

The June 2019 Arizona Department of Health Services—Medical Marijuana Program performance audit was the first of 4 audit reports of the Department we issued as part of the Department’s sunset review. The second performance audit found that the Department did not follow some procurement requirements and paid for some services without ensuring they were provided and contract requirements were met. The third performance audit found that the State Hospital had not fully evaluated assault-reduction strategies but had established processes for patient admission, ensuring patients receive prescribed treatment, and reporting incidents. The final performance audit and sunset review found that the Department failed to investigate or timely investigate some long-term care facility complaints and self-reports, did not comply with some conflict-of-interest requirements, and had some gaps in 4 information technology security areas.¹

The June 2019 performance audit of the Department’s Medical Marijuana Program found that the Department did not timely, consistently, or adequately perform several medical marijuana regulatory activities and misallocated some Medical Marijuana Fund monies. We made 15 recommendations to the Department, and its status in implementing the recommendations is as follows:

Status of 15 recommendations

Implemented	11
Partially implemented	2
Not yet applicable	1
No longer applicable	1

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Department’s efforts to implement the recommendations from the June 2019 report.

Finding 1: Department should take more timely action to revoke registry identification cards

1. The Department should develop and implement policies and procedures for revoking medical marijuana registry identification cards, including developing internal steps and associated time frames for revocation process steps that are within its control.

Implemented at 24 months

2. The Department should track and oversee performance for the time frames to ensure revocations occur as quickly and consistently as possible.

Partially implemented at 24 months—The Department developed a system to track registry identification card investigations and revocations, including the status of specific cases in the revocation process and the various revocation process steps, such as when the Department starts and completes an investigation. In addition, based on our review of 2 revocations completed in 2020, the Department complied with the time frames established in its policies and procedures. Although the Department reported that staff monitor its tracking system daily to ensure revocation time frames are met, it has not developed a formal, documented procedure or process for doing so.

¹ For more information on the other performance audits we issued as part of the Department’s sunset review, including any applicable follow-up reports, see [Report 19-109](#), [Report 19-111](#), and [Report 19-112](#).

Finding 2: Some medical marijuana facility inspections not completed timely or consistently

3. The Department should develop and implement policies and procedures for its inspection processes to ensure Department staff apply, assess, and enforce statutory and rule requirements consistently during inspections. The policies and procedures should address: 1) how often inspections should be conducted; 2) how the Department will schedule and track inspections; 3) how to conduct the inspections, including how violations will be assessed; and 4) how to accurately maintain a record of its inspection process and results.

Implemented at 24 months

4. The Department should develop and implement a structured training program that comprehensively addresses the Program's inspection policies and procedures.

Implemented at 24 months

5. The Department should continue holding and documenting consistency meetings between inspectors and Program management and, as appropriate, consult with its legal counsel regarding decisions reached at consistency meetings.

Implemented at 6 months

Finding 3: Department has inadequately investigated and monitored some complaints

6. The Department should update and implement policies and procedures for its complaint-handling process, including:
 - Determining and documenting whether complaints are in its jurisdiction.
 - Determining when a secondary review of complaints is necessary to ensure complaints are appropriately assigned for investigation, such as mandating a secondary review for all complaints determined to be outside the Department's jurisdiction.
 - Documenting all complaint investigation activities and any decisions reached from investigations.
 - Establishing time frames for completing key steps of the complaint-handling process.
 - Ensuring each complaint received by the Department is accurately recorded, tracked, and monitored in a complaint log or in another centralized location.
 - Reviewing complaint outcomes and trends, and taking any necessary actions based on the trends identified.

Implemented at 36 months

7. The Department should develop and implement training for all staff involved in the complaint-handling process once it has developed the policies and procedures outlined in Recommendation 6, including training for new staff and periodic refresher training for all staff.

Implemented at 24 months

Finding 4: Department has not consistently addressed medical marijuana facility noncompliance

8. The Department should develop and/or update and implement policies and procedures for addressing statutory and rule violations by medical marijuana facilities. These policies and procedures should include guidance for addressing medical marijuana facility noncompliance, such as when to seek a provider meeting and how to conduct provider meetings; the use of unannounced inspections; when to seek monetary penalties; when it should

pursue revocation of a dispensary registration certificate; and where to document these decisions. Once these policies are developed and/or updated, all appropriate Program staff should be trained on these policies and procedures.

Implemented at 24 months

Finding 5: Although licensed as food establishments, Department does not inspect for food safety requirements at medical marijuana infusion kitchens

9. The Department should conduct unannounced food safety inspections of infusion kitchens on an ongoing basis, similar to its practices for other licensed food establishments in the State.

Implemented at 36 months

Finding 6: Department should establish and implement process for setting Program fees

10. To help ensure medical marijuana fees reflect associated program costs, consistent with fee-setting models outlined in best practices, the Department should:
 - a. Develop and implement a method, including associated policies and procedures, for determining the direct and indirect costs for providing the Program.

Implemented at 60 months—As reported in previous followups, the Department finalized a policy in February 2020 to provide a consistent approach for establishing user fees Department-wide, including Medical Marijuana Program fees. The policy includes guidance on and requirements for charging user fees, calculating costs, and reviewing and approving fees; and also requires the Department to annually review user fees. The policy also states that user fees should be set to recover the full cost of providing the service, including all direct and indirect costs. Additionally, the policy defines direct costs as expenses that are easily identifiable and directly tied to the Program, such as the salaries of personnel working exclusively for the Program, and states that indirect costs should be calculated using a cost-allocation methodology that distributes shared expenses across multiple programs, such as information technology services and general facility costs. Consistent with its policy, the Department conducted cost analyses of the various services it provides as part of the Program in both fiscal years 2023 and 2024, which showed that its fees generated sufficient revenues to cover the Program’s direct and indirect costs and did not result in an increasing fund balance during those 2 fiscal years. The Department decided not to make any changes to its Program fees because Program expenses have remained consistent and there has been a decline in the total number of medical marijuana patient registry identification card renewals and associated fee revenue.
 - b. After developing a cost methodology, determine whether the fees for medical marijuana registry identification cards and medical marijuana facilities should be modified to appropriately align with Program costs.

Implemented at 60 months—See explanation for Recommendation 10a.
 - c. If fee changes are appropriate, proceed with rulemaking to modify its fees, including seeking an exemption from the rulemaking moratorium as necessary and seeking input from stakeholders.

Not yet applicable—As discussed in Recommendation 10a, the Department determined that it would not modify its Program fees in fiscal years 2023 and 2024 because the fees were aligned with Program costs.
 - d. Develop and implement a process to periodically reevaluate the fees associated with the Program.

Implemented at 60 months—As discussed in Recommendation 10a, the Department has developed a policy requiring it to annually review Program user fees, and it performed these fee reviews in fiscal years 2023 and 2024.

Finding 7: Department misallocated some Medical Marijuana Fund monies

11. The Department should establish and implement written policies and procedures regarding the use of Fund monies that include the following: 1) the Program expenditures that are allowable under the Act; 2) how to allocate expenditures when more than 1 Department program benefits from the expenditure; 3) the processes and documentation necessary to charge payroll costs to the Fund to ensure it is only charged for the work employees perform on the Program; 4) the type of supporting documentation that should be prepared and retained for all Fund expenditures; and 5) a description of monitoring activities, including any supervisory responsibilities, that will help ensure that Fund monies are being spent in accordance with the Act.

Partially implemented at 60 months—The Department has developed policies and procedures regarding the use of Fund monies that include:

- Identifying allowable and/or appropriate Program expenditures.
- Allocating expenditures when more than 1 Department program benefits from an expenditure and the type of documentation that should be prepared and retained for all Fund expenditures.
- Documenting any payroll costs charged to the Fund.
- Preparing and retaining supporting documentation for all Fund expenditures.

The Department's policy also includes a description of monitoring and supervisory activities to help ensure Fund monies are spent in accordance with the Act, including requiring executive leadership approval for specified transactions and conducting regular meetings between supervisors and finance managers. Our review of 10 Department Fund expenditure transactions from fiscal year 2023 found that for 8 of 10 transactions, the Department had documented support for the expenditure and allocating it to the Fund and supervisory approval of the allocated expenditure. For the 2 remaining transactions, although the Department had support for the expenditures and allocating them to the Fund, the Department was unable to provide evidence showing supervisory approval of the allocated expenditures.

Additionally, to help ensure that only payroll and benefit costs associated with the time that Department staff spend working on Program activities are charged to the Fund, the Department requires its staff who work on multiple Department programs to report the time they spend on each program, and finance managers are responsible for reviewing these submissions for accuracy. Since our 36-month followup, the Department also implemented an electronic time sheet submission that it reported allows staff who work on various Department programs to timely and accurately submit their time. Further, the Department reported that as of April 2024, approximately 90 percent of its staff use electronic timesheets. Our review of electronic timesheets completed by 34 Department staff for the pay period ending September 2, 2022, found that these timesheets allow staff to charge time worked to various Department programs, including the Medical Marijuana Program, and have evidence of supervisory review.² Staff can also submit their time and efforts through paper certification forms that show their time allocation to various Department programs. Although the Department's policy does not specify when the Department should review and approve these forms, the Department reported that it tries to timely review and approve the forms after they are submitted in accordance with the *State of Arizona Accounting Manual*. However, our review of all 10 paper certification forms Department staff submitted in August 2022 found that 8 forms were not reviewed timely and were approved approximately 18 months after they were submitted. Finally, as discussed in our 36-month follow-up report, this lack of timeliness increases the risk of employees incorrectly allocating their time across programs.

12. The Department should continue using its required approval plan to help ensure that Fund monies are appropriately approved and accounted for

No longer applicable—As discussed in Recommendation 11, the Department developed policies and procedures that incorporate financial transaction approval processes to help ensure that Fund monies are appropriately approved and accounted for that supersede the plan for approving financial transactions the Department developed in 2019.

² The time sheets and certification forms we selected to assess supervisory review and compliance with Department policies were associated with the largest Medical Marijuana Program payroll expenditure in fiscal year 2023.