



State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

**Department of Taxation
Marijuana Enforcement Division
Recreational Dispensary Licensing Process**

DIA Report No. 20-01
November 7, 2019

EXECUTIVE SUMMARY
Department of Taxation
Marijuana Enforcement Division

Introduction page 1

Objective: Ensure MED’s Recreational Dispensary Licensing Process is Impartial and Objective

Enhance the Transparency of the Licensing Process page 2

Developing a written process to hire contract workers that includes criteria used to fill those positions would help the Marijuana Enforcement Division (MED) enhance licensing transparency. As it currently stands, MED does not have a written reviewer hiring policy that ensures consistent practices. Explicit hiring processes would enhance public and licensee confidence in MED’s activities. Furthermore, MED can continue to work towards improving compliance and transparency by holding public forums and a Question and Answer period prior to soliciting applications to describe the process and address questions.

Automate the Application Scoring Process page 8

Automating the application scoring process would help MED ensure accuracy. MED’s scoring process requires manual entry of data by application reviewers. Manually entering scores on several different scoring sheets increases the risk of transposing data. Pursuing a software solution to report scores would limit manual data entry, improve efficiency, and reduce the risk of data entry errors.

Revise Statute to Reallocate Recreational Marijuana Licenses from Non-Participating Jurisdictions page 12

Revising statute to reallocate recreational marijuana licenses from non-participating jurisdictions could benefit the state almost \$2.3 million in tax revenues per month or approximately \$27.6 million annually while promoting a more competitive industry. License quotas in addition to moratoriums are preventing MED from optimizing the licensing process. MED should work closely with the Legislature to increase license quotas and redistribute licenses to participating jurisdictions.

Appendix A	page 16
Scope and Methodology, Background, Acknowledgments	
Appendix B	page 18
Response and Implementation Plan	
Appendix C	page 21
Timetable for Implementing Audit Recommendations	
Appendix D	page 22
General Criteria Response	
Appendix E	page 26
September 2018 Recreational Marijuana Summary	

INTRODUCTION

At the request of the Department of Taxation (department), the Division of Internal Audits conducted an audit of the department's Marijuana Enforcement Division (MED). Our audit focused on ensuring MED's recreational dispensary licensing process is impartial and objective. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

Our audit objective was to develop recommendations to:

- ✓ Ensure MED's recreational dispensary licensing process is impartial and objective.

Marijuana Enforcement Division Response and Implementation Plan

We provided draft copies of this report to the Department of Taxation for its review and comments. The department's comments have been considered in the preparation of this report and are included in Appendix B. In its response, the department accepted all our recommendations. Appendix C includes a timetable to implement the recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps that the department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six-month follow-up results to the committee and department officials.

The following report (DIA Report No. 20-01) contains our *findings, conclusions, and recommendations*.

Ensure MED's Recreational Dispensary Licensing Process Is Impartial and Objective

The Department of Taxation, Marijuana Enforcement Division (MED) can continue to ensure that the recreational licensing process is impartial and objective by:

- Enhancing the transparency of the licensing process;
- Automating the application scoring process; and
- Revising statute to reallocate recreational marijuana licenses from non-participating jurisdictions.

Enhance Transparency of Licensing Process

The Marijuana Enforcement Division (MED) should enhance transparency by:

- Developing written processes to hire contract employees (application reviewers and administrative staff), including criteria used to fill reviewer and administrative positions;
- Holding public forums to inform prospective applicants of the application evaluation process; and
- Holding a question and answer period during the application process and posting all questions and answers to the department's public website.

Explicit hiring processes will enhance public and licensee confidence in MED's activities. Public forums will enhance the public's confidence in a fair and impartial process. Enhanced transparency will support the department's goal of improving compliance through education and sharing information.

No Explicit Criteria for Reviewer Employment

In September 2018, 127 entities with existing medical marijuana licenses submitted 462 applications for 64 available retail marijuana licenses.¹ MED determined that hiring contract employees would allow them to review applications more efficiently and help ensure that an objective and independent process was carried out for applicants.

¹ NAC 453D.268 states, "On or before November 15, 2018, a person who holds a medical marijuana establishment registration certificate may apply for one or more licenses, in addition to a license issued pursuant NAC 453D.265, for a marijuana establishment of a different type."

MED used the existing state contractor, Manpower, to employ the contract application reviewers.² MED interviewed and identified candidates and asked them to register through Manpower.

MED sought contract employees with skills and experience that directly related to the criteria they would be evaluating in the applications. Eight people were hired and organized into two teams to review and rank the applications:

- Three positions to score Non-Identifiable Criteria (non-ID) – primarily building plans and security.
 - Owner of a general contracting and real estate development firm (23 years)
 - Government environment health specialist (30 years)
 - Fire inspector (20 years)
- Three positions to score Identifiable Criteria (ID) – primarily financials and ownership.
 - Private sector program manager (18 years)
 - State accountant (30 years)
 - State government financial & operations manager (30 years)
- Two administrative assistants, one for each team.

MED will enhance transparency of subsequent licensing periods by creating a written process for hiring for reviewers. MED used existing job descriptions for accountants, fire & safety inspectors, marijuana program inspectors, personnel officers, and administrative assistants as guidelines for hiring these reviewers. However, the department lacked a written process that outlined the hiring, training and oversight of these contract employees.

Recreational Application Process Modeled Medical Application Process

The 2018 recreational marijuana application process was modeled after the 2014 medical marijuana application process used by the Division of Public and Behavioral Health (DPBH). During this time DPBH worked in conjunction with consultant QuantumMark to gather information from other states and devise a comprehensive process that included:

- Developing and adopting regulation;
- Developing the medical marijuana application;
- Defining application scoring and ranking process;
- Determining number of contractors needed to evaluate applications; and
- Identifying training requirements and materials to support application scoring.

² Funding approval to hire contract employees for reviewing and scoring applications was approved by the Legislative Interim Finance Committee (IFC) in June 2018.

MED made some adjustments to the 2014 process to accommodate statutory requirements and differences in recreational marijuana operations. These adjustments were included in application scoring criteria and procedures. During the 2017 Legislative session, a diversity component was added to existing merit criteria.³

In 2018, MED instructed reviewers to deduct points on applications that provided identifying information in the non-ID section of applications. Any person or company referenced in this section was to remain confidential and could only be addressed through their position, discipline, or job title assigned as an identifier. This change prevented applicants from manipulating the process by providing identifying information that could influence the reviewers. Points were not deducted in 2014 because potential licensees were new and not known to staff.

Applicant Identity Unknown for Operational Reviews Known for Financial Reviews

The ID team knew the identity of applicants, and the non-ID team did not know the identity of applicants. The criteria in the ID section required the reviewers to know the names of the potential licensees to evaluate and score the application. The criteria in the non-ID section could be considered without knowing the names of the licensees. MED wanted reviewers to score these criteria based on the merits of the information submitted to avoid bias or appearance of bias.

Criteria reviewed in the ID section consisted of:

- Proposed organizational structure;
- Evidence of amount of taxes paid or other beneficial financial contributions made to the State of Nevada or its political subdivisions in the last five years;
- Financial plan and documentation; and
- Documentation that demonstrated that the applicant had at least \$250,000 in liquid assets.

Criteria reviewed in the non-ID section consisted of:

- An integrated plan for care, quality, and safekeeping;
- Plan to staff, train, and manage establishment; operating procedures;
- Adequacy of size of the proposed establishment; and
- Proposal demonstrating the likely impact of the proposed establishment in the community.⁴

See Appendix D for scoring criteria details.

³ Assembly Bill 422 (79th Session 2017) adds diversity of race, ethnicity, or gender of applications (owners, officers, board members) to the existing merit criteria for the evaluation of marijuana establishment registration certificates.

⁴ NAC 453D.268.

Reviewers Responsible for Identifying Conflicts of Interest

Per NAC 453D.175, “No employee of the State who is responsible for implementing or enforcing the provisions of this chapter or chapter 453D of NRS may have a direct or indirect financial interest in a marijuana establishment or be employed by or volunteer at a marijuana establishment.” MED required contract employees to identify any conflicts of interests. Conflicts of interests included familial relationships with department employees and any relationships or dealings with marijuana establishment which could potentially compromise the objectivity and integrity of the application review process.

We found no conflicts of interest existed between contracted employees, the department, and marijuana establishments. We examined one case in which reviewers had a mutual family member employed within the department, but it was determined that the extent of their relationship did not create any conflict of interest.⁵

MED can enhance transparency by adopting a written process for hiring reviewers. Hiring criteria and the review process should be documented in writing. Written processes would ensure transparency, consistency, and standardization within MED.

No Public Forums to Educate on Licensing Process

On July 5, 2018, MED released a Notice of Intent to accept applications for retail store licenses.⁶ Applicants were notified 45 days prior to the application period and had 10 days to submit applications. Notices were physically posted at five locations throughout the state in an effort to solicit a wide range of applications.⁷

Application instructions were also posted on the department’s website. This notice included application deadlines; requirements, format, and content; scoring criteria; and the application evaluation and awarding process. While MED operated in accordance with NRS 453D and NAC 453D, they did not disclose any information regarding the overall review process and the criteria used to hire reviewers. This process was modeled after the 2014 medical marijuana licensing process.

⁵ Individual worked in the capacity of an administrative assistant and was in charge of timesheets and approving travel claims. This individual was not affiliated with MED.

⁶ Pursuant to LCB File No R092-17.

⁷ Copy of notice was posted in in Carson City, Reno, Henderson, Las Vegas, and MED Listserv.

Absence of Question and Answer Period During Solicitation Process

In 2018, MED did not provide applicants a public platform to openly ask questions pertaining to the recreational marijuana application process. A timeline of key dates is provided in Exhibit I.

Exhibit I

2018 Application Timeline

Date	Item
6/26	Application executive review and approval with Deputy Director
7/5	Intent to Accept Applications & posting
8/7	Review resumes from Manpower
8/8-8/24	Reviewer training preparation & review
8/29-30	Application intake process design, checklist, & testing
8/28-9/7	2-week contractor training
9/7-20	Application period, begin processing
9/18	First application complete
11/09	Last application complete

Source: Nevada Marijuana Enforcement Division.

A common practice used in purchasing processes is a question and answer (Q&A) period. This Q&A is held during the bid solicitation allowing participants to ask questions and allowing the agencies to share those answers with all participants. Such measures are essential to increasing engagement and improving transparency throughout the bidding process. By hosting a Q&A period, MED would similarly enhance transparency. All questions and answers would be published on the department's website and would be accessible to all applicants.

Legislation Allowed for Increased Transparency Not Provided for in Original Statute

NRS 360.255 limited information the department could release to the public and potential licensees. The statute required that certain records and files concerning the administration and collection of certain taxes, fees and assessments be kept confidential. Those documents included much of the information that was part of the marijuana licensing process. For example, the statute prohibited the release of applicant names.

To improve transparency, Senate Bill 32 (SB32, 80th Session 2019) was passed permitting the disclosure of the following information:

- Identity of an applicant, including, without limitation, any owner, officer or board member of an applicant;
- Contents of any tool used by the department to evaluate an applicant;
- Methodology used by the department to score and rank applicants and any documentation or other evidence showing how that methodology was applied; and
- Final ranking and scores of an applicant, including, without limitation the

score assigned to each criterion in the application that composes a part of the total score.

SB32 increased transparency in the marijuana licensing process. The department can now release information that was once confidential. By organizing public forums, MED would provide a platform to share information and inform prospective applicants of the licensing process. This measure would build on the department's overarching goal of improving compliance through education. Public forums would improve public confidence, encourage cooperation, and help develop a strong relationship between the state and applicants.

Conclusion

The State of Nevada and MED have taken measures to promote transparency, particularly with the passage of SB32. Enhancing transparency of the licensing process by developing a written process for hiring contract reviewers, holding public forums, and holding a question and answer period would further this objective.

Recommendation

1. Enhance transparency of licensing process by developing explicit reviewer hiring criteria, allowing for a question and answer period, and holding public forums.

Automate the Application Scoring Process

The Marijuana Enforcement Division (MED) should implement an automated scoring process. This process would limit human error and improve consistency during the review and ranking process.

Manual Process Led to Immaterial Errors

Reviewers received two weeks of training. Training included reviewing mock applications and information on recreational marijuana regulations.⁸ The team was trained by MED Education and Information Officer, Program Manager, Program Supervisor, Chief Compliance Officer, Program Officers, Administrative Assistants, Auditor, and two Marijuana Inspectors. By the end of the training, reviewers were expected to be able to:

- Identify application qualities and contents;
- Identify criteria which closely aligned with NAC 453D;
- Apply evaluation tools (score sheets); and
- Process applications independently and efficiently.

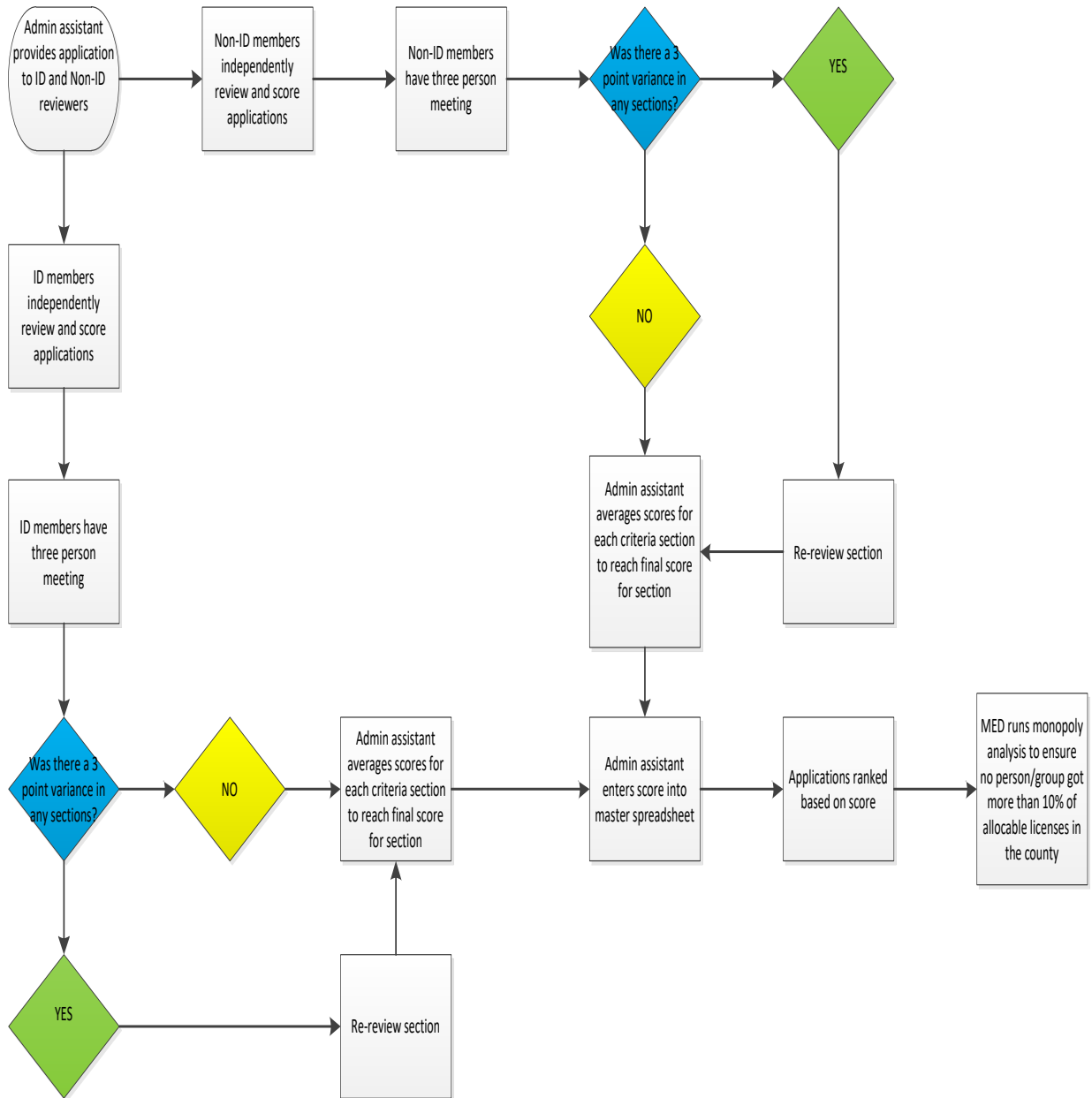
MED Program Officers downloaded applications from the shared drive onto two separate thumb drives and delivered them to the appropriate administrative assistants for identifiable (ID) and non-identifiable (non-ID) teams. The contract administrative assistants delivered applications to each team member and were responsible for logging scores upon receiving the scored applications. To prevent any internal influence, reviewers and administrative assistants were assigned separate offices.

Each reviewer independently reviewed and scored each application. The reviewers then met as a team to discuss any scoring differences. If individual reviewer scores differed by more than three points in any criteria section, the members were required to discuss the section criteria until a consensus was reached. The consolidated team score and the individual scores were each logged on score sheets. The process for application review is depicted in Exhibit II.

⁸ Ten mock applications from the 2014 medical marijuana period consisting of low, medium, and high scores.

Exhibit II

Application Review Process



Source: Nevada Marijuana Enforcement Division.

We reviewed a sample of 104 of the 462 applications submitted for recreational marijuana licenses. This sample included 26 separate entities. Exhibit III shows the breakdown of the sample.

Exhibit III

Sample of Recreational Marijuana Licenses

Entities Sampled	Applications Sampled	Conditionally Approved	Denied
26	104	26	78

Source: Nevada Marijuana Enforcement Division.

Errors Not Material

We found 12 applications were scored inconsistently on individual evaluation sheets and three team meeting sheets. However, the variance in scores did not affect ranking of applicants. See Exhibit IV for a full breakdown of these discrepancies.

Exhibit IV

MED Reported Score vs. Audited Scores

RD #	Total Reported Score	Total Audited Score	Variance	Lowest score in jurisdiction to obtain a conditional license	Did variance affect overall ranking?
RD312	156.51	155.17	-1.34	208.00	No
RD315	155.18	156.50	1.32	213.66	No
RD530	199.83	201.17	1.34	208.00	No
RD531	200.16	201.50	1.34	210.16	No
RD387	195.00	194.67	-0.33	210.16	No
RD393	181.99	175.50	-6.49	208.00	No
RD644	153.67	152.67	-1.00	208.00	No
RD645	153.67	152.67	-1.00	214.50	No
RD631	208.33	208.17	-0.16	213.66	No
RD646	134.82	133.83	-0.99	210.16	No
RD648	134.82	133.83	-0.99	208.00	No
RD269	188.67	188.34	-0.33	214.50	No

Source: Nevada Marijuana Enforcement Division.

Note: Upon intake, applications were scanned and assigned a RD number which served as an identifier for each specific location.

Multiple Points of Data Entry Created Inaccuracies

Individual evaluation sheets were intended to assist reviewers in scoring responses. By applying the guidelines on the evaluation sheets, reviewers used

their experience and expertise to score applications in a consistent and unbiased manner. Point ranges were detailed under each criteria section and points were to be assigned based on the reviewers' assessment of the response.⁹ Scores for the criteria section were recorded on three team meeting sheets following a consensus meeting. This process was carried out for every criteria section until a final score for the application was determined by totaling across both ID and non-ID sections. Multiple points of data entry led to scores being inaccurately reported.

Automation Will Help Eliminate Errors

An automated system would ensure greater accuracy and reliability. A manual scoring process is susceptible to entry errors. Applications are scored on an individual and team basis and are ultimately registered by administrative assistants. The entire scoring process is conducted by hand which increases the risk of data entry errors and transposition. Implementing software that can automate the scoring process would eliminate most of the manual data entry, improve efficiency, and reduce the risk of data entry errors.

Conclusion

MED used a manual scoring process which inherently increased data entry errors. Automating the application scoring process would streamline practices by having one point of data entry, enhancing efficiency by reducing the need for multiple reviews of paper forms, and increasing accuracy.

Recommendation

2. Automate the application scoring process.

⁹ Response categories included "excellent," "average," or "inadequate".

Revise Statute to Reallocate Recreational Marijuana Licenses from Non-Participating Jurisdictions

The Marijuana Enforcement Division (MED) should revise statute to reallocate recreational marijuana licenses from non-participating jurisdictions. Existing statute restricts the number of licenses available in each jurisdiction. Additionally, licenses are awarded in jurisdictions that do not allow or have a moratorium on retail marijuana establishments. Working with the legislature to revise statute and redistribute licenses would provide the state an opportunity to generate additional tax revenue.

Statutory Limitations are Holding Back Tax Revenues

Statute dictates how MED allocates available licenses. Recreational Marijuana licenses are allocated based on the percentage of population of each jurisdiction to the total population of the county.¹⁰ Exhibit V shows the individual county caps for recreational marijuana licenses.

Exhibit V

Jurisdiction Allocation Limits for Retail Stores

County Population	Qualifying County	License Cap
Greater than 700,000	Clark	80
100,000-700,000	Washoe	20
55,000-100,000	Carson	4
Less than 55,000	All Other Counties	28

Notes:

- a. NRS 453D.210
- b. Counties with a population less than 55,000 consist of: Churchill, Douglas, Elko, Esmeralda, Eureka, Humboldt, Lander, Lincoln, Lyon, Mineral, Nye, Pershing, Storey, and White Pine. Each of these counties are eligible for 2 licenses.

During the September 2018 recreational marijuana licensing period, MED issued licenses to the highest ranked applicants until they reached the number of licenses authorized for issuance. Per NRS 453D.210, "When competing applications are submitted for a proposed retail marijuana store within a single county, the department shall use an impartial and numerically scored competitive bidding process to determine which application or applications among those competing will be approved."¹¹ A total of 61 licenses were conditionally issued out of the 64 designated slots.¹² Appendix E shows the distribution of licenses requested and issued in the 17 jurisdictions.

¹⁰ NAC 453D.272.

¹¹ Added to NRS by 2016 initiative petition, Ballot Question No. 2.

¹² Within 12 months the applicant must provide: \$20,000 license fee due within 10 days; local jurisdiction authorization to operate; successful inspections by local fire, building, air quality; successful pre-opening inspections by the department; current and valid state business license; and obtain required zoning from local jurisdiction.

Statutory limitations prevented nearly 400 applications from obtaining a conditional license. Thirty-two licenses were conditionally approved by MED. It was unknown whether those licenses would be perfected due to moratoriums set by local municipalities. The state is currently overlooking opportunities due to statutory restrictions.

Reallocation Allowed By Statute Limits Tax Revenues

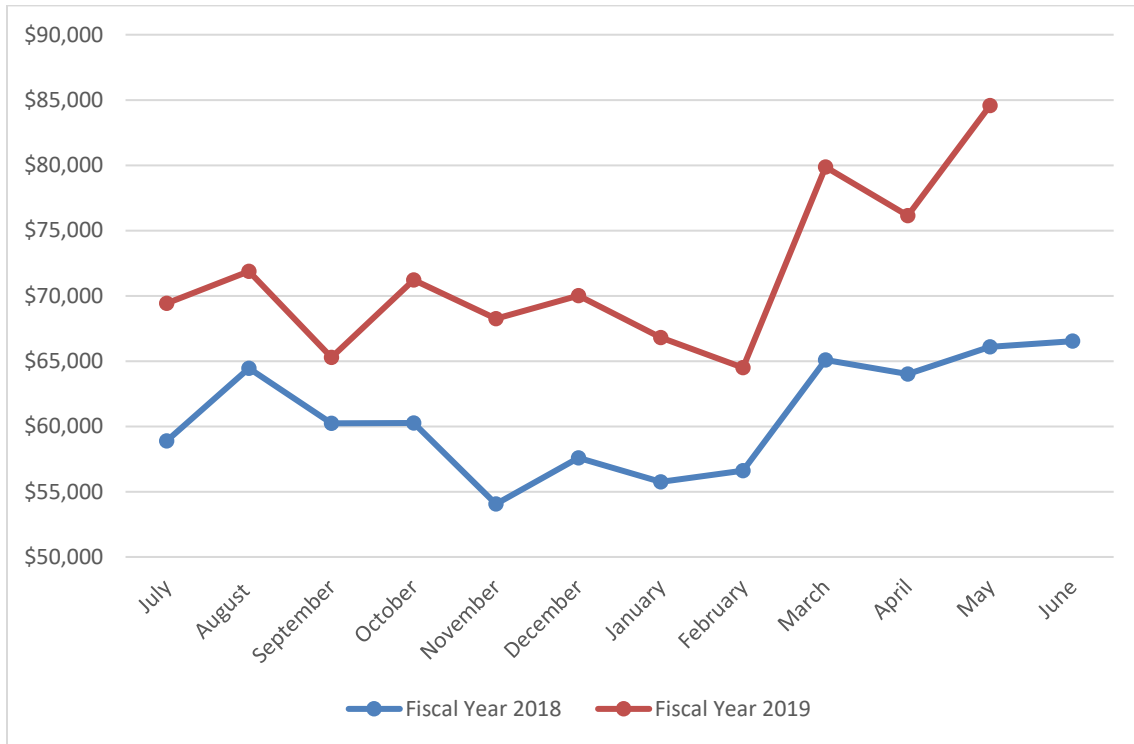
Assembly Bill 533 (80th Session 2019) allows MED to reallocate licenses to other counties within two months after the end of a licensing period if there were no qualified applicants in a particular county. However, this provision does not address counties that have placed moratoriums or prohibit recreational marijuana establishments. Licenses awarded to applicants in those counties will not be able to be perfected and cannot be reallocated since they were awarded to qualified applicants. Further, the regulation restricts MED to the same jurisdictional license maximums in NRS 453D.210(5)(d).

On average, in fiscal year 2018 MED received \$60,800 in monthly tax revenue per establishment. This amount increased to \$71,560 in fiscal year 2019.¹³ Exhibit VI shows a breakdown of tax revenues and presents a sizable opportunity for MED and the state.

¹³ Fiscal year 2019 only accounts for data through May 2019.

Exhibit VI

**Tax Revenues Per Establishment
Fiscal Years 2018 - 2019**



Source: Nevada Department of Taxation.

The state is not capitalizing on its tax generating potential by passing up applicants and issuing licenses in jurisdictions with moratoriums. Amending statute to accommodate more licenses in approved jurisdictions would help MED generate additional tax revenue while creating greater opportunity for applicants.

Washoe and Clark counties accounted for over 95% of recreational marijuana sales in the state through the first quarter of fiscal year 2019. The state may be able to collect almost \$2.3 million in additional tax revenues per month or approximately \$27.6 million annually by redistributing the 32 licenses to those jurisdictions. By approving more licenses in approved jurisdictions, MED would provide more businesses an opportunity to vie for a share of the recreational marijuana market.

Conclusion

Thirty-two conditional licenses have not been perfected as a result of moratoriums. Increasing the quantity of licenses would be beneficial for the industry and the state. By reallocating and increasing the quota of licenses the state has an opportunity to collect tax revenues that could have been gained in jurisdictions with moratoriums. Current legislation does not allow MED to exercise discretion in the issuance of licenses. Giving MED more flexibility could help increase the competitive balance in the marijuana industry as it would provide more opportunities for applicants.

Recommendation

3. Revise statute to reallocate recreational marijuana licenses from non-participating jurisdictions.

Appendix A

Scope and Methodology, Background, Acknowledgements

Scope and Methodology

We began the audit in March 2019. In the course of our work, we interviewed management and discussed processes inherent to the Marijuana Enforcement Division. We researched division records, policies and procedures, professional publications, applicable Nevada Revised Statutes (NRS), Nevada Administrative Code (NAC), and other state and federal guidelines. Additionally, we reviewed applicable federal and independent reports and audits. We concluded fieldwork in August 2019.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

On July 1, 2017, the Nevada Legislature transferred responsibility of the state's medical and recreational marijuana program to the Department of Taxation (department) through Assembly Bill 422 (AB422). To preside over licensing, regulation, and taxation of Nevada's marijuana establishments the department created the Marijuana Enforcement Division (MED). MED administers nine marijuana license types and is responsible for establishing licensing qualifications; determining the need to license additional establishments in the state; reviewing applications for licensing; issuing renewal of licenses; making determinations on transfers of ownership; and suspending, revoking, and reinstating licenses.

The Office of the Governor and the Department of Taxation have taken measures to create more transparency in the marijuana industry. Senate Bill 32 (SB32) allows for "qualifying documents" received by the department on or after May 1, 2017 to be disclosed to the public. Until the passage of SB32, information about marijuana applicants and licensees was strictly confidential. MED had requested applicants provide a waiver permitting the release of their names; however, only 8 of the 127 applicants consented.

Acknowledgments

We express appreciation to MED management and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Michelle D. Isherwood, JD, MBA
Executive Branch Audit Manager

Saranjeet Bains, MBA
Executive Branch Auditor

Brian Wadsworth, MBA
Executive Branch Auditor

Appendix B

Department of Taxation Response and Implementation Plan



STEVE SISOLAK
Governor
JAMES DEVOLLD
Chair, Nevada Tax Commission
MELANIE YOUNG
Executive Director

STATE OF NEVADA
DEPARTMENT OF TAXATION
Web Site: <https://tax.nv.gov>

1550 College Parkway, Suite 115
Carson City, Nevada 89706-7937
Phone: (775) 684-2000 Fax: (775) 684-2020

LAS VEGAS OFFICE
Grant Sawyer Office Building, Suite 1300
555 E. Washington Avenue
Las Vegas, Nevada 89101
Phone: (702) 486-2300 Fax: (702) 486-2373

RENO OFFICE
4600 Kietzke Lane
Building L, Suite 235
Reno, Nevada 89502
Phone: (775) 687-9999
Fax: (775) 688-1303

HENDERSON OFFICE
2550 Paseo Verde Parkway, Suite 180
Henderson, Nevada 89074
Phone: (702) 486-2300
Fax: (702) 486-3377

Warren Lowman, Administrator
Division of Internal Audits
209 East Musser Street, Room 302
Carson City, NV 89701

October 11, 2019

Dear Mr. Lowman,

The Department appreciates the work of your team and the information provided in the audit report dated, November 7, 2019, addressing Marijuana Enforcement Division's (MED) recreational dispensary licensing process. This audit was at the request of the Department to ensure that the licensing processes was administered in a way that ensures a fair, consistent and transparent process. In accordance with NRS 353A.085, this statement is submitted in response to the recommendations of that report.

Recommendation 1: Enhance transparency of licensing process by developing explicit reviewer hiring criteria, allowing for a question and answer period, and holding public forums.

The recommendation is accepted; A policy will be developed to outline a reviewer hiring with procedures for establishing minimal qualifications for education, experience, skills, and any special requirements. These qualifications will mirror those found for comparable job class specifications established by the Department of Administration to the extent practicable. The actual reviewer hiring process will be thoroughly documented in the interest of licensing transparency.

Furthermore, providing a training class dedicated to the cannabis establishment application and selection process will increase the communications to potential licensees. The class will be modeled after the Department's "Ask the Advisor" tax seminars and would include a question and answer period. All questions received from applicants during the class, as well as, those received during the application process would be noted. In order to make the process as equitable as possible, the questions and corresponding answers will be published onto the website for public view. Additionally, informational packets would be provided to applicants that fully explains the application and scoring processes and the criteria used to score the applications.

It is anticipated with the creation of the Cannabis Compliance Board that this recommendation will be implemented after vetting of the processes and recommendations by the board in December 2020.

Department of Taxation

1 |

Recommendation 2: Automate the application scoring process.

The Department accepts the recommendation. A project manager will be assigned the task of implementing an automated process for scoring license applications. The project manager will coordinate with the Deputy Director of IT to explore possible in-house solutions, such as the utilization of Excel or Access. Other commercially available off-the-shelf software applications may be considered in order to determine the most effective means of enhancing the efficiency and accuracy of the scoring process. It is anticipated with the creation of the Cannabis Compliance Board that this recommendation will be implemented after vetting of possible solutions and recommendations by the board in December 2020.

Recommendation 3: Revise statute to reallocate recreational marijuana licenses from non-participating jurisdictions.

The recommendation is accepted: The audit finding that reallocating marijuana licenses from non-participating jurisdictions would enhance tax revenues and industry competition is well taken. The Nevada Legislature recently passed SB533, in which sections 92(2b) and 97(2), authorize the Cannabis Compliance Board to reallocate medical and adult-use (recreational) cannabis licenses to another county if there are no qualified applicants in county of origin. The Cannabis Compliance Board will consider the matter of reallocating cannabis adult-use licenses and make a recommendation by December 2020.

Again, the Department sincerely appreciates the efforts of you and your staff in presenting opportunities for improving the recreational marijuana licensing process. Please contact me if you have any questions or require additional information.

Sincerely,



Melanie Young, Executive Director

Nevada Department of Taxation

Timetable for Implementing Audit Recommendations

In consultation with the Department of Taxation, the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The department should begin taking steps to implement all recommendations as soon as possible. The department target completion dates are incorporated from Appendix B.

Category 2: Recommendations with an anticipated implementation period exceeding six months.

<u>Recommendation</u>	<u>Time Frame</u>
1. Enhance transparency of licensing process by developing explicit reviewer hiring criteria and holding public forums	January 2021
2. Automate the application scoring process	January 2021
3. Revise statute to reallocate recreational marijuana licenses from non-participating jurisdictions	
<i>Alternative proposal made by Department: Present the issue above before the Cannabis Compliance Board for consideration.</i>	July 2020

Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the Department of Taxation, the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The department should begin taking steps to implement all recommendations as soon as possible. The department target completion dates are incorporated from Appendix B.

Category 2: Recommendations with an anticipated implementation period exceeding six months.

<u>Recommendation</u>	<u>Time Frame</u>
1. Enhance transparency of licensing process by developing explicit reviewer hiring criteria and holding public forums. (page 7)	Jan 2021
2. Automate the application scoring process. (page 11)	Jan 2021
3. Revise statute to reallocate recreational marijuana licenses from non-participating jurisdictions. (page 15)	
(Alternative proposal made by the department: Present the issue above before the Cannabis Compliance Board for consideration.)	Jul 2020

The Division of Internal Audits shall evaluate the action taken by the department concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and the department.

Appendix D

General Criteria Response

The IDENTIFIED CRITERIA RESPONSE must include:

- 5.2.1. **Tab I – Title Page**
The title page must include the following:

Part I – Identified Criteria Response	
Application Title:	A Recreational Marijuana Establishment License
Applicant Name:	
Address:	
Application Opening Date and Time:	September 7, 2018
Application Closing Date and Time:	September 20, 2018

- 5.2.2. **Tab II – Table of Contents**
An accurate table of contents must be provided in this tab.
- 5.2.3. **Tab III – Applicant Information Sheet (Page 2)**
The completed Applicant Information Sheet signed by the contact person who is responsible for providing information, signing documents, or ensuring actions are taken pursuant to R092-17, Sec. 74 must be included in this tab.
- 5.2.4. **Tab IV – Recreational Marijuana Establishment License Application (Attachment A)**
The completed and signed Recreational Marijuana Establishment License Application must be included in this tab.
- 5.2.5. **Tab V – Multi-Establishment Limitations Form (Attachment F)**
If applicable, a copy of the Multi-Establishment Limitations Form must be included in this tab. If not applicable, please insert a plain page with the words “Not applicable.”
- 5.2.6. **Tab VI – Identifier Legend (Attachment H)**
If applicable, a copy of the Identifier Legend must be included in this tab. If not applicable, please insert a page with the words “Not Applicable”.

<p>5.2.7. Tab VII – Confirmation that the applicant has registered with the Secretary of State Documentation that the applicant has registered as the appropriate type of business and the Articles of Incorporation, Articles of Organization, Operating Agreements, or partnership or joint venture documents of the applicant must be included in this tab.</p>	
<p>5.2.8. Tab VIII– Documentation of liquid assets Documentation demonstrating the liquid assets and the source of those liquid assets from a financial institution in this state or in any other state or the District of Columbia must be included in this tab and demonstrate the following criteria :</p> <p>5.2.8.1. That the applicant has at least \$250,000 in liquid assets which are unencumbered and can be converted within 30 days after a request to liquidate such assets; and</p> <p>5.2.8.2. The source of those liquid assets. <i>Note: If applying for more than one recreational marijuana establishment license, available funds must be shown for each establishment application.</i></p>	<p>10 points</p> <p>30 points</p>
<p>5.2.9. Tab IX – Evidence of taxes paid; other beneficial financial contributions Evidence of the amount of taxes paid and/or other beneficial financial contributions made to the State of Nevada or its political subdivisions within the last five years by the applicant or the persons who are proposed to be owners, officers or board members of the establishment must be included in this tab.</p>	<p>25 points</p>
<p>5.2.10. Tab X – Organizational structure and owner, officer or board member information The description of the proposed organizational structure of the proposed recreational marijuana establishment and information concerning each owner, officer and board member of the proposed recreational marijuana establishment must be included in this tab and demonstrate the following criteria:</p> <p>5.2.10.1. An organizational chart showing all owners, officers and board members of the recreational marijuana establishment including percentage of ownership for each individual.</p> <p>5.2.10.2. An Owner, Officer and Board Member Attestation Form must be completed for each individual named in this application (Attachment B).</p> <p>5.2.10.3. The supplemental Owner, Officer and Board Member Information Form should be completed for each individual named in this application. This attachment must also include the diversity information required by R092-17, Sec. 80.1(b) (Attachment C).</p> <p>5.2.10.4. A resume, including educational level and achievements for each owner, officer and board member must be completed for each individual named in this application.</p> <p>5.2.10.5. Narrative descriptions not to exceed 750 words demonstrating the following:</p> <p>5.2.10.5.1. Past experience working with government agencies and highlighting past community involvement.</p>	<p>60 points</p>

TOTAL=125 points

The NON-IDENTIFIED CRITERIA RESPONSE must include:

5.3.1. **Tab I – Title Page**

Please note: Title page will not be viewed by Non-Identified Criteria evaluators.

The title page must include the following:

Part II –Non-Identified Criteria Response	
Application Title:	A Recreational Marijuana Establishment License
Applicant Name:	
Address:	
Application Opening Date and Time:	September 7, 2018
Application Closing Date and Time:	September 20, 2018

5.3.2. **Tab II – Table of Contents**

An accurate table of contents must be provided in this tab.

5.3.3. **Tab III – Building/Establishment information**

Documentation concerning the adequacy of the size of the proposed recreational marijuana establishment to serve the needs of persons who are authorized to engage in the use of marijuana must be included in this tab. The content of this response must be in a **non-identified** format and include general floor plans with all supporting details

Please note: The size or square footage of the proposed establishment should include the maximum size of the proposed operation. The start-up plans and potential expansion should be clearly stated to prevent needless misunderstandings and surrendering of certification.

20 points

5.3.4. **Tab IV – Care, quality and safekeeping of marijuana from seed to sale plan**

Documentation concerning the integrated plan of the proposed recreational marijuana establishment for the care, quality and safekeeping of recreational marijuana from seed to sale must be included in this tab. The content of this response must be in a **non-identified** format and include:

- 5.3.4.1. A plan for verifying and testing recreational marijuana
- 5.3.4.2. A transportation or delivery plan
- 5.3.4.3. Procedures to ensure adequate security measures for building security
- 5.3.4.4. Procedures to ensure adequate security measures for product security

40 points

5.3.5. **Tab V – System and Inventory Procedures plan**

20 points

A plan for the operating procedures for verification system and inventory control system must be included in this tab. The content of this response must be in a **non-identified** format and include:

5.3.5.1. A description of the operating procedures for the verification system of the proposed marijuana establishment for verifying age.

5.3.5.2. A description of the inventory control system of the proposed recreational marijuana establishment.

Please note: Applicants should demonstrate a system to include thorough tracking of product movement and sales. The applicant shall demonstrate capabilities for an external interface via a secure API to allow third party software systems to report all required data into the State database to allow seamless maintenance of records and to enable a quick and accurate update on demand. The system shall account for all inventory held by an establishment in any stage of cultivation, production, display or sale as applicable for the type of establishment, and demonstrate an internal reporting system to provide the Department with comprehensive information about an establishment's inventory.

5.3.6. **Tab VI– Operations and resources plan**

Evidence that the applicant has a plan to staff and manage the proposed marijuana establishment on a daily basis must be included in this tab. The content of this response must be in a **non-identified** format and include:

5.3.6.1. A detailed budget for the proposed establishment including pre-opening and first year operating expenses.

5.3.6.2. An operations manual that demonstrates compliance with the regulations of the Department.

5.3.6.3. An education plan which must include providing training and educational materials to the staff of the proposed establishment.

5.3.6.4. A plan to minimize the environmental impact of the proposed establishment.

5.3.7. **Tab VII – Community impact and serving authorized persons in need**

A proposal demonstrating the likely impact on the community and convenience to serve the needs of persons authorized to use marijuana must be included in this tab. The content of this response must be in a **non-identified** format and include:

5.3.7.1. The likely impact of the proposed recreational marijuana establishment in the community in which it is proposed to be located.

5.3.7.2. The manner in which the proposed recreational marijuana establishment will meet the needs of the persons who are authorized to use marijuana.

30 points

15 points

TOTAL=125
points

Appendix E

September 2018 Recreational Marijuana Summary

Jurisdiction	Number of conditional licenses issued on 12/5/18	Allocation of licenses pursuant NRS 453D.210	Applications Requested Sept 2018
Unincorporated Clark County	10	10	97
City of Henderson	6	6	35
City of Las Vegas	10	10	104
City of Mesquite	0	0	1
City of North Las Vegas	5	5	76
Carson City	2	2	11
Churchill County	0	1	0
Douglas County	2	2	7
Elko County	1	1	8
Esmeralda County	2	2	3
Eureka County	2	2	2
Humboldt County	2	2	5
SUBTOTAL	42	43	349

Unincorporated Washoe County	0	0	3
City of Reno	6	6	53
City of Sparks	1	1	16
Lander County	2	2	5
Lincoln County	1	2	1
Lyon County	1	1	9
Mineral County	2	2	2
Nye County	1	1	18
Pershing County	1	2	1
Storey County	2	2	2
White Pine County	2	2	3
SUBTOTAL	19	21	113

TOTAL	61	64	462
--------------	-----------	-----------	------------

Source: Nevada Marijuana Enforcement Division.

Note: Mesquite was allocated 1 license based on population. A recreational license was issued on 7/14/17 during the one-for-one period.