAGAS. We obtained a signed management representation letter from the Commission on September 23, 2025.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Boston, Massachusetts

August 27, 2025

Background and Introduction

<u>Background</u>
Chapter 55 of the Acts of 2017 of the 194th General Court of the Commonwealth of Massachusetts (Commonwealth) established the Massachusetts Cannabis Control Commission (Commission). The mission of the Commission is to implement and administer the laws enabling access to marijuana in the Commonwealth.

In accordance with Chapter 55 of the Acts of 2017, the Commission's responsibilities include the following:

- Determine which organizations shall be awarded licenses related to medical and adult use marijuana
- Establish a registration process, based on finding of suitability or approval of licensure
- Collect fees
- Adopt regulations for the administration, clarification and enforcement of laws regulating and licensing marijuana establishments. The regulations shall include:
    - Methods and forms of application which an applicant for a license shall follow and complete
    - A schedule of application, license and renewal fees in an amount necessary to pay for all regulation and enforcement costs of the Commission
    - Requirements for the information to be furnished by an applicant or licensee
    - Criteria for evaluation of the application for a license

<u>Key Definitions</u>

- **Pro-rated license extensions and pro-rated license extension fees:** All licenses granted by the Commission are effective for one year. Section 6 of Chapter 94G of the Massachusetts General Laws allows the Commission to authorize the renewal of a license for a longer period. A pro-rated license extension is the extending of a license for a period of time up to a maximum of 600 days. A pro-rated license extension fee is the pro-rated fee charged to the licensee whose license is being extended for a prorated period.

- **Provisional license:** A license issued by the Commission confirming that a marijuana establishment has completed the application process and satisfied the qualifications for initial licensure.

<u>Office of the Inspector General Investigation</u>
The Commonwealth's Office of the Inspector General (OIG) received a hotline complaint in July 2024 alleging that the Commission was failing to collect required fees. In response, the OIG conducted an investigation and issued a letter dated March 27, 2025 summarizing its investigation and findings (see the **Appendix**).

The following is a summary of the OIG's findings:

1. Commission staff members granted license extensions prior to the commission granting the staff the authority to do so.
2. Commission staff failed to implement the actions required by the commission's August 11, 2022 vote regarding license extensions and prorated fees.
3. The Commission's licensing platform lacked the necessary controls to collect prorated and provisional license fees.
4. The Commission staff lacked supervision and accountability.

The OIG's recommendations to the Commission included the following:

- Conduct an audit of all accounts receivable and collect any outstanding money owed
- Conduct an audit to confirm that CCC leadership or staff did not waive or discount any fees without the delegated authority to do so
- Conduct an audit to ensure that the CCC properly handles its accounts receivable, aging, and write-off procedures consistent with the policies and regulations of the Commonwealth's Office of the Comptroller

In response to the OIG's recommendations, the Commission issued a solicitation, referred to as a Statement of Work (SOW), inviting organizations to submit proposals to conduct an audit of the Commission. The SOW's scope of services stated the following:

1. The audit engagement includes an audit of the Commission's Accounts Receivable, including fee calculation, billing and collection activities, as they relate to 163 pro-rated license fee extensions that were granted during the period beginning of 8/2022 and ending 6/2024. The audit will review the billing and collection activities that the Commission has undertaken to collect the debt owed related to the licensing extensions, including policies and regulations for aging and write-off of debt consistent with the policies of the Commonwealth's Office of the Comptroller.

2. The audit engagement includes an audit of Provisional Licenses approved during the audit period beginning 8/2022 and ending 6/2024 to ensure Provisional License fees were collected as required under 935-CMR-500.103(e); no provisional license fees were waived or discounted by Commission Leadership or staff; and opine on whether the Commission is required to bill and collect a provisional license fee to approved provisional license applicants that choose not to continue their pursuit of a provisional license.

   Note: "CMR" refers to Code of Massachusetts Regulations.

3. Develop and/or validate corrective action plan implemented by the Commission once the uncollected fees were discovered.

This performance audit report is the result of the Commission's SOW for audit services.

<u>Additional Context</u>
The Commonwealth's Office of the State Auditor (OSA) has also recently conducted a performance audit of the Commission. The scope of the OSA's audit included limited elements of the audit scope referred to above. The majority of the scope of the OSA's audit related to objectives and procedures that were outside of the audit scope of the SOW referred to above (i.e. outside the scope of this performance audit).

The OSA's audit report can be found at https://www.mass.gov/doc/audit-report-cannabis-control-commission/download. As it relates to the audit scope of the SOW referred to above, the OSA's audit report found that the Commission mismanaged prorated fees for license extensions, similar to the findings of the OIG investigation.

Audit Objectives and Methodology/Procedures

Audit Objectives
The objective of our performance audit was to obtain a reasonable basis for our findings and conclusions. Our audit was conducted in accordance with the standards for performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit included tests of the Commission's records and other procedures we considered necessary to obtain a reasonable basis for our findings and conclusions.

We developed our audit methodology based on the following audit objectives:

1. Determine if Commission's leadership or staff did not waive or discount any fees without delegated authority to do so

2. Determine if the Commission properly handled its accounts receivable, aging, and write-off procedures consistent with the policies and regulations of the Commonwealth's Office of the Comptroller

3. As it relates to pro-rated license fee extensions granted during the period beginning August 2022 and ending June 2024, review the billing and collection activities that the Commission has undertaken to collect the debt owed related to the licensing extensions, including policies and regulations for aging and write-off of debt consistent with the policies of the Commonwealth's Office of the Comptroller

4. As it relates to provisional licenses approved during the period beginning August 2022 and ending June 2024:

    - Determine provisional license fees were collected as required under 935-CMR-500.103(e)
    - No provisional license fees were waived or discounted by Commission leadership or staff
    - Opine on whether the Commission is required to bill and collect a provisional license fee to approved provisional license applicants that choose not to continue their pursuit of a provisional license

5. Develop and/or validate corrective action plan implemented by the Commission once uncollected fees were discovered

Methodology/Procedures
Our methodology, which was designed to meet the objectives referred to above, is summarized as follows:

Pro-Rated Licenses
Based on the Commission's audit SOW, there were 163 pro-rated license fee extensions granted during the period from August 2022 through June 2024. We tested a sample of sixty (60) pro-rated license fee extensions. The tests were designed to:

- Determine if the licensing fee charged was in accordance with the Commission's fee schedule and any applicable Policies and Procedures

- Determine if the fee was billed/invoiced in accordance with applicable Policies and Procedures

- Determine if the initial billing of the fee was recorded and reported as Accounts Receivable in accordance with applicable Policies and Procedures

- Determine if payments of fees are supported by documentation of the payments, determine that Accounts Receivable was properly updated to reflect the payments, and that the process for recording and reporting the payment (including updating Accounts Receivable) were in accordance with applicable Policies and Procedures

- Determine if collection procedures for older/aged receivables were in accordance with applicable Policies and Procedures

- Determine if any write-offs of Accounts Receivable were in accordance with applicable Policies and Procedures

- Determine if any fees were discounted or waived and if so, determine if there was delegated authority to do so and that any discounting or waiving of fees were in accordance with applicable Policies and Procedures

- Determine the accuracy of amounts reported in the Commission's Accounts Receivable report as of June 2024

Provisional Licenses
Based on the Commission's audit SOW (and a "Question and Answer" process associated with the SOW), there were 259 provisional licenses approved (of which 165 were issued) during the period from August 2022 through June 2024. We tested a sample of sixty (60) provisional license approvals. The tests were designed to:

- Determine if provisional license fees were collected as required under 935-cmr-500.103(e)

- Determine if the licensing fee charged was in accordance with the Commission's fee schedule and any applicable Policies and Procedures

- Determine if the fee was billed/invoiced in accordance with applicable Policies and Procedures

- Determine if the initial billing of the fee was recorded and reported as Accounts Receivable in accordance with applicable Policies and Procedures

- Determine if payments of fees are supported by documentation of the payments, determine that Accounts Receivable was properly updated to reflect the payments, and that the process for recording and reporting the payment (including updating Accounts Receivable) were in accordance with applicable Policies and Procedures

- Determine if collection procedures for older/aged receivables were in accordance with applicable Policies and Procedures

- Determine if any write-offs of Accounts Receivable were in accordance with applicable Policies and Procedures

- Determine if any fees were discounted or waived and if so, determine if there was delegated authority to do so and that any discounting or waiving of fees were in accordance with applicable Policies and Procedures

- Determine the accuracy of amounts reported in the Commission's Accounts Receivable report as of June 2024

Corrective Action Plan

The Commission's audit SOW Scope of Services stated, "Develop and/or validate corrective action plan implemented by the Commission once the uncollected fees were discovered." We obtained the corrective action plan developed and implemented by the Commission. We designed and performed relevant audit procedures to each distinct corrective action to reasonably determine if the corrective action plan was being followed and complied with.

Audit Results

<u>Strengths and Accomplishments</u>
The following is a summary of strengths and accomplishments we identified during the audit:

- The Commission implemented new Standard Operating Procedures (SOP) related to pro-rated license fee extensions.

    - A majority of licensees can now apply and pay for an extension through an automated portal
    - The SOP requires payment from the licensee prior to the granting of an extension
    - Licensees receive an approval notice of the extension granted
    - The Commission's Licensing and Finance departments have access to a report generated to identify all extension requests and approvals submitted through the portal

- The Commission implemented monthly reconciliations of licensing payments (as recorded and reported in the Commission's licensing platforms) to bank deposits

- The Commission implemented additional revenue source codes to allow for analytical review by the Commission's Finance department, including the ability to identify variances between budgeted revenue and actual revenue

- The Commission implemented new SOP to notify provisional license applicants that their application was approved and that they have 90 days to pay to activate the license.

    - Reminder notifications are sent at 30 and 60 days
    - If no payment is received at the 90-day payment due date, applicants receive a notification that the approval has expired

- The Commission is now using the billing and accounts receivable system of the Commonwealth's Office of the Comptroller to record invoices in the Comptroller's accounting system and to leverage collection efforts in accordance with the Comptroller's policies and procedures

<u>Audit Objective # 1 (Waiving/Discounting of Fees)</u>
Within the scope of our audit methodology/procedures, we did not identify any instances in which Commission's leadership or staff waived or discounted fees without delegated authority to do so. Fees may have been waived or discounted without delegated authority to do so outside of the scope of our methodology/procedures.

<u>Audit Objective # 2 (Accounts Receivable, Aging and Write-Offs)</u>
Within the scope of our audit methodology/procedures, we did not identify any instances in which the Commission wrote-off any accounts receivable inconsistent with the policies and regulations of the Commonwealth's Office of the Comptroller. Accounts receivable may have been written-off inconsistent with the policies and regulations of the Commonwealth's Office of the Comptroller outside of the scope of our methodology/procedures.

See Audit Objective # 3 below for an audit finding associated with the proper handling of accounts receivable/aging consistent with the policies and regulations of the Commonwealth's Office of the Comptroller.

Audit Objective # 3 (Pro-Rated License Fee Extensions)
One of the audit objectives was to review the billing and collection activities that the Commission has undertaken to collect the debt owed related to pro-rated license fee extensions granted during the period beginning August 2022 and ending June 2024, including policies and regulations for write-off of debt consistent with the policies of the Commonwealth's Office of the Comptroller. Within the scope of our audit methodology/procedures, we did not identify any instances in which the Commission wrote-off any accounts receivable inconsistent with the policies of the Commonwealth's Office of the Comptroller. Accounts receivable may have been written-off inconsistent with the policies and regulations of the Commonwealth's Office of the Comptroller outside of the scope of our methodology/procedures.

The audit finding associated with Audit Objective # 3 is as follows:

Audit Objective # 3 - Finding:

- **Criteria:** 815 CMR 9.00 governs the collection of overdue accounts receivable and debts for the departments of the Commonwealth. 815 CMR 9.00 provides billing entities with access to services that promote the efficiency and effectiveness of collecting debts, thereby enhancing the collection of revenues.

- **Condition(s):** As identified in the OIG investigation, the Commission discovered that certain pro-rated license extension fees were not billed or collected for a period of time from August 2022 through June 2024.

  The Commission conducted a review of the amount of pro-rated license fees owed to the Commission for extensions granted during the August 2022 through June 2024 time period. According to the OIG investigation, a spreadsheet compiled by the Commission showed that approximately $550,000 in pro-rated fees had not been billed or collected for extensions granted during the August 2022 through June 2024 time period. In August 2024, the Commission sent out invoices to all licensees who had been granted pro-rated license extensions during the August 2022 through June 2024 time period.

  As it relates to the invoices issued by the Commission in August 2024, the Commission did not initially follow the regulations of 815 CMR 9.00, Section 9.03, which requires sending written billing and Dunning Notices to licensees with unpaid invoices. A Dunning Notice is a formal communication, typically a letter or email, sent to an organization that has an overdue payment. It serves as a reminder and request for payment of an outstanding invoice or debt.

  In April 2025, the Commission collaborated with the Commonwealth's Office of the Comptroller to record the invoices in the Comptroller's accounting system. Also at that time, the Commission began the process for following the regulations of 815 CMR 9.00, Section 9.03 related to Dunning Notices.

- **Cause(s):** Based on discussions with Commission management, until April 2025, they lacked the personnel resources required to comply with 815 CMR 9.00, Section 9.03.

- **Effect(s) or Potential Effect(s):** 815 CMR 9.00, Section 9.03 provides billing entities with access to services that are intended to promote the efficiency and effectiveness of collecting debts, thereby enhancing the collection of revenues. If the Commission had complied timely with 815 CMR 9.00, Section 9.03 for the invoices issued in August 2024, it might have enhanced their collections of the unpaid fees.

- **Recommendation(s):** We recommend the Commission comply with 815 CMR 9.00 (in its entirety) for all current and future accounts receivable.

- **Views of Responsible Officials:** The Commission did not have a need to be set up in the State's Billing and Receivable System prior to the CIE identifying the unbilled extension fees in May 2024. There is a process to add this functionality within MMARS, which can be time and labor-intensive. The Commission was focused on notifying licensees of the fees that were not collected and prioritized working with licensees to facilitate payment. Invoices initiated by the Commission generated over $350,000 in payments out of the $535,000 billed. The remainder of unpaid accounts were submitted to the State billing system in April 2025 in order to pursue collection activity. The framework has been created and will be used in the future to generate automated invoices when needed.

Audit Objective # 4 (Provisional Licenses)

One of the audit objectives was to determine provisional license fees were collected as required under 935-CMR-500.103(e) as it relates to provisional licenses approved during the period beginning August 2022 and ending June 2024. Within the scope of our audit methodology/procedures, provisional license fees were collected as required under 935-CMR-500.103(e). Provisional license fees may not have been collected as required under 935-CMR-500.103(e) outside of the scope of our methodology/procedures.

One of the audit objectives was to determine that no provisional license fees were waived or discounted by Commission leadership or staff as it relates to provisional licenses approved during the period beginning August 2022 and ending June 2024. Within the scope of our audit methodology/procedures, we did not identify any instances in which Commission's leadership or staff waived or discounted fees without delegated authority to do so. Fees may have been waived or discounted without delegated authority to do so outside of the scope of our methodology/procedures.

One of the audit objectives was to opine on whether the Commission is required to bill and collect a provisional license fee to approved provisional license applicants that choose not to continue their pursuit of a provisional license as it relates to provisional licenses approved during the period beginning August 2022 and ending June 2024. Based on our interpretation of 935-CMR-500.103(e), we do not believe the Commission is required to bill and collect a provisional license fee to approved provisional license applicants that chose not to continue their pursuit of a provisional license as it relates to provisional licenses approved during the period beginning August 2022 and ending June 2024.

Audit Objective # 5 (Corrective Action Plan)

The audit objective was to develop and/or validate corrective action plan implemented by the Commission once uncollected fees were discovered. See the previous *Strengths and Accomplishments* section of this report for corrective actions implemented by the Commission based on our procedures/methodology.

The audit findings associated with Audit Objective # 5 are as follows:

Audit Objective # 5 – Finding # 1:

- **Criteria:** A Corrective Action Plan (CAP) is a documented, step-by-step plan designed to address and resolve identified issues or deviations from established standards or goals. It outlines specific actions, responsibilities, and timelines for correcting problems and preventing their recurrence. Key components of a CAP generally include the following elements:

    - Problem Identification: Clearly stating the specific issue or deviation that needs to be addressed.
    - Cause Analysis: Identifying the underlying causes of the problem to prevent recurrence.
    - Corrective Actions: Defining the specific actions to be taken to resolve the identified problem.
    - Preventive Actions: Implementing measures to prevent the recurrence of the problem.
    - Responsibilities: Assigning individuals or teams to be accountable for specific actions.
    - Timelines: Establishing deadlines for completing each action and verifying its effectiveness.
    - Monitoring and Verification: Regularly tracking progress and evaluating the effectiveness of the corrective actions.

- **Condition(s):** As part of our audit, we requested the Commission provide us with the CAP associated with Audit Objective # 5. The CAP we were provided with by the Commission was summary-based in nature and did not contain all of the elements identified above.

- **Cause(s):** At the time of our audit request, the Commission had prepared an informal CAP.

- **Effect(s) or Potential Effect(s):** The Commission's CAP is not as complete, effective and impactful as it should be.

- **Recommendation(s):** We recommend the Commission prepare a more formal CAP, taking into consideration the key components and elements identified above.

- **Views of Responsible Officials:** Executive Director will create a formal Audit Management Working Group to formalize CAP in this instance; and this group will be the standing body to provide future CAPs on OIG/SAO or 3rd party audit reviews/findings.

Audit Objective # 5 – Finding # 2:

- **Criteria:** Item # 2 of the Commission's CAP states, "Licensing has worked with JD Software to implement a MassCIP license application for extensions where Licensees can apply and pay through the portal."

  JD Software is the vendor of MassCIP, which is one of the digital licensing applications utilized by the Commission to administer some of its licensing operations.

- **Condition(s):** Licenses issued by the Commission have unique identification numbers. The license application for pro-rated license extensions referred to in CAP # 2 is not applicable to Marijuana Treatment Center's (MTC's) with license numbers less than 3000. As a frame of reference, licensees with license numbers less than 3000 represents approximately 10% of the population of the Commission's active licensees.

Licensees with license numbers less than 3000 are required to submit their pro-rated license extension requests via email. For pro-rated license extension requests made via email, there are an inordinate amount of manual, labor-intensive processes the Commission must go through to process the extension requests.

- **Cause(s):** According to the Commission, the MTC's referenced above are in a software system called MMJOS (they are not in the MassCIP system referred to above). According to the Commission, MMJOS is an antiquated legacy system that does not allow for the updates that have been implemented in MassCIP.

- **Effect(s) or Potential Effect(s):** The inordinate amount of labor-intensive processes the Commission must go through to process extension requests manually is not only a drain on the Commission's resources, it is susceptible to errors and irregularities.

- **Recommendation(s):** We recommend the Commission eliminate or reduce manual, labor-intensive processes related to license extensions (to include efforts to make the necessary investments in information technology that are required to fully automate license extensions).

- **Views of Responsible Officials:** The Commission agrees that manual processes are labor-intensive and can lead to errors. Steps are being taken to move all manual extensions into an automated process. The Agency's licensing software (MassCIP) and medical program software (MMJOS) 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 FY2025 and FY2026 budget requests and ultimately has not been funded to-date. The Agency continues to explore a variety of other funding options, including EOTTS, as this IT Infrastructure is a priority for the Agency.

Audit Objective # 5 – Finding # 3:

- **Criteria:** Item # 7 of the Commission's CAP states, "New Extension SOP was created to reflect the new processes ."

  "New processes" refers to the Commission's updated processes for reviewing pro-rated license extension requests (in response to the OIG investigation).

- **Condition(s):** We identified the following deficiencies related to the SOP referred to above:

  - The SOP does not document the "Effective Date" of the SOP, i.e., the date upon which the procedures were implemented
  - As also identified in the Finding above, the SOP contains an inordinate amount of manual, labor-intensive processes the Commission must go through to process certain extension requests
  - In the section of the SOP that documents the manual processes for certain extension requests, there is no documentation of any formal review process whereby someone completely independent of all the manual processes is reviewing and approving the work performed prior to the formal issuance of the license extension to the licensee.

- **Cause(s):** The Commission lacked the knowledge, skills, resources, policies and/or procedures to prevent the conditions identified above.

- **Effect(s) or Potential Effect(s):** The effects of each condition identified above are as follows:

    - The lack of an "Effective Date" on policies and procedures creates ambiguity about when a policy applies and when employees are expected to adhere to it
    - The inordinate amount of labor-intensive processes the Commission must go through to process certain extension requests manually is not only a drain on the Commission's resources, it is susceptible to errors and irregularities
    - Lack of management review limits the effectiveness and efficiency of an organization's operations, financial reporting, and compliance efforts and creates risks of errors and irregularities

- **Recommendation(s):** We recommend the Commission resolve the various conditions identified above

- **Views of Responsible Officials:** The revision date on the License extension SOP was not updated in error. The Commission will ensure that SOP dates are revised in real time going forward. The SOP was reviewed by Managers and distributed to all Licensing Staff. The Commission receives 100-150 extension requests monthly and current staffing levels allow for only one staff member to manage the extension process. The Commission will review this section of the SOP to include management review of the extension requests. The addition of an extension application in MASSCIP automates the process to request extensions and requires payment prior to approval of the extension. The manual extensions will be moved to an automated process within the next few months. The Commission has requested additional funding to increase staffing in the FY2025 and FY2026 budget requests and ultimately has not been funded to-date. The issue presented here is not the result of lack of knowledge or skill at the Commission; rather, it is the result of lack of resources and funding.

Audit Objective # 5 – Finding # 4:

- **Criteria:** Item # 10 of the Commission's CAP states, "Licensing manually tracks the provisional approvals owing payment."

  "Provisional approvals" refers to provisional license approvals.

- **Condition(s):** The Commission needs to eliminate or reduce manual processes and convert them to automated processes. Automated processes are more efficient, reliable, and consistent.

- **Cause(s):** The Commission (and/or its vendors) lacks the knowledge, skills, resources, policies and/or procedures to develop and implement automated processes for provisional license approvals.

- **Effect(s) or Potential Effect(s):** Manual processes are prone to human error and are time-consuming and less efficient (leading to higher labor costs, etc.).

- **Recommendation(s):** We recommend the Commission eliminate or reduce manual, labor-intensive processes related to provisional license approvals (to include efforts to make the necessary investments in information technology that are required to fully automate provisional license approvals).

- **Views of Responsible Officials:** The Commission agrees that manual processes are labor-intensive and can lead to errors. The Agency's licensing software (MassCIP) and medical program software (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 FY2025 and FY2026 budget requests and ultimately has not been funded to-date. The Agency continues to explore a variety of other funding options, including EOTTS, as this IT Infrastructure is a priority for the Agency. The issue presented here is not the result of lack of knowledge or skill at the Commission; rather, it is the result of lack of resources and funding.

Appendix – OIG Investigation of the Commission

OFFICE OF THE INSPECTOR GENERAL
MASSACHUSETTS

JEFFREY S. SHAPIRO
Inspector General

March 27, 2025

Via Electronic Mail

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Re: Failure to Collect Prorated and Provisional License Fees

Dear Executive Director Ahern and Acting Chair Stebbins:

I write to inform you of the Office of the Inspector General's (OIG) findings regarding an egregious operational breakdown that occurred at the Cannabis Control Commission (CCC). Specifically, the OIG has determined that the CCC failed to collect approximately $550,000 in prorated fees for license extensions during the period from August 2022[1] to August 2024. The OIG also found that the CCC did not collect provisional license fees during this period, which at one point was invoiced at $1.2 million. I recognize that neither of you held leadership positions at the CCC during that two-year period, but as the CCC's current leaders you must definitively act on the recommendations in this letter.

By way of background, the OIG received a hotline complaint in July 2024 alleging that the CCC was failing to collect required fees. In its ensuing investigation of the matter, the OIG interviewed CCC staff members and reviewed various records, including internal emails, CCC spreadsheets, and meeting minutes. The OIG found that CCC staff members did not take action on an August 11, 2022 vote by the commissioners to collect prorated fees on license extensions. This inaction resulted in more than $550,000 in foregone revenue.[2] The OIG also found that for almost two years the CCC did not collect fees from more than 120 provisional license applicants, which at one point may have been as much as $1.2 million.[3] While the OIG's investigation did not find fraud, it does suggest poor business practices and oversight.

The OIG's findings make it clear that (1) the CCC's senior management at that time did not adequately oversee one of the CCC's core operations; and (2) commissioners were unaware that their

[1] On August 11, 2022, the CCC commissioners voted unanimously to delegate to the executive director the Commission's authority to extend a license expiration date up to 120 days with the licensee required to pay a prorated fee to cover the extension period.

[2] In 2024, the CCC learned of the approximately $550,000 in uncollected prorated fees for license extensions. The CCC informed the OIG that, as of February 2025, it had collected $320,681 of that amount.

[3] The OIG determined that an audit would be necessary to understand how much of the $1.2 million in uncollected provisional fees could have and can be collected.

directives went unimplemented. The recommendations in this letter accordingly suggest that the CCC take immediate steps to ensure greater staff accountability. And while the CCC has moved in recent months to update the agency's payment systems and has begun to recoup previously uncollected amounts, the OIG recommends that the CCC conduct an audit to confirm that licensees have paid all applicable fees. If the CCC waived any fees, current leadership should confirm that the CCC had the authority to do so.

Background

1. Prorated License Fees

All licenses granted by the CCC are effective for one year.[4] Section 6 of Chapter 94G of the Massachusetts General Laws allows the CCC to "authorize the renewal of a license for a longer period."[5]

On August 11, 2022, the CCC's then-executive director appeared at a meeting of the commission and presented a memo addressed to the commission.[6] In the memo, dated August 11, 2022, the executive director requested that the commission grant him the authority to administratively extend license expiration dates because licensees may need additional time to resolve compliance issues.[7] Furthermore, the executive director stated that license expiration dates may fall between meetings and additional time would allow for greater thoroughness and efficiency. The executive director suggested that licensees pay a prorated license fee to cover the extension period. During the meeting, the commission voted unanimously to:

> Delegate to the Executive Director the Commission's authority to extend a license expiration date administratively up to 120 calendar days. During an administrative extension, the licensee shall continue to comply with the Commission's requirements for licensure and will also be required to pay a prorated license fee to cover the extension.

The then-executive director subsequently delegated the license extension process to the CCC's licensing division. OIG investigators spoke with the individual who served as the CCC's director of licensing from May 2018 until August 2024. That former director of licensing did not immediately implement the commission's directive, telling OIG investigators that he did not have the "bandwidth" to push the project along due to competing priorities. He stated that several tasks needed to be completed before the CCC could implement the commission's directive:

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[4] M.G.L. c. 94G, § 6(a).

[5] *Id.*

[6] August 11, 2022 memo from the executive director to the commission.

[7] August 11, 2022 CCC meeting minutes.

(1) The CCC's information technology contractor needed to modify the CCC's licensing and payment system to calculate how much a licensee needed to pay for its extension and to process the payment;

(2) The CCC's regulations, notices, and forms needed to be changed before the change could be implemented; and

(3) Licensing staff would need training on the new procedures.

He estimated that those steps would take months.

The former director told OIG investigators he brought up these matters with his supervisor, the former CCC chief of investigations and enforcement, and the former CCC general counsel, but said that they were "agnostic" and focused on other priorities. He stated that prior to the commission's August 2022 vote to allow license extensions, the CCC had already been granting license extensions without requiring licensees to pay a prorated fee.[8] He continued this process – granting extensions without collecting a prorated fee – after the August 2022 vote. The licensing division kept track of all extension requests on a spreadsheet.

The former director finally began working with CCC's IT vendor in March 2024 to create an application to process extensions.

In January 2024, the CCC appointed a new chief of investigations and enforcement (CIE).[9] The new CIE soon became concerned about the operations of the licensing division, which was responsible for the implementation of Chapter 180 of the Acts of 2022, specifically as it related to host community agreements (HCAs).[10,11]

The CIE told OIG investigators that she learned in early May 2024 that the former director of licensing had not reviewed any HCAs submitted to the CCC. According to the CIE, the former director of licensing told her that he had been waiting to provide training to his staff. The CIE also learned that the former director of licensing had not created the appropriate determination letters to be sent to licensees on the results of their HCA reviews, as regulations require.

During a May 23, 2024 commission meeting, the CIE requested that the commission grant extensions of expiring licenses of up to 240 days due to the backlog of HCAs that the licensing

[8] The OIG notes that the CCC staff had no authority to proceed in this manner.

[9] The chief of investigations and enforcement oversees the CCC's licensing division.

[10] HCAs are agreements between municipalities and marijuana establishments. HCAs set conditions for an establishment to operate in a municipality, including hours of operation, security plans, and fees paid to the municipality.

[11] Section 10 of Chapter 180 of the Acts of 2022 amended M.G.L. c. 94G, § 3 to require that the CCC review and approve HCAs between towns and marijuana establishments.

division was reviewing.[12] According to the commission's meeting minutes, the CIE told the commission there were 100 HCAs in the queue for review and the licenses associated with the HCAs were set to expire in June 2024. During the meeting, the commission voted to:

> Administratively extend a license expiration date up to 120 calendar days at the discretion of the Chief of Investigations and Enforcement or their delegee; after the first 120 calendar day extension has been exhausted, the Chief of Investigations and Enforcement or their delegee may approve additional extensions not to exceed 240 calendar days in total for the exclusive purpose of allowing a licensee to submit a compliant Host Community Agreement or Host Community Agreement waiver; during an administrative extension, the licensee shall continue to comply with the Commission's requirements for licensure and shall be required to pay a prorated license fee to cover the extension.

Following the meeting, the CIE tasked CCC staff members with drafting a bulletin explaining how to calculate prorated fees. Shortly thereafter, the CIE learned that the licensing division had not been collecting prorated fees since August 2022. In early June 2024, the CIE alerted commissioners to the issue and continued her review of the amount of prorated fees owed to the CCC. According to the CIE, a spreadsheet showed that approximately $550,000 in prorated fees had not been collected at that time. The CCC then sent out invoices to all licensees who had requested extensions. Upon review, the CIE learned that the CCC's licensing platform, MassCIP, had no controls in place to accurately track license extensions and prorated fees. She subsequently suggested that control measures regarding license extensions and prorated fees be added to MassCIP.

According to multiple witnesses, in mid-May 2024 two CCC commissioners offered the former director of licensing the position of acting executive director. They withdrew the offer five or six days later, about the same time that the CIE discovered that the licensing division had not been collecting extension fees for years.

The OIG reviewed a list provided by the CCC of all license extensions between August 2022 and July 2024. The list showed that the CCC failed to collect $552,986 in license fees related to 159 extension requests. The CCC reports that, as of February 2025, it has recovered $320,681 of those outstanding license fees.[13]

2. Provisional License Fees

A provisional license is a license issued by the CCC "confirming that a Marijuana Establishment has completed the application process and satisfied the qualifications for initial

[12] May 23, 2024 CCC meeting minutes.

[13] On March 25, 2025, the CCC informed the OIG that the CCC has yet to recover fees from 42 licensees in an amount totaling $170,794. The OIG notes that the information the CCC provided on March 25 does not appear to reconcile with the list it previously provided, and the OIG has not performed an audit. Therefore, the OIG stands by its recommendation herein that an audit needs to be conducted.

licensure."[14] Once the commission approves a provisional license application, the applicant must submit the required fee within 90 days to be issued a provisional license.[15] If the applicant does not pay the provisional license fee within 90 days, the provisional license approval will expire and the applicant is required to complete an initial application again.[16]

The CIE told OIG investigators that soon after she learned prorated license fees were not being collected, she also learned that 121 applicants whose provisional licenses were granted by the commission had not paid the required provisional license fee within 90 days. She learned that those 121 applicants owed the CCC $1.2 million in provisional license fees. According to the CIE, her investigation revealed that the CCC's licensing department failed to send out notices to applicants whose 90-day period had expired. Furthermore, MassCIP did not have controls in place to rescind applicants' provisional license approvals if their fees were not paid within 90 days. Applicants were essentially able to pause their application process for an indefinite amount of time and then log into MassCIP and submit the required provisional license fee and continue the licensing process.

The OIG understands that no licensees have been able to operate without paying the required provisional license fee because applicants are unable to continue the licensing process without payment. However, per the CCC's regulations, after their provisional license approvals had expired, these applicants were required to restart the application process, submit a new application, and pay all applicable fees.

The CCC sent notice to the 121 applicants whose provisional licenses had expired. CCC personnel also required the agency's software vendor to add controls to MassCIP to ensure that applicants are not allowed to submit provisional license fees past the 90-day window.

3. Total Fees Not Collected

Figure 1 below reflects the amount of prorated and provisional license fees not collected by the CCC from August 2022 to August 2024.

Fee Type	Number of Licensees/Applicants	Fees Not Collected
Prorated	159	$ 552,986
Provisional	121	$ 1,200,000
Total	280	$ 1,752,986

Figure 1. Prorated and provisional license fees not collected by the CCC.

[14] 935 CMR 500.002.

[15] *Id.* at 500.103(1).

[16] *Id.*

Findings

1. **CCC staff members granted license extensions prior to the commission granting the staff the authority to do so.**

Section 6 of Chapter 94G of the Massachusetts General Laws allows the commission to extend the expiration date of a license.[17] According to witnesses, prior to the commission's August 2022 vote to grant the executive director the authority to administratively extend license expiration dates, CCC staff members were already granting license extensions even though the commission did not delegate the authority to CCC staff members. The OIG is unaware of any instances in which the commission voted to extend a license expiration date. Because the commission did not delegate its authority to extend license expiration dates, CCC staff members did not have the authority to grant license extensions without the commission's approval.

2. **CCC staff failed to implement the actions required by the commission's August 11, 2022 vote regarding license extensions and prorated fees.**

On August 11, 2022, the commission voted to grant the executive director the authority to extend license expirations dates for up to 120 days. The commission's vote required licensees to pay a prorated fee for the length of their extension. The responsibility of collecting payment ultimately fell to the director of licensing. While the former director of licensing outlined several challenges associated with that task, he admitted that he did not implement the commission's directive because he did not have the time.

It was not until March 2024, more than a year and a half after the commission's August 2022 vote, that the former director took any action regarding prorated fees. By this time, however, the CCC had already granted extensions to nearly 100 licensees and failed to collect $339,394 in prorated license fees.[18]

3. **The CCC's licensing platform lacked the necessary controls to collect prorated and provisional license fees.**

The CCC's licensing platform, MassCIP, lacked the necessary controls to collect prorated license fees. Furthermore, its licensing platform did not have the appropriate controls to ensure applicants whose provisional license applications were approved paid their provisional license fees within the allotted time. Witnesses acknowledged that there was no mechanism within MassCIP to allow for the collection of prorated fees or to track license extensions. Moreover, MassCIP lacked a process to lock applicants out of the system after their provisional license expired.

[17] M.G.L. c. 94G, § 6(a).

[18] Between March 2024 and early August 2024, the CCC granted another 64 extensions to licensees and failed to collect an additional $213,592 in prorated fees.

When the CIE discovered issues regarding the collection of fees, she took action to implement the appropriate controls within MassCIP to ensure prorated fees and provisional license fees are paid in a timely manner.

4. The CCC staff lacked supervision and accountability.

The findings outlined in this report highlight an apparent lack of supervision from CCC management, its former executive directors, and the commission, as well as a lack of staff accountability to the commission.[19] The former director of licensing did not take any action to implement the actions required by the commission's August 2022 vote until March 2024. It is apparent that the then-executive directors did not ensure that the former director of licensing followed through on the commission's delegation. The OIG found no evidence that the commission checked that its August 2022 directive was carried out. The commission was unaware of the director of licensing's inaction until the new CIE, who began managing the licensing division in January 2024, brought it to their attention in May or June 2024. The former director's inability to implement a key commission initiative should have been readily apparent to his supervisors. Moreover, just prior to learning about the licensing division's failure to collect prorated fees, commissioners offered the former director the position of executive director. That fact further highlights the commission's lack of awareness of its staff's performance.

Recommendations

Based on its investigative findings, the OIG recommends the CCC take the following steps:

1. Ensure that MassCIP, or any other software used by the CCC, has the appropriate controls in place for the CCC to operate effectively and efficiently, including the ability to (a) accurately track license extensions; (b) collect prorated fees; and (c) collect provisional license fees within the appropriate time frame;

2. Conduct an audit of all IT systems to ensure that proper capabilities and controls are in place;

3. Ensure that any future procurement of CCC's licensing platform services contains appropriate capabilities and controls;

4. Clarify the roles and responsibilities of the CCC chair, commissioners, executive director, and directors to ensure that (a) the commission's delegated authority is executed properly; (b) the executive director does not act outside of properly delegated authority; (c) revenue projections are in place; and (d) the proper mechanisms and oversight are in place to invoice and collect required fees;

[19] The CCC's inaugural executive director served in that position until December 4, 2023. The CCC then appointed an acting executive director who served in that role until recently.

5. Develop greater (a) leadership accountability of the executive director and directors, and (b) staff accountability by requiring periodic updates from CCC management on all requests, delegations, or directives;

6. Conduct an audit of all accounts receivable and collect any outstanding money owed;

7. Conduct an audit to confirm that CCC leadership or staff did not waive or discount any fees without the delegated authority to do so; and

8. Conduct an audit to ensure that the CCC properly handles its accounts receivable, aging, and write-off procedures consistent with the policies and regulations of the Commonwealth's Office of the Comptroller.

Conclusion

The failure to have collected fees is a significant problem, whatever its underlying causes, and should be a call for action. Viewed most narrowly, this operational deficiency occurred because licensing division officials failed to update the CCC's payment processing system to handle extensions for existing licensed operators and to bill provisional licensees for renewals. In both instances, those officials did not bring the matters to the attention of their supervisors or the commission. Further, the former executive director inappropriately delegated a responsibility to a division that he knew or should have known did not have the capacity to execute the directive on their own.

However, our investigation found that other factors played a role in this organizational malfunction. For example, certain staff members within the licensing division knew the CCC was not collecting these fees and withheld that information from CCC commissioners for about two years. Senior managers chose to forgo implementing policies approved by the commissioners, focusing on other priorities. The commissioners themselves did not hold the executive directors or staff accountable.

Upon discovering that the CCC failed to collect prorated and provisional license fees, the current CIE took appropriate action to bring the matter to the commission's attention. The CIE then began the process of collecting missing revenue and putting appropriate controls in place.

Within 30 calendar days of receiving this letter, please notify this office in writing of your plans to implement the recommendations herein or of any steps already taken. If you have any questions, please contact George Xenakis, director of the OIG's Audit, Oversight and Investigations Division, at 617-722-8853 or at George.Xenakis@mass.gov.

Thank you for your immediate attention to the OIG's findings and recommendations.

Sincerely,

Jeffrey S. Shapiro, Esq., CIG
Inspector General

cc (by email):

Her Excellency Maura Healey
The Hon. Kim Driscoll, Lieutenant Governor
The Hon. Karen E. Spilka, President of the Senate
The Hon. Ronald Mariano, Speaker of the House
The Hon. Andrea Joy Campbell, Attorney General
The Hon. Deborah B. Goldberg, Treasurer and Receiver General
Nurys Camargo, Commissioner, CCC
Ava Callender Concepcion, Commissioner, CCC
Kimberly Roy, Commissioner, CCC
The Hon. Daniel M. Donahue, Chair, Joint Committee on Cannabis Policy
The Hon. Adam Gomez, Chair, Joint Committee on Cannabis Policy
Kate R. Cook, Chief of Staff, Office of the Governor
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