

CONCLUSION: The June 2019 Arizona Department of Health Services—Medical Marijuana Program (Program) performance audit found that the Department did not timely, consistently, or adequately perform several medical marijuana regulatory activities and misallocated some Medical Marijuana Fund (Fund) monies. As of this 36-month followup, the Department had implemented all 9 recommendations from Findings 1 through 5 that address the timely revocation of registry identification cards, as well as medical marijuana facility inspections, complaints, and noncompliance.

However, the Department had not fully implemented the 4 recommendations from Finding 6 related to assessing and setting medical marijuana fees to ensure they reflect Program costs, including determining direct and indirect costs for providing the Program, periodically evaluating its fees, and if appropriate, modifying its fees. For example, although the Department developed a Department-wide policy for establishing user fees, including medical marijuana registry identification card fees, the Department has not yet completed a documented analysis of its Program costs. Without this analysis, the Department does not have the information it would need to set its fees at amounts that would allow it to recover its costs for operating the Program and not accumulate unnecessary fund balances. The Department also reported that it does not yet have enough information to determine whether Program fees should be modified due to recent changes that impact the Fund's balance, such as the legalization of recreational marijuana and statutory requirements that have required the Department to transfer monies from the Fund for various purposes (see Tables 2 and 3, pages 5 through 9, for more information on required transfers).

Finally, the Department had not fully implemented the 1 outstanding recommendation from Finding 7 regarding the use of Fund monies (see page 10 for additional information). Specifically, we found that the Department paid some employee salaries from the Fund even though they worked on non-Program responsibilities during at least 1 of the pay periods we reviewed. Although the extent and impact of payroll expenditures being incorrectly allocated to the Fund is not known, incorrectly allocating expenditures further decreases available monies in the Fund for Program operations and other statutorily required or permitted uses, such as for statutorily authorized clinical trials and proficiency testing, which the Department has not yet allocated nor spent Fund monies on in fiscal year 2022.

We will conduct further followup on the Department's efforts to implement the remaining recommendations at 42 months.

After several years of growth, the Medical Marijuana Fund's balance began decreasing in fiscal year 2021 as its revenues began declining and outflows exceeded revenues, and some Medical Marijuana Fund monies are restricted for specific statutory purposes

The Arizona Medical Marijuana Act (Act) was passed by a voter ballot initiative in 2010, legalizing the medical use of marijuana in the State. Because the Act was passed by voter initiative, the monies generated by the Act's provisions and placed in the Fund are protected and can only be used for purposes of the Act. Later, in 2020, Proposition 207 legalized recreational marijuana, requiring some Fund monies to be used for specific purposes. Subsequently, in 2021, new statutorily required transfers from the Fund were enacted, further restricting the use of some of the Fund's balance for specific purposes. However, these changes did not provide a new revenue source for the Fund. As shown in Table 1 on page 4, the Fund's fiscal year ending fund balance increased each year between fiscal years 2016 and 2020, peaking at more than \$91.7 million at the end of fiscal year 2020. However, it has since decreased to an estimated

\$48.2 million for the fiscal year that will be ending June 30, 2022.¹ A combination of declining revenues; outflows, consisting of expenditures and required transfers to other agencies or funds, exceeding revenues; and recent statutory changes that restrict the use of some Fund monies to specific purposes have led to a decrease in Fund monies available for the Act's purposes. Specifically:

- **After several years of growth, annual Fund revenues declined in fiscal years 2021 and 2022, reportedly due to impact of recreational marijuana's legalization on Program fee revenues**—The Fund's revenues primarily consist of various Program fee revenues, such as fees to register a medical marijuana dispensary or obtain a qualifying patient registry identification card. Annual revenues deposited to the Fund increased from approximately \$16.6 million in fiscal year 2016 to more than \$41 million in fiscal year 2020. However, annual revenues have declined since that time. Specifically, fiscal year 2021 revenues totaled nearly \$16.6 million while fiscal year 2022 revenues are estimated to total approximately \$12.4 million. The Department also projects that fiscal year 2023 revenues will further decline to \$10 million. According to the Department, the legalization of recreational marijuana in 2020 through Proposition 207, also referred to as the Smart and Safe Arizona Act, has been a key reason for this decline in the Fund's revenues because it has impacted the demand for medical marijuana. According to Department's reports, the number of qualifying patients in the Program decreased from 299,054 in January 2021 to 191,682 in May 2022. Additionally, a statutory change in 2019 made medical marijuana registry identification cards valid for 2 years instead of 1, decreasing the frequency with which cardholders must renew their cards and pay the associated fees.
- **Fund outflows, consisting of Program expenditures and transfers from the Fund, increased from fiscal years 2016 to 2021 and exceeded or are estimated to exceed Fund revenues in fiscal years 2021 and 2022**—Program expenditures and transfers totaled nearly \$8.3 million in fiscal year 2016 but increased to nearly \$18 million in fiscal year 2020. For fiscal year 2021, Program expenditures and transfers totaled nearly \$50.3 million, with required transfers accounting for the majority of this amount (see below for more information). Although fiscal year 2022 expenditures and transfers from the Fund are estimated to decrease to approximately \$22.3 million, both fiscal years 2021 and 2022 expenditures and transfers exceeded or are estimated to exceed Fund revenues. For example, as shown in Table 1 (see page 4), fiscal year 2021 expenditures and transfers exceeded Fund revenues by nearly \$33.7 million.

As shown in Table 2 (see pages 5 and 6), for fiscal year 2021, the Program's largest expenditures were for professional and outside services, such as legal and temporary services and enhancements to its e-licensing system, totaling approximately \$7.7 million. Employee payroll and related benefits totaled nearly \$3.5 million for the fiscal year. For fiscal year 2022, the Fund's largest estimated expenditure is for other operating costs, such as software support and maintenance costs, and is estimated to total nearly \$4.4 million.

Additionally, both required and other transfers from the Fund in fiscal years 2021 and 2022 have contributed to the increase in Fund outflows, while revenues have been declining. Specifically, as required by Proposition 207 and Laws 2021 and shown in Tables 2 and 3 (see pages 5 through 9), the Department transferred \$28 million in fiscal year 2021 and an estimated \$3.25 million in fiscal year 2022 to other funds and agencies. These included transfers of \$15 million to the Arizona Board of Regents for the Arizona Teacher's Academy Fund and \$10 million to the Governor's Office of Highway Safety to distribute grants for various purposes, such as reducing impaired driving. The Department also made other transfers, totaling more than \$3.9 million in fiscal year 2021 and an estimated \$4.2 million in fiscal year 2022, for various other purposes. These included transfers to the State Board of Pharmacy to pay an access fee for the State's Controlled Substance Prescription Monitoring Program database and to the Arizona Department of Revenue to provide information to registered medical marijuana dispensaries on the accurate and timely submission of Arizona taxes and to perform various other services, such as tax collections and audits.

¹ Of the estimated \$48.2 million ending balance for fiscal year 2022, \$15.3 million and \$10.8 million are restricted for expenditures and transfers required by Proposition 207 and Laws 2021, respectively, and \$22.1 million is restricted for the Act's purposes (see Tables 2 and 3, pages 5 through 9, for more information).

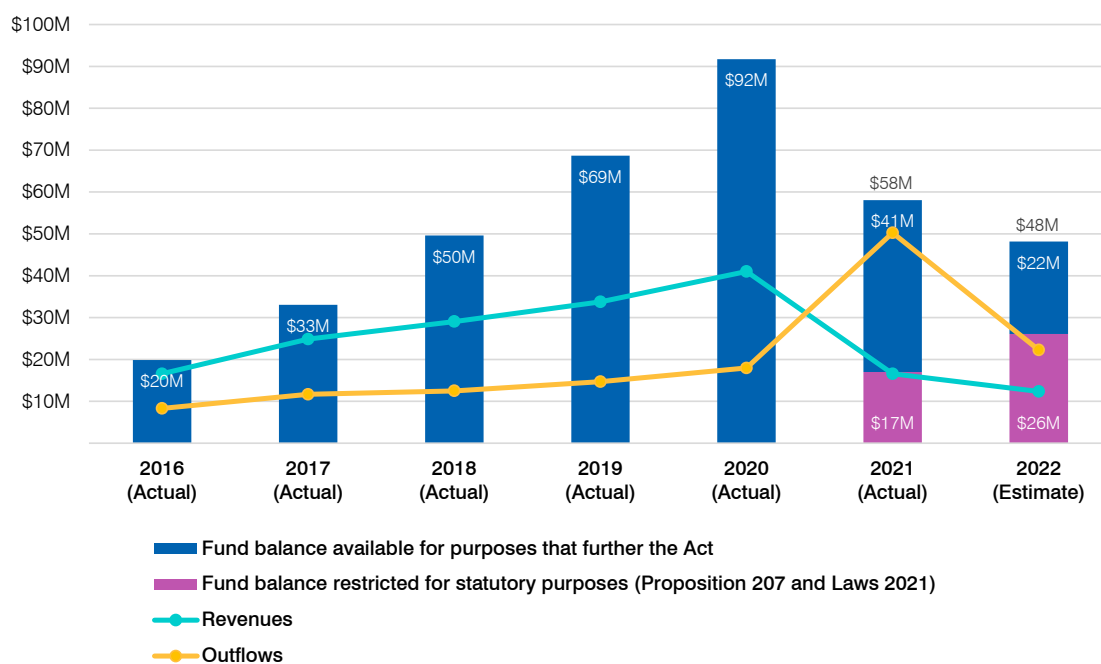
- **Fund monies restricted beginning in fiscal year 2021 for specific statutorily required purposes**—In addition to the transfers mentioned above, Proposition 207 and Laws 2021 also require the Department to spend Fund monies for other purposes, such as suicide prevention (see Table 3, pages 7 through 9). Accordingly, the Department has set aside monies in the Fund to fulfill these requirements, further reducing monies available in the Fund for the Act’s purposes. As shown in Figure 1 and Table 2 (see pages 3, 5, and 6), for fiscal year 2022, the Department has set aside and restricted an estimated \$26.1 million in the Fund to fulfill these other responsibilities.

Finally, Laws 2021 modified statute to authorize Fund expenditures in 2 other areas—medical marijuana clinical trials and proficiency testing (see Table 3, pages 7 through 9). Specifically:

- A.R.S. §36-2817(C) indicates that Fund monies may be used to provide grants for marijuana clinical trials, and A.R.S. §36-2822 authorizes the Department to provide up to \$5 million annually for 5 consecutive years in Fund monies for this purpose.
- A.R.S. §36-2817(I) indicates that Fund monies may be used to contract with laboratories pursuant to A.R.S. §36-2803(I), which requires the Department, beginning in January 2023, to conduct proficiency testing and remediate problems with independent third-party laboratories and marijuana testing facilities.

As of the end of fiscal year 2022, an estimated \$22 million is available in the Fund that could be used for the Act’s purposes, including the 2 statutory authorized uses previously mentioned—to provide grants for marijuana clinical trials and/or to contract with laboratories to conduct proficiency testing. However, as of March 2022, the Department had not yet transferred or used any Fund monies for these allowable purposes. In May 2022, during our 36-month follow-up review, the Department published a request for grant applications for marijuana clinical trials and reported that it anticipates awarding grants and disbursing funds for this purpose in fiscal year 2023. Additionally, the Department reported it had not spent any monies for proficiency testing because it is not required to do so until January 2023.

Figure 1
Medical Marijuana Fund's summary of revenues, outflows, fund balance, and restrictions on fund balance
Fiscal years 2016 through 2022



Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) Accounting Event Transaction File for the period July 1, 2020, through March 31, 2022; the State of Arizona Annual Financial Report for fiscal years 2016 through 2021; and Department-provided estimates for fiscal year 2022.

Table 1**Medical Marijuana Fund's summary of revenues, expenditures and transfers, and changes in fund balance****Fiscal years 2016 through 2022**

	2016 (Actual)	2017 (Actual)	2018 (Actual)	2019 (Actual)	2020 (Actual)	2021 (Actual)	2022 (Estimate)
Revenues ¹	\$16,570,655	\$24,851,934	\$29,057,715	\$33,759,534	\$41,002,029	\$16,577,875	\$12,367,656
Expenditures and transfers ²	8,294,868	11,655,928	12,500,590	14,694,072	17,953,989	50,256,008	22,262,181
Net change in fund balance	8,275,787	13,196,006	16,557,125	19,065,462	23,048,040	(33,678,133)	(9,894,525)
Fund balance, beginning of year	11,598,865	19,874,652	33,070,658	49,627,783	68,693,245	91,741,285	58,063,152
Fund balance, end of year	\$19,874,652	\$33,070,658	\$49,627,783	\$68,693,245	\$91,741,285	\$58,063,152	\$48,168,627

¹ Revenues consists of various Program revenues, such as fees to register a medical marijuana dispensary or obtain a qualifying patient registry identification card.

² Expenditures and transfers include \$28 million and \$3.25 million in fiscal years 2021 and 2022, respectively (see Tables 2 and Table 3 for additional information).

Source: Auditor General staff analysis of the AFIS *Accounting Event Transaction File* for the period July 1, 2020, through March 31, 2022; the State of Arizona *Annual Financial Report* for fiscal years 2016 through 2021; and Department-provided estimates for fiscal year 2022.

Table 2**Medical Marijuana Fund's schedule of revenues, expenditures and transfers, and changes in fund balance****Fiscal years 2021 and 2022**

(Unaudited)

	2021	2022		Total (Estimate)
	(Actual)	(July–March Actual)	(April–June Estimate)	
Revenues				
Program ¹	\$16,950,973	\$8,162,201	\$4,310,400	\$12,472,601
Fines, forfeits and penalties		15,000		15,000
Credit card fees	(373,098)	(65,270)	(54,675)	(119,945)
Total revenues	16,577,875	8,111,931	4,255,725	12,367,656
Expenditures and transfers				
Expenditures				
Payroll and related benefits	3,475,178	2,570,337	854,574	3,424,911
Professional and outside services ²	7,741,815	2,196,924	908,160	3,105,084
Contracted payments ³	2,098,167	2,117,107	705,702	2,822,809
Travel	34,432	22,113	6,909	29,022
Aid to organizations and individuals ⁴		605,784	251,928	857,712
Other operating ⁵	2,374,775	2,583,891	1,786,552	4,370,443
Furniture, equipment, and software ⁶	2,608,706	119,207	92,568	211,775
Total expenditures	18,333,073	10,215,363	4,606,393	14,821,756
Statutorily required transfers to other State agencies ⁷				
Transfers to the Arizona Board of Regents	15,000,000			-
Transfers to the Governor's Office of Highway Safety	10,000,000			-
Transfers to the Department's Smart and Safe Arizona Fund	2,000,000			-
Transfers to the Arizona State Treasurer's Office	1,000,000			-
Transfers to the Department's Medical Student Loan Fund		2,000,000		2,000,000
Transfers to the Arizona Health Care Cost Containment System		1,250,000		1,250,000
Total statutorily required transfers	28,000,000	3,250,000	-	3,250,000
Other transfers ⁸				
Transfers to Arizona Pharmacy Board	1,302,646	1,148,157	186,000	1,334,157
Transfers to the Arizona Department of Revenue	1,500,000	500,000	1,500,000	2,000,000

Table 2 continued

	2021	2022		Total (Estimate)
	(Actual)	(July–March Actual)	(April–June Estimate)	
Transfers to the Department's Indirect Cost Fund	896,751	436,550	193,619	630,169
Transfers to the Department's Interagency Services Agreement Fund	92,000	155,250		155,250
Transfers to the Arizona Department of Administration	131,538	771	70,078	70,849
Total other transfers	3,922,935	2,240,728	1,949,697	4,190,425
Total expenditures and transfers	50,256,008	15,706,091	6,556,090	22,262,181
Net change in fund balance	(33,678,133)	(7,594,160)	(2,300,365)	(9,894,525)
Fund balance, beginning of year	91,741,285	58,063,152		58,063,152
Fund balance, end of year		-		
Restricted for Proposition 207 requirements	16,986,639	15,745,481	(413,720)	15,331,761
Restricted for Laws 2021, Ch. 398 requirements		11,056,220	(300,000)	10,756,220
Restricted for purposes that further the Act	41,076,513	23,667,291	(1,586,645)	22,080,646
Total fund balance, end of year	\$58,063,152	\$50,468,992	\$(2,300,365)	\$48,168,627

- ¹ Program revenues consist of fees to register a medical marijuana dispensary or obtain a qualifying patient registry identification card.
- ² Professional and outside services consisted of various services the Department acquired, such as legal and temporary services. In fiscal year 2021, the Department also paid approximately \$6.5 million for enhancements to its e-licensing system.
- ³ Contracted payments consisted of payments to entities the Department contracts with for various purposes. Approximately 76 percent and 53 percent of payments made or estimated to be made in fiscal years 2021 and 2022, respectively, were to the University of Arizona for various services, including maintaining a medical marijuana website and providing medical marijuana toxicology information, in accordance with the Act. In addition, in fiscal year 2022, an estimated 21 percent of payments will be paid to a nonprofit organization for services related to expunging records for marijuana arrests and convictions, as authorized by Proposition 207.
- ⁴ Nearly 70 percent of the aid to organizations and individuals in fiscal year 2022 is estimated to be paid to individuals for the provider loan repayment program as authorized in A.R.S. §36-2817(F)(4). Most of the remaining monies were provided to counties as part of the Department's Healthy People Healthy Communities program, a program with population-based approaches that require collaboration and support from key community partners, as well as promoting health system-level changes within healthcare systems and employers.
- ⁵ Other operating expenditures were primarily for external programming, software support, and maintenance costs.
- ⁶ Fiscal year 2021 furniture, equipment, and software expenditures included approximately \$2.4 million for software acquired for the Department's e-licensing system.
- ⁷ Statutorily required transfers consisted of those transfers required by A.R.S. §36-2817 (see Table 3 for additional information).
- ⁸ Other transfers consisted of monies transferred to other Department funds and to other agencies for various purposes. Specifically, transfers were made to the Department's Indirect Cost Fund for administrative, personnel, and overhead costs, and to its Interagency Services Agreement Fund (see Table 3, footnote 2, for additional information). In addition, transfers to other State agencies included transfers to the Arizona Pharmacy Board to pay an access fee for the State's Controlled Substance Prescription Monitoring Program database, and to the Department of Revenue to provide information to licensed medical marijuana dispensaries on the accurate and timely submission of Arizona taxes and to perform various other services, such as tax collections and audits.

Source: Auditor General staff analysis of the AFIS Accounting Event Transaction File for the period July 1, 2020 through March 31, 2022; the State of Arizona Annual Financial Report for fiscal year 2021; and Department-provided estimates for the period April 1, 2022 through June 30, 2022.

Table 3**Summary of A.R.S. §36-2817 Medical Marijuana Fund monies requirements and uses by Proposition 207 and Laws 2021 requirements¹**

A.R.S. §36-2817(E)—Proposition 207 requirements	July 2020– March 2022
A.R.S. §36-2817(E)(1)—Arizona Teacher’s Academy Fund	
Medical Marijuana Fund distribution requirement	\$15,000,000
Transfers to the Arizona Board of Regent’s Arizona Teacher’s Academy Fund	15,000,000
Ending balance	\$ 0
A.R.S. §36-2817(E)(2)—Councils, commissions, and programs	
Medical Marijuana Fund distribution requirement	\$10,000,000
Expenditures and transfers out	
Payroll and related benefits	120,499
Professional and outside services	29,069
Aid to organizations	530,710
Other operating	9,991
Equipment	21,458
Transfers to the Department’s Interagency Services Agreement Fund ²	63,250
Transfers to the Department’s Indirect Cost Fund	24,933
Total expenditures and transfers out	799,910
Ending balance	\$ 9,200,090
A.R.S. §36-2817(E)(3)—Governor’s Office of Highway Safety	
Medical Marijuana Fund distribution requirement	\$10,000,000
Transfers to the Governor’s Office of Highway Safety’s Medical Marijuana Fund– Proposition 207	10,000,000
Ending balance	\$ 0
A.R.S. §36-2817(E)(4)—Responsible adult use of marijuana	
Medical Marijuana Fund requirement	\$2,000,000
Transfers to the Department’s Smart and Safe Arizona Fund ³	2,000,000
Ending balance	\$ 0
A.R.S. §36-2817(E)(5)—Qualified nonprofit entities	
Medical Marijuana Fund distribution requirement	\$4,000,000
Expenditures–Aid to organizations	454,609
Ending balance	\$3,545,391
A.R.S. §36-2817(E)(6)—Social equity ownership programs	
Medical Marijuana Fund distribution requirement	\$2,000,000
Expenditures	0
Ending balance	\$2,000,000

¹ For the period July 1, 2020 through March 31, 2022.

Table 3 continued

A.R.S. §36-2817(E)(7)—Grants to qualified nonprofit organizations		
Medical Marijuana Fund distribution requirement	\$1,000,000	
Expenditures	0	
Ending balance	\$1,000,000	
A.R.S. §36-2817(E)(8)—Smart and Safe Arizona Fund		
Medical Marijuana Fund distribution requirement	\$1,000,000	
Transfers to the Arizona State Treasurer's Smart and Safe Arizona Fund ⁴	1,000,000	
Ending balance	\$ 0	
A.R.S. §36-2817(C)(F)(H)(I)—Laws 2021, Ch. 386, 398, and 419 requirements		July 2020 – March 2022
A.R.S. §36-2817(C)—Clinical trials		
Medical Marijuana Fund distribution ⁵		No distributions
Expenditures		\$ 0
Maximum unexpended balance⁵		\$10,000,000
A.R.S. §36-2817(F)(1)—Suicide prevention (Department)		
Medical Marijuana Fund distribution requirement		\$1,250,000
Expenditures		0
Ending balance		\$1,250,000
A.R.S. §36-2817(F)(2)—Suicide prevention (AHCCCS)		
Medical Marijuana Fund distribution requirement		\$1,250,000
Transfers to AHCCCS		1,250,000
Ending balance		\$ 0
A.R.S. §36-2817(F)(3)—Institute for Mental Health Research		
Medical Marijuana Fund distribution requirement		\$2,000,000
Expenditures		0
Ending balance		\$2,000,000
A.R.S. §36-2817(F)(4)—Primary care provider loan repayment programs		
Medical Marijuana Fund distribution requirement		\$2,000,000
Expenditures and transfers out		
Payroll and related benefits		21,800
Aid to individuals		417,535
Other operating		42
Transfers to the Department's Indirect Cost Fund		4,403
Total expenditures and transfers out		443,780
Ending balance		\$1,556,220

Table 3 continued

A.R.S. §36-2817(F)(5)—Medical Student Loan Fund	
Medical Marijuana Fund distribution requirement	\$2,000,000
Transfers to the Department's Medical Student Loan Fund—Board of Medical Student Loans	2,000,000
Ending balance	\$ 0
A.R.S. §36-2817(F)(6)—County public health departments	
Medical Marijuana Fund distribution requirement	\$5,000,000
Expenditures	0
Ending balance	\$5,000,000
A.R.S. §36-2817(F)(7)—Health care directives registry	
Medical Marijuana Fund requirement	\$1,000,000
Expenditures	0
Ending balance	\$1,000,000
A.R.S. §36-2817(H)—Grants for medical marijuana research studies	
Medical Marijuana Fund distribution requirement	\$250,000
Expenditures	0
Ending balance	\$250,000
A.R.S. §36-2817(I)—Proficiency testing	
Medical Marijuana Fund distribution requirement ⁶	Not allocated
Expenditures	\$0
Ending balance⁶	Not allocated

¹ A.R.S. §36-2817 was amended when the Proposition 207 initiative was passed in November 2020. The initiative required the one-time transfer of \$45 million from the Medical Marijuana Fund for various purposes outlined in A.R.S. §36-2817(E). Additionally, Laws 2021, Chapters 386, 398, and 419, further amended A.R.S. §36-2817 to allow Medical Marijuana Fund monies to be used for various purposes, such as for providing grants for marijuana clinical trials and proficiency testing requirements for laboratories and marijuana testing facilities.

² According to the Department, transfers to the Department's Interagency Services Agreement Fund were made to pay for the inclusion of an Adverse Childhood Experiences module in the Behavioral Risk Factor Surveillance System's 2023 survey questionnaire.

³ The Department's Smart and Safe Arizona Fund also received monies from a portion of the 16 percent excise tax on the sale of recreational marijuana products, and license and registration fees (see footnote 4 for additional information). As of March 2022, the Smart and Safe Arizona Fund had total revenues of approximately \$10.7 million, expenditures of \$12.7 million, and an ending fund balance of \$5.5 million.

⁴ The Arizona State Treasurer's (State Treasurer) Smart and Safe Arizona Fund also received monies from the 16 percent excise tax on the sale of recreational marijuana products, and license and registration fees. As required by A.R.S. §36-2854(B), the State Treasurer transferred monies from its Smart and Safe Arizona Fund for various purposes, including transferring monies to the Department for the actual and reasonable costs incurred by the Department to implement, carry out, and enforce the responsible adult use of marijuana laws.

⁵ A.R.S. §36-2817(C) expressly authorizes the Department to use Medical Marijuana Fund monies for grants to provide for marijuana clinical trials conducted pursuant to A.R.S. §36-2822; however, as of March 2022, the Department had expended \$0 for this purpose. The Department is authorized to spend \$5 million annually in Medical Marijuana Fund monies for 5 consecutive years; therefore, it was authorized to spend a total of \$10 million during fiscal years 2021 and 2022. As of the end of fiscal year 2022, an estimated \$22 million is available in the Medical Marijuana Fund for the Act's purposes, including the marijuana clinical trials. During this 36-month follow-up review, the Department published a request for grant applications for marijuana clinical trials and reported that it anticipates awarding grants and disbursing funds for this purpose in fiscal year 2023.

⁶ A.R.S. §36-2803(I) expressly authorizes the Department to use Fund monies to contract with laboratories pursuant to A.R.S. §36-2803(I) to comply with proficiency testing requirements. A.R.S. §36-2803(I) requires that, beginning in January 2023, the Department conduct proficiency testing and remediate problems with independent third-party laboratories that are certified and regulated and marijuana testing facilities that are licensed and regulated. As of the end of fiscal year 2022, an estimated \$22 million is available in the Medical Marijuana Fund for the Act's purposes, including proficiency testing. However, as of March 2022, the Department had spent \$0 from the Fund for this purpose and reported that it will not spend any monies for this purpose until January 2023, when it is required to do so.

Source: Auditor General staff analysis of A.R.S. §36-2817 and the AFIS Accounting Event Transaction File for the period July 1, 2020 through March 31, 2022.

Department has not yet fully implemented the 1 outstanding recommendation from Finding 7 to ensure proper use of Fund monies

Our June 2019 performance audit identified that the Department did not proportionally allocate some expenditures to the Fund relative to the benefit the Program received. Additionally, the audit found that the Department had not developed written policies and procedures regarding the use of Fund monies that could help determine whether an expenditure is allowable and whether it should be allocated to the Fund. Therefore, we recommended that the Department establish and implement written policies and procedures regarding the allowable use of Fund monies and guidance for allocating expenditures when multiple programs benefit from the expenditures. As of June 2022, the Department has developed some policies and procedures to help ensure expenditures and staff time are documented and appropriately allocated to the Fund. For example, the Department's policies and procedures require supervisory review of payroll allocations, documentation to justify expenditures, and distributing the allocation of costs when more than 1 program benefits from an expenditure. Additionally, the Department's policies and procedures require that staff who work on multiple Department responsibilities or programs allocate their time to the respective funding sources and certify their time allocation on a form.

However, the Department has not fully implemented these policies and procedures. For this 36-month followup, we reviewed payroll information and certification forms for a judgmental sample of 20 employees from 17 pay periods in fiscal year 2022 and found that 6 employees did not fill out their certification forms in a timely manner, increasing the risk that employees incorrectly allocated their time to and were paid from the restricted Fund. Additionally, we reviewed a judgmental sample of payroll information from 6 pay periods in calendar year 2021 and identified 6 employees whose salaries were fully paid from the Fund even though they worked some time on non-Program responsibilities during at least 1 of the pay periods we reviewed. The payroll costs for these 6 employees totaled approximately \$14,250 for the 6 pay periods we reviewed. A Department official reported that allocated funding may not always accurately reflect staff responsibilities, and some Department staff we spoke with reported that they were unaware that they should allocate or charge their time according to their varying responsibilities. Although the extent and impact of payroll expenditures being incorrectly allocated to the Fund is not known, incorrectly allocating expenditures further decreases available monies in the Fund for Program operations and other statutorily required or permitted uses, such as for statutorily authorized clinical trials and proficiency testing, which the Department has not yet allocated nor spent Fund monies on in fiscal year 2022.

Finally, we reviewed a judgmental sample of 20 Fund expenditure transactions from fiscal years 2021 and 2022 and found that for 9 transactions, the Department either did not have adequate documentation supporting how the allocation distribution amounts were determined and/or did not fully comply with the Department's policies and procedures for supervisory approval of expenditures. For example, although the Department's Budget and Finance Administrator approved a 2021 expenditure transaction related to billing for legal services, the Department did not require a finance manager to also approve the transaction, as required by Department policy. Additionally, for a separate 2021 expenditure transaction related to the purchase of computers and associated equipment, the Department was unable to provide adequate documentation indicating how the expenditure corresponded to the use of Fund monies. According to the Department, the expenditure was for cross training staff to assist with Program responsibilities.