



OFFICE OF THE STATE AUDITOR



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September 18, 2019

DEPARTMENT OF REVENUE USES MARIJUANA INVENTORY TRACKING DATA TO ENSURE TAX COMPLIANCE

DENVER—the Office of the State Auditor (OSA) has released an evaluation of the Department of Revenue’s use of marijuana inventory tracking data collected by the State and found that the Department places data analytics at the forefront of ensuring its marijuana tax collections, as well as its inspection, audit, and enforcement efforts. As of July 1, 2019, there were about 1,300 licensed medical marijuana businesses and about 1,600 retail marijuana businesses. In Fiscal Year 2018, state tax revenues from marijuana totaled about \$250.7 million.

Colorado voters legalized medical marijuana in 2000 and recreational marijuana in 2012, and the Department of Revenue is the state agency tasked with the administration and enforcement of laws related to the cultivation, manufacture, distribution, sale, and possession of marijuana. The Department is also responsible for the administration of Colorado’s tax laws, which include state sales and excise taxes levied on the transfer and sale of marijuana. The cornerstone of the State’s regulatory structure is a statewide seed-to-sale inventory tracking system that allows licensees and the Department to identify and account for all marijuana grown, processed, sold, and disposed of in the commercial marijuana market.

The evaluation found that the Department’s Tax, Audit, and Compliance Division analyzes marijuana inventory tracking data and data from tax returns

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to generate leads for audits of marijuana businesses. For example, the Department audited over \$2.2 billion—or about 34%—of the nearly \$6.6 billion in combined marijuana transfers and sales subject to excise and sales taxes between July 1, 2015 and June 30, 2019. Net tax assessments resulting from audits totaled \$6.2 million for Fiscal Years 2015 through 2018, which represents less than 1% of the approximately \$691 million in marijuana taxes collected for the same period, indicating that marijuana businesses generally are complying with applicable requirements when calculating their excise and sales tax liabilities and filing their returns. On the enforcement side, the Department's Marijuana Enforcement Division analyzes marijuana inventory tracking data to generate investigation leads and target investigation activities, such as identifying for follow up those marijuana businesses whose production data are outside of industry norms, or data patterns, such as marijuana harvests without any associated packages for sale, that could signal an increased risk of diversion or other noncompliant activity.

The evaluation made one recommendation for the Department to strengthen internal communications to ensure that formal, routine communication takes place between its divisions about marijuana-related compliance and enforcement activities. The evaluation was conducted by BerryDunn under contract with the OSA.

The full report is available @ www.colorado.gov/auditor.

Under the direction of the state auditor, the OSA is the state's nonpartisan, independent external auditor with broad authority to audit state agencies, departments, institutions of higher education, and the Judicial and Legislative Branches. The OSA's professional staff serve the people of Colorado by addressing relevant public issues through high-quality, objective audits and reviews that promote accountability and positive change in government. Performance audits address whether programs operate in compliance with laws and regulations and in a manner that accomplishes intended program goals. Financial audits include annual audits of the state's basic financial statements and federal grants on a statewide level. IT audits review procedures and technology to ensure the confidentiality, integrity and availability of the state's critical computer systems and taxpayer data. The OSA also tracks about 4,000 Colorado local governments for compliance with the Local Government Audit Law.