



Cannabis Business Licensing

Jurisdictions Have Made Progress to Meet Goals of the Local Jurisdiction Assistance Grant Program, but Some Inappropriate Expenditures Persist

February 2025

REPORT 2024-048





CALIFORNIA STATE AUDITOR

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February 20, 2025

2024-048

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by the Budget Act of 2021, my office conducted an audit of the Local Jurisdiction Assistance Grant Program (Grant Program), and we generally determined that all cities and counties (local jurisdictions) that received funding from the Grant Program made progress in reducing the number of provisional licenses among their cannabis businesses, but we found that two local jurisdictions used some Grant Program funds inappropriately.

The 17 local jurisdictions that received Grant Program funds were able to transition about 1,200 provisional licenses to annual state licenses between January 1, 2023, and June 30, 2024. We project that if local jurisdictions continue to transition at the same pace, 12 local jurisdictions will have a few or zero cannabis businesses with provisional licenses remaining by January 1, 2026, after which most provisional licenses will not be effective. Further, although five local jurisdictions would have from 30 to more than 950 provisional licenses remaining as of the deadline, local jurisdictions and the Department of Cannabis Control (DCC) have taken actions to remove existing barriers at some local jurisdictions and believe that they will be able to help many cannabis businesses comply with local and state annual licensing requirements and transition by the State deadline.

Our review of selected local jurisdictions found that two jurisdictions—the city of Oakland and Sonoma County—did not always spend Grant Program funds in accordance with state law or their grant agreements. For example, Oakland used the Grant Program funds to help one business pay for its website and for another business to help pay its rent, among other expenses. Finally, although DCC hired four additional staff to manage the Grant Program, it continued to be slow in reviewing local jurisdictions' requests to amend Grant Program agreements. As a result, at least one local jurisdiction—Oakland—was not able to spend about \$1.9 million of its Grant Program funds.

Respectfully submitted,

A handwritten signature in black ink that reads "Grant Parks". The signature is stylized and cursive.

GRANT PARKS
California State Auditor

Selected Abbreviations Used in This Report

CEQA	California Environmental Quality Act
DCC	Department of Cannabis Control
EIR	Environmental Impact Report

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Summary

California voters in November 2016 legalized the nonmedical use of cannabis for adults 21 years of age or older.¹ Under California law, cannabis businesses must generally obtain an annual state license to operate legally. The State initially issued provisional licenses to encourage cannabis businesses to enter the newly state regulated market. However, most provisional licenses will no longer be effective after January 2026.² To continue operating legally in California after that date, cannabis businesses holding provisional licenses must obtain annual state licenses. The 2021 Budget Act appropriated \$100 million for the Local Jurisdiction Assistance Grant Program (Grant Program) to assist 17 selected cities and counties (local jurisdictions) in helping those cannabis businesses holding provisional licenses that need the greatest assistance. The 17 local jurisdictions help the cannabis businesses transition their provisional licenses to annual state licenses. The Department of Cannabis Control (DCC) administers the Grant Program and issues provisional and annual state licenses. The Budget Act states that Grant Program funds shall be available for encumbrance and expenditure until June 30, 2025, but it also allows DCC to recapture funds that local jurisdictions do not spend by a date that DCC establishes. DCC's guidelines for the Grant Program state that local jurisdictions cannot expend Grant Program funds after March 31, 2025. State law requires the California State Auditor to conduct a performance audit of the local jurisdictions that received funds as part of the Grant Program. This is our second of three statutorily required audit reports.³

Despite Some Progress in Reducing the Number of Provisional Licenses, Local Jurisdictions Continue to Face Challenges

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Although all local jurisdictions made progress from January 2023 through June 2024 in helping cannabis businesses holding provisional licenses obtain annual state licenses, some local jurisdictions still had many provisional licenses as of June 30, 2024, that cannabis businesses need to transition. Two of these local jurisdictions—Los Angeles and Mendocino County—had about 951 and 558 provisional licenses, respectively, that still needed to transition to annual state licenses. The provisional licenses in these two local jurisdictions made up more than 65 percent of all 17 jurisdictions' provisional licenses. DCC noted that it is actively working with Los Angeles and Mendocino County as the jurisdictions help cannabis businesses transition their provisional licenses to annual state licenses. We selected six local jurisdictions—including Mendocino County—for further review and found that most face a variety of challenges in helping their remaining

¹ The use of marijuana (cannabis) is still illegal under federal law.

² The State has used both temporary licenses and provisional licenses. For the purposes of this report, we refer to temporary and provisional licenses as *provisional* licenses.

³ We issued our first report in August 2024: *Cannabis Business Licensing: Inadequate Oversight and Inappropriate Expenditures Weaken the Local Jurisdiction Assistance Grant Program*, Report 2023-048.

cannabis businesses transition their provisional licenses to annual state licenses. These challenges include the cannabis businesses not obtaining permits from other local jurisdiction departments, not completing additional requirements related to the California Environmental Quality Act (CEQA), and not submitting the necessary paperwork. Cannabis businesses that hold provisional licenses and do not complete all annual state licensing requirements by the deadline of January 1, 2026, will not be able to renew their existing licenses, will not be able to transition those licenses, and will need to reapply for an annual state license to operate legally.

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Several Local Jurisdictions Spent Grant Program Funds for Unallowable Purposes

Two local jurisdictions we reviewed—Oakland and Sonoma County—used Grant Program funds for purposes other than helping cannabis businesses transition from provisional to annual state licenses. For example, Sonoma County charged staff costs to the Grant Program for activities not related to assisting cannabis businesses holding provisional licenses. These activities included assisting new applicants for annual state licenses and working on vacation rental permits. Further, DCC has questioned expenditures totaling nearly \$500,000 in five local jurisdictions that are in the process of closing their Grant Program awards. DCC has already recaptured more than \$1.7 million from three local jurisdictions, which included \$12,000 of questioned expenditures, and is in the process of finalizing the amount to recapture from the other two local jurisdictions. DCC plans to review all remaining local jurisdictions' expenditures to ensure that they were allowable.

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Nine of 17 Local Jurisdictions Expect to Meet Grant Program Goals Without Spending All Grant Program Funds

DCC initially disbursed to all local jurisdictions 80 percent of their Grant Program awards and held the remaining 20 percent for future disbursement. Although many local jurisdictions have spent less than 50 percent of their initial 80 percent disbursement, most have very few provisional licenses remaining and will not need to spend all funds. For example, although Sacramento has spent only 10 percent of the \$4.6 million it received in Grant Program funds, cannabis businesses in Sacramento had transitioned more than 100 provisional licenses to annual state licenses by June 2024, at which time Sacramento had only 24 provisional licenses remaining.

However, two local jurisdictions—Adelanto and Los Angeles—may not fully spend Grant Program funds because of disagreements with DCC on their planned use of the funds. Specifically, Adelanto could not agree with DCC on the appropriateness of spending Grant Program funds on certain activities that the local jurisdiction proposed, such as hiring a consultant to assist with CEQA documentation. Because of disagreements and concerns regarding unallowable proposed activities, DCC decided to cancel Adelanto’s grant award and recapture all funds. Additionally, Los Angeles has disputed DCC’s initial determination that some of the funds it spent on staff salaries—staff that the jurisdiction hired to assist cannabis businesses holding provisional licenses—may have been unallowable. According to Adelanto’s city manager, the Grant Program did not assist any cannabis businesses to transition from provisional to annual state licenses in Adelanto, and Adelanto had to use the city’s resources to assist those cannabis businesses because of disagreements with DCC about the appropriate use of funds. Similarly, Los Angeles expressed concerns that the jurisdiction may have to use its general fund to pay for grant-related activities.

Other Areas We Reviewed

To address some of the audit objectives, we also reviewed other areas related to DCC’s administration of the Grant Program. Our review found that DCC did not disclose its reasoning for denying two local jurisdictions’ applications to receive the final installment of their Grant Program funding and that DCC’s process of determining local jurisdictions’ progress lacks transparency. Additionally, DCC has been continually slow to process local jurisdictions’ amendment requests. Local jurisdictions are required to submit such formal requests to DCC when they need to amend their Grant Program spending budget or scope of activities, and DCC’s slow response has prevented at least one local jurisdiction from adequately planning for the spending of its Grant Program funds. Finally, although DCC has hired additional staff to work on Grant Program activities, such as reviewing local jurisdictions’ expenditures and progress, DCC does not plan to spend all of the funds the Legislature allocated for its administration of the Grant Program. All unspent funds will revert back to the State’s General Fund.

Agency Comments

Two of three entities to which we made recommendations—DCC and Sonoma County—agreed with our recommendations and indicated they will take actions to implement them. We provided Oakland with an opportunity to respond to our recommendations and it chose not to do so.

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Introduction

Background

In November 2016, California voters legalized the nonmedical use of cannabis for adults 21 years of age or older.⁴ Cannabis businesses must complete multiple steps when applying for annual state licenses, as Figure 1 shows. Under California law, cannabis businesses must generally comply with local cannabis permitting processes and obtain a license from the State to operate legally. The State initially issued provisional licenses to encourage cannabis businesses to enter the newly regulated market. Although licenses are only valid for 12 months, the Department of Cannabis Control (DCC) has allowed cannabis businesses to apply to renew their provisional licenses if they meet certain requirements. As a condition for holding a provisional license, a cannabis business must be actively working to obtain local permits and must pursue compliance with the California Environmental Quality Act (CEQA). DCC may renew a provisional license until it issues or denies the applicable cannabis business's application for annual state license. However, with limited exceptions, state law has phased out the issuance of provisional licenses as of June 2023.⁵ Further, state law provides that, with limited exceptions, no provisional license shall be effective beginning January 1, 2026. In addition, according to DCC, cannabis businesses whose provisional licenses expire in 2025 will have to complete their transition to an annual state license or reapply for an annual license with DCC.

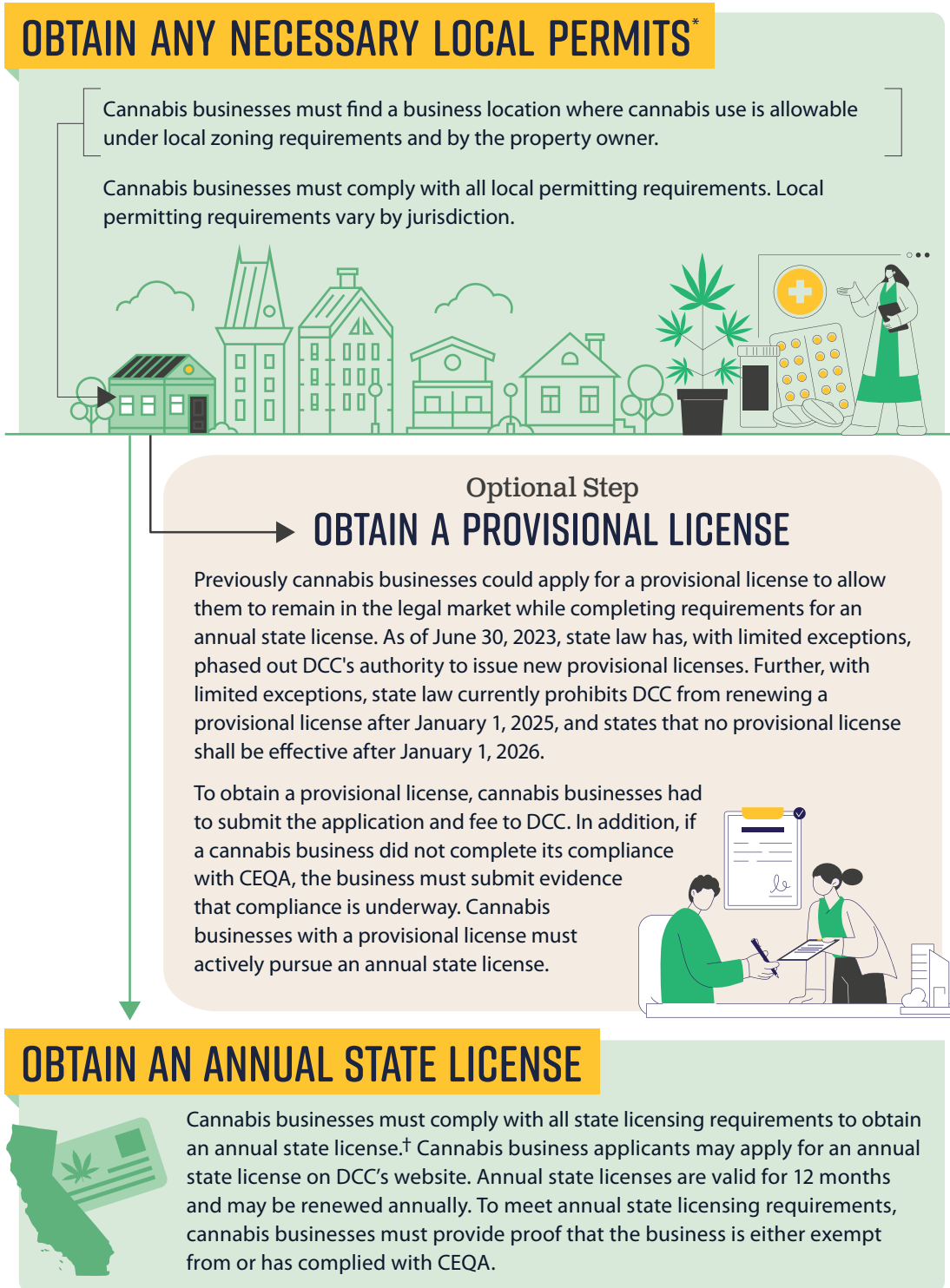
California Environmental Quality Act

Previously, cannabis businesses could apply for a provisional license to allow them to remain in the legal market while completing requirements for an annual state license. One such requirement pertains to compliance with CEQA. The purposes of CEQA are, among other things, to inform governmental decision-makers and the public about potentially substantial environmental effects of proposed activities and to prevent significant, avoidable damage to the environment. CEQA is relevant to licensing because some types of cannabis businesses may have the potential to harm environmental quality. For example, cannabis cultivation can result in fertilizer runoff leaching into watersheds, creating negative consequences for wildlife. All types of cannabis businesses, including retail and manufacturing businesses, must comply with CEQA or show that their businesses are exempt from the requirements. For example, cannabis businesses in Long Beach are exempt from further environmental review at the local level because Long Beach approves applications for cannabis permits ministerially because of a voter-sponsored initiative. However, these businesses may still be subject to additional CEQA requirements to obtain a state license. To obtain a provisional license, and then to renew a provisional license, a cannabis business must provide evidence to DCC that the business complies with CEQA or is in the process of complying. To then meet annual state licensing requirements, the business must complete the CEQA process and provide proof that the business complies with or is exempt from CEQA. As we discuss later in the report, CEQA compliance can be a significant hurdle to meeting annual licensing requirements for some cannabis businesses.

⁴ The use of marijuana (cannabis) is still illegal under federal law.

⁵ The State continues to issue provisional licenses to *local retail equity applicants* who meet the requirements of a local jurisdiction's local equity program. Such programs support participation in the cannabis industry by individuals or populations who have experienced negative or disproportionate effects from cannabis criminalization.

Figure 1
Cannabis Businesses Must Complete Key Steps to Conduct Business in California



Source: Analyses of state licensing and local permitting processes.

* For a commercial cannabis business to operate legally in California, it must obtain approval from DCC and satisfy any requirements for operation imposed by the local jurisdiction (typically a city or county) in which it intends to operate. Although local jurisdictions sometimes use different terminology, we distinguish between local and state approvals in this report by referring to local approval of permits and state approval of licenses.

† License requirements can vary by license type.

The Budget Act of 2021 Established the Local Jurisdiction Assistance Grant Program

The Budget Act of 2021 (Budget Act) appropriated \$100 million for the Local Jurisdiction Assistance Grant Program (Grant Program) to assist certain cities and counties (local jurisdictions) in helping cannabis businesses transition from provisional to annual state licenses. Specifically, the Budget Act designated 17 local jurisdictions that were eligible to receive Grant Program funding, as Figure 2 shows. Of the \$100 million appropriated for the Grant Program, the Budget Act appropriated up to \$5 million to DCC to administer the Grant Program. DCC administers the Grant Program through its Office of Grants Management.

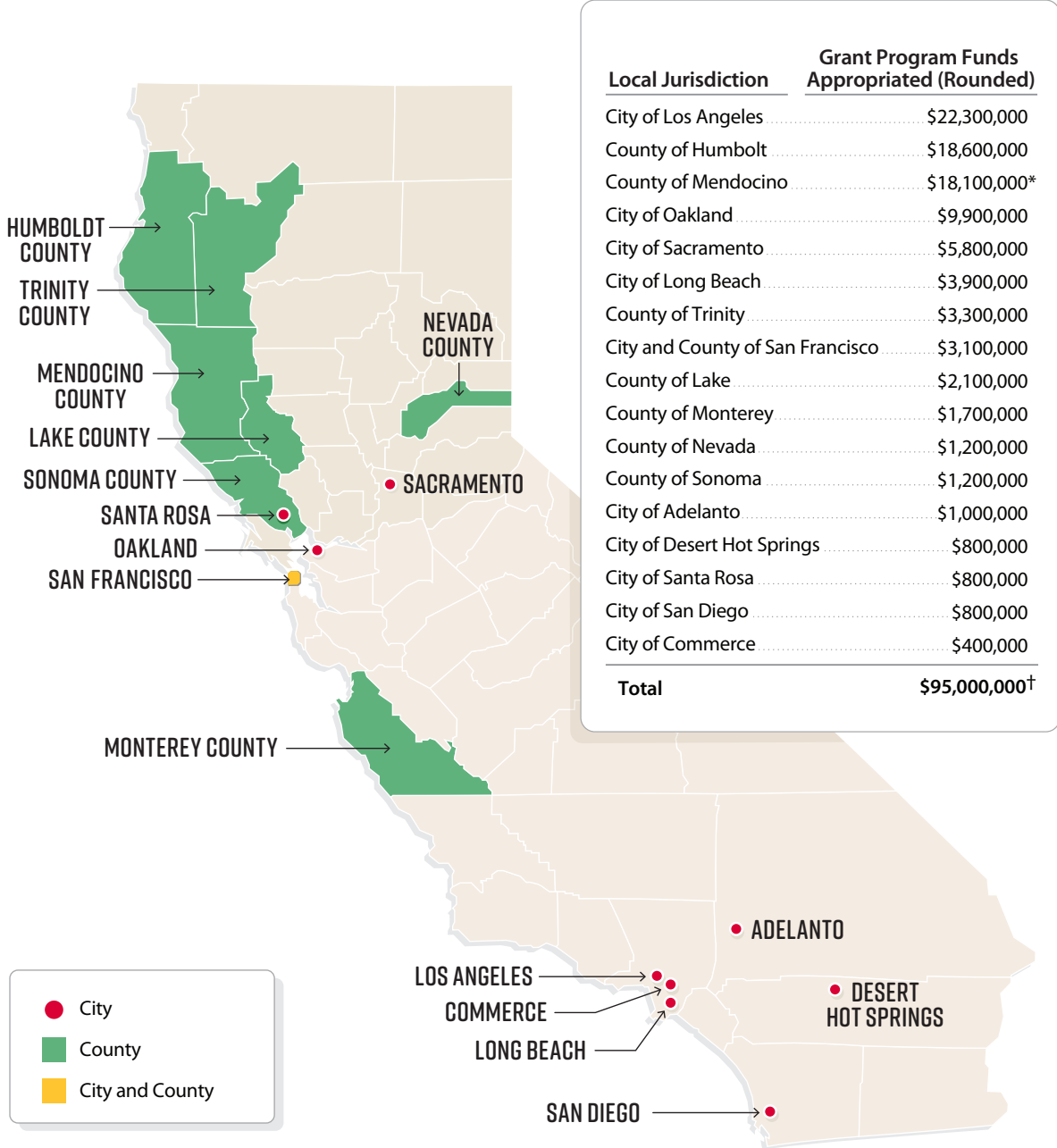
The Budget Act required local jurisdictions to apply to DCC for Grant Program funds and to develop an annual plan that, in part, demonstrates how each local jurisdiction plans to use Grant Program funds to assist cannabis businesses in transitioning provisional licenses to annual state licenses. The Budget Act states that Grant Program funds shall be available for encumbrance and expenditure until June 30, 2025, but it also allows DCC to recapture funds that jurisdictions do not spend by a date the DCC establishes. DCC's guidelines for the Grant Program state that local jurisdictions cannot spend Grant Program funds after March 31, 2025. DCC explained that before the Budget Act's deadline of June 30, 2025, DCC must work with the jurisdictions to receive closeout reports and documentation of final expenditures. Therefore, DCC established the March 31, 2025, deadline to allow adequate time for the local jurisdictions to submit the requested documentation and for DCC to review goal accomplishments and reconcile expenditure records before the statutory deadline. According to the Budget Act, all Grant Program funds that DCC and local jurisdictions have not used by June 30, 2025, will revert to the State's General Fund.

DCC initially disbursed to local jurisdictions 80 percent of the total awarded funding in 2022 when the Grant Program started, withholding the remaining 20 percent until local jurisdictions substantially met the goals of their annual plans to help cannabis businesses transition provisional licenses to annual state licenses. To receive the remaining 20 percent of the Grant Program funds, local jurisdictions had to submit a formal request to DCC by June 30, 2024.

Allowable Uses of Grant Program Funds

The Budget Act sets forth allowable uses for the Grant Program funds. These allowable uses include local government review, technical support, and certification of application requirements; preparation of CEQA documents related to CEQA compliance; mitigation measures for environmental compliance; and other uses that DCC determines further the intent of the Grant Program. The Budget Act also states that unallowable uses include costs related to litigation, fines for violating environmental laws, certain local and state application fees, supplanting existing cannabis funding, and other prohibited uses as determined by DCC.

Figure 2
Seventeen Local Jurisdictions Were Eligible to Receive Funding From the Grant Program



Source: State Auditor.

* Although the Legislature appropriated approximately \$18.1 million for Mendocino County, the amount Mendocino County agreed to with DCC in its grant agreement was \$17.6 million.

† The total does not include the \$5 million appropriated to DCC to administer the Grant Program.

In October 2021, DCC published guidelines and application instructions for the Grant Program. Those guidelines and instructions included examples of allowable uses of Grant Program funding from state law, as the text box shows. DCC allowed local jurisdictions to pass the Grant Program funds directly to cannabis businesses that hold provisional licenses, to assist those businesses in meeting annual state license requirements.

The guidelines also contain examples of unallowable uses of grant funds, such as costs incurred outside the Grant Program funding expenditure period, acquisitions for which the purchase price is greater than the appraised value, and enforcement costs related to compliance with commercial cannabis laws that do not include regular inspections as part of the local permitting process. The guidelines also state that local jurisdictions cannot use Grant Program funding to replace local, state, or federal funds that jurisdictions have already allocated or encumbered for the same purpose. If the local jurisdiction can provide a detailed description that satisfies DCC as to how the specific use will further the intended purpose of helping cannabis businesses transition from a provisional license to an annual license, DCC may allow certain expenditures that would otherwise be prohibited.

State Law Specifies Four Allowable Uses of Grant Program Funds:

1. Local government review, technical support, and certification for application requirements.
2. Local government or other professional preparation of environmental documents in compliance with CEQA for permits, licenses, or other authorizations to engage in commercial cannabis activity.
3. Mitigation measures related to environmental compliance, including water conservation and protection measures.
4. Other uses that further the intent of the program as determined by the DCC.

Source: State law.

To Determine Local Jurisdictions’ Compliance With the Grant Program, DCC Requires Jurisdictions to Provide Biannual Progress Reports

DCC’s Grant Program guidelines also require that local jurisdictions provide biannual progress reports to DCC on August 15 for the reporting period of January 1 to June 30 and on February 15 for the reporting period of July 1 to December 31. The first biannual reports were due August 15, 2022. In that first report, local jurisdictions had to include any applicable Grant Program expenditures preceding January 1, 2022, in addition to the expenditures from January 1, 2022 through June 30, 2022. The fifth biannual reports were due to DCC by August 15, 2024. The sixth biannual reports are due to DCC by February 15, 2025.

The progress reports include multiple reporting requirements, including a budget and expenditure report and a goals and deliverables report. In the budget and expenditures report, each local jurisdiction provides detailed updates on the budgeted and actual spending amounts since fiscal year 2021–22. DCC’s Grant Program manual requires that local jurisdictions submit supporting documents for the reported expenditures in the biannual reports. The goals and deliverables report details the local jurisdiction’s goals from its Grant Program agreement with DCC, the specific deliverables the local jurisdiction expected to produce, and the start and completion dates for each.

The California State Auditor Conducts Annual Performance Audits of the Local Jurisdictions

State law requires the State Auditor to annually conduct a performance audit of local jurisdictions receiving Grant Program funding, beginning January 2023 and concluding January 2026. In August 2024, we published *Cannabis Business Licensing: Inadequate Oversight and Inappropriate Expenditures Weaken the Local Jurisdiction Assistance Grant Program*, Report 2023-048. That report focused on six of the 17 local jurisdictions, which we selected, in part, according to the rate at which cannabis businesses holding provisional licenses in those jurisdictions had obtained annual state licenses. Those local jurisdictions were the counties of Humboldt, Lake, and Trinity, and the cities of Commerce, Los Angeles, and Santa Rosa. In this audit, we examined data from January 2023 through June 2024 from all 17 local jurisdictions that received Grant Program funding. We also selected five different local jurisdictions for additional review, a selection we determined, in part, by the rate at which cannabis businesses holding provisional licenses in their jurisdictions had obtained annual state licenses.⁶ In this audit, we reviewed the cities of Desert Hot Springs, Long Beach, and Oakland, and the counties of Mendocino and Sonoma.

⁶ We initially selected six local jurisdictions for review. However, we did not complete a detailed review of Adelanto's expenditures and progress because we determined that the local jurisdiction did not spend Grant Program funds during the audit period of January 1, 2023, through June 30, 2024.

Despite Some Progress in Reducing the Number of Provisional Licenses, Local Jurisdictions Continue to Face Challenges

Key Points

- All local jurisdictions made progress helping cannabis businesses transition from provisional licenses to annual state licenses between January 1, 2023, and June 30, 2024, and those jurisdictions are on track to complete their review of whether the remaining cannabis businesses satisfy local permitting requirements.
- For four of the five local jurisdictions we reviewed, most of the cannabis businesses that held provisional licenses needed to take required action to demonstrate that they have satisfied local permitting requirements. Thus, it did not appear to us that the selected local jurisdictions were hindering these cannabis businesses' efforts to transition their provisional licenses to annual state licenses.

Most Local Jurisdictions Are on Track to Help the Remaining Cannabis Businesses Holding Provisional Licenses Complete Local Permitting Requirements

According to DCC's state licensing data, all 17 local jurisdictions had reduced the number of cannabis businesses holding provisional licenses from January 2023 through June 2024. We reviewed DCC's licensing data to identify the number of provisional and annual state licenses as of June 30, 2024, as well as the reduction in the number of provisional licenses during our review period—from January 1, 2023 through June 30, 2024. As Table 1 shows, although the 17 local jurisdictions collectively reduced the number of provisional licenses by about 50 percent, they still had nearly 2,300 provisional licenses remaining as of June 2024.

Thirteen of the 17 local jurisdictions decreased the number of their provisional licenses by more than 50 percent during our review period, with Lake County, Commerce, and San Diego having reduced more than 90 percent of their provisional licenses. Further, Adelanto and Sonoma County decreased the number of their provisional licenses by 49 percent and 48 percent, respectively, just under the average reduction of all local jurisdictions. Only Los Angeles and Mendocino County experienced less than a 30 percent reduction in the number of provisional licenses in each jurisdiction, with Los Angeles reducing the number of its provisional licenses by 19 percent and Mendocino County reducing its number by 27 percent.

The reductions resulted from cannabis businesses transitioning their provisional licenses to annual state licenses, but also from DCC revoking provisional licenses, cannabis businesses surrendering their licenses or merging them with other licenses, or the licenses expiring and not being renewed. For example, as Table 1 shows, Lake County reduced the number of its provisional licenses by 163, from 171 provisional licenses as of January 1, 2023, to just eight as of June 30, 2024. This reduction included 77 licenses that cannabis businesses transitioned to annual

state licenses and 86 provisional licenses that had outcomes other than transitioning. Overall, between January 1, 2023, and June 30, 2024, the number of provisional licenses declined by 2,328. Nearly half of this decline resulted from cannabis businesses holding provisional licenses having an outcome other than transitioning to an annual state license, which is the overall goal of the grant program.

According to DCC, the large number of provisional licenses that had other outcomes does not reflect poorly on the local jurisdiction. DCC staff explained that those cannabis businesses with provisional licenses that did not transition may have stopped pursuing an annual state license for a variety of reasons, including the lack of resources to comply with all local permitting requirements. Further, DCC staff noted that the department may have to revoke some provisional licenses because of noncompliance with local or state licensing requirements. Therefore, according to DCC, the fact that many provisional licenses did not transition but expired or were revoked, does not reflect the local jurisdiction's lack of efforts related to achieving Grant Program goals.

Additionally, DCC's data may not reflect the actual number of all cannabis businesses holding provisional licenses that have cleared local requirements. For example, after a cannabis business satisfies all of the local jurisdiction's local permitting requirements, the business must then work with DCC to obtain an annual state license. According to DCC, the local jurisdiction notifies DCC that the cannabis business has met all local permitting requirements, and DCC then reviews the state requirements and informs the business of any deficiencies or any requirements it may have missed. According to DCC, if it does not receive an update from the local jurisdiction that a cannabis business has satisfied all local requirements, DCC's data will continue to show that the business's efforts to meet local requirements are underway. As a result, although DCC's data show that the 17 local jurisdictions had about 2,280 provisional licenses as of June 30, 2024, some of these may be cannabis businesses that have already satisfied local permitting requirements and are awaiting DCC's final approval of their annual state license.

Nevertheless, if cannabis businesses continue to transition provisional licenses at the same rate as they did between January 1, 2023, and June 30, 2024, we estimate that 11 of 17 local jurisdictions would have no provisional licenses remaining and one will have only eight provisional licenses remaining as of January 1, 2026, which is the deadline for most businesses holding provisional licenses to transition to annual state licenses. Available data show that these 12 local jurisdictions helped cannabis businesses transition roughly as many provisional licenses during the 18 months from January 1, 2023, through June 30, 2024, as the number of provisional licenses they had remaining as of June 30, 2024. Assuming these 12 jurisdictions continue to help businesses transition provisional licenses at the same pace, we project that all, or nearly all, remaining cannabis businesses with provisional licenses in those jurisdictions will transition during the next 18 months, or from July 1, 2024, through January 1, 2026. For example, Humboldt County had 208 provisional licenses remaining as of June 30, 2024. However, it transitioned 232 provisional licenses from January 2023 through June 2024; assuming it maintains this same pace of transition, we project that cannabis businesses with the remaining 208 provisional licenses will likely transition by January 1, 2026.

Table 1
Several Local Jurisdictions Had Many Active Provisional Licenses Remaining as of June 30, 2024

JURISDICTION	ACTIVE PROVISIONAL LICENSES AS OF JANUARY 1, 2023	TRANSITIONS FROM JANUARY 1, 2023 THROUGH JUNE 30, 2024	OUTCOMES OTHER THAN TRANSITION FROM JANUARY 1, 2023 THROUGH JUNE 30, 2024*	ACTIVE PROVISIONAL LICENSES AS OF JUNE 30, 2024	PERCENTAGE CHANGE OF PROVISIONAL LICENSES BETWEEN JANUARY 1, 2023 AND JUNE 30, 2024	PROJECTED NUMBER OF PROVISIONAL LICENSES NOT TRANSITIONED AS OF JANUARY 1, 2026 AT CURRENT RATE OF TRANSITION†
City of Adelanto	118	30	28	60	(49)%	30
City of Commerce	19	10	8	1	(95)	0
City of Desert Hot Springs	96	24	40	32	(67)	8
County of Humboldt	597	232	157	208	(65)	0
County of Lake	171	77	86	8	(95)	0
City of Long Beach	137	72	45	20	(85)	0
City of Los Angeles	1,177	13	213	951	(19)	938
County of Mendocino	765	51	156	558	(27)	507
County of Monterey	392	230	112	50	(87)	0
County of Nevada	91	57	22	12	(87)	0
City of Oakland	305	63	94	148	(51)	85
City of Sacramento	160	105	31	24	(85)	0
City of San Diego	55	43	9	3	(95)	0
City and County of San Francisco	70	34	17	19	(73)	0
City of Santa Rosa	52	28	15	9	(83)	0
County of Sonoma	106	8	43	55	(48)	47
County of Trinity	296	137	38	121	(59)	0
Totals	4,607	1,214	1,114	2,279	(51)%	1,615

Source: Analysis of DCC’s manufacturing, cultivation, and retail and distribution licensing systems.

* Other outcomes may include licenses that expire, licenses that businesses surrender, licenses that DCC revokes, or multiple licenses that merge into a single license. Also, DCC may have issued new provisional licenses during this period because state law allows it to do so for local equity applicants until January 1, 2031. Further, the cannabis businesses holding provisional licenses may have cleared all local requirements and may be awaiting DCC’s final decision on their annual state licenses. However, DCC’s database does not readily identify these outcomes or statuses. As such, these figures are estimates based on available data.

† This column projects the number of provisional licenses that may not be transitioned as of January 1, 2026, by subtracting the number of licenses each jurisdiction transitioned during the 18-month period from January 1, 2023, through June 30, 2024, from the number of active provisional licenses as of June 30, 2024. As we describe in the report, we did not include those with other outcomes when making these projections. Further, a number of factors may impact the future rate of transitions, and the projections shown may differ significantly from actuals. As we discuss in the report, some jurisdictions may make significantly more progress than projected. Conversely, some jurisdictions may make less progress than projected.

In contrast, we project that five local jurisdictions will still have numerous provisional licenses remaining as of January 1, 2026, assuming they continue to help cannabis businesses transition provisional licenses at their previous pace. Specifically, at the rate of transition in the 18 months that we reviewed from January 1, 2023, through June 30, 2024, we project that Los Angeles and Mendocino would have 938 and 507 provisional licenses remaining, respectively, as of January 1, 2026.

Our projections do not account for those cannabis businesses that choose to opt out of the process of transitioning their provisional licenses to annual state licenses or those that have their licenses revoked. DCC estimates that at least 10 percent of cannabis businesses with provisional licenses may opt out of the process. Further, with the exception of retail equity businesses—businesses that participate in local equity programs and have been disproportionately affected by criminalization of cannabis industry—a cannabis business may not renew its provisional license beginning January 1, 2025. As a result, when a cannabis business’s provisional license expires in 2025, the business may no longer renew it and must cease operations until it complies with all annual state licensing requirements, including local permitting requirements. Because this additional restriction did not affect cannabis businesses during previous years, we cannot reasonably project the number of cannabis businesses that will have other outcomes, such as their provisional licenses expiring, between July 2024 and December 2025.

Although Mendocino County and Los Angeles are at a higher risk of not helping all of their cannabis businesses transition their provisional licenses to annual state licenses, both jurisdictions are working with DCC to address this matter. For example, although Mendocino County had 558 provisional licenses remaining as of June 30, 2024, it has taken steps as of October 2024 to significantly reduce those remaining provisional licenses. To achieve this reduction, DCC and Mendocino County worked to streamline the county’s Environmental Impact Report (EIR) process to help businesses transition existing provisional licenses to annual state licenses. Mendocino County contracted with a third party to prepare the EIR covering cannabis cultivation licensing in Mendocino County for and under the direction of DCC. The EIR is a state requirement, and DCC certified it in October 2024. DCC stated that the EIR addresses a significant and longstanding barrier to annual licensure for more than 500 cultivation cannabis businesses holding provisional licenses. These cannabis businesses are now awaiting DCC’s approval to transition to annual state licenses. According to the deputy director of DCC’s licensing division, Mendocino County has about 300 provisional licenses remaining as of January 15, 2025, and is on track to reduce the number of provisional licenses to zero before the deadline.

Similarly, DCC explained that it is working with Los Angeles to assist the local jurisdiction in helping its cannabis businesses that meet all local permitting requirements transition their provisional licenses to annual state licenses. To facilitate the transition of licenses in Los Angeles, DCC stated that it has established a method for Los Angeles staff to submit completed local permits electronically. Additionally, the local jurisdiction staff noted that Los Angeles was able to help cannabis businesses transition about 200 provisional licenses to annual state annual licenses from April 2024 through October 2024—a rate of about 29 transitions per month. Los Angeles’s chief management analyst also noted that the jurisdiction

is helping 45 cannabis businesses holding provisional licenses clear local permitting requirements every month. Los Angeles staff explained that the jurisdiction is on track to help its cannabis businesses transition all provisional licenses by the State's deadline. Assuming Los Angeles continues to assist these cannabis businesses clear local permitting requirements at this pace, we project it could complete its review of about 800 additional cannabis businesses to help the cannabis businesses transition their provisional licenses to annual state licenses by January 1, 2026. Los Angeles staff also stated that the jurisdiction has focused on processing retail cannabis businesses. Since April 2024, these businesses have required a hearing by its Cannabis Regulation Commission and have required additional processing times. Los Angeles now plans to shift its focus to non-retail cannabis businesses, which do not require a commission hearing and will receive a faster local approval because they will likely require less processing time. However, as we discuss later, Los Angeles may not be able to continue using Grant Program funds and may instead have to use its general fund to pay for this work.

In contrast, some other local jurisdictions mentioned challenges they face in assisting cannabis businesses holding provisional licenses complete the local permitting process. These challenges may affect the rate at which the cannabis businesses transition to annual state licenses before the deadline. For example, our review of available data suggests that Desert Hot Springs would have only eight provisional licenses remaining by January 1, 2026, at the current pace of transitions. However, in May 2024, Desert Hot Springs ended the contract with its contractor—which it had hired to help cannabis businesses holding provisional licenses satisfy local permitting requirements—and the jurisdiction's director of cannabis compliance told us that the jurisdiction has not been able to hire a new contractor because of an ongoing contract dispute with the previous contractor. Without the help of a new contractor, only a few of the jurisdiction's remaining cannabis businesses are likely to transition their provisional licenses to annual state licenses. In another example, Oakland staff mentioned that the jurisdiction faced challenges implementing its initial plan of hiring an additional staff member in its building department because of the temporary nature of the position. Instead, Oakland tried to amend its Grant Program agreement with DCC and repurpose the funds to support cannabis businesses that hold provisional licenses by giving those businesses more direct grants to help them complete their remaining local permitting requirements. However, as we discuss later in the report, DCC denied this amendment request. Oakland's city administrator analyst, who is responsible for the Grant Program's daily administration, told us that without this support, she fears that many of these businesses may not be able to complete pending local requirements—such as installing new sprinkler or heating and ventilation systems—and are at risk of not transitioning to annual state licensure by January 2026.

Most Provisional Licenses We Reviewed Are Awaiting Action From Cannabis Businesses to Satisfy Local Permitting Requirements

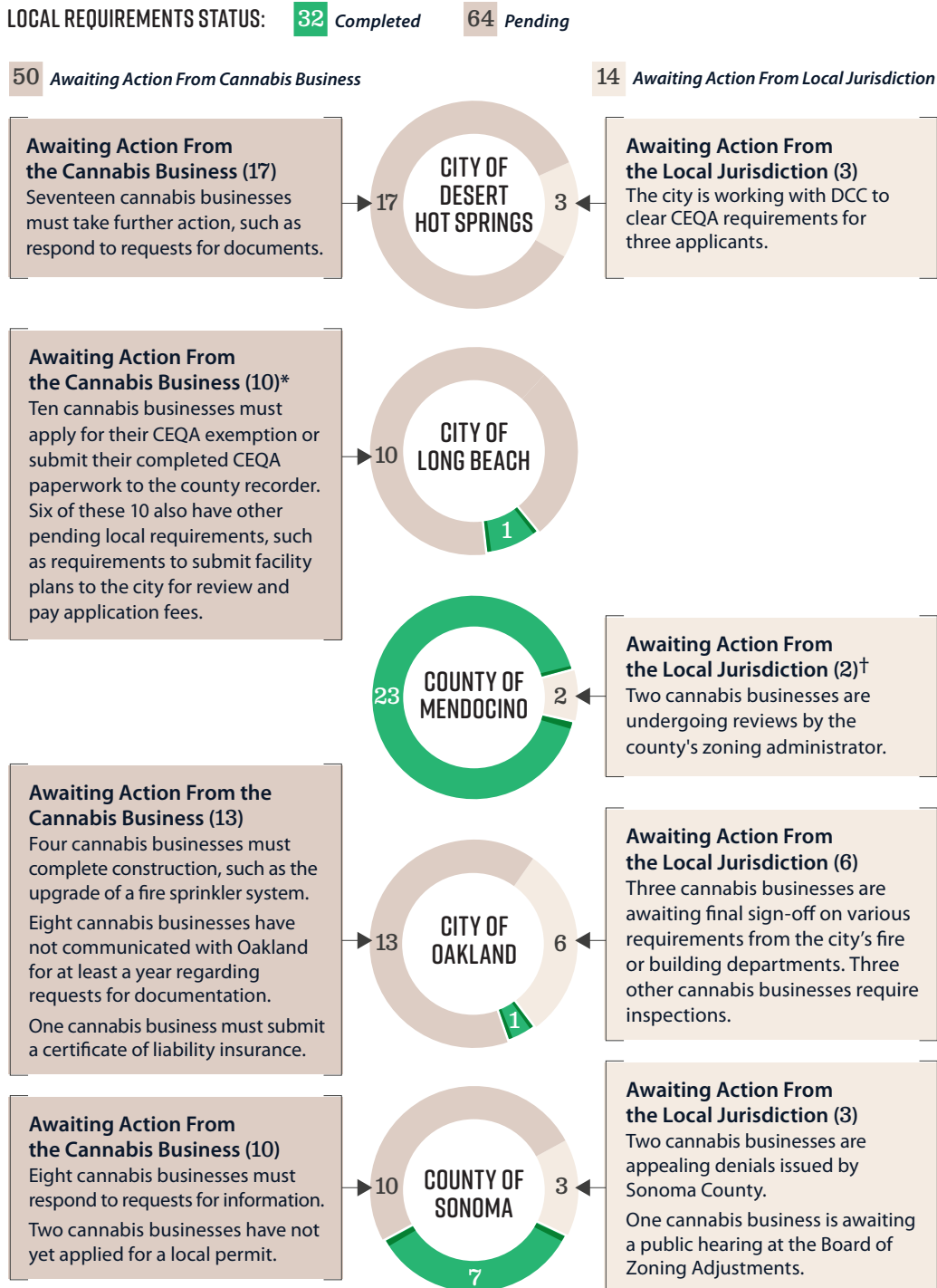
We selected five local jurisdictions—Desert Hot Springs, Long Beach, Mendocino County, Oakland, and Sonoma County—and reviewed a selection of about 20 provisional licenses at each to determine the challenges local jurisdictions face in

helping their remaining cannabis businesses holding provisional licenses transition to annual state licenses. We randomly selected 20 provisional licenses for Desert Hot Springs, Oakland, and Sonoma County. In the case of Long Beach, which had only 11 provisional licenses remaining in September 2024 when we obtained the data, we reviewed all of the remaining 11 licenses. For Mendocino County, which had many more provisional licenses remaining, we randomly selected 25 licenses. The selected licenses in Mendocino were still in provisional license status as of September 2024, and the businesses holding those licenses had not completed all local permitting requirements, according to DCC's records management systems.

Of the 96 provisional licenses we reviewed, 32 had already met all local permitting requirements, a key step in the process of obtaining an annual state license. As we discuss earlier, after a cannabis business holding a provisional license meets all local permitting requirements, which include, among other things, obtaining business operating permits, complying with local building and fire codes, and meeting CEQA requirements, the business must then demonstrate to DCC that it has satisfied state licensing requirements. State licensing requirements include paying all applicable fees or providing evidence that the commercial cannabis business has the legal right to occupy and use the proposed location. DCC's data may still show that the license is in provisional status until the department verifies that the business has completed all local permitting requirements. For example, as Figure 3 shows, 23 of the 25 cannabis businesses in Mendocino County that we reviewed had cleared the local permitting requirements, and the jurisdiction had issued local permits to these businesses as of October 15, 2024. Similarly, cannabis businesses had already completed local permitting requirements for seven of the 20 provisional licenses we reviewed for Sonoma.

Figure 3 shows that of the 64 provisional licenses we reviewed that had not yet completed all local requirements, 50 provisional licenses at four local jurisdictions—Desert Hot Springs, Long Beach, Oakland, and Sonoma County—were still awaiting an action from the cannabis businesses to complete local permitting requirements. For example, according to Oakland, eight of the 20 cannabis businesses holding provisional licenses that we reviewed have not communicated with the local jurisdiction or have not submitted requested documentation for at least one year, despite the jurisdiction's repeated efforts to communicate with the businesses. In another example, 10 of the 11 cannabis businesses we reviewed at Long Beach had not yet completed all local permitting requirements. Although three of these 10 cannabis businesses were awaiting some action from the local jurisdiction, all 10 had yet to begin the CEQA application or submit CEQA documentation to the jurisdiction. When a cannabis business holding a provisional license does not respond to a jurisdiction's requests in a timely manner, that business delays the local jurisdiction's processing of the local permit application and subsequent issuance of an annual state license.

Figure 3
Many of the Provisional Licenses We Reviewed That Have Not Completed Local Requirements Are Awaiting Action From Cannabis Businesses



Source: Review of provisional licenses at local jurisdictions.

Note: We reviewed 20 provisional licenses for each jurisdiction, with two exceptions. We reviewed the total of 11 provisional licenses remaining at Long Beach as of September 2024. We reviewed a total of 25 provisional licenses at Mendocino County because it had larger number of provisional licenses overall.

* Long Beach is reviewing three of the 10 cannabis businesses to determine their compliance with requirements related to fire alarm systems and their business license application.

† Mendocino County notified us that the two cannabis businesses we reviewed that were pending local requirements obtained their local permits as of December 2024, after we completed our review.

Fourteen of 64 licenses we reviewed were awaiting action from local jurisdictions. For example, six cannabis businesses with provisional licenses we reviewed in Oakland that had not yet completed all local requirements were waiting for final signoff from one or more city departments in the local jurisdiction or were working with the city departments to schedule inspections. For instance, East Bay Municipal Utility District works with cannabis businesses in Oakland to safely reduce the discharge of pollutants to community sewers and ultimately to the San Francisco Bay, and it approves cannabis businesses' applications for water service and wastewater discharge permits. However, the district was withholding its approval for three cannabis businesses because the owner of the office park where these businesses are located had not submitted documents that the district requested. Similarly, for three cannabis businesses in Desert Hot Springs, the local jurisdiction was awaiting information from DCC related to their compliance with CEQA. Specifically, the three cannabis businesses had completed all local requirements, but DCC must approve their CEQA documents before the local jurisdiction can certify that the businesses have met all local permitting requirements.

Most of the local jurisdictions we reviewed and DCC stated that they have plans to help the remaining cannabis businesses holding provisional licenses complete their local permitting requirements and help the businesses transition to annual state licenses. According to Long Beach staff, the jurisdiction facilitates communication between cannabis businesses and city planners to identify the businesses' needs so the businesses can satisfy local or state licensure requirements. Oakland is taking targeted action to continue to provide support to businesses, including using Grant Program funds for its current direct grants to provide assistance to equity cannabis businesses. Sonoma County has updated its local permitting forms and created a training packet to help staff process permits more quickly. According to Sonoma County's cannabis program coordinator, the remaining cannabis businesses holding provisional licenses that are committed to obtaining an annual state license will be able to do so before the State's deadline of January 1, 2026. As we discussed earlier, Mendocino County has used the programmatic EIR to help cannabis businesses transition from provisional licenses to annual state licenses. DCC explains that it is working with local jurisdictions to ensure that all cannabis businesses with provisional licenses that meet local permitting requirements are able to transition to annual state licenses. DCC staff mentioned that the department prioritizes helping cannabis businesses according to their provisional license expiration dates.

Several Local Jurisdictions Spent Grant Program Funds for Unallowable Purposes

Key Points

- Two local jurisdictions we reviewed—Oakland and Sonoma County—spent Grant Program funds on expenses, such as rent for cannabis businesses and local jurisdiction staff time to process permits for cannabis businesses that did not hold provisional licenses. Of the expenditures we reviewed, we found that Oakland inappropriately spent \$35,000 of about \$565,000 in expenditures, and Sonoma County inappropriately spent about \$13,000 of \$106,000 in expenditures. The expenditures were generally unallowable because they do not further the goal of the Grant Program, which is to assist the transition of provisional licenses to annual state licenses.
- DCC has questioned the allowability of nearly \$500,000 in expenditures at an additional five local jurisdictions that are in the process of closing out their Grant Program awards. According to DCC, some expenditures it questioned were unsupported and others may have been used for unallowable purposes, such as helping cannabis businesses that do not hold provisional licenses. As of December 2024, DCC was finalizing its review of some of these questionable expenditures.

Two of the Five Local Jurisdictions We Reviewed Used Grant Program Funds Inappropriately

Our review of five local jurisdictions' expenditures charged to the Grant Program found that two—Oakland and Sonoma County—spent about \$48,000 of \$671,000 in Grant Program funds we reviewed on purposes that did not further the Grant Program's goal to help businesses transition provisional licenses to annual state licenses. First, we reviewed all expenditures that local jurisdictions reported to DCC in their most recent biannual report to determine whether all reported activities were allowable under state law and DCC guidelines and were included in the jurisdictions' approved grant agreements. Specifically, as we discuss in the Introduction, DCC requires all local jurisdictions to submit biannual reports that contain details about local jurisdictions' Grant Program spending and progress on their Grant Program goals. We then selected 20 transactions supporting the expenditures listed in the biannual reports, such as payments to contractors to assist cannabis businesses holding provisional licenses with their applications or payments issued directly to cannabis businesses to improve their cultivation sites. We reviewed the supporting documentation that we obtained from local jurisdictions to verify both the accuracy of the amounts and whether each selected transaction is allowable. The supporting documentation we reviewed included invoices, contracts, and timesheets for staff. As Table 2 shows, we did not identify any unallowable expenditures at three of the five local jurisdictions we reviewed. However, we found that Sonoma County and Oakland did not always use funds for allowable purposes.

Table 2
Two of Five Local Jurisdictions We Reviewed Spent Some Grant Program Funds for Unallowable Purposes

LOCAL JURISDICTION	AMOUNT OF UNALLOWABLE SPENDING AND TOTAL AMOUNT REVIEWED*	UNALLOWABLE EXPENDITURES	TYPE OF GRANT PROGRAM SPENDING WE REVIEWED
City of Oakland	<p>Unallowable: \$35,000</p> <p>Total reviewed: \$565,000</p> <p>Total spent as of June 30, 2024: \$4,460,000</p> <p>Percent reviewed of total spent: 13%</p>	Oakland used grant funds to help one business pay for its website and another business to help pay rent, among other expenses. Because these expenses are not necessary to transition licenses from provisional to annual, we believe they were unallowable.	<ul style="list-style-type: none"> Salary for city staff who reviewed applications and provided direct assistance to businesses. Computer equipment for city staff to work on the Grant Program. Direct grants to businesses to meet security and other compliance needs. Expenses related to consultants for application review and providing assistance to businesses.
County of Sonoma	<p>Unallowable: \$13,000</p> <p>Total reviewed: \$106,000</p> <p>Total spent as of June 30, 2024: \$893,000</p> <p>Percent reviewed of total spent: 12%</p>	Some of the staff at Sonoma County spent time on activities that do not relate to transitioning provisional licenses such as reviewing vacation rental permits and reviewing permits for cannabis businesses that did not have a provisional license.	Salary for county staff who reviewed applications and provided direct assistance to businesses.
City of Desert Hot Springs	<p>Unallowable: \$0</p> <p>Total reviewed: \$99,000</p> <p>Total spent as of June 30, 2024: \$241,000</p> <p>Percent reviewed of total spent: 41%</p>	N/A	Expenses related to consultants who reviewed applications and provided direct assistance to businesses.
City of Long Beach	<p>Unallowable: \$0</p> <p>Total reviewed: \$50,000</p> <p>Total spent as of June 30, 2024: \$548,000</p> <p>Percent reviewed of total spent: 9%</p>	N/A	<ul style="list-style-type: none"> Salary for city staff who reviewed applications and provided assistance to business. Expenses related to contractors for application review and direct assistance to businesses.
County of Mendocino	<p>Unallowable: \$0</p> <p>Total reviewed: \$1,272,000</p> <p>Total spent as of June 30, 2024: \$7,615,000</p> <p>Percent reviewed of total spent: 17%</p>	N/A	<ul style="list-style-type: none"> Salary for county staff and invoices for contractors who reviewed applications and provided direct assistance to businesses. Expenses for IT systems and permitting software. Direct grants to county businesses to support the transition to annual state licenses.

Source: Local jurisdictions' biannual reports, selected transactions, and supporting documentation.

* Dollar amounts are rounded to the nearest thousand. In addition, we selected 20 transactions to review from each local jurisdiction. Therefore the percent reviewed of total spent may vary among local jurisdictions.

Sonoma County's grant agreement with DCC authorizes the jurisdiction to use Grant Program funds primarily to pay staff to process local cannabis permits. In its most recent biannual report, the jurisdiction reported to DCC that it had spent about \$890,000 for staff to process cannabis permits. We reviewed 20 timesheets that staff completed between January 2023 and June 2024, totaling \$106,000 in expenses, and we found that the local jurisdiction used about \$13,000 to pay staff for time they spent processing local permits for cannabis businesses that did not hold provisional licenses. Because the Grant Program's purpose is to transition provisional licenses to annual state licenses, rather than to renew annual licenses, work performed on local permits for cannabis businesses with annual state licenses is not allowable. In addition, our review of payroll information found that two local jurisdiction staff were processing permits for vacation rentals in the county rather than working on cannabis permits. When we asked the local jurisdiction's cannabis program coordinator about these expenses, she told us that she was unaware that the jurisdiction was charging time to the Grant Program for staff processing vacation rental permits. Sonoma County told us that it plans to correct these errors in its next biannual report to DCC. It further stated that it will work with its staff to ensure that work unrelated to the Grant Program is not included in future grant reporting. As we discuss later in this report, DCC recaptures the funds spent for unallowable uses at the closing phase of the Grant Program award.

Similarly, our review of Oakland's direct grants to cannabis businesses found \$35,000 in expenses that did not further the purpose of the Grant Program. Local jurisdictions may use Grant Program funds to pay cannabis businesses directly—such awards are called direct grants—to help the businesses transition from provisional licenses to annual state licenses. Allowable uses of these direct grants include activities such as hiring a consultant to assess environmental impacts. However, we found that some of Oakland's direct grants to cannabis businesses allowed those businesses to use the funds to pay for regular or ongoing operating expenses, such as rent or marketing costs, rather than expenses that would help them meet annual state license requirements. We believe that such expenses were unallowable.

Oakland paid \$50,000 of Grant Program funds to one cannabis business with a provisional license. According to its award agreement, Oakland allowed the cannabis business to use \$10,000 of this \$50,000 payment for business expenses such as web-hosting fees and expenses related to information technology—activities unrelated to transitioning its provisional license. When we asked Oakland why it approved the expense, the local jurisdiction's analyst working on the Grant Program acknowledged that the expenses did not pay for activities that help obtain an annual state license. Oakland's Special Activity Permits staff told us that the jurisdiction's practice of providing direct grants to cannabis businesses is consistent with its interpretation of the Budget Act that began the Grant Program, which Oakland interpreted as intending to help businesses enter the regulated market. We disagree with the local jurisdiction's interpretation of the Grant Program's purpose. Although these expenses may pay for activities that support operating a cannabis business, they are not required for transitioning cannabis businesses from a provisional license to an annual state license; therefore, we believe they are not allowable because the expenses do not further the purpose of the Grant Program.

Oakland also awarded \$50,000 in a direct grant to another business holding a provisional license that used \$25,000 to pay rent, which we believe is not an allowable expense. Oakland staff explained that maintaining a physical location was necessary for a business to pursue a local permit and an annual state license. However, we believe that these were regular business expenses that DCC will likely consider unallowable when it completes its review. Oakland staff contacted DCC for guidance before authorizing these expenditures. The jurisdiction told us that it did not receive a definitive answer from DCC regarding whether a business holding a provisional license can use Grant Program funds for rent, but the jurisdiction approved these expenses to provide timely assistance to businesses. When we asked DCC whether rent was allowable as a Grant Program expenditure, DCC noted that it had not completed its review of Oakland's expenditures—which it generally conducts during the final steps at the end of the grant award (grant closeout)—to determine the extent of the jurisdiction's unallowable uses of the grant funds. However, it stated that such use would not meet the requirement that funds be spent to assist cannabis businesses in transitioning from provisional to annual state licenses.

DCC Has Developed a Process for Reviewing Local Jurisdictions' Grant Program Expenditures

In our August 2024 report, we noted that we sent a management letter to the DCC in July 2023 expressing several concerns, including that DCC was not scrutinizing local jurisdiction expenditures. DCC has since begun implementing a process for reviewing local jurisdiction spending, to identify any unallowable uses at the time local jurisdictions begin the closeout process for their grants. DCC provided documentation to demonstrate that it performs a review of expenditures when it closes out a local jurisdiction's award.

As Table 3 shows, DCC has issued notices as of September 2024 to recapture unspent funds or unsupported expenses from five local jurisdictions that were in the process of closing out their grant awards. In one example, DCC notified Lake County that more than \$419,000 in expenditures were either unallowable by DCC's analysis or would require further supporting documentation from the jurisdiction. Specifically, DCC questioned whether the local jurisdiction had used Grant Program funds to support only those cannabis businesses holding provisional licenses. To complete the grant closeout, the jurisdiction will need to return the funds or provide further justification to DCC to establish that the funds are not subject to recapture. The grant manager at DCC explained that as of December 2024, DCC was still reviewing additional information that Lake County provided. Similarly, DCC has questioned Commerce's expenditures of about \$61,000. DCC claims that it did not receive requested documentation from the local jurisdiction to support the expenditures. For example, DCC explained in a letter to Commerce that the supporting documents for a staff position are insufficient and that they do not provide clarity for the amount of funds charged to the Grant Program for that position. DCC's grant manager explained that the local jurisdiction also requested to address these expenditures with additional documentation and that DCC is currently reviewing the additional supporting documentation. According to DCC, the other three local jurisdictions—Adelanto, San Diego, and Santa Rosa—have returned all unspent and

questioned Grant Program funds as of November 2024. Although DCC gave priority to local jurisdictions closing the grant process, DCC plans to audit the remaining local jurisdictions on a rolling basis or as they close their grant awards.

Table 3
DCC Issued Notices to Five Local Jurisdictions Questioning the Allowability of or Support for Some Expenditures

LOCAL JURISDICTIONS IN THE PROCESS OF CLOSING OUT THE GRANT PROGRAM	AMOUNT OF INITIAL GRANT DISBURSEMENT	AMOUNT SPENT ACCORDING TO DCC	AMOUNT DCC HAS QUESTIONED	AMOUNT OF UNSPENT AND QUESTIONED COSTS DCC HAS REQUESTED LOCAL JURISDICTIONS TO RETURN*	PERCENT OF INITIAL GRANT DISBURSEMENT DCC HAS REQUIRED LOCAL JURISDICTION TO RETURN
Adelanto	\$778,157	\$5,296	\$5,296	\$778,157	100%
Commerce	333,056	60,959	60,959	333,056	100
Lake County	1,680,914	799,541	419,360	1,300,733	77
San Diego	611,409	123,249	6,404	494,563	81
Santa Rosa	620,673	135,428	96	485,340	78
Totals	\$4,024,209	\$1,124,473	\$492,115	\$3,391,849	84%

Source: DCC.

Notes: The expenditures reported in this table are based on DCC's review of local jurisdictions' overall spending. These amounts may vary from the amounts in Table 4, which include the spending as of June 30, 2024.

Amounts may not agree due to rounding.

* Lake County and Commerce requested to cure certain expenses. DCC is currently reviewing those requests. Consequently, the amount that DCC requires these local jurisdictions to return may change depending on the outcome.

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Nine of 17 Local Jurisdictions Expect to Meet Grant Program Goals Without Spending All Grant Program Funds

Key Points

- Eleven local jurisdictions have not spent a majority of the Grant Program funds they received, but nine of them may not need to spend all of their funds to help most of their businesses transition from provisional licenses to annual state licenses. Some cannabis businesses holding provisional licenses will likely not transition to annual state licenses because their provisional licenses may expire before January 1, 2026, without the businesses having met all local permitting or annual state licensing requirements.
- At least two local jurisdictions may not spend all of their Grant Program funds because of disagreements with DCC about allowable Grant Program activities.

More Than Half of All Local Jurisdictions Believe That Most Cannabis Businesses Will Transition Their Provisional Licenses Without the Jurisdictions' Spending All Grant Program Funds

A few local jurisdictions have spent the majority of the funds they initially received from DCC and expect to spend their entire Grant Program awards. DCC awarded \$94.5 million to 17 local jurisdictions, and by the end of April 2022, it had disbursed to the 17 local jurisdictions 80 percent of the funds it awarded them. More than two years later, by June 30, 2024, the 17 local jurisdictions had collectively spent just over 40 percent of their initial disbursements, as Table 4 shows.

Although 11 local jurisdictions have not spent the majority of their initially disbursed funds, most of these jurisdictions have only a small number of cannabis businesses with provisional licenses remaining and are consequently at lower risk of having cannabis businesses with provisional licenses not transition to annual state licenses. For example, although Sacramento had spent only 10 percent of the \$4.6 million it received through the initial disbursement, the local jurisdiction had only 24 provisional licenses remaining as of June 30, 2024. Similarly, Santa Rosa spent only 22 percent of its initially disbursed funds. However, this local jurisdiction had only nine provisional licenses remaining as of June 30, 2024. In fact, in June 2024, Santa Rosa requested to close out its Grant Program award and return the remaining funds to DCC because the local jurisdiction had achieved the Grant Program's purpose of helping those businesses that could meet the requirements transition from provisional licenses to annual state licenses. The jurisdiction no longer needed the funds to help businesses transition the remaining provisional licenses.

Table 4**Eleven of 17 Local Jurisdictions Have Spent Less Than 50 Percent of the Initial Disbursement of Their Grant Program Funds**

JURISDICTION NAME	TOTAL GRANT AMOUNT*	INITIAL DISBURSEMENT (80 PERCENT OF GRANT AMOUNT)*	EXPENDITURES AS OF JUNE 30, 2024*	PERCENT SPENT OF INITIAL DISBURSEMENT AS OF JUNE 30, 2024	ACTIVE PROVISIONAL LICENSES AS OF JUNE 30, 2024
City of Adelanto	\$973,000	\$778,000	\$5,000	1%	60
County of Nevada	1,221,000	977,000	85,000	9	12
City of Sacramento	5,787,000	4,629,000	452,000	10	24
City of Los Angeles	22,312,000	17,850,000	2,320,000	13	951
City of Long Beach	3,935,000	3,148,000	548,000	17	20
City of Commerce	416,000	333,000	61,000	18	1
City of San Diego	764,000	611,000	117,000	19	3
City of Santa Rosa	776,000	621,000	135,000	22	9
City and County of San Francisco	3,076,000	2,461,000	742,000	30	19
City of Desert Hot Springs	822,000	658,000	241,000	37	32
County of Lake	2,101,000	1,681,000	769,000	46	8
County of Mendocino	17,586,000	14,069,000	7,615,000	54	558
City of Oakland	9,905,000	7,924,000	4,460,000	56	148
County of Trinity	3,294,000	2,635,000	1,789,000	68	121
County of Monterey	1,737,000	1,390,000	986,000	71	50
County of Humboldt	18,635,000	14,908,000	10,784,000	72	208
County of Sonoma	1,158,000	926,000	893,000	96	55
Totals	\$94,498,000	\$75,599,000	\$32,002,000	42%	2,279

Source: DCC.

Note: This table presents expenditure amounts obtained from DCC's financial reports. As discussed earlier in the report, local jurisdictions may have unallowable expenditures. Some expenditures in this table may not be allowable.

■ = Jurisdictions that are in the process of closing out their grant awards.

Red Numbers = Jurisdictions that spent less than 50 percent of their initial 80 percent disbursement of Grant Program funds.

* Dollar amounts are rounded to the nearest thousand.

These examples indicate that these local jurisdictions' low level of spending has not affected their ability to make progress toward achieving the Grant Program's purpose. The overall reduction in the number of provisional licenses may include outcomes other than transitions, such as a cannabis business deciding to opt out from pursuing an annual state license. However, the number of businesses with outcomes other than transition to an annual state license does not indicate a lack of effort from local jurisdictions, as we discussed earlier in the report.

Two Local Jurisdictions May Not Spend All of Their Grant Program Funds Because of Disagreements With DCC Regarding the Use of Those Funds

Adelanto and Los Angeles had disagreements with DCC related to the activities they could perform with the use of Grant Program funds, which inhibited their ability to spend a significant amount of their awards. As of June 30, 2024, Adelanto had spent about \$5,000, or less than 1 percent, of the nearly \$780,000 initial disbursement it received from DCC. Los Angeles had also spent only about \$2.3 million, or just 13 percent of its initial disbursement of \$17.9 million, as of June 30, 2024. Both of these local jurisdictions attributed the low level of spending, at least in part, to disagreements with DCC about the allowable use of funds.

Adelanto's disagreement with DCC regarding the local jurisdiction's Grant Program activities led to DCC's decision to end Adelanto's participation in the Grant Program. According to DCC, attempts in multiple technical assistance meetings to gain agreement between the parties were not successful. Between November 2022 and May 2024, Adelanto submitted at least three amendment requests to DCC to amend its agreement so that it could use the funds for various purposes. These purposes included adjusting allocations for contractor and staff costs, completing an EIR that would benefit both existing cannabis businesses with provisional licenses and new applicants, and environmental studies support. For example, in May 2024 Adelanto asked DCC if it could use all Grant Program funds to hire a consultant to assist cannabis businesses holding provisional licenses. The consultant would help those businesses with CEQA documentation and would develop an EIR. Adelanto's original Grant Program agreement with DCC had budgeted \$250,000 for this activity. DCC told Adelanto it would need to amend its grant agreement and budget to hire consultants to assist with CEQA documentation. DCC also told Adelanto that it could not use Grant Program funds for developing an EIR because the EIR would benefit new cannabis business applicants and not serve the intent of the Grant Program. Adelanto stopped charging expenses to the Grant Program in November 2022 and began charging some expenses to the city's general fund. Adelanto's plan was to reimburse these expenses with Grant Program funds when DCC approved Adelanto's grant amendment request. However, because DCC and Adelanto could not agree on an amendment to include requested activities, Adelanto has not used any Grant Program funds since November 2022.

Because Adelanto and DCC could not agree on the use of Grant Program funds, DCC chose to end the local jurisdiction's participation in the Grant Program, and Adelanto agreed to comply with DCC's decision. According to Adelanto's city manager, the city faced difficulties in accomplishing the goals of the Grant Program because the scope of Adelanto's Grant Program activities changed and because DCC did not accept the description of Adelanto's activities in the original Grant Program agreement and declined Adelanto's request for dispute resolution. Adelanto's city manager also asserted that not only did the Grant Program not assist any cannabis businesses holding a provisional license in Adelanto, it also created an extensive administrative burden for the jurisdiction. In June 2024, DCC notified Adelanto that it would recapture the entirety of the jurisdiction's Grant Program disbursement because the jurisdiction did not provide the proposed amendment requests by the specified deadline. According to DCC's operations branch chief,

Adelanto had frequent staff turnover, misconceptions about allowable expenditures, and did not seem to understand the goal of the Grant Program. With 60 provisional licenses remaining as of June 2024, Adelanto's managing director told us that the jurisdiction continues working with cannabis businesses holding provisional licenses to help them transition to annual state licenses. The managing director believes that Adelanto will transition its provisional licenses before the deadline, even without the use of Grant Program funds.

Los Angeles attributed its slower pace of spending Grant Program funds to its need to make necessary changes to its local ordinance. Specifically, as of the end of June 2024, Los Angeles had spent 13 percent of its initial disbursement. As we reported in August 2024, Los Angeles said it experienced difficulties in helping cannabis businesses transition from provisional licenses to annual state licenses because the city's ordinance was written under the assumption that a business would obtain an annual state license before it received a local permit. Ultimately, the city had to revise its permitting process so that a business could obtain a local permit before obtaining state licensure. However, this process change could not happen until the city council amended its local commercial cannabis ordinance, which it did in June 2023. These actions delayed the jurisdiction's ability to spend Grant Program funds.

DCC is also currently reviewing some of Los Angeles's expenditures that it may disallow, and this may further reduce the jurisdiction's ability to use all Grant Program funds. Los Angeles used Grant Program funds for staff costs included in its original Grant Program agreement, such as paying for staff to assist with environmental review, administrative support, and outreach for the jurisdiction's local equity program. Although Los Angeles and DCC are still working to execute an amendment to Los Angeles's original Grant Program agreement, DCC has expressed concerns that Los Angeles's use of Grant Program funds for staff expenditures may have supplanted other funds. As we discuss earlier, **supplanting existing cannabis funds with Grant Program funds is unallowable under state law.** Los Angeles's chief management analyst and legal counsel disagreed that the city's use of Grant Program funds for staff costs constitutes supplanting. DCC is still in the process of making its determination, and Los Angeles may have to charge these costs to the city's general fund. According to Los Angeles's chief management analyst, these charges can cost the city about \$10 million in subsidy from its General Fund.

Los Angeles staff expressed concerns that if DCC retroactively disallows its staff costs, Los Angeles may be required to take on a large, local financial burden to help cannabis businesses transition all of their provisional licenses before the State's deadline. Los Angeles's chief management analyst also expressed concern that delays in finalizing Los Angeles's amendment because of the disagreements make it unlikely that Los Angeles will be able to spend all of its initial disbursement by DCC's Grant Program spending deadline of March 31, 2025.

Other Areas We Reviewed

To address the audit objectives, we reviewed some additional aspects of DCC’s administration of the Grant Program. Specifically, we reviewed how DCC measures substantial progress by local jurisdictions, DCC’s amendment review processing timelines, the status of DCC staffing for the Grant Program, and related expenditures.

DCC Was Unclear About Its Reasoning for Denying Two Local Jurisdictions’ Applications for Additional Grant Program Funding

DCC has developed specific requirements that local jurisdictions must meet to receive the remaining 20 percent of their Grant Program awards. As we reported in our July 2023 management letter to DCC, we found that DCC had not performed any meaningful measurement of local jurisdictions’ progress, including the successful transition of provisional licenses. DCC’s Grant Program manual now includes provisions related to DCC’s evaluation of local jurisdictions’ progress to determine whether jurisdictions are eligible to receive the remaining 20 percent of Grant Program funds. The Grant Program manual also includes a list of nine requirements that DCC uses to evaluate whether a local jurisdiction has substantially met the goals and intended outcomes of its grant agreement, as the text box shows. Additionally, the manual specifies that DCC will use a grading rubric to perform a comprehensive internal analysis of the local jurisdiction’s budget, expenditures, and supporting documentation to determine whether local jurisdictions are eligible to receive their final disbursements.

As Table 5 shows, only seven local jurisdictions applied for the remaining 20 percent of their Grant Program awards. DCC used the grading rubric to qualify local jurisdictions for the remaining 20 percent of their Grant Program funds. DCC approved five of these local jurisdictions—Desert Hot Springs, Humboldt County, Monterey County, Mendocino County, and Trinity County—to receive the remaining 20 percent, totaling \$8.4 million. However, DCC denied Oakland’s request for \$2 million and Sonoma County’s request for \$232,000.

Requirements Local Jurisdictions Must Meet to Receive the Remaining 20 Percent of Grant Program Funds

- a. Provide a program plan that details how the goals and intended outcomes will be achieved and a timeline for the remaining award amount.
- b. Show significant progress by accomplishing the majority of the goals of the agreement by the projected timelines approved in the agreement.
- c. Have goals that are specific, measurable, and achievable by the end of the grant term.
- d. Use requested funds towards existing or new goals, and these goals must support the transition of the State’s provisional licenses to annual licenses.
- e. The current projected expenditures in the budget must exhaust the original 80 percent allocation of funds.
- f. All funds spent have been for the goals that jurisdictions identified in the most current executed agreement and for allowable costs only.
- g. Demonstrate a consistent level of engagement with DCC and have provided required biannual reports and information requested in a timely manner.
- h. Showed progress toward assisting provisional licensees with CEQA compliance requirements by continuing to reduce the percentage of provisional licenses compared to annual licenses in the local jurisdiction.
- i. Jurisdictions with equity funding have a clear understanding of their equity program and the issues equity cannabis businesses with provisional licenses face. Additionally, any equity-related goals must show significant progress.

Source: DCC.

Table 5**DCC Approved Five of Seven Local Jurisdictions That Requested the Remaining 20 Percent of the Grant Program Funds**

LOCAL JURISDICTIONS REQUESTED THE REMAINING 20 PERCENT OF GRANT PROGRAM FUNDS	THE AMOUNT OF THE REMAINING 20 PERCENT OF THE GRANT PROGRAM FUNDS	STATUS OF THE REQUEST
Desert Hot Springs	\$164,403	Approved
Humboldt County	3,727,027	Approved
Mendocino County	3,517,281	Approved
Monterey County	347,407	Approved
Oakland	1,981,004	Denied*
Sonoma County	231,605	Denied*
Trinity County	658,773	Approved
Total Approved	\$8,414,891	
Total Denied	\$2,212,609	

Source: DCC.

* DCC denied Oakland's and Sonoma County's requests because DCC had concerns that a portion of Oakland's and Sonoma County's Grant Program funds were spent for purposes outside the scope of the Grant Program.

We evaluated DCC's use of the grading rubric to measure these local jurisdictions' progress when determining eligibility for the remaining funds. Our review found that DCC's application of the grading rubric did not always include specific details that would enable us to conclude whether DCC's evaluations were objective. Specifically, DCC's assessment lacked adequate reasoning for its conclusions for certain criteria for one local jurisdiction's eligibility for its remaining Grant Program funds. DCC contends that its evaluations were objective and that it reviewed all aspects of a local jurisdiction, using a point scale to grade progress. However, the lack of adequate details supporting DCC's assessment using the rubric did not allow us to determine whether the department was objective in its evaluation of the one local jurisdiction's progress when denying that jurisdiction's request for additional funding.

DCC provided only limited explanation and reasoning when it denied two jurisdictions' requests for disbursement of the remaining 20 percent of their Grant Program award amounts. In its denial letter to Oakland, DCC stated that it had concerns that Oakland had spent Grant Program funds for purposes outside of the scope of the Grant Program. However, DCC's denial letter did not provide any detailed explanation about which expenditures DCC questioned as unallowable. Similarly, in Sonoma County's denial letter, DCC mentioned concerns that the jurisdiction had spent Grant Program funds for expenses outside of the scope of the Grant Program but did not provide specific examples. Although we also

identified unallowable expenses at these two local jurisdictions, the absence of specific details in DCC's letters regarding unallowable expenditures left these two jurisdictions uninformed about DCC's rationale for denials.

Both Oakland and Sonoma stated that when DCC denied their requests, the department did not identify any specific unallowable items and that the process lacked transparency. However, DCC stated that it believes that the process is transparent. DCC's grant manager told us that although the specific examples of unallowable expenditures were not included in the denial letter, DCC had several communications with the two local jurisdictions about unallowable items. However, DCC could not provide us with evidence of the communication.

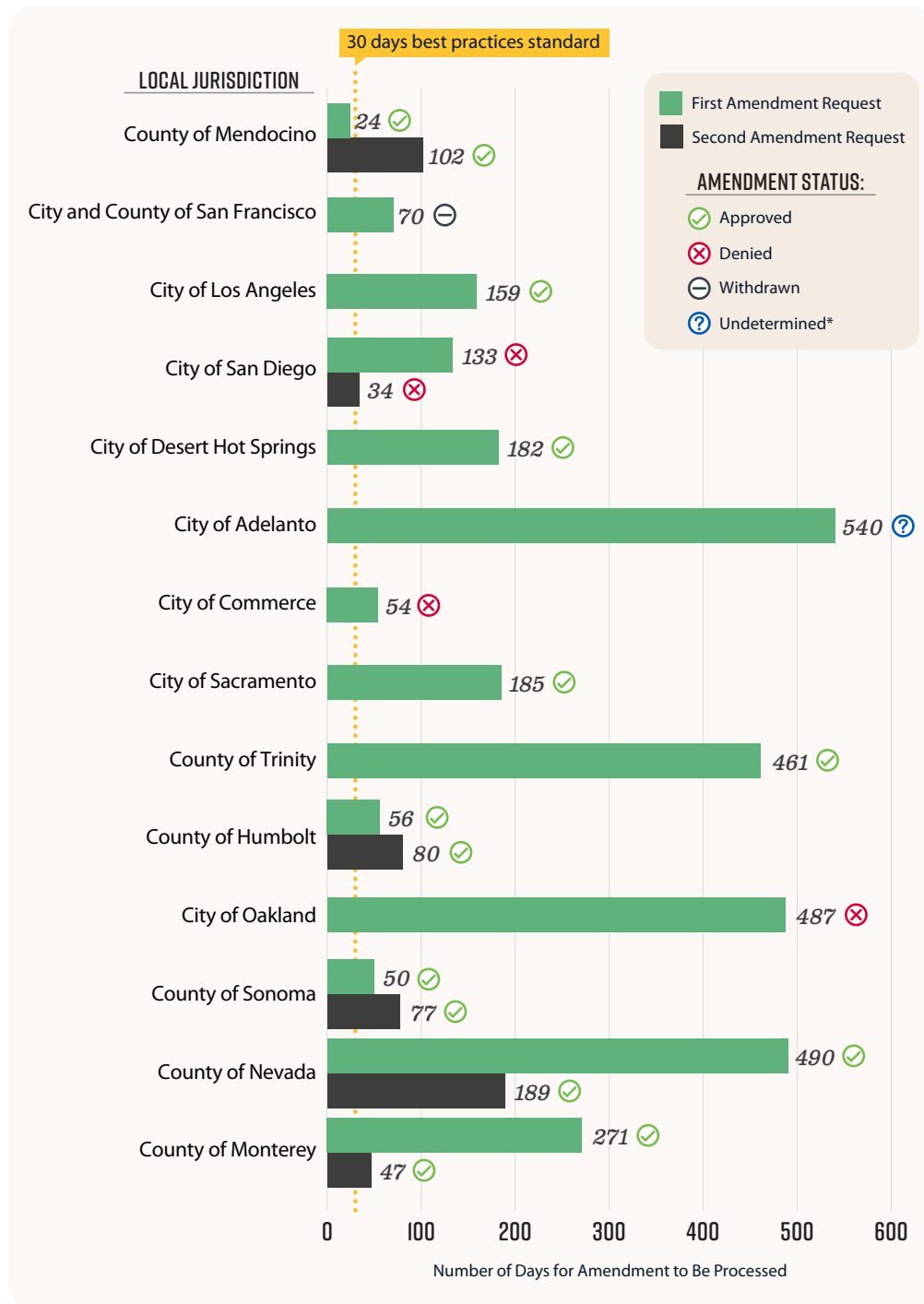
Although DCC's Grant Program manual does not require it, we would have expected DCC to send the details of its evaluation to the respective local jurisdictions to ensure that DCC's evaluation is transparent for the jurisdictions. When we asked DCC whether it intends to send to local jurisdictions the details of its evaluation of the grading rubric, DCC staff stated that the grading rubrics were only for DCC's internal use and explained they are confidential and cannot be shared with the local jurisdictions.

DCC Continued to Be Slow in Processing Local Jurisdictions' Requests to Amend Grant Program Agreements

Our review found no significant improvement in amendment processing timelines since our previous report. In response to a finding from our August 2024 report, DCC stated that it has ensured adequate staffing to expedite reviews and processing times for local jurisdictions' amendment requests. However, although DCC tracks the status of amendment requests, it still does not readily identify processing times for amendments. On average, Grant Program amendment processing is several months longer than the 30-day best practice. We reviewed 20 Grant Program amendments initiated since the start of the Grant Program and before the end of June 2024, and we found that DCC took an average of six months to process local jurisdictions' amendment requests.

DCC has taken longer to issue a decision on an amendment request than the department's own guidelines direct. Federal regulations pertaining to federal grants and awards, which we consider a best practice, generally provide that if a grant recipient requests a revision of the budget or program plan for the award, the awarding agency should notify the grant recipient of whether it has approved the revision within 30 calendar days of receiving the request. In fact, DCC's manual for the Grant Program established a general timeline of four weeks to review and issue a decision on an amendment request. However, as Figure 4 shows, DCC processed only one of the 20 amendment requests we reviewed within 30 days. DCC finalized the remaining 19 amendment requests between 34 days and 540 days after the jurisdictions had submitted them. DCC's operations branch chief explained that the amendment processing timelines for the Grant Program are longer than its guidelines specify because DCC holds frequent technical assistance meetings and conducts email correspondence with local jurisdictions, reviews additional documents, and follows up with local jurisdictions after its internal review process.

Figure 4
DCC Is Consistently Slow in Its Review of Grant Program Amendments



Source: DCC grant agreements, amendment requests, and correspondence and email communications.

Note 1: This figure presents the amendment processing times for the 20 Grant Program amendment requests we reviewed that were initiated by the local jurisdictions between the start of the Grant Program and the end of our audit period in June 2024. Three of 17 local jurisdictions—Lake County, Long Beach, and Santa Rosa—did not submit an amendment request letter in that period. Some Grant Program amendments were requested by DCC and are not included in this figure.

Note 2: The dashed line represents the 30-day grant amendment review standard set forth in federal regulations for federal grants and awards, which we use as a best practice. DCC has also established a four-week timeline for its review of amendment requests.

* Adelanto’s amendment outcome is undetermined. Though Adelanto and DCC agree on the amendment end date, Adelanto and DCC disagree on the outcome of Adelanto’s amendment request, and there is no formal documentation indicating the end of processing Adelanto’s amendment request.

Nevertheless, delays in amendment processing times have hindered at least one local jurisdiction's ability to make the most effective use of its Grant Program spending. Specifically, because of the limited term of the staff positions that the grant funded, Oakland faced difficulty filling these positions. As a result, in May 2023 Oakland submitted to DCC a request to amend its grant agreement to repurpose about \$1.9 million, which the jurisdiction had initially planned to use to hire staff. Instead, Oakland proposed to use those funds to provide direct grants to cannabis businesses holding provisional licenses, to bring their facilities into compliance with local building, fire, and health code requirements. However, DCC did not issue a decision on Oakland's amendment request for about 16 months. DCC ultimately denied the request in September 2024. According to DCC staff, DCC experienced delays in issuing Oakland's amendment request denial because the department initially had a limited number of staff working on the request, had to wait for the local jurisdiction to provide necessary documentation, and had to conduct research to determine whether Oakland's amendment would qualify as allowable costs. Oakland asserts that if DCC had provided a decision earlier, the jurisdiction could have identified other ways to spend that money. Oakland notes that it is unlikely to spend the \$1.9 million before DCC's Grant Program spending deadline in March 2025. Oakland generally believes that it will be able to help most of its cannabis businesses transition from provisional licenses to annual state licenses by the deadline of January 1, 2026. However, the local jurisdiction's assistant to the city administrator told us that the delays in issuing a decision regarding the amendment request inhibited the city's ability to better pursue the goals of the Grant Program.

DCC Does Not Expect to Spend All of the Funds It Has Allocated for Grant Program Administration

DCC expects that it will not be able spend most of the Grant Program funds allocated for its administration of the program. The Budget Act of 2021 allocated up to \$5 million to DCC to spend on its administration of the program. In our July 2023 management letter to DCC, we concluded that DCC had misspent Grant Program funds and did not hire a sufficient number of staff to administer the Grant Program effectively. Our management letter noted that DCC lacked staffing and expertise. In our current review, we found that DCC has hired four additional staff since we issued our letter and now has six people working on the Grant Program. Currently, there are no plans to hire additional staff. DCC management indicated that DCC currently has sufficient staff in place to administer the Grant Program through its completion. However, DCC indicated that it may consider adding more staff if it identifies the need to do so. Taking into account DCC's spending of its Grant Program administration funds during the previous fiscal years and its projected spending for fiscal year 2024-25, DCC estimated that it will spend approximately \$1.5 million for the entire duration of the program and that it will need to return the remaining \$3.5 million to the General Fund.

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Recommendations

DCC

To ensure that local jurisdictions have time to accomplish the goals of the Grant Program, DCC should monitor local jurisdictions' spending. If DCC finds that local jurisdictions require additional time to accomplish the Grant Program's goals, DCC should extend the spending deadline from March 31, 2025, to June 30, 2025.

To make its process of determining substantial progress more transparent for any future grant programs, DCC should revise its grant administration policies to specifically include the following in its formal written communication to local jurisdictions:

- The criteria DCC used to evaluate local jurisdictions' progress.
- A detailed explanation of the results of DCC's evaluation.
- Specific examples of issues DCC identified related to local jurisdictions' progress, including its rationale for denying additional grant funding, if DCC uses the progress measure to approve or deny local jurisdiction funding.

Sonoma County

To ensure that it only uses Grant Program funds for allowable activities and costs, Sonoma County should improve its grant expenditure oversight. Specifically, Sonoma County should do the following:

- Establish a process for regularly reviewing all expenditures it charges to the Grant Program in the future to ensure that they are for allowable activities only.
- Review all Grant Program expenditures to identify any spending that it may have used for unallowable purposes as stated in state law or DCC's guidelines.
- Return to the Grant Program the amounts of any unallowable expenditures it identifies.
- Work with DCC to correct previously submitted biannual reports to reflect appropriate expenditures.

Oakland

To ensure that it only uses Grant Program funds for allowable activities and costs, Oakland should ensure that it appropriately approves any direct payments to cannabis businesses according to state law and DCC's guidelines. Specifically, Oakland should do the following:

- Establish a process for regularly reviewing all expenditures charged to the Grant Program to ensure that they are for allowable activities only.

- Include in its Grant Program manual a statement that Oakland should obtain DCC's approval for direct grants before Oakland authorizes the cannabis businesses to spend the funds.
- Review all past Grant Program expenditures to identify any spending that it may have used for unallowable purposes.
- Return to the Grant Program the amounts of any unallowable expenditures it identifies.
- Work with DCC to correct previously submitted biannual reports to reflect appropriate expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code section 8543 et seq. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



GRANT PARKS
California State Auditor

February 20, 2025

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Appendix A

Status of Provisional Licenses

Table A presents the number of provisional and annual state licenses that were active on June 30, 2024, and the number of licenses that transitioned from provisional to annual from January 1, 2023, through June 30, 2024. The data represent all licenses that DCC maintains, with the exception of event license types because they are temporary in nature and cannabis businesses applying for event licenses require additional licenses to sell cannabis at different events.

Table A
Counts of Provisional and Annual State Licenses as of June 30, 2024, and Transitions From January 1, 2023, Through June 30, 2024

LOCAL JURISDICTION	CULTIVATION			RETAIL, DISTRIBUTION, MICROBUSINESS, AND TESTING LABORATORY			MANUFACTURING		
	PROVISIONAL	ANNUAL	TRANSITIONS	PROVISIONAL	ANNUAL	TRANSITIONS	PROVISIONAL	ANNUAL	TRANSITIONS
City of Adelanto	44	48	15	12	41	14	4	7	1
City of Commerce	0	11	0	1	9	10	0	1	0
City of Desert Hot Springs	12	31	13	19	23	10	1	4	1
County of Humboldt	202	953	210	6	88	21	0	0	1
County of Lake	7	179	71	1	14	5	0	0	1
City of Long Beach	7	24	10	10	75	50	3	11	12
City of Los Angeles*	272	1	0	634	12	11	45	4	2
County of Mendocino	522	45	40	36	25	11	0	1	0
County of Monterey	36	230	211	14	25	19	0	0	0
County of Nevada	12	167	51	0	9	6	0	0	0
City of Oakland	62	21	6	77	118	54	9	4	3
City of Sacramento	14	121	26	7	151	72	3	14	7
City of San Diego	0	4	2	2	46	34	1	2	7
City and County of San Francisco	6	4	3	12	88	30	1	1	1

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LOCAL JURISDICTION	CULTIVATION			RETAIL, DISTRIBUTION, MICROBUSINESS, AND TESTING LABORATORY			MANUFACTURING		
	PROVISIONAL	ANNUAL	TRANSITIONS	PROVISIONAL	ANNUAL	TRANSITIONS	PROVISIONAL	ANNUAL	TRANSITIONS
City of Santa Rosa	1	16	2	8	51	21	0	9	5
County of Sonoma	53	17	3	2	9	5	0	1	0
County of Trinity	117	229	129	4	15	8	0	0	0
Totals	1,367	2,101	792	845	799	381	67	59	41

Source: Analysis of DCC license system records.

* Los Angeles had little progress helping its businesses transition provisional licenses as of June 30, 2024. However, as we discuss on pages 14 and 15 of the report, Los Angeles has prioritized clearing local requirements for many provisional retail cannabis businesses holding provisional licenses after June 2024 and is planning to focus on non-retail cannabis businesses in the upcoming months.

Appendix B

Scope and Methodology

We conducted this audit pursuant to the audit requirements contained in state law.⁷ The law requires our office to conduct a performance audit of the local jurisdictions receiving funds pursuant to the Grant Program, commencing January 1, 2023, and annually until January 1, 2026. Table B lists the audit objectives and the methods we used to address them. Unless otherwise stated in the table or elsewhere in the report, statements and conclusions about items selected for review should not be projected to the population.

Table B
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed the laws, rules, and regulations related to the Grant Program and state cannabis licenses.</p>
<p>2 Assess local jurisdictions' compliance with the Local Jurisdiction Assistance Grant program requirements by determining the following:</p> <ul style="list-style-type: none"> a. The amount and percent of grant funds used through June 30, 2024 for each of the 17 grant recipients. b. Whether local jurisdictions spent Grant Program funds in compliance with all grant requirements, including any amendments DCC made to the grant terms. 	<ul style="list-style-type: none"> • Analyzed DCC's financial reports to determine the amount of Grant Program funding apportioned to each of the 17 local jurisdictions, the amount that each local jurisdiction expended as of June 30, 2024, and the percent of grant funds each local jurisdiction expended as of June 30, 2024. • Evaluated the accuracy of DCC's financial records for Grant Program funds to determine whether DCC's records are sufficiently reliable. • Interviewed local jurisdiction staff and collected documentation related to the grant spending from six selected local jurisdictions (Mendocino County, Sonoma County, Desert Hot Springs, Oakland, Adelanto, and Long Beach). We found that one local jurisdiction selected, Adelanto, did not participate in the grant in the year 2023 or 2024 and closed out its Grant Program award in 2024. • For five of the selected local jurisdictions who used Grant Program funds during our audit period, we evaluated whether the local jurisdiction expended the funds according to the requirements in state law, DCC guidance, and the grant agreements by vouching selected transactions to supporting documents. We found two selected local jurisdictions with unallowable expenditures.

continued on next page . . .

⁷ Senate Bill 129 (Stats. 2021, ch. 69), section 53, provision 11.

AUDIT OBJECTIVE	METHOD
<p>3 Assess local jurisdictions' progress toward the goals of the Local Jurisdiction Assistance Grant program by determining the following:</p> <p>a. For each of the 17 grant recipients determine the number of active provisional state licenses and the number of active annual state licenses as of January 1, 2023, and June 30, 2024.</p> <p>b. For a selection of six local jurisdictions determine what barriers exist for businesses transitioning to an annual state license and whether local jurisdictions are using grant funds to reduce those barriers.</p>	<ul style="list-style-type: none"> Assessed DCC's process of monitoring the local jurisdictions' progress towards transitioning provisional licenses to state annual licenses. Interviewed DCC staff and reviewed relevant information on DCC's data systems used to record license information. Obtained and analyzed DCC data to determine the number of annual and provisional licenses and the number of license transitions at each of the 17 local jurisdictions by license type during our review period, January 1, 2023 through June 30, 2024. For the five selected local jurisdictions who participated in the grant during the audit period, we analyzed local jurisdictions' progress towards their individual goals and the Grant Program goal of transitioning provisional licenses. Reviewed state license data to determine what is delaying cannabis businesses from transitioning to an annual state license. For cannabis businesses where the cause is that local permitting requirements are not met, judgmentally selected sample of 11-25 provisional licenses at each of the five selected local jurisdictions. Interviewed staff at local jurisdictions and reviewed available local permitting data and documentation to determine the cause of delays in the local permitting process for those applications.
<p>4 Conduct a focused review of specific issues to determine how DCC's management of the grant is affecting the local jurisdiction's use of grant funds.</p>	<ul style="list-style-type: none"> Interviewed DCC staff to understand what actions DCC has taken since the State Auditor sent a Management Letter to DCC in August 2023 concerning its review of expenditures, measuring local jurisdiction progress toward goals, and DCC's staffing levels and experience. Interviewed DCC and Adelanto staff and reviewed documents to determine the cause and effect of local jurisdictions closing out of the grant. Evaluated the length of time DCC was taking to approve or deny Grant Program amendments. We interviewed DCC staff to get their perspective on excessive processing times.

Source: Audit workpapers.

Assessment of Data Reliability

The U.S. Government Accountability Office, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of the computer-processed information we use to support our findings, conclusions, or recommendations.

DCC

In performing this audit, we relied on data that DCC provided from its licensing systems. To evaluate these data, we reviewed existing information about the data, interviewed department officials knowledgeable about the data, and performed electronic testing of the data. Although we identified several issues in our testing,

we took steps to manually correct for them in our analysis. However, we were unable to gain assurance that the data include all of the cannabis licenses issued. Further, because of the way manufacturing licenses were issued and the way DCC maintains documentation supporting the manufacturing licenses, we were unable to obtain assurance of the accuracy of key data from this system. As a result, we found the data from the cannabis licensing systems to be of undetermined reliability. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.

Local Jurisdictions

To determine the amounts and percentages of Grant Program funding used by the 17 local jurisdictions as of June 30, 2024, we relied on data DCC provided that it generated from reports that local jurisdictions submitted to DCC. To verify the accuracy of the data, we compared DCC's financial data to the financial records for fiscal years 2022–23 and 2023–24 at the five selected local jurisdictions—Desert Hot Springs, Long Beach, Mendocino County, Oakland, and Sonoma County. We found that the errors at Long Beach amounted to less than 2 percent and those at Sonoma County amounted to about 2 percent. Despite these errors, we confirmed with DCC that the biannual reports and conversations with the local jurisdictions are the best source of information that DCC currently has for documenting spending at all 17 local jurisdictions. We conclude that the biannual reports are sufficiently reliable for general conclusions about the amounts and percentages of spending at the 17 local jurisdictions. DCC told us that after each local jurisdiction closes the grant, the department plans to verify the accuracy of their biannual reports.

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January 30, 2025*

Grant Parks

California State Auditor

621 Capitol Mall, Suite 1200

Sacramento, CA 95814

RE: County of Sonoma Response to 2024-048 Confidential Draft Audit Report

Thank you for the opportunity to review and provide a response to the confidential draft audit report for the Local Jurisdiction Assistance Grant.

We appreciate the effort of the California State Auditor to convey the status of provisional licensure in Sonoma County, in particular the challenges local jurisdiction staff face when applicants are not responsive. As stated in the report, those applicants who are committed to obtaining an annual license will be able to do so before the state deadline.

The County of Sonoma would like to clarify that it did not spend grant funds on rent for cannabis businesses, as could be interpreted from the statement on page 31 of the draft audit report: “-... Sonoma County – spent Grant Program funds on expenses, such as rent for cannabis businesses...” The County did spend Grant Program funds on overhead associated with the Project Planners and an Administrative Assistant working under the LJAG grant, which includes facilities costs (e.g. rent, facilities, energy, building depreciation costs). ^①

Additionally, the County disputes that expenditures related to processing permits that were not transitioning from provisional to annual licenses are unallowable. The County’s perspective on the goal of the Grant Program and allowable costs was not included in the report. It is included here in response:

* California State Auditor’s comments appear on page 45.

- ② The County's proposal was to improve and streamline the County's cannabis permitting program as a whole in order to, in part, address the cannabis permitting backlog. Much of the proposal necessarily included process improvements for all cannabis licensees alike: staff training and application guidance and forms. Similarly, the scope of work includes processing of cannabis permit applications with no distinction between provisional and annual licenses. The grant application and the grant agreement reflect this proposal, consistent with the Local Jurisdiction Assistance Grant Guidelines.

The County of Sonoma agrees with the Recommendations presented and has already completed task 4 to correct previously submitted biannual reports to reflect appropriate expenditures through a grant amendment, approved by the Department of Cannabis Control on December 24, 2024. Tasks 1 and 2 are in process. Task 3 will be completed at the end of the grant term.

If you have any questions, please contact McCall Miller at (707) 565-7099 or by email at mccall.miller@sonoma-county.org.

Sincerely,

M. Christina Rivera
County Executive

C: Lynda Hopkins, Chair, Board of Supervisors
Robert Pittman, County Counsel
McCall Miller, Administrative Analyst and Cannabis Program Coordinator
Sita Kuteira, Deputy County Counsel



Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE COUNTY OF SONOMA

To provide clarity and perspective, we are commenting on Sonoma County's response to our audit. The numbers below correspond to the numbers we have placed in the margin of its response.

In accordance with state law, we provided a redacted draft report to Sonoma County to protect the findings related to other local jurisdictions that we reviewed. The report text that Sonoma County references in its response was an example of unallowable expenses by another local jurisdiction we reviewed and does not apply to findings related to Sonoma County. The unredacted text can be found on page 19.

①

We acknowledge that Sonoma County's grant agreement with DCC does not specify that the county's scope of work is limited to cannabis businesses holding provisional licenses. However, as we discuss on page 21, the purpose of the Grant Program is to assist cannabis businesses holding provisional licenses transition to annual state licenses. Therefore, notwithstanding its grant agreement, we stand by our conclusion that any expenditures charged to the Grant Program that relate to work performed in assisting cannabis businesses that do not hold provisional licenses are not allowable.

②

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Department of
Cannabis Control
CALIFORNIA

Gavin Newsom
Governor

Nicole Elliott
Director

January 30, 2025

Mr. Grant Parks
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Subject: Response to California State Auditor Report No. 2024-048

Dear Mr. Parks:

The Department of Cannabis Control (DCC) would like to thank you for the opportunity to respond to the California State Auditor's (CSA) draft report for its second audit of DCC's Local Jurisdiction Assistance Grant (LJAG) Program. DCC would like to recognize your office, and the audit team assigned to this engagement, for their continued professionalism and diligence. Additionally, DCC appreciates your acknowledgement of our progress and improvements with respect to the ongoing administration of the grant program.

In support of the goals of each grant agreement and the overall grant program, DCC will continue to monitor and assess all LJAG Program expenditures to confirm that local jurisdictions meet the deadlines established in their respective grant agreements. All grant agreements have been scheduled for completion by March 31, 2025, to enable DCC to perform its closeout process on each agreement by June 30, 2025, in alignment with the requirements of the Grant Administration Manual, including evaluation of expenditures and assessment of the completion of grant goals.

DCC agrees with the corrective actions identified in your second recommendation as the suggested changes will improve transparency within our LJAG Program and can create stronger agreements between DCC and future grantees. To implement these recommendations, DCC will revise its Grant Administration Manual to require that future written communications to grant recipients regarding DCC's decision to award new or additional available grant funding based on a grantee's progress in its use of initial grant funding provide the following: (1) DCC's criteria used to evaluate the grant recipient's progress; (2) a detailed explanation of the results of DCC's evaluation; and (3) the specific reasons why DCC chose to deny the grantee additional grant funding.

We look forward to implementing the recommended corrective action and will continue to keep your office informed of our progress. Should you have any questions or concerns related to this response, please reach out to DCC at your convenience.

Respectfully,

Nicole Elliott Digitally signed by Nicole Elliott
Date: 2025.01.30 09:11:11 -08'00'

Nicole Elliott
Director