

December 18, 2025

Tomiquia Moss, Secretary
California Business, Consumer Services and Housing Agency
500 Capitol Mall, Suite 1850
Sacramento, CA 95814

Dear Secretary Tomiquia Moss,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Cannabis Control submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2025.

Should you have any questions please contact Clint Kellum, Chief Deputy Director, at (916) 251-4566, Clint.kellum@cannabis.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Department of Cannabis Control (DCC) licenses and regulates commercial cannabis activity within California. This includes:

- Growing of cannabis plants
- Manufacturing of cannabis products
- Transportation, delivery, and tracking of cannabis goods
- Testing and sale of cannabis goods
- Permitting of events where cannabis is sold

The DCC's **mission** and **vision** are as follows:

- **Mission:** Through innovative policies and effective implementation, the Department of Cannabis Control advances and facilitates a well-regulated, legal market that benefits Californians.
- **Vision:** California has a safe, sustainable, and equitable cannabis market that serves as an example for the world.

Strategic Goals and Objectives

To support efforts to provide clear guidance on organizational priorities, which include risk mitigation, the DCC developed the following Strategic Plan, which spans from FY 2023-2025, and consists of four strategic priorities:

- 1. Development:** Develop a legal, sustainable, and equitable cannabis framework for California.
- 2. Implementation:** Implement and refine meaningful, equitable policies and programs.
- 3. Partnerships:** Establish and maintain strong partnerships. Invite diversity of thought through partner engagement in all we seek to accomplish.
- 4. Organizational Culture:** Strive for organizational excellence through a focused and inspired value- driven workforce.

The next Strategic Plan is under development and will be published in August 2026.

Entities Under the DCC Reporting Responsibility

Business and Professions Code 26014 established a Cannabis Advisory Committee (CAC). The CAC provides valuable input to DCC's development of regulations and standards through its comprehensive representation and each individual member's unique perspective on consumer, community, and market issues.

The CAC is required by law to publish an annual public report describing the recommendations made to the DCC during the preceding calendar year and whether those recommendations were implemented by the Department. The recommendations provided in the CAC report to the DCC are advisory only, and the Department is not bound by those recommendations in the development of its regulations.

CAC members are appointed by the director of DCC for a two-year term. The DCC facilitates CAC meetings following Bagley-Keene rules, including capturing and posting minutes, agendas, and annual reports on its website.

Control Environment

The director and executive team have taken intentional steps to develop a culture that fosters collaboration, respect, and accountability. The following value statements guide our daily work:

- **Integrity:** We work for the public benefit, and we safeguard the public trust. We honor the work we do and hold it in high regard.
- **Fairness:** We create standards and practices that are equitable, practical, and consistent.
- **Innovation:** We foster an environment of curiosity, creativity, and scientific understanding. We are bold, futuristic, and responsive to change.
- **Knowledge:** We value competency, professional excellence, and continuous learning.
- **Collaboration:** We are approachable and responsive. We value engagement and

diversity of thought. We establish and maintain partnerships that balance our ideas and support our values.

- **Support:** We are resilient, kind, and respectful, both individually and as a community.

Organizational Structure, Responsibility, and Authority

The DCC has 640 authorized positions and is comprised of 10 divisions that report to the chief deputy director and director. Most divisions have multiple branches or units that report to the deputy director. Below are the key oversight roles in the DCC:

Director: Leads and directs the DCC's vision and mission; works closely with Agency to align the Department's policy initiatives with the Administration's goals and objectives; serves as the Department's spokesperson; ensures organizational leaders are held accountable for their roles in delivering on the Department's strategic priorities and statutory mandates and that they are ethical and effective in implementing the Department's programs.

Chief Deputy Director: Directs and coordinates the Department's day-to-day operational activities to meet its strategic goals and statutory mandates; works closely with control agencies and deputy directors on strategic outcomes, reporting, and oversight and the director to ensure the effective and ethical implementation of programs and use of resources.

Deputy Director (executive management): Develops strategic goals for their respective division in alignment with the Department's mission and vision; leads the development of systems and business structures to execute the division's goals; prioritizes initiatives and mitigates operational risks; oversees the administration of the division's budget and resources; serves as a resource to staff and executive leadership in an ongoing effort to further refine DCC's strategic priorities and policies.

Managers (middle management) – Oversee the daily operations of their respective branch; ensure teams are clear on objectives and goals; develop business models and metrics for implementation of projects; identify operational gaps and process improvements; identify the needed resources to execute and oversee work and develop the capacity of teams; collaborate closely with their division deputy director in the development of the division's goals and objectives to meet the Department's mission, vision, and strategic priorities.

Supervisors (front-line management) – Oversee the day-to-day implementation of tasks and outputs of employees; develop the capacity and knowledge of staff to complete work; identify challenges and opportunities for process improvements to complete tasks and report them directly to their management.

Documentation of the Internal Control System

When the DCC was developed in July 2021, it relied heavily on the former agency's frameworks to guide operations. As it has grown, the Department has developed and

implemented its own set of policies and procedures, creating greater consistency and efficiency across all functions. In addition, it has established a centralized document management system to ensure easy access to key resources across the organization. The Department maintains an ongoing review process to regularly monitor and update policies and procedures in alignment with current business needs and priorities.

Establishing and Maintaining a Competent Workforce

DCC's organizational structure ensures appropriate levels of responsibility and authority to direct the day-to-day operations of the Department and its mandates.

The DCC's Administration Division encompasses three branches: Financial Management, Human Resources, and Operations. The Human Resources Branch (HRB) oversees the recruitment and retention of DCC's personnel efforts including workforce and succession management planning and assisting and providing guidance to divisions on their organizational structures. They help ensure the appropriate use of civil service classifications by performing classification analysis, audits, and studies. Additionally, they oversee the Department's training unit, which provides DCC's employees with the resources to participate in mandatory and non-mandatory trainings to remain competent and skilled in their positions.

Performance and Accountability

The HRB provides management with training and consulting services in their efforts to develop and evaluate employee performance, including discipline and grievance resolution activities. Management ensures communication with its employees on performance through conducting regular one-on-one meetings, section/unit meetings, providing timely probation reports and annual performance reports, and conducting discipline measures when necessary to hold staff accountable.

Information and Communication

Channels for Communicating

The executive team, consisting of the director, chief deputy director, and deputy directors, meets every morning for a Stand-Up meeting. This daily forum is used for situational awareness to identify and address immediate programmatic and operational issues or risks. Topics include but are not limited to media, engagements with key stakeholders, operational or technical breakdowns that will impact operations or have media implications, hot topics, and crisis management. The same team also meets monthly for a more in-depth discussion of operational and programmatic updates, issues, and other strategic developments to advance the Department. These meetings are used to collect and communicate relevant information needed for decision making and alignment with the strategic goals of the Department.

Additionally, the director and chief deputy director meet with deputy directors every other week. The agenda outline provides a comprehensive overview on topics like quarterly goals and strategic plan implementation, division achievements and staff acknowledgments, division operations and policies, operational challenges and risk management, collaboration and public engagements, and division administration.

Department-wide communications occur in several ways:

- All-Staff Meetings: The director hosts an all-staff event every two months to share division updates and Department-wide initiatives, recognize employee achievements and birthdays, and welcome new employees.
- Division-wide Meetings: Deputy directors use this forum to inform employees of department updates, divisions goals, changes to policies and procedures, and solicit questions and feedback from employees.
- DCC Newsletter: Bi-monthly newsletter that includes a key message from the director and programmatic and administrative updates.
- DCC Intranet: A Department-wide forum where learning tools, administrative updates, document collaboration, forms, and templates are shared.

Additionally, managers and supervisors conduct meetings with employees to disseminate information and solicit questions and feedback.

DCC employees can report inefficiencies and recommendations to executive management using the following methods:

- DCC Intranet: Includes a section where employees can anonymously submit suggestions, feedback, and ideas, ask questions, and report inefficiencies.
- Equal Employment Office: Allows rank and file, supervisory, management—to report employee misconduct confidentially and without fear of reprisal. This office also handles concerns regarding sexual harassment and discrimination.

Channels for communicating and sharing information with external partners include:

- DCC Website
- Press Releases
- Email Blasts
- Social Media
- Quarterly Licensee Newsletter
- Panels & Workshops
- Cannabis Advisory Committee

- Meetings with External Groups
- Licensee Site Visits

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Cannabis Control monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Clint Kellum, Chief Deputy Director.

The DCC uses the following processes and venues to assess risk, identify vulnerabilities, and develop internal control systems to monitor progress to resolution:

- Every other week division meetings with the deputy directors to identify areas of programmatic and operational challenges and vulnerabilities.
- The Department has a Staff Services Manager I Specialist who supports the ongoing establishment and progression of divisions' key performance indicators and milestones, which include risk mitigation, in alignment with the strategic plan.
- Topic-specific meetings that include subject matter experts from programs to identify challenges/risks and remedies to mitigate the risk, issue area, or identify a process improvement (e.g., Regulatory work group, Injury, Illness Prevention Plan team, administrative liaison team).
- Standing monthly meeting that includes all divisions to discuss cross-divisional operational challenges or risks.
- Expertise and training tools from government control agencies like the Department of Finance, Department of Technology, and CalHR to identify vulnerabilities and develop internal controls.
- DCC's Audits Office works with programs to identify risks and vulnerabilities in operational and administrative policies and procedures while also assisting in the implementation of corrective actions from various external audits.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Cannabis Control risk assessment process: executive management, middle management, and front line management.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

RISKS AND CONTROLS

Risk: #1 - Workforce Resources, Training, and Competence

Since DCC's inception in July 2021, the Department has focused on creating a unified, streamlined, efficient, and fiscally responsible regulatory, licensing, and enforcement organization. In line with its desire to be a responsible steward of fee payer funds, the Department regularly assesses staffing needs to meet the evolving nature and demands of the environment in which we do our work. As such DCC must adjust to relevant operational and administrative needs to meet our mandates. Inadequate staff resources, training, knowledge, and competence pose a risk to the DCC's ability to meet the intent of Proposition 64 and the Medicinal and Adult Use Cannabis Regulation and Safety Act (MAUCRSA), including conducting regulatory oversight responsibilities, streamlining existing policies and programs, and operationalizing these new policies and programs, all in a timely manner.

Control: #1- Resource Identification

Through ongoing programmatic oversight and evaluation, the DCC will determine if it has the appropriate resource allocation to meet its regulatory oversight, licensee compliance, consumer protection, employee safety, and enforcement against the illegal cannabis market. The Department will continue to annually assess its resource needs and utilize the administrative, budget, and legislative process to request resources to meet these needs.

Control: #2 - Training and Development

A key element to developing workforce capacity and employee retention is training and development. While the DCC has made progress in this area, such as providing additional resources on its digital employee portal (DCC Connect) to increase access and provide additional employee development and training resources, continually assessing specialized training needs for each division, distributing quarterly training newsletters that highlight training opportunities for employees, and creating a Mentoring Program, the Department will continue to take active steps to implement recommendations from the Workforce and Succession action plan. This includes working with the Equal Employment Opportunity Office to strengthen the Upward Mobility Program, building on business processes to clearly define expectations and workplace procedures across divisions, launching the Mentoring Program to enable mentors and mentees to develop their knowledge, skills, ability, strategies, and capabilities, and developing a New Employee Orientation Training.

Risk: #2 - Information Technology Infrastructure

Upon consolidation of the three legacy California cannabis programs in 2021, DCC inherited three independent licensing systems. DCC successfully consolidated the three systems to two in late 2023. This consolidation still leaves DCC in a disadvantaged position though because all licensing and compliance data is not stored in a centralized database. This increases the complexity of workflows and data analysis activities. To improve the way it meets its mandate, DCC will focus on the consolidation to a single unified licensing system and the development of other core technology systems, including the California Cannabis Track and Trace system and reporting database tools. These efforts will partially mitigate the risk of not having a single licensing and compliance system of record that results in fractured and inefficient workflows and complex data reporting.

Control: #1 - Licensing System Consolidation

With the consolidation of the programs, the Department retained the three licensing systems to maintain stability and continuity of operations. In November 2023, DCC completed the migration of the manufacturing licensing data to Accela, resulting in the consolidation of three licensing systems down to two licensing systems. In line with the Department's stated objectives to streamline business practices and unify its regulatory approach, the Department must ultimately consolidate its licensing and compliance activities into one system. To accomplish this, DCC must survey and clean data, complete a project road map for improved Accela data integration between the Department's two Accela data sets, and complete ongoing business process mapping and requirement development activities.

Control: #2 - Technology Systems Development

DCC will continue to improve the functionality of the California Cannabis Track and Trace system, enhance Business Intelligence and Data Warehouse tools, and improve IT solutions for internal workstreams and data reporting.

Risk: #3 - Changes to State Law & Federal and Local Cannabis Regulation

Legal cannabis is a new commercial industry in an ever-changing legal landscape with differing, and sometimes contradictory, federal, state, and local regulations. While the DCC has taken measures to support a more stable regulatory framework at all levels of government, the Department continues to experience challenges. For example:

- State: As California continues to advance the cannabis regulatory environment, new legislative mandates emerge which require significant resources for program development and policy implementation. These new mandates compete for limited resources that are vital to carrying out the Department's mission and

existing business needs.

- Federal: Continued prohibition by the federal government and the absence of federal cannabis regulation continues to contribute to marketplace uncertainty, allowing illicit markets to flourish and complicating state regulatory efforts. The federal Health and Human Services Department has recommended rescheduling of cannabis from Schedule I to Schedule III, but whether this will happen remains uncertain. Competing proposals in Congress could change the federal government's approach to cannabis and hemp with potential to significantly affect state policies and departmental functions.
- Local: In California's dual regulatory system (operators must gain both a state and local authorization to operate), state licensing requires local jurisdictions to authorize commercial cannabis activity for state licensure. This has resulted in several jurisdictions setting up cannabis-specific licensing programs. Currently over 50% of cities and counties prohibit legal commercial retail and many jurisdictions with legal retail are still struggling to implement basic permitting programs. The absence of and variation across local cannabis programs also contributes to the illicit market and significantly impacts DCC's regulatory and enforcement responsibilities.

Control: #1 - Ongoing Implementation and Monitoring

To adapt to changing state laws and an often-volatile regulatory environment, including potential impacts inspired by federal efforts, DCC must continue to:

State:

- Track and implement changes to state legislation that may impact the regulatory framework.
- Engage in national forums to learn best practices across cannabis-regulating states and better understand evolving cannabis laws and emerging issue areas.
- Monitor developments and maintain communication with other states that administer cannabis licensing programs to understand and plan for potential future rescheduling and consider regulatory concepts to unify patchwork state programs in a way that protects consumers and supports

interstate commerce.

- Collaborate with subject matter experts across the Department and at other state departments to review research proposals from public universities in California to study the effects of cannabis and cannabis regulations. DCC will award up to \$30 million this fall to fund research projects that will advance the body of scientific knowledge about cannabis and inform policy decisions to improve the regulatory structure, reduce potential harms, strengthen the licensed cannabis market, and benefit all Californians.
- Collaborate with contracted economists to analyze and assess the effects of licensed and unlicensed cannabis market activities and inform policy decisions that support the licensed cannabis market while protecting consumers and the environment.

Federal:

- Monitor the changing federal legal landscape as it relates to cannabis, hemp, and interstate commerce.
- Educate California senators and congressional representative about the state's policies and potential impacts of proposed policy changes.

Local:

- Engage local permitting cannabis jurisdictions with varying laws to improve communication and the effectiveness of California's dual cannabis regulatory systems.
- Engage permissive local jurisdictions and identify areas for collaboration to improve and better align existing systems and licensing processes.
- Develop resources to support the development of local permitting programs for cannabis retail.

Risk: #4 - Integration of Hemp into Cannabis Supply Chain

Assembly Bill (AB) 8 (Aguiar-Curry), recently signed by the Governor, would allow hemp plant material to enter the cannabis supply chain, be used in manufacturing of cannabis or hemp products, and be sold by cannabis retailers or transported out of state. This change is necessary to ensure that all cannabinoid products – whether derived from cannabis or hemp – are regulated to the same stringent standards. But it also will increase regulatory risks within the cannabis supply chain. The cannabis supply chain currently operates as a closed system in which all plants or products containing cannabinoids must be made and tracked from seed to sale. AB 8 allows cannabinoids produced outside of this system (hemp) to enter and allows hemp products to exit the system, either as raw ingredients (non-intoxicating cannabinoid isolates) for use in non-cannabis manufacturing or as finished products for transport outside of the state. Collectively, this increases the risk of inversion (illegal cannabis brought into the supply chain) and diversion (cannabis products illegally moving outside of the supply chain), which must be monitored closely.

Overall, this bill requires significant resources to update regulations, make changes to DCC licensing and tracking systems, recruit, hire, and train appropriate staff, and build out suitable program support.

Control: #1 - Resource Identification and Training

Request resources to implement AB 8 and, once approved, begin onboarding and training staff, develop programmatic infrastructure and begin regulatory rulemaking necessary to implement the provisions of the bill.

Control: #2 - Risk Monitoring and Regulatory Controls

Identify new or added regulatory risks created by the integration of hemp into the supply chain, develop regulatory policies that mitigate these risks and implement programs to monitor for compliance with the law.

Risk: #5 - Size and Scope of the Illicit Cannabis Market

Since legalization and the Department's launch in July 2021, California has continued to face a deeply entrenched illicit cannabis market, which produces an estimated 11.4 million pounds annually. This volume of unlicensed activity poses ongoing risks to public health and safety, damages the environment, and undercuts the regulated market by flooding it with untaxed, untested, and untracked products.

Control: #1 - Cannabis Enforcement

To combat the illegal cannabis industry, DCC must continue department-led enforcement efforts, as well as enhanced coordination across state, local and federal agencies, including through leadership on and engagement in statewide cannabis enforcement coordination efforts.

Control: #2 - Market Strengthening

To support the legal cannabis industry, DCC must take a multi-pronged approach. In addition to enforcement, DCC must continue to expand efforts to educate consumers and meet them where they are. While the Department has made progress in the past year like implementing a Consumer Awareness Campaign and utilizing campaign funds for advertisements, completing allocation and awards for Phase I and II of the Local Jurisdiction Retail Access Grant Program, and providing support to 16 grantees as they stand up their local cannabis permitting programs, the DCC still has opportunity to increase awareness of the legal cannabis industry and will conduct the following:

- Consumer Education: Migrate cannabis consumers from the illegal market to the legal market by supporting the education of California's consumers on the varying aspects of the industry including informing consumers on the benefits of purchasing legal cannabis and how to locate, identify, and purchase legal cannabis. This will be accomplished by expanding the following campaigns:

- **Real California Cannabis Campaign** that will include evergreening previous Real California Cannabis Campaign efforts. The campaign will produce a more comprehensive real.cannabis.ca.gov website that provides consumers the information needed to support purchases of regulated cannabis. It will also provide consumers with basic information about responsible use and consumption to further uplift practices that enhance public safety and establish DCC as a trusted informational resource for safer consumption practices.
- **Annual surveys** will be administered to measure the impact of Real California Cannabis' effect on reducing the adult population who believe cannabis sales is legal in their prohibited jurisdiction as well as expanding DCC's understanding of consumer behaviors.

CONCLUSION

The Department of Cannabis Control strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Nicole Elliott, Director

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency