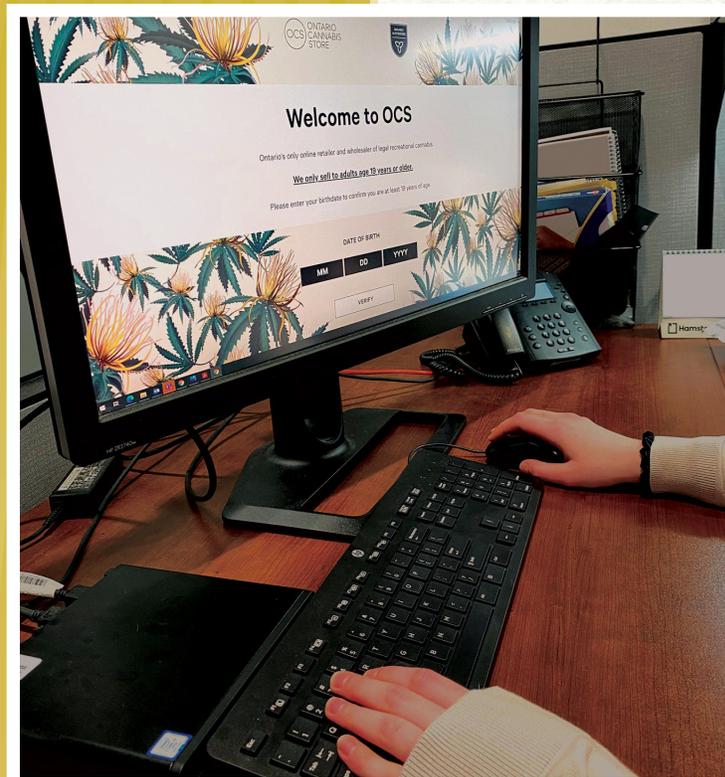




Office of the Auditor General of Ontario

Value-for-Money Audit:
Ontario Cannabis
Retail Corporation



December 2021

Ministry of Finance

Ontario Cannabis Retail Corporation

1.0 Summary

Canadians today can buy recreational cannabis products from legal sources. And, according to the Ontario Cannabis Retail Corporation (OCRC), 44% of cannabis purchases in Ontario are from the legal market, as of March 2021. OCRC, which runs Ontario Cannabis Store (ocs.ca), sells cannabis online to end customers and is the sole wholesaler of recreational cannabis to authorized retail stores. By selling and distributing legal cannabis products, this board-governed Crown agency is contributing to the reduction of cannabis sales in the illegal market. According to market research, 28% of Ontarians over 18 years old used cannabis for recreation in 2019/20. Of these people, about 40% are considered “heavy consumers”; heavy consumers are responsible for 90% of total provincial spending on cannabis products.

According to the *Ontario Cannabis Retail Corporation Act, 2017* (the Act), OCRC’s mandates are “to buy, possess and sell cannabis and related products; to determine varieties, forms or types of cannabis and related products to sell and the prices at which to sell them; and to promote the socially responsible use of cannabis.” In three years since legalization, the legal cannabis industry in Canada has experienced a great deal of change. Since its inception, the agency has also undergone a number of significant changes that have impacted its operations. Originally it was created as a subsidiary of the Liquor Control Board of Ontario (LCBO) but became a standalone corporation within

eight months. Internally, OCRC has experienced a high turnover of its senior executives; in three years, there have been four different CEOs and two short-term appointments of interim Presidents in April to August 2018.

Further, the Ontario Government’s recreational cannabis sales model changed in 2018, when the government decided that physical retail stores would be privately rather than publicly owned and operated. As a result, OCRC wrote off a total of \$9 million in retail store fixtures, computer hardware, machinery and equipment. OCRC also became the only legal online retailer in Ontario.

Another significant change took place in early 2020, when the lottery-based method which capped the number of authorized cannabis retailers was replaced by an open allocation process, authorizing an unlimited number of retailers to apply to open and operate a cannabis store. The number of authorized retail stores grew significantly in 2019/20 and 2020/21, from 53 to 1,119 (as of July 2021) as a result of this change. The recreational cannabis industry has itself been evolving rapidly, with many consolidations taking place on the production side. Licensed producers are acquiring cannabis retail stores and brands (known as vertical integration) while faced with increasing competition.

As of March 31 2021, OCRC employed 223 full-time equivalent employees (FTEs) and 12 contract staff. A significant part of its operations (including distribution centre staffing) is outsourced to a third-party service provider, Domain Logistics, which

manages the distribution centre and delivery to e-commerce (online) customers and private retail stores.

Since 2018/19, OCRC's business has grown in response to the scaling up of Ontario's retail marketplace. During this time, OCRC's revenue has grown ten-fold while its expenses (including the cost of sales, and selling, general and administrative expenses) increased six-fold. Sales, warehouse and logistics costs more than doubled from 2019/20 to 2020/21.

For the year ending March 31, 2021, OCRC's revenue totalled \$652 million, with a gross margin for online customer sales totalling \$37 million. This represents an improvement of 104% over its three-year history. Its wholesale operation has also increased significantly since 2018/19, with a gross margin of \$108 million for the same year end.

While OCRC's revenues have increased and the three-year old corporation has weathered many operational challenges, our audit found that OCRC should continue to work to strengthen some areas of its operations in order to effectively administer the *Ontario Cannabis Retail Corporation Act, 2017* and its regulations.

Our significant audit findings include the following:

Product Listing and Pricing

- **Until April 2021, OCRC did not use any formal criteria to evaluate product submissions, resulting in non-transparent decisions about products selected for sale.** As a result, individual category managers had to use their own discretion during the product listing process. We found that decisions made by category managers regarding product listing were not transparent as there was insufficient documentation to support the choices they made. Category managers documented only their final selections. They informed us they relied on their individual retail industry experience and familiarity with the products and producers in order to evaluate product submissions. However, only two of the six category managers responsible for selecting products had prior cannabis industry work experience. The newness of the market makes it difficult to recruit category managers with extensive cannabis experience.
- **OCRC created a scorecard with product submission evaluation criteria after we began our audit. However, we noted that it was not required to be used, and that where it was being used after April 2021, some product listing decisions did not align with the criteria.** In particular, we found that of the 694 rejected products from the April 2021 product call, 20 actually met every criterion on the scorecard. Category managers informed us that these products were not selected because there were insufficient resources and capacity to accommodate every product which met the assessment criteria; this rationale was not formally documented. However, we noted that of the 901 product submissions received, 76 did not have a scorecard and another 61 had scorecards with one or more blank fields. Among these 137 product submissions with missing or incomplete scorecards, 124 of these products were chosen to be listed and only 13 were rejected.
- **OCRC does not have a formal appeal process for product listing decisions and senior management sometimes reverses product listing rejections without any documented rationale, contributing to a perceived lack of fairness by licensed producers.** Some licensed producers indicated they occasionally escalated their concerns about rejected products to OCRC's CEO or senior leadership team and OCRC sometimes reversed its initial decisions to reject those products. However, we found that such communications were verbal and were not documented or tracked. Also, not all licensed producers have the same level of relationship with OCRC. While we did not come across any preferential treatment being given to licensed producers for product listing, such informal escalations and decision reversals can create a perceived lack

of fairness, equity and independence in OCRC's engagement with licensed producers.

- **OCRC's recently implemented value-based pricing approach for listed cannabis products is not based on sufficient analysis and is not transparent to licensed producers.** Provinces, such as British Columbia, Alberta, Manitoba and Quebec, use a fixed mark-up pricing approach. OCRC originally used the same approach, but switched to a value-based pricing approach in 2020. However, a thorough analysis of risks and benefits of this new pricing approach was not prepared to allow the Board to perform a proper assessment prior to approval. A value-based pricing approach is theoretically based on customers' perceived value of a product, which incorporates product attributes, benchmarking with other similar products, and customer preferences. However, our audit found that category managers and OCRC's pricing analyst do not document what considerations or market research data went into their pricing decisions.

Inventory Management

- **Product availability has been a common complaint from private retail stores.** Our July 2021 survey of authorized retailers found that product availability is a common complaint, with 47% of respondents indicating that they were "not satisfied" and 19% "very dissatisfied" with the availability of products from OCRC. Specifically, the majority of comments we received from the retailers were related to concerns about product availability and frequency of out-of-stock inventory. From January 1, 2021 to June 30, 2021, we found that on, any given day, about 19% of all wholesale cannabis products listed by OCRC were not in stock and available for retail stores to order. If products are not in stock for retail stores to order from OCRC, end user customers may instead seek and purchase similar products in the illegal market.
- **Inaccurate inventory forecasting has contributed to products being out of stock, impacting potential cannabis sales for the first six months of 2021.** Although inventory turnover has improved at OCRC, when we reviewed a sample of weekly forecasts in the period between January to June, 2021, we found that OCRC underestimated inventory demand 42% of the time, where the actual demand was on average 145% higher. Underestimating inventory demand impacts OCRC's ability to satisfy customer demand and earn revenue. OCRC has overestimated inventory product demand the other 58% of the time and the variance (difference between forecasted and actual sales) was on average 40%. Overstocking products could increase handling and stocking costs, and also highlights that improved product listing decisions are needed. We further noted that:
 - OCRC did not have a process in place to perform routine analysis of variances between inventory/product forecasts and actual inventory/product demand, nor to investigate the root causes of these variances.
 - One contributor to large variances is that OCRC does not have access to timely point of sale data from retail stores to inform their forecasting model.
 - OCRC's forecasting model does not consider influencing factors such as seasonality of demand, consumer preferences and trends, and market saturation.
- **OCRC has been appropriately disposing or returning cannabis products to licensed producers when required.** OCRC uses services of a third party, Daniels SharpSmart, for product destruction. Since February 2021, OCRC has improved oversight of the destruction process in order to eliminate the possibility of product diversion to the illegal market. When OCRC returns products to licensed producers, it tracks all steps in the process and has appropriate controls in place.

Social Responsibility and Preventing Access by Minors

- **OCRC is progressing slowly with its social responsibility mandate.** Promoting social responsibility is one of OCRC's legislated objectives. However, it did not establish a Board-approved social responsibility strategy until November 2020. Since the legalization of cannabis, public health incidents relating to consumption of dried flower almost doubled from 120 in 2018 to 217 in 2020. We found that OCRC has not engaged in much, if any, public education on responsible consumption, the differences between regulated cannabis products and products sold in the illegal market, or health risks associated with the consumption of illegal products. In comparison, other provinces' public agencies, such as Alberta Gaming, Liquor and Cannabis Commission and British Columbia Cannabis Legalization and Regulation Secretariat, measure customer awareness of responsible cannabis use. The Prince Edward Island Cannabis Management Corporation reports on annual spending for projects on corporate social responsibility and the results of a corporate citizenship survey which is designed to obtain feedback on corporate social responsibility from external stakeholders.
- **OCRC wants to provide convenient access to attract customers from the illegal market while implementing controls to protect children and youth. However, OCRC does not have sufficient verification of age controls in place to prevent minors from purchasing cannabis through its online store.** The Act prohibits the sale of cannabis to those under 19 years of age. However, when it sells cannabis online, OCRC relies on customers' self-declaration of age and does not verify customers' ages using independent information sources, such as Equifax (a global data, analytics and technology company that provides comprehensive databases of consumer information). Online (e-commerce) customers are simply required to enter their date of birth to confirm

their age before they enter ocs.ca to browse or purchase products. In 2019, Health Canada warned that simple self-attestation of age may be easily misrepresented and that additional steps must be taken to prevent youth access to promotional content for cannabis.

- **OCRC does not have sufficient verification of age controls in place to prevent minors from receiving cannabis product deliveries.** As the Act prohibits the sale of cannabis to those under 19 years of age, OCRC must ensure that delivery service providers verify the age of a customer before cannabis products are delivered. When online customers select Domain Express delivery, cannabis products are delivered by service providers sub-contracted by Domain Logistics. OCRC has no way to confirm that delivery drivers actually perform age verification because there is no consistent recording of what type of identification was checked upon delivery. Neither OCRC nor Domain Logistics has any mandatory training or certification requirements for subcontractors who deliver cannabis products. In contrast, retailers whose direct employees were permitted to make deliveries during COVID lockdowns had to hold a certification from CannSell—a mandatory training program designed to educate learners about cannabis legislation, regulations and compliance, usage, consumption and product knowledge.

Oversight of Service Providers

- **OCRC does not have effective oversight of services provided by its major service provider, Domain Logistics.** At the time of our audit, OCRC did not have a consistent or standard approach to monitor the performance of any of its vendors. The current agreement between OCRC and Domain Logistics sets out only four performance metrics: fill rate, inventory accuracy, order processing time and number of safety incidents. However, we found that OCRC has not yet established any performance targets for these

metrics. We also found that Domain Logistics did not meet all of its reporting requirements under the agreement and OCRC was unaware of this until we brought it to their attention. OCRC had never requested any supporting documentation to validate the accuracy of charges invoiced by Domain Logistics. As of March 2021, the value of the Domain Logistics contract was around \$70 million, 15% of the total value of contracts awarded by OCRC. OCRC pays Domain Logistics for all costs incurred plus a proportional management fee that increases as costs increase. OCRC has a responsibility to ensure that value for money is achieved for all expenses incurred by Domain Logistics.

- **OCRC's arrangement with Domain Logistics to lease equipment does not provide value for money.** Our audit found that OCRC through Domain Logistics has a number of active leases for equipment used in the distribution centre. Per its arrangement with Domain Logistics, OCRC is required to reimburse the leased payments made by Domain Logistics, plus pay Domain Logistics a management fee for administering these leases. Our analysis showed that over the duration of the leases, which were arranged by Domain Logistics, OCRC will have made lease payments covering the full value of the equipment (\$12 million). However, there are no bargain purchase options at the end of the leases. A bargain purchase option is an option to purchase an asset at a price that would typically take into account the lease payments already made and is expected to be significantly lower than the fair market value of the asset. This means that to continue using the equipment after the lease ends, OCRC would have to continue making the lease payments for equipment it has effectively already paid for.
- **OCRC was unaware of significant monitoring requirements within its agreement with Domain Logistics.** As per its vendor agreement, Domain Logistics must obtain written consent from OCRC prior to engaging any subcontractors. With the exception of transportation and

delivery services, OCRC does not have a current list of subcontractors engaged by Domain Logistics and does not track formal consents to engage subcontractors. For example, OCRC did not provide formal consent for engaging specific staffing agencies, a security services firm, and a construction company that were hired by Domain Logistics. Furthermore, OCRC was not aware of the performance of delivery companies subcontracted by Domain Logistics, including information on the timeliness of deliveries and whether and how minimum age is being verified. Yet, from February 2021 to June 2021, approximately 33% (or 2,338 out of 7,153) of all the e-commerce customers' inquiries and complaints received by OCRC were related to deliveries made by Domain Logistics. These included complaints about delivery windows that were too long as well as missed and late deliveries. OCRC does not oversee what training Domain provides to its subcontracted delivery service providers regarding age verification requirements, customer privacy and data management.

Customer Service

- **The recent transition from outsourced to in-house customer care staffing in February 2021 has resulted in longer wait times for inquiries, claims, and complaints due to about a 50% reduction in dedicated customer care support as well as more retail stores.** From October 2018 to February 2021, OCRC outsourced its e-commerce customer support service. In February 2021, OCRC moved e-commerce customer support in-house, so that both retail stores and e-commerce customers would be serviced by the same internal team. This transition was intended to realize annual cost savings of approximately \$550,000, and improve operational efficiency and access to OCRC IT systems. After the transition, OCRC revised and lowered targets for several performance metrics because its new in-house customer service team is only half the size

of the original outsourced team, yet the number of retail stores increased significantly in 2020/21. For example, the target length of time for OCRC to resolve customers' claims and complaints was increased from 15 days to 40 days for product quality issues, and to 30 days for deliveries and purchase order issues. In addition, we found that the actual resolution time for these cases significantly increased after the transition. For example, the average time to resolve product quality related complaints increased from 14 days to 59 days. Furthermore, as of July 8, 2021, we found that there were 2,190 product quality complaints that had not been resolved, 32% (or 698) of which have remained open for more than 90 days. In addition, we noted that 53% of retailers who responded to our survey described themselves as "not satisfied" or "very dissatisfied" with OCRC's ability to deal with customer complaints in a timely manner. OCRC has not yet updated its cost and benefit analysis to see if the planned benefits can still be achieved given changes in staffing and the increase in customers needing to be serviced.

Procurement

- OCRC does not have documentation to support its decisions to procure non-competitively. Consistent with government directives, OCRC's policy allows for non-competitive procurement.** Non-competitive procurement is allowed if the procurement circumstances meet any of the special circumstances or exceptions listed in its policy, and if a business case is presented to justify the need for non-competitive procurement. Since January 2019, when OCRC began operating as a standalone agency, over a half of its procurements have been non-competitive. OCRC has awarded 24 non-competitive contracts for a value of approximately \$7 million, out of a total of 42 contracts (\$43 million). While appropriate management approvals were obtained at OCRC

for these contract awards and special circumstances or exception clauses were invoked, there were no business cases prepared. We found that OCRC had no documentation in any of the 24 cases to support the special circumstances or exceptions it relied on to justify non-competitive procurement. In the absence of supporting documentation, we could not verify if the special circumstances or exceptions indicated by OCRC existed and justified non-competitive procurement.

Information and Data Management

- OCRC does not have effective mechanisms to oversee the use, retention and safeguarding of customer information retained by its service providers.** In May 2021, OCRC developed a data strategy that focused on data analytics capabilities. At the time of our audit, the strategy had not been shared with the Board for feedback, direction or approval. While the new data strategy is focused on building OCRC's data analytics function, it lacks a data governance component, including identification of what data the enterprise has, where that data resides, how that data is used and what compliance obligations apply. As well, it does not have effective mechanisms to oversee the use and retention of customer data gathered by Domain Logistics and its subcontractors, which creates privacy concerns. We also found that OCRC did not have access to all data collected by Domain Logistics and its subcontractors, even though the agreement between OCRC and Domain Logistics states that all data is the exclusive property of OCRC. In addition, the agreement requires Domain Logistics and its subcontractors to keep information, which may include customer personal data, for only 30 days (with 120 days of archiving) whereas *Ontario's Freedom of Information and Protection of Privacy Act* requires that personal data be retained for a minimum of one year.

Performance Measurement and Reporting

- **OCRC does not yet have a consistent set of non-financial metrics to measure its yearly performance and progress.** OCRC has been tracking a set of consistent metrics related to its financial objectives. However, it does not have effective processes to ensure the long-term monitoring of non-financial performance objectives. Many of the targets OCRC has set for itself have been vague, difficult to measure, or moving targets. For example, the objectives “to divert customers from illicit market” or “to grow online visits” for ocs.ca are overly general. The most recent performance metrics established in 2020/21 measure the number of wholesale retail partners that OCRC has onboarded and the number of products OCRC has sold. These metrics were subsequently replaced with the target of 1,000 retail stores ordering from OCRC by September 1, 2021. We also noted that up until the most recent year, 2021/22, OCRC did not establish any performance targets and timelines.
- **OCRC does not sufficiently report on its operational performance to its Board.** We noted that OCRC internally monitored and publicly reported on customer satisfaction, order fill rate, inventory turnover and customer counts. However, we found that OCRC does not regularly report and discuss operational performance with its Board using consistent metrics, dashboards or scorecards. In order for the Board to discharge its responsibilities effectively, it requires periodic and consistent information on OCRC’s financial, operational and strategic performance.

Human Resources Management

- **OCRC’s hiring practices have been improving.** We identified several issues in OCRC’s initial human resources management processes, including reference checks not being conducted for job applicants and the lack of cost benefit analysis

on the use of contractors for OCRC’s information technology department. However, we noted that OCRC has taken a number of corrective actions since June 2020 to make improvements in these areas. For example, due diligence is now being conducted appropriately for job applicants and an analysis for the use of contractors was reviewed and approved by the Board.

- **OCRC has not established a robust employee performance management framework.** We reviewed a sample of twenty-five employee performance reviews from 2018/19 to 2020/21 and found that OCRC did not have formal procedures and guidance on managing employee performance that include setting employee annual objectives and conducting performance reviews. In 2018/19 and 2019/20, OCRC based performance awards solely on company performance without consideration of individual performance. In 2020/21, performance awards were calculated on 70% of corporate performance and 30% individual employee performance. However, OCRC establishes annual individual performance based on an informal assessment of whether or not the employee achieved their goals in a satisfactory way. There are no clear and specific criteria set for what constitutes the satisfactory achievement of goals. Furthermore, there is no guidance for setting annual goals.

Governance

- **OCRC’s governance processes are evolving.** Through the agency’s many changes within its senior executive team and adjustments to shifts in government direction, the relationship between management and the Board has been maturing. The current Memorandum of Understanding between the Ministry of Finance and OCRC has not yet been signed by the Ministry of Finance as of September 1, 2021. During our audit, we noted that with regards to some strategic changes in OCRC, the Board was not consistently provided

with sufficient information. For example, the Board was not able to sufficiently assess the risks and benefits of the change to a value-based product pricing approach. We also noted that with the exception of financial performance metrics, the Board has not been receiving periodic reports on a consistent set of key operational performance metrics, including progress with the social responsibility mandate. Throughout our audit, we noted that OCRC has proactively taken a number of corrective actions to address our concerns and is committed to continuing to make improvements to its governance practices.

This report contains 16 recommendations, with 63 action items, to address our findings.

Overall Conclusion

OCRC is a young crown agency that has undergone significant changes and growth over the last three years, increasing its revenue from \$64 million in 2018/19 to \$652 million in 2020/21. Our audit concluded that OCRC still needs to make changes and improvements in many areas of its operations in order to effectively operate and administer the *Ontario Cannabis Retail Corporation Act, 2017* and its regulations. Specifically, we found weaknesses in sales forecasting and revenue management, timely response to customer inquiries, claims and complaints, contract management oversight of Domain Logistics (the third party responsible for inventory warehousing and product distribution operations), product listing and pricing, safeguarding of customer data retained by Domain Logistics and its subcontractors, employees' performance management, corporate performance management and reporting, educating the public about responsible cannabis consumption and in controls to prevent minors from purchasing cannabis products through its online store and obtaining it inadvertently from third party delivery operators. OCRC is taking steps to address operational gaps in these areas.

OVERALL OCRC RESPONSE

The Ontario Cannabis Retail Corporation (OCRC) welcomes and accepts the insights and recommendations provided by the Auditor General. OCRC, operating as Ontario Cannabis Store (OCS), is the government's exclusive online retailer and wholesaler of recreational cannabis to adults 19+ in Ontario. The OCRC's legislated mandate is to buy, possess, and sell cannabis and cannabis-related products, as well as promote social responsibility in connection with cannabis.

Since its inception only three years ago, the OCRC has focused on capturing sales from the illegal market. As a result, the OCRC has captured about 47% of sales from the illegal market. In support of this objective, OCRC has operated its e-commerce channel (OCS.ca) since legalization in October 2018 and has rapidly onboarded over 1,200 privately operated stores to its retailer network since April 2020. In addition to growing cannabis access points, the OCRC has rapidly developed its operational capacity to serve this new and dynamic market. In this short time, the organization has developed the capability to efficiently distribute cannabis across the province, enabling access to legal cannabis for a rapidly growing retailer and consumer network, and has established pricing policies that are competitive with the illegal market. The OCRC recognizes its policies and programs must continue to be reviewed to effectively respond to evolving market conditions and to continue to capture illegal market sales. The corporation continuously seeks feedback from its licensed producer and authorized retail store partners to inform efforts to strengthen its wholesaling infrastructure, and better optimize its service levels for its retail store customers.

The corporation is also committed to informing Ontarians of the impacts of consuming cannabis and promoting socially responsible consumption in connection with cannabis. The OCRC is delivering on this commitment by implementing the

Board of Directors approved Social Responsibility Strategy.

As with any new company within a new emerging industry, the OCRC acknowledges that it has room for improvement. We welcome this value-for-money audit as an opportunity to have our processes and procedures examined by the Auditor General, with continuous improvement being the OCRC's goal. The Board and Management thank the Auditor General for her recommendations and are committed to making the agreed upon improvements identified in this report.

2.0 Background

2.1 Recreational Cannabis in Ontario

According to Public Health Ontario, cannabis is the most commonly used psychoactive substance in the province of Ontario, apart from alcohol and tobacco. Also commonly known as marihuana (or marijuana), it is derived from the plant *Cannabis sativa* and is used for medical as well as recreational purposes. Cannabis can be consumed by smoking it like a cigarette or in a pipe, inhaling it through a vaporizer, ingesting it through edibles and drinks, or applying it to the skin in a lotion, spray, oil or cream.

Cannabis contains hundreds of chemical substances. Recreational cannabis products typically contain both tetrahydrocannabinol (THC) and cannabidiol (CBD). THC is the main psychoactive (feeling high) compound in cannabis and may expose users to certain health risks such as decreased blood pressure, increased heart rate, and may also have undesirable side effects such as feeling paranoid or anxious. CBD, on the other hand, does not produce a high or intoxication, and may have some wellness benefits, such as the ability to reduce chronic pain, control nausea and relax muscle tightness. Research on the beneficial and harmful effects of cannabis is evolving.

According to Statistics Canada, during the first quarter of 2021 total household expenditure (legal and illegal) on cannabis was \$1.8 billion, of which \$1.7 billion (or 93%) was for recreational use and \$121 million (or 7%) for medical use. During this time period, legal cannabis sales were \$936 million compared to an estimated \$757 million in illegal sales. By the end of 2020, legal sales in Canada had exceeded estimated illegal sales.

Four provinces—Ontario, Alberta, Quebec and British Columbia—account for 86% of all cannabis purchased in the country. Ontario has the highest consumption, where dried flower cannabis, edible cannabis and cannabis extract represent 64%, 20% and 17% of total national legal sales, respectively.

A routine Statistics Canada survey (National Cannabis Survey) is used to estimate the size of the recreational cannabis market in Ontario. However, the size of the legal market compared to the legacy unregulated market is difficult to establish with accuracy since this data is based on a voluntary survey of persons 15 years of age or older. Based on the National Cannabis Survey, OCRC reports that its legal market capture is 44% as of March 2021. **Figure 1** shows the growth in the percentage of cannabis sold legally in Ontario since 2019.

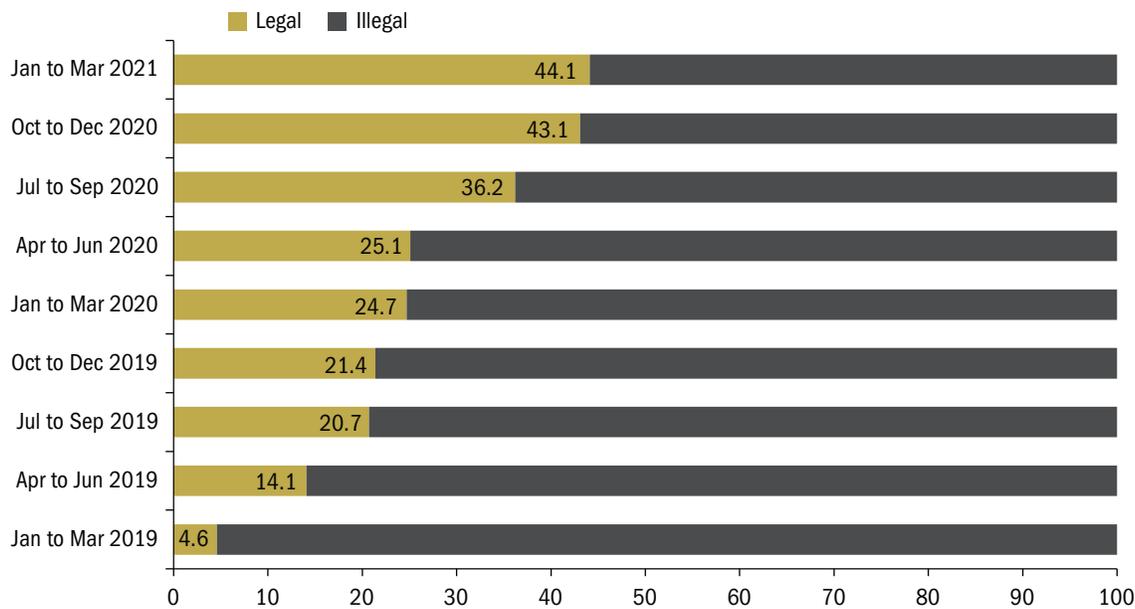
2.1.1 History of Cannabis Legalization

On October 17, 2018, Canada became the second country, after Uruguay, to legalize the use and sale of cannabis for recreational purposes. See **Appendix 1** for a detailed timeline of cannabis legalization in Canada. Some other countries, such as the Netherlands, have decriminalized, but not legalized, the use of cannabis. When the use of cannabis is decriminalized, it means that an individual using cannabis or having a small amount in their possession could not be criminally charged.

In Canada, the production, distribution and sale of recreational cannabis is governed by a number of federal and provincial laws, as summarized in **Appendix 2**. The current legal age of recreational

Figure 1: Percentage of Legal to Illegal Sales in the Recreational Cannabis Market, Ontario, January 2019–March 2021

Source of data: Ontario Cannabis Retail Corporation, Statistics Canada



use in Ontario is 19 and the public possession limit is 30 grams of dried cannabis or equivalent.

2.1.2 Key Players in Ontario's Legal Recreational Cannabis Market

At the federal level, Health Canada licenses and regulates both medical and recreational cannabis producers.

In Ontario, the Alcohol and Gaming Commission of Ontario (AGCO) is responsible for licensing private retail store operators and managers; authorizing cannabis retail store locations; regulating the sale of cannabis at licenced retail stores; and approving cannabis retail employee training programs. The Ontario Provincial Police is responsible for enforcing cannabis laws and combatting the illegal cannabis market by finding and closing illegal cannabis storefronts, illegal production sites and illegal online vendors (mail order sites). **Appendix 3** outlines the roles and responsibilities of key players in Ontario's recreational market.

2.2 Overview of Ontario Cannabis Retail Corporation

The federal *Cannabis Act, 2018* (Act) gives provinces and territories the responsibility for determining how recreational cannabis is distributed and sold within their jurisdictions. While cannabis retailers across Canada are allowed to purchase cannabis only from federally licensed producers, nationally there is a mix of government-operated and/or licenced private physical and/or online store models in use. **Appendix 4** compares the different approaches across Canada with respect to how recreational cannabis is distributed and sold in each province and territory.

2.2.1 Incorporation of Ontario Cannabis Retail Corporation

Ontario Cannabis Retail Corporation (OCRC) was established in December 2017 as a board-governed Crown agency incorporated by the *Ontario Cannabis Retail Corporation Act, 2017*. It was originally

established as a subsidiary of the Liquor Control Board of Ontario (LCBO) to operate both online and physical retail stores. In 2018, the government decided that cannabis retail stores would be privately owned and operated and that AGCO would become the provincial regulator to grant store licenses and enforce compliance. OCRC became the exclusive wholesaler of recreational cannabis to these private retail stores.

On October 17, 2018, OCRC began reorganizing into a standalone Crown agency reporting to the Ministry of Finance. On the same day, OCRC launched its online store (Ontario Cannabis Store, or ocs.ca) to sell cannabis to Ontarians for recreational use. See **Appendix 5** for a chronology of significant events for the agency.

According to the *Ontario Cannabis Retail Corporation Act, 2017*, OCRC's mandates are to buy, possess and sell cannabis and related products; to determine varieties, forms or types of cannabis and related products it sells and the prices at which it sells them, subject to regulations; and to promote social responsibility in connection with cannabis use. OCRC's most recent multi-year business plan (2021–24) includes objectives such as working with AGCO to grow the number of cannabis retail stores responsibly and to increase the amount of cannabis sold legally versus on the illegal market.

2.2.2 Ontario Cannabis Retail Corporation Organization Structure

The OCRC is governed by a Board of directors whose members are appointed by the Lieutenant Governor in Council. Currently, the Board has five members and has two standing committees—Finance and Governance Committee; and Human Resources and Compensation Committee. The agency operates from its head office in Toronto and has nine divisions organized by function. As of March 2021, OCRC employed 223 full-time equivalent employees (FTEs) and 12 contract staff. **Appendix 6** shows OCRC's organizational structure as at March 31, 2021.

2.2.3 Revenue and Expenses

Currently, OCRC operates as a self-funded, revenue-generating government business enterprise that sells goods and services to individuals and organizations. Since inception, it has accumulated equity of \$40 million (but has not paid any dividends to the Province), and has contributed to the reduction in sales in the illegal cannabis market. For the year ended March 31, 2021, OCRC's revenue totalled \$652 million, with wholesale business accounting for 80% of its total revenue, and e-commerce (online store) accounting for the remaining 20%. OCRC's revenue more than doubled between 2019/20 and 2020/21 (from \$299 million to \$652 million).

For the year ended March 31, 2021, OCRC incurred \$73.6 million in general and administrative expenses, where 37% was for salaries and benefits and 35% was for third-party warehouse and logistics services. **Figure 2** shows that during the same period, OCRC's cost of sales was \$506 million with a gross margin of \$146 million. There was also a significant increase in expenditures in 2020/21 as the Province took steps to move to an open market for retail cannabis stores, resulting in more retail stores opening and an increasing demand for inventory. Direct employees of OCRC increased from 180 in 2019/20 to 223 in 2020/21. **Appendix 7** shows the growth of revenues and the majority of expenses, year over year, as OCRC continued to increase its presence in the retail cannabis market.

For the fiscal year ending March 31, 2021, OCRC reported a net income of \$70 million, compared to a net income of \$19 million in the previous year. It projects this growth to continue as more retail stores open.

OCRC's establishment was funded through a loan agreement with the Ontario Financing Authority (OFA) and the Ministry of Finance, where OCRC borrowed \$81.4 million for the purpose of financing its set-up and initial operations. The loan has a 10-year term, with the last payment due on January 1, 2030. As of March 31, 2021, the loan balance was \$74.7 million.

Figure 2: Trend of Ontario Cannabis Retail Corporation's Gross Margin Ratio, 2018/19–2020/2021 (\$ million)

Source of data: Ontario Cannabis Retail Corporation

| | 2018/19 | 2019/20 | 2020/21 | 3-Year Change (%) |
|---------------------------|---------|---------|---------|-------------------|
| E-Commerce | | | | |
| Revenue | 57.29 | 74.46 | 132.94 | 132.05 |
| Cost of sales | 39.03 | 50.43 | 95.63 | 145.02 |
| Gross margin | 18.26 | 24.03 | 37.31 | 104.33 |
| Gross margin ratio (%) | 31.87 | 32.27 | 28.07 | (11.95) |
| Wholesale | | | | |
| Revenue | 6.58 | 224.44 | 518.57 | 7,781.00 |
| Cost of sales | 5.06 | 175.35 | 410.12 | 8,005.14 |
| Gross margin | 1.52 | 49.09 | 108.45 | 7,034.87 |
| Gross margin ratio (%) | 23.10 | 21.87 | 20.91 | (9.47) |
| Total | | | | |
| Revenue ¹ | 63.87 | 298.90 | 651.51 | 920.06 |
| Cost of sales | 44.09 | 225.78 | 505.75 | 1,047.09 |
| Gross margin ¹ | 19.78 | 73.12 | 145.76 | 636.91 |
| Gross margin ratio (%) | 30.97 | 24.46 | 22.37 | (27.76) |

1. Figures exclude revenue from data subscription program.

2.3 Overview of Operations of Ontario Cannabis Retail Corporation

One of OCRC's key mandates is to buy, possess and sell cannabis and related products. The high-level operational process that OCRC undertakes to fulfil this mandate is outlined in the chart in **Appendix 8**. Our audit examined all steps in this process as per our audit objective and scope outlined in **Section 3**.

2.3.1 OCS.ca Online Operation

OCRC operates ocs.ca, an online platform used to sell cannabis products directly to consumers. It is the only legal online retail outlet in Ontario, although under emergency orders related to the COVID-19 pandemic, retail stores were able to offer limited online sales at the time of our audit. Private retailers have not been licensed to run online sales operations. In some regions of the province, where the presence of physical retail stores is scarce or in municipalities that opted out of physical retail stores, ocs.ca has been the sole legal source of cannabis for recreational use. This

has been the case for some remote areas in Northern Ontario.

In fiscal 2020/21, OCRC's online store accounted for 15% of the \$831 million in legal cannabis sales in the province, compared to 85% from physical retail stores.

2.3.2 Wholesale Operation

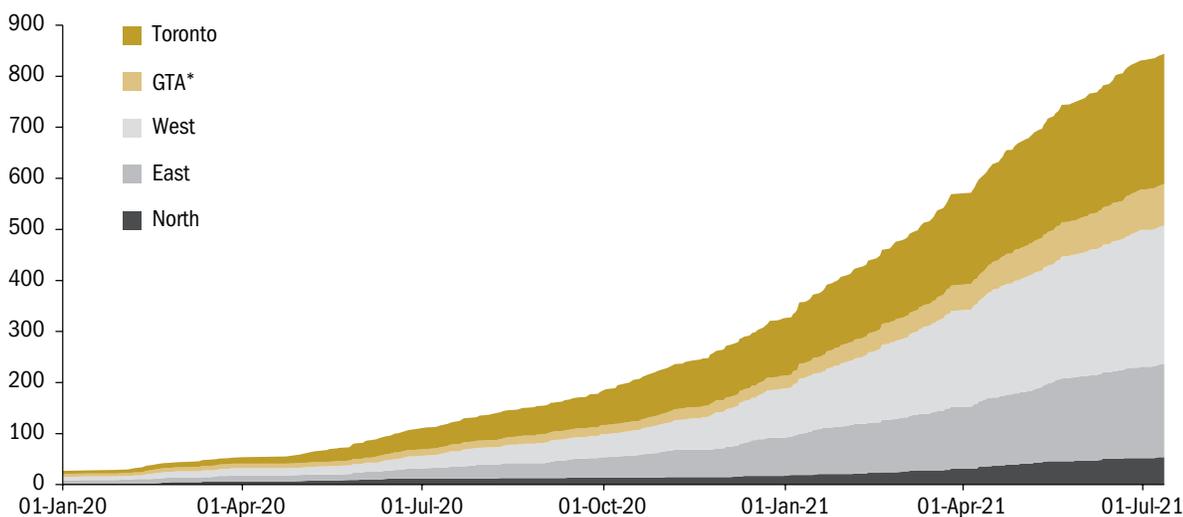
In 2020, the provincial government allowed for an open allocation of private cannabis retail authorizations. As a result, there has been a significant increase in the number of stores in the province. As of July 12, 2021, there were 859 retail stores selling cannabis products, 260 preparing for store opening, and another 1,012 in the licensing and application process. About 67 municipalities, including Mississauga, Oakville, Vaughan, Markham and Richmond Hill, have opted out of having cannabis stores.

Appendix 9 shows the number of retail stores by municipalities and **Figure 3** shows the growth of retail stores by region over time.

All authorized retail stores are required to comply with Ontario's *Cannabis Licence Act, 2018* and

Figure 3: Number of Authorized Retail Stores by Region, January 1, 2020–July 12, 2021

Source of data: Ontario Cannabis Retail Corporation



* GTA excludes Toronto.

regulations, as well as Standards for Cannabis Retail Stores established by the AGCO. Authorized retail operators are required to acquire their inventory exclusively at wholesale from OCRC. Retail stores have the same access to OCRC's product catalogue as e-commerce customers though they are supported by a dedicated OCRC retail support staff.

Licensed retailers submit their orders through an online platform provided to OCRC by a third party. Domain Logistics fulfils all wholesale and OCRC online orders at the distribution centre.

2.3.3 Merchandising

As of September 27, 2021, OCRC had a product catalogue of over 1,774 cannabis products and accessories, including 793 dried-flower products, 263 vapes, 246 extracts, 211 edibles, 58 topicals and 203 accessories. The most popular product categories are dried flower, vapes and pre-rolls, which represent 59%, 16% and 12% of total sales, respectively. **Appendix 10** shows the total sales and grams sold by product categories in 2020/21.

Figure 4 shows the average selling price per gram on ocs.ca for each product category. OCRC sells cannabis products to licenced retail stores at

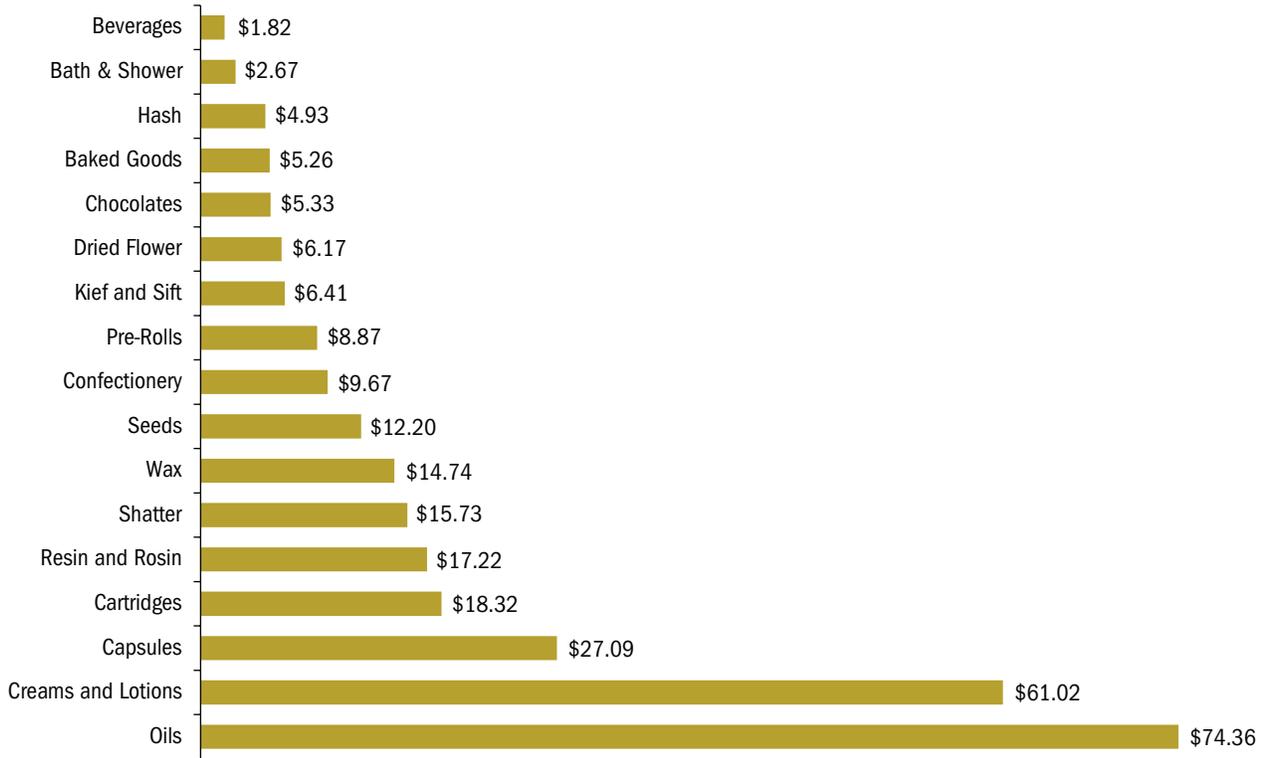
a 25% markdown from the before-tax prices on its e-commerce website, to allow retail stores to earn a reasonable profit margin while accounting for leasing and labour costs. Each retail store is then able to set its own prices with no ceiling or floor, so retail prices may vary from store to store. **Figure 5** compares the average illegal market price per gram for dried flower with OCRC's average e-commerce price and the average price at retail stores.

As of August 30, 2021, OCRC had contracts with 186 licensed cannabis producers across Canada. In 2020/21, OCRC identified ten licensed producers as strategic partners; these companies are the main contributors to OCRC's sales and supply a high volume of products in main categories. In 2020/21, these strategic partners (see **Figure 6**) accounted for over 60% of all OCRC's sales and gross margin. OCRC has the threshold of 120 days for aged inventory – any product that it purchases but does not sell is returned to the licensed producer for a full refund or destroyed at the producer's expense so that OCRC does not incur a financial loss for unsold products.

Since the beginning of 2021, the cannabis industry in Canada has seen an increase in large mergers and acquisitions. For example, on the production side two larger producers, Aphria and Tilray, merged

Figure 4: Average Price per Gram by Product Categories*

Source of data: Ontario Cannabis Retail Corporation



* Data as of March 2021, as sold on ocs.ca.

Figure 5: Comparative Market Price per Gram for Dried Flower, April 2019–January 2021

Source of data: Ontario Cannabis Retail Corporation

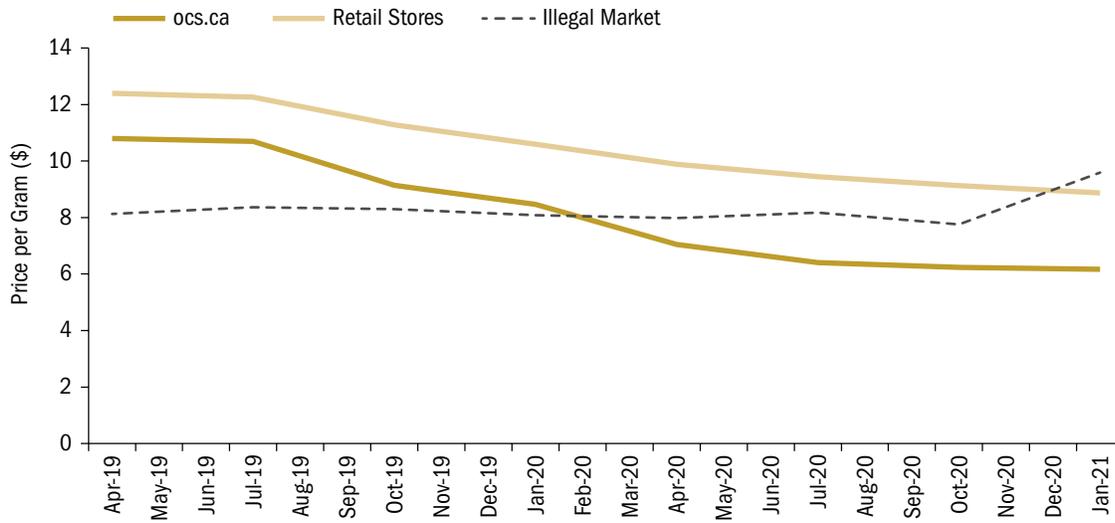


Figure 6: Ontario Cannabis Retail Corporation Strategic Partners*, Year-to-Date Sales as of March 4, 2021

Source of data: Ontario Cannabis Retail Corporation

| Licensed Producers | Province | Product Categories | Sales (\$ million) | % Contribution to OCRC's Sales |
|-----------------------------|------------------|---|--------------------|--------------------------------|
| Aphria Inc. | Ontario | Capsules, Concentrates, Edibles, Dried Flower, Oils, Vapes | 88.8 | 16 |
| Redecan | Ontario | Capsules, Concentrates, Dried Flower, Oils, Vapes | 56.5 | 10 |
| Aurora Cannabis Enterprises | Alberta | Beverages, Capsules, Concentrates, Edibles, Dried Flower, Oils, Vapes | 53.4 | 10 |
| Canopy Growth Corp. | Ontario | Concentrates, Dried Flower, Vapes | 53.3 | 10 |
| Pure Sunfarms Canada Corp. | British Columbia | Beverages, Concentrates, Edibles, Dried Flower, Oils, Vapes | 32.4 | 6 |
| Organigram Inc. | New Brunswick | Concentrates, Edibles, Dried Flower, Oils, Vapes | 19.3 | 4 |
| 7Acres | Ontario | Concentrates, Dried Flower, Vapes | 14.0 | 3 |
| High Park Farms | Ontario | Beverages, Concentrates, Edibles, Dried Flower, Oils, Vapes | 13.4 | 2 |
| Peace Naturals Project Inc. | Ontario | Dried Flower, Oils, Vapes | 12.0 | 2 |
| Weedmd RX Inc. | Ontario | Dried Flower, Vapes | 10.0 | 2 |
| Other Licensed Producers | - | - | 191.9 | 35 |
| Totals | | | 545.0 | 100 |

* OCRC defines "strategic partners" as key contributors to ocs.ca sales and profit with high volume products in key product categories.

to form the largest cannabis company in the world (Tilray). Licensed producers have also been increasingly acquiring cannabis retail stores and brands, a phenomenon known as vertical integration. This level of activity and increasing competition presents a challenging time for many licensed producers.

In order to select cannabis products for listing, OCRC employs a product call process to invite licensed producers to submit cannabis products. Prior to each call OCRC publishes an Assortment Needs Bulletin to inform producers about the types of products that OCRC is looking to list. The Bulletin identifies products that are priority at that time. Producers submit applications and provide product details that are then reviewed by OCRC category managers to determine which products to list.

Since the inception of OCRC, the product call and listing process has changed several times in part due to producer feedback and the changing cannabis industry. Initially, there was an open call process

where licensed producers submitted their products to OCRC throughout the year. At the beginning of 2021, OCRC established a pre-set annual schedule structured around six product calls, which was then reduced to four annual product calls in June 2021.

2.3.4 Outsourced Supply Chain Management

OCRC outsources most of its supply chain operations to Domain Logistics, a third-party service provider. Domain Logistics is responsible for facility management for OCRC at a leased warehouse in Guelph, and for inventory control, order fulfilment for both wholesale and online customers, transportation management services (except for Canada Post) and inspections of delivered products and returned products as directed by OCRC. Within its own logistics team, OCRC has three staff who are responsible for the management and oversight of Domain Logistics.

Figure 7: Ontario Cannabis Retail Corporation E-Commerce Delivery Options as of April 2021

Source of data: Ontario Cannabis Retail Corporation

| Service Option | Timeline | Price | Coverage |
|---|---|--------------------|--|
| Same-Day Delivery by Domain Express¹ | The order will arrive the same day between 1 pm and 11 pm. The cut-off time for Same-Day Delivery is 1 pm. | \$8 (\$7.08 + HST) | Select areas of southern Ontario |
| Express Delivery by Domain Express | The order will arrive within 3 days between 1 pm and 11 pm. | No charge | Select areas of southern Ontario |
| Expedited Delivery by Domain Express² | The order will arrive within 5 days, on Tuesday or Saturday, between 2 pm and 9 pm. | No charge | Areas not serviced by Same-Day or Express Delivery |
| Canada Post Office | Pick-Up at Canada Post Office (due to COVID-19) | No charge | Ontario-wide |

1. Domain Express delivery is provided by sub-contractors QMS and Pineapple Express.

2. Expedited Delivery was added as of April 6th, 2021.

Online customers have the option to select either Canada Post (contracted by OCRC) or Domain Express delivery (contracted by Domain Logistics) when purchasing product. Domain Express subcontracts delivery services to Pineapple Express and QMS courier services. **Figure 7** provides an overview of the various delivery options available to customers.

For retail store deliveries, Domain Logistics subcontracts various service providers including Pineapple Express, Rogue Transport, NLI International and NIN Transport to deliver product shipments. All delivery service providers who are subcontracted by Domain Logistics must be approved by OCRC.

2.3.5 Customer Service

From October 2018 to February 2021, OCRC outsourced its online customer support service. With the introduction of the wholesale channel (sales to retail store operators) in 2019, an in-house customer service team was formed to service these wholesale customers. In February of 2021, OCRC brought the online customer support function in-house, so that both wholesale and online customers are now being serviced by the same OCRC customer service team.

Individuals who purchase their products online or from retail stores and private store operators can contact OCRC's customer care with inquiries or complaints. Product quality complaints that require

an investigation may be forwarded to the licensed producers who, according to OCRC's supplier manual, are expected to complete their investigation within 10 days of receiving the complaint. If not completed on time, OCRC reserves the right to refund the customer and charge the cost to the producer. When a product is subject to any safety notices or recalls, producers must immediately notify OCRC in writing and also report to Health Canada.

Product quality is one of the main considerations for consumers of cannabis. Deloitte's *Cannabis Report 2018* indicated that approximately 55% of research participants (cannabis users who purchase on the illegal market) would move away from the illegal market if "better quality" cannabis products were sold in the legal market. OCRC has implemented a number of quality assurance processes. Prior to purchase from a licensed producer, OCRC reviews suppliers' quality assurance practices and sometimes conducts site audits at their production facilities. At the distribution centre, Domain Logistics staff inspects product packaging and labels, under the supervision of one to two OCRC staff, whenever products arrive from licensed producers. When online customers and retail stores make complaints about product quality issues, OCRC follows up with the licensed producers who investigate the complaint.

Aside from the in-house customer service representatives, OCRC added 15 additional district sales

managers in 2021/22 to provide support to retail store customers. These district sales managers are responsible for managing direct relationships with stores and for providing assistance with revenue forecasting, product assortment recommendations, sharing sales data and order support.

2.3.6 Procurement

OCRC utilizes the following three main types of procurement of goods and services:

- **Competitive procurement** occurs when multiple vendors are allowed to bid for a procurement contract. There are two types of competitive procurements:
 - *Open Competition:* the procurement opportunity is posted publicly and all vendors are allowed to submit bids. As per OCRC's internal Procurement Policy dated November 14, 2018, this method should be used for procuring goods valued at or over \$25,000 and services valued at or over \$100,000;
 - *Invitational Competition:* OCRC invites a select number of vendors to submit bids for a procurement opportunity. Invitational competition can be used to procure non-consulting services valued between \$25,001 and \$100,000 and consulting services valued at less than \$100,000. Business units are still encouraged to conduct an open competition.
- **Non-competitive procurement** is used under specific circumstances which are outlined in the OCRC Procurement Policy. Under this process, the business unit is required to produce a business case or justification for selecting this non-competitive model.
- **Vendor of Record arrangements** are established by the government of Ontario for specific services through a competitive selection that allows entities of the government to use these service providers for a defined period of time with specific terms attached to this arrangement. Since inception, 5% of OCRC's procurements used the vendor of record

arrangement established by the province through the Ministry of Government and Consumer Services. Some procurement contracts, including the most expensive one with Domain Logistics, were initially signed by the LCBO and transferred to OCRC when it became a standalone Crown corporation.

2.3.7 Data Management

OCRC gathers, analyses and stores various data such as customer information and feedback, sales data and market research data. For example, OCRC conducts quarterly scans of the illegal market and collects feedback from licensed retailers; purchases off-the-shelf customer usage and attitude studies conducted by independent parties; and collects personal information and feedback from online customers by mail, telephone or during the course of business when purchases are made online.

OCRC uses this information as an input in determining product assortment and pricing, and to inform decision-making on which customer groups to target. OCRC also uses all of the above-mentioned data to supplement sales data to determine replenishment strategies and prioritize quality assurance efforts. In addition, OCRC has a program to share data with licensed producers (since October 2018) and private retailers (since August 2020). OCRC provides information to retailers in relation to provincial sales volume by product, product price comparisons among retailers, and data illustrating the location of the nearest competitors. Data pertaining to current OCRC inventory levels and sales volume by product are shared with licensed producers as part of the data program. Based on our research, Ontario is the only province with this type of data sharing program.

2.4 Ontario Cannabis Consumer Demographics

According to market research information provided by OCRC, in 2019, 28% of Ontarians over 18 years old consumed cannabis at least once. Thirty-nine

percent of all cannabis users engaged in “heavy consumption” and these people account for 90% of all cannabis spending. The remaining 61% of cannabis users engaged in “moderate to light” consumption and accounted for the remaining 10% of spending in Ontario. **Appendix 11** provides information on customer segment demographics, including reasons for consumption, income levels, preferred access and preferred products.

3.0 Audit Objective and Scope

Our audit objective was to assess whether the Ontario Cannabis Retail Corporation has cost effective and efficient governance, operational systems and processes to administer and enforce the *Ontario Cannabis Retail Corporation Act, 2017* and its regulations, including:

- purchasing, pricing, listing, inventorying, securing, selling (e-commerce and wholesale), delivering, disposing and returning cannabis and related products;
- conducting its operations in accordance with legislation and best practices, including managing the procurement and oversight of third-party providers, servicing customers, managing human resources and safeguarding customer information;
- promoting social responsibility in connection with cannabis, including providing consumer education, promoting safe consumption and preventing access by underage individuals; and
- measuring and reporting (both internally and publicly) on its financial and operational performance, including progress in diversion of cannabis users from the illegal market.

In planning our work, we identified the audit criteria (see **Appendix 12**) we would use to address our audit objectives. We established these criteria based on a review of applicable legislation, policies and procedures, internal and external studies, and best practices. OCRC’s senior management reviewed and

agreed with the suitability of our objectives and associated criteria.

We conducted our audit between January 2021 and August 2021 remotely and at OCRC premises. We engaged the OCRC and other stakeholders initially through video-conferencing and other forms of electronic communication. We interviewed senior management and staff, reviewed relevant key findings from OCRC and visited its product distribution centre in Guelph. We also reviewed findings from recent audits from the Ontario Internal Audit Divisions as well as from the OCRC’s internal audit team. We received written representation from OCRC management that, effective November 16, 2021, it had provided us with all the information it was aware of that could significantly affect the findings or the conclusions of this report.

We focused on operational activities of the OCRC after it commenced its wholesale operations in January 2019. In conducting our audit, we analysed data including data on the ordering, sales and delivery of cannabis products. We reviewed public and internal OCRC reports, policies, procedures and materials provided to the OCRC Board. During the audit, we interviewed a number of licenced cannabis producers. We also contacted and obtained feedback from various stakeholders, including the Ontario Ministry of Finance, the Alcohol and Gaming Commission of Ontario (AGCO), the Liquor Control Board of Ontario (LCBO), the Ontario Provincial Police (OPP) and cannabis regulators and government distributors in other provinces. We also met with cannabis regulators and agencies from British Columbia, Saskatchewan and Alberta.

In addition, we conducted a survey of 687 authorized retailers in collaboration with the AGCO and received 137 responses for a 20% response rate. The survey provided insights from some licensed retailers on their experience sourcing products from OCRC.

We conducted our work and reported on the results of our examination in accordance with the applicable Canadian Standards on Assurance Engagements—Direct Engagements issued by the Auditing

and Assurance Standards Board of the Chartered Professional Accountants of Canada. These standards involve conducting the tests and other procedures that we consider necessary, including obtaining advice from external experts when appropriate to obtain a reasonable level of assurance.

The Office of the Auditor General of Ontario applies the Canadian Standards of Quality Control and, as a result, maintains a comprehensive quality control system that includes documented policies and procedures with respect to compliance with the code of professional conduct, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other ethical requirements of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

4.0 Detailed Audit Observations

4.1 Merchandising

4.1.1 Frequent Changes to Product Listing Call Schedule and Listing Process Posed Some Operational Concerns for Licensed Producers

OCRC conducts product calls, which are invitations to licensed producers to submit cannabis products for potential listing in Ontario. Prior to January 2021, OCRC used an open call approach to obtain new products, whereby licensed producers had the option to propose products to OCRC's category managers at any time of the year. If category managers decided to list the proposed product, it was included in OCRC's product catalogue and had market launch. Under this open call approach there were no scheduled launch dates for new products. As the number of licensed producers and their products increased over time, OCRC decided to move to a fixed product listing call

schedule so as to have a more structured listing and launching process.

In January 2021, OCRC began implementing this more structured approach and established a formal product listing call schedule. Prior to each call, OCRC now publishes an Assortment Needs Bulletin to inform licensed producers about the types of products it is most interested in listing. The product listing call schedule provides information for all the product call dates for the year including when the Assortment Needs Bulletin will be published and the product listing submission deadlines for licensed producers. The product listing call schedule also provides information such as anticipated product launch dates, target sales event dates and a deadline for the first inventory shipment to arrive at OCRC's warehouse.

We found that tight timelines for product listing submissions and product deliveries for new listings introduced supply chain challenges for licensed producers because new products can take up to 16 weeks from the start of product development, through production to packaging before product delivery is possible. For new product listing calls completed in 2021, the time between the publication date for the Assortment Needs Bulletin and the date when licensed producers have to make product submissions was, on average, eight weeks. **Figure 8** shows the timelines for all product listing calls in 2021.

We reviewed all purchase orders from the February 2021 new product listing call, and found that OCRC issued purchase orders between seven weeks and one week before the required delivery date. Specifically, for products associated with the first launch date, 8% of purchase orders were issued less than three weeks before the required delivery date, 88% of purchase orders were issued between 3-4 weeks before, and only 4% of purchase orders were issued more than four weeks before. This means that successful licensed producers only had three and a half weeks or less, on average, from the time when the purchase quantity was confirmed to the time when new products had to be shipped to OCRC's warehouse in preparation for product launch. Given

Figure 8: Ontario Cannabis Retail Corporation Product Call Schedule 2021*

Source of data: Ontario Cannabis Retail Corporation

| Product Calls | 1 | 2 | 3 | 4 |
|--|---------------------|------------------------|-----------------------------|----------------------|
| Assortment Needs Bulletin Published | January 8 | February 12 | April 16 | June 18 |
| Pre-Submission Form Deadline | - | - | May 17 | July 12 |
| Submission Deadline | February 5 | April 9 | June 11 | August 13 |
| Last Arrival Date into OCRC Warehouse | | | | |
| Launch 1 | March 29 | June 8 | August 3 | October 12 |
| Launch 2 | March 29 | July 6 | September 7 | November 9 |
| Anticipated Product Launch | | | | |
| ocswholesale.ca Launch 1 | April 5 | June 15 | August 10 | October 19 |
| ocswholesale.ca Launch 2 | May 12 | July 13 | September 14 | November 16 |
| ocs.ca Launch 1 | April 12 | June 22 | August 17 | October 26 |
| ocs.ca Launch 2 | May 18 | July 20 | September 21 | November 23 |
| Target Sales Event | "420" (April 20) | Canada Day (July 1) | Labour Day (September 6) | Fall (October 11) |

* As of June, 2021.

the typical 16-week production process, many licensed producers we interviewed expressed concerns about the difficulty in meeting OCRC's purchase requests within the short turnaround time. Licensed producers we interviewed indicated that at times resources had to be prioritized to serve the Ontario market over other provinces in order to meet OCRC's timelines and quantities.

Since its introduction, OCRC has made frequent changes to the 2021 product listing call schedule in an attempt to respond to feedback from the industry. The latest change in June 2021 was the cancellation of two out of the six product calls which had been initially planned and communicated to licensed producers. Some producers we interviewed informed us that they had planned to make product submissions to OCRC later this year but will not have the opportunity to do so because the last two product calls were cancelled.

We found that OCRC did not provide sufficient notification about these and other upcoming changes to licensed producers. Producers have to proactively, and frequently, monitor OCRC's website for changes to the product call schedule. We also noted that OCRC does not include the last revision date on

their website, making it more difficult for producers to keep track of when changes were made and the period to which they apply.

4.1.2 Product Listing Process Has Gaps

Through the product listing process OCRC decides which products will be sold in the Ontario legal market. At OCRC, each product category (i.e. dried flower, pre-rolls, vapes, etc.) is managed by one or two dedicated category managers on the merchandising team. The particular allocation of product categories across the category managers is based on the volume and complexity of the products. Each manager individually evaluates product submissions and makes listing decisions for their assigned product categories. Since 2018, OCRC's approach to product listing and product selection has changed several times.

We found that prior to our audit, OCRC did not have formal assessment criteria or frameworks to evaluate product submissions by licensed producers. Its Supplier Manual indicates that the "criteria that the [OCRC] may consider could include anticipated suitability and/or competitiveness of the cost of the product; anticipated date and quantity of initial

supply of the product to the [OCRC]; evaluated ability of the supplier to provide a continuous supply of the product going forward; and past performance with respect to fill rate (the percentage of purchase order being met by the licenced producer).” However, the Supplier Manual does not have a specific list of formal and mandatory criteria that category managers must use for scoring product submissions. As a result, individual category managers have wide discretion in choosing which submitted products to list.

For the February 2021 product listing call, OCRC received 966 product submissions from 100 producers and ultimately listed 209 products from 59 producers. We reviewed all the submissions and documentations supporting the listing of products and found that category managers only documented their final decisions, not the decision-making process or the meetings where decision were made. For example, there was no documentation to demonstrate what assessment criteria category managers used to score each submission, how they weighted different assessment criteria, or their rationale for accepting or rejecting a submission because OCRC did not require category managers to document this information.

Since the product evaluation process is not sufficiently documented and not supported by clear and consistent criteria, category managers’ decision-making is not transparent. OCRC neither offers any in-house training nor provides any job aides or

standard operating procedures to its category managers. Category managers informed us that they relied on their individual retail industry experience and familiarity with products and licensed producers to evaluate product submissions. However, we noted that only two of the six category managers responsible for listing products had prior cannabis industry experience. The other category managers had food and drink, home décor and clothing retail experience prior to joining OCRC. Given the newness of the legal recreational cannabis industry in Canada, OCRC is limited in its ability to recruit category managers with direct cannabis industry experience. As a result, there is a greater need for rigor, structure and standardization in the product selection process.

In April 2021, OCRC started implementing more consistent and formal criteria for evaluating product submission using a scorecard to document the assessment criteria being used. **Figure 9** shows OCRC’s current list of criteria. It is not clear if the scorecard is being effectively used. We noted that there is no secondary review of the scorecards built into the product selection process. For the April 2021 product listing call, OCRC received 901 product submissions from 101 vendors and ultimately selected 207 products from 74 producers for listing. We subsequently compared all of the approved products for listing to OCRC’s new assessment criteria and found that of the 207 products approved for listing, 54 did not meet

Figure 9: Product Selection Scorecard Criteria*

Source of data: Ontario Cannabis Retail Corporation

| Criteria | Score | | |
|--|------------------------------|-----------------------------|---|
| Fulfills Current Assortment Gap? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |
| Innovation into the Marketplace? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |
| Competitive Cost Provided? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |
| Complies with Standard Sizing? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |
| Sustainable Packaging? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> No Information |
| Listing Supported by Consumer Insight/Data? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> No Information |
| Resubmit at Next Product Call? | <input type="checkbox"/> Yes | <input type="checkbox"/> No | |

* As of April, 2021.

the criterion that the product should fulfill a current product assortment gap. Category managers informed us that these included products that were listed because they were considered to be replacement products (i.e. OCRC agreed to replace a currently listed product with a new product from the same licensed producer). These negotiations to swap products were discussed and agreed to in ad-hoc meetings between category managers and licensed producers, outside of the regular process.

Further, of the 207 products selected for listing, 112 scorecards did not confirm that the product fulfilled a current product assortment gap, which was another criterion. Therefore, we could not confirm these 112 products met the needs identified by OCRC in its product needs bulletin. We also noted that of the 901 product submissions, 76 did not have a scorecard at all and another 61 had scorecards with one or more blank criterion fields. When we inquired about this, OCRC informed us that category managers only used the scorecards for rejected product listing submissions.

As well, when we reviewed the scorecards for all 694 rejected products, we found 13 blank or incomplete scorecards. On further investigation, we learned that at the time of our audit OCRC had not yet mandated the use of the scorecard for assessing products and documenting selection or rejection decisions.

While the scorecard exists for category managers to use, OCRC still does not have any documented procedures for the product selection process. This lack of formal procedures increases the risk of inconsistent evaluation and limits transparency in the product listing selection process. For example, when we reviewed the product submissions for the April 2021 product call, we found that of the 694 products that were rejected, 20 met every criterion on the scorecard. OCRC indicated that it cannot accommodate every product which scores high on its assessment criteria. It had asked the licensed producers of these 20 rejected products to resubmit them the next product call and three of the four resubmissions were selected.

OCRC does not have a formal appeal process for product listing decisions. However, our best practice research showed that the Liquor Control Board of Ontario (LCBO) has a Listing Appeals Committee that reviews rejected and discontinued products and is responsible for the appeal process for product listing decisions. Some cannabis licensed producers we interviewed indicated that sometimes they escalated their concerns about rejected products to OCRC's CEO and that OCRC reversed its initial decisions to reject those products. OCRC's merchandising team confirmed that there were instances when licensed producers escalated their concerns to senior leadership in order to have products listing rejections reversed. Such communications were verbal and were not formally documented or tracked. Not all licensed producers may have the same level of access and relationship with the OCRC senior leadership team. While we did not come across any preferential treatment being given to licensed producers for product listing, such informal escalations and decision reversals can create a perceived lack of fairness, equity and independence in OCRC's engagement with licensed producers.

Overall, the current product listing process is not as formal and as transparent as it could be. This may lead to the perception and risk of preferential treatment being given to certain licensed producers.

RECOMMENDATION 1

To have a more structured, consistent and transparent approach to its product listing calls and its product listing selections, we recommend that the Ontario Cannabis Retail Corporation:

- establish and document standard procedures for product selection;
- develop a set of core evaluation criteria for each product category;
- document evaluations, considerations and rationale for decisions on product selection;
- gain a better understanding of production cycles and the seasonality of cannabis

- products in order to inform timelines of bulletins, submissions and purchase orders;
- formalize communication with licensed producers throughout the product selection process, including supplier notification of product call schedule changes;
- establish a formal process for licensed producers to appeal product selection decisions; and
- undertake analysis of product listing approaches in other jurisdictions and perform a thorough cost and benefit analysis to determine if the current product call schedule is an effective approach.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendation and agrees that the product call process can be improved.

In the summer of 2021, OCRC began to implement significant changes to improve the product call process with a focus on:

- working with licensed producers to strengthen our consumer insights;
- adjusting timing of product calls, based on authorized retail stores, to support advance planning and improved coordination between licensed producers and OCRC;
- documentation of criteria used by OCRC to evaluate product submissions; and
- enhancing procedures and policies to facilitate openness and transparency to support business planning for licensed producers.

These processes were communicated to the industry in October 2021.

4.1.3 Current Online Sales Discretionary "Value-Based Pricing Approach" Not Based on Sufficient and Transparent Analysis

Prior to March 2020, OCRC used a fixed mark-up online sales pricing approach (similar to other Canadian provinces): each new product was priced based on their product category (i.e. dried flower,

vapes) and product tiers (value, good, better, best). In March 2020, OCRC implemented a new pricing approach, prior to Board approval, where product prices are established based on customers' perceptions and willingness to pay for a certain product (value-based pricing).

In November 2019 the then Chief Commercial Officer suggested this value-based pricing approach and informally provided several considerations internally to the OCRC merchandising and financial teams. Specifically, the Chief Commercial Officer suggested looking into a value-based pricing approach to separate purchase cost from retail price which she acknowledged would have "less transparency to [producers]" but more flexibility for category managers to manage their respective mix to achieve revenue and profit targets. When asked, OCRC was not able to provide us with any formal analysis of this proposal by OCRC staff.

The value-based method is less prescriptive and uses subjective judgement during the pricing process. Value-based pricing is typically used when the perceived value of a product is high, when a purchasing decision is emotionally driven, or when product scarcity is involved. However, when we reviewed how OCRC made the decision to switch to the value-based pricing model, we found that OCRC did not complete a robust business case or undertake research on practices in other jurisdictions to justify switching their pricing model.

A presentation on the value-based pricing approach was provided to the Board on March 25, 2020. According to the presentation, the value-based pricing approach is "consistent with best practice in retail industries, would provide flexibility to reduce margin on select products to increase illegal market capture, and flexibility for category managers to manage revenue targets." However, it did not contain consideration for the risks and benefits of using this approach. As well, although this presentation was provided to obtain formal approval from the Board, the price changes resulting from this new approach had been already included in the Board-approved budget for 2020/21. Therefore, the

Board was not given sufficient opportunity to fully consider and discuss this significant change prior to its implementation.

We noted that in March 2020, shortly before the Board presentation, OCRC consulted eight licensed producers to gather feedback and address any concerns about using the value-based pricing approach. We reviewed the feedback provided to OCRC by producers and noted that, conversely, producers generally wanted transparency in pricing to ensure that mark-ups would be applied consistently across their product brands. However, with the current value-based pricing model, producers do not have a clear understanding how product prices are determined.

4.1.4 Lack of Transparency in How Value-Based Product Prices Are Set

Since a value-based pricing approach is based on customers' perceptions and willingness to pay, a successful value-based pricing strategy requires significant and detailed study of customer preferences. However, other than having past sales data and market segmentation analysis, OCRC does not have deep insights into customer preferences and

perceptions. It does not have any in-house market research capacity and relies solely on external market research reports which contain insights into general opinions about cannabis only, rather than insights or data at the product level. For example, general market research does not provide insights into the preferences that different kinds of customers have for various product attributes, such as whether the cannabis plants are grown indoors versus outdoors, and the methods used for extracting cannabis (e.g. using carbon dioxide or ethanol).

OCRC's pricing manual, dated February 2021, states that "product prices are selected, using a variety of factors, to arrive at a value that OCS believes the consumer will place on the product. Such factors include quality, growing method, current performance of like items in the assortment, input materials, innovation level of the product, licensed producer suggested retail price, etc." However, the pricing manual does not have a specific or standard list of factors or product characteristics that category managers must consider when determining or assessing product prices.

Currently, when a product is selected to be listed, the category manager and the licensed producer negotiate and agree on the OCRC purchase price

Figure 10: Ontario Cannabis Retail Corporation Target Gross Profit Margins by Product Category, 2020/21–2021/22

Source of data: Ontario Cannabis Retail Corporation

| Product Category | 2020/21 | | 2021/22 | |
|------------------|----------------|----------------|----------------|----------------|
| | e-Commerce (%) | Wholesale* (%) | e-Commerce (%) | Wholesale* (%) |
| Dried Flower | 39.4 | 19.2 | 39.4 | 19.2 |
| Pre-Rolls | 43.1 | 24.3 | 42.7 | 23.9 |
| Oils & Capsules | 37.8 | 16.7 | 38.0 | 17.0 |
| Seeds | 35.9 | 15.2 | 37.9 | 17.1 |
| Vapes | 43.9 | 25.8 | 44.2 | 26.5 |
| Concentrates | 34.1 | 11.0 | 35.0 | 15.0 |
| Edibles | 47.8 | 30.5 | 48.0 | 31.0 |
| Beverages | 44.5 | 25.7 | 45.0 | 28.0 |
| Topicals | 47.0 | 29.3 | 46.7 | 28.7 |
| Accessories | 50.2 | 13.9 | 50.1 | 14.5 |
| Total | 40.9 | 21.2 | 41.1 | 21.7 |

* OCRC sells cannabis products to licensed retail stores at a 25% markdown from the before-tax prices on its e-commerce website.

for the product. The category manager then establishes the online price (price on ocs.ca) by applying the target margin rate (see **Figure 10**) for the category manager's respective product category, which is established and approved during the OCRC's annual budget process. The category manager also discusses the online price with the OCRC pricing analyst to ensure it is consistent with prices of similar products and products in other provinces and territories. Ultimately, the final ocs.ca price is set at the discretion of the category manager.

For example, OCRC selected a CBD face cream (25 g) for release in July 2021. The category manager and the licensed producer agreed on a purchase price of \$9.60 per unit. For 2021/22, OCRC established the target margin rate of almost 47% for topicals. Based on this target the category manager set the online price at \$17.65 per unit.

Category managers do not document what factors (i.e. product attributes, alternative prices, etc.) or market research data go into their purchase price decisions. While we did not come across any preferential treatment being given to particular producers, the overall lack of documentation and transparency in the product pricing process can create a perceived lack of fairness, equity and independence in OCRC's engagement with its suppliers. Based on our sample of 46 cannabis products across all product categories (e.g. dried flower, pre-rolls, vapes, etc.), we noted that the prices on ocs.ca were comparable to prices in Alberta and British Columbia, two of the largest cannabis markets in Canada.

RECOMMENDATION 2

For the Board to make an informed policy decision on whether or not Ontario Cannabis Retail Corporation should continue to employ a value-based pricing approach, we recommend that senior management prepare a formal business case for presentation and approval by their Board of Directors that would include:

- jurisdictional research on pricing approaches used by other Canadian provinces and territories;
- the comparison of product purchase costs prior to and post implementation of this new pricing approach;
- the comparison of gross margin prior to and post implementation of this new pricing approach;
- a summary of the pros and cons of the continuing use of this approach with respect to financial targets, fairness and transparency of pricing between larger and smaller licensed cannabis producers;
- a summary of any complaints/issues that have arisen resulting from the use of this pricing approach;
- a summary of what data is or is not available to be used in the value-based pricing approach and, if continued, plans and timelines to obtain the necessary information;
- a comparison of product prices in Ontario compared to other provinces in Canada (given the volume in Ontario, an Ontarian would likely expect Ontario prices to be lower);
- a formal recommendation of either the continued use of the current pricing approach or a change to use the pricing method used by other provinces in Canada; and
- a draft of the policy and formal procedures to be consistently followed and used by all category managers (including documentation requirements for decisions made).

OCRC RESPONSE

The value pricing decision made in 2020 was based on common retail pricing practices and helped the OCRC better align retail pricing to consumer expectations. Pricing generated significant complaints from consumers initially following legalization. Over the last year, revenue, capture

of illegal market sales and consumer acceptance of the OCRC have increased significantly.

Pricing is an important legislated tool available to the OCRC to achieve its mandate. The OCRC has always expected that routine reviews of its pricing policies would be required in the early years of the market being established.

With the recent acceleration in growth of the Ontario marketplace, the OCRC will endeavor to complete a detailed review (including a comprehensive business case) of its current pricing policy. This will ensure its Board of Directors can assess whether changes are necessary to better balance the objectives of converting consumers from the illegal market, maximizing long-term revenues to the corporation, and providing transparency to support licensed producers in their business planning.

In the meantime, before this review is finalized, policy guidance and formal procedures on pricing will be looked at for decision making consistency.

4.1.5 Criteria is in Place for Product Delisting Decisions, However Deviations from Criteria are Not Consistently Tracked or Documented

In January 2021, OCRC initiated its first formalized product review exercise. The assessment was performed to determine which products to discontinue. OCRC has set criteria that if the average sale of a product is less than 0.5 units per store per week or the product has been out of stock more than 12 of the past 26 weeks (due to a licensed producer being unable to keep up with product demand), the product becomes a candidate for removal from the product listing catalogue.

OCRC undertook its inventory product review between January and May of 2021. As a result of this process, approximately 907 products or \$4.1 million worth of inventory were identified as

delisting candidates. Of the \$4.1 million eligible for delisting, \$1.7 million was subject to pricing discounts (funded by licensed producers) and the remaining \$2.4 million was to be sold at the standard price. As of May 2021, the remaining inventory on hand was returned to producers or sent for destruction at the cost of the producer. The value of the remaining inventory (after adjusting for pricing discounts) was approximately \$360,000.

The first inventory product review was a general clean up exercise resulting in the delisting of approximately 900 products. OCRC identified 696 of these based on each product's slow sales rate and/or the product being frequently out of stock due to the producer's inability to keep up with customer demand. The remaining 211 products were delisted based on discussions between category managers and licensed producers. We noted that licensed producers may proactively decide to delist certain products which do not meet OCRC's delisting criteria. When we reviewed a sample of such products, category managers informed us that they had virtual meetings with licensed producers but did not obtain written confirmation from licensed producers documenting the delisting decision.

Category managers may decide to change a delisting decision based on their discussions with licensed producers. For example, we found a product that was eligible for removal from the catalogue but was not delisted because the licensed producer indicated the out of stock issues were a result of only temporary product delays. The category manager retained the product to monitor it for future performance. Such discretionary changes in delisting decisions are not documented or supported by written communication.

Because the master list of products for the delist process is an Excel spreadsheet that is continually updated, any deviations from the established delisting criteria are not tracked, and historical data was difficult for us to trace to confirm compliance with the delisting criteria.

RECOMMENDATION 3

To formalize and improve transparency about the product delisting process such that licensed producers and consumers are well informed about factors that contribute to the decision to delist a cannabis product, we recommend that OCRC:

- formally document the delisting process and criteria and post this information on the OCRC website; and
- improve internal documentation on de-listing decisions, including providing reasons to support decisions for delisting.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations and agrees that a more formalized and transparent product delisting process will assist the industry.

Delisting occurs when a product's sales drop below a specified threshold, or a product is out of stock for an extended period of time. In the Fall of 2021, OCRC formalized and documented its process for delisting products and will continue to improve this process going forward as part of its broader merchandising efforts.

4.2 Supply Chain and Logistics Management

4.2.1 Inaccurate Inventory Forecast Contributes to Out of Stock Inventory Supply to Fill Private Retail Store Orders

Robust inventory forecasting based on consumer product demand forecasts is key to having products available for OCRC to effectively fill the purchase orders of wholesale customers (private retail stores). We compared a sample of six of OCRC's weekly inventory forecasts with actual inventory demand that occurred between January and June 2021. OCRC's inventory forecast differed significantly from its actual inventory demand.

In our samples, for the instances where forecasted inventory was higher than what was actually ordered, the difference was about 40%. However, in cases where the forecasted inventory fell short of the actual orders, the average difference was about 145%. OCRC informed us that demand forecasting was impacted by significant week to week demand changes due to in-store shopping restrictions as a result of the pandemic and the provincial lockdown. However, we found that no formal analysis was done to confirm this assumption and to quantify the impact of the difference between forecast and actual results.

In order to determine the amount of inventory that OCRC needs to purchase from licensed producers to meet ultimate customer demand, OCRC's demand planners prepare two weekly rolling forecasts. One is for online sales and one is for wholesale sales, using a forecast model developed in-house. These forecasts project online and wholesale inventory demand for 16 weeks ahead. Projections are based on the prior 12 weeks of sales data for each listed product item in inventory. For the wholesale inventory forecast, the planners also consider the number of cannabis retail stores that were open in the last 12 weeks and any expected changes. Both online and wholesale forecasts are eventually combined to arrive at the total demand forecast. We found that OCRC did not have an established process in place to regularly perform analysis of differences between the forecasted and the actual inventory needs, or to investigate and address the root causes of the variances.

One of the likely contributing factors to the differences between forecasts and actuals is that OCRC does not receive timely point-of-sale data from retail stores. OCRC forecasts inventory on a weekly basis. However, it receives sales reports of retail stores only on a monthly basis from the Alcohol and Gaming Commission of Ontario. Another factor is that the current forecasting model does not incorporate seasonal demand for some products, consumer preferences and trends, or market saturation information. OCRC informed us that seasonality, customer

preferences and market saturation were difficult to project in a new industry such as cannabis. In addition, the majority of retail stores have only been open less than six months and with limited sales history it is more difficult to forecast inventory.

Underestimating Inventory Demand Resulted in Some Out of Stock Products

When OCRC underestimates inventory requirements and is consequently unable to satisfy customer demand, this can result in a loss of sales with end user customers turning to the illegal market to purchase similar products. Our survey conducted in July 2021 of private retail stores showed that product availability was a common concern for 47% of respondents, who indicated that they were “not satisfied”, and another 19% indicated that they were “very dissatisfied” with the availability of products from OCRC. Specifically, 53 out of 67 comments from retailers related to concerns about the consistency of product availability and the high frequency of out-of-stock inventory.

OCRC’s wholesale order fill rate performance between January 1, 2021 to June 30, 2021 was 96%, just below their target range of 98% - 99%. This fill rate measures the percentage of product items customers received compared to what they ordered. It does not capture situations in which a customer was unable to submit an order for a product because the product was out of stock and not available to order. We reviewed the daily wholesale inventory levels from January 1, 2021 to June 30, 2021 and found that on average only 81% of listed cannabis products” (excluding accessories) in the product catalogue were in stock and available to order on a daily basis. OCRC’s wholesale cannabis product in-stock target is 95% for the 2021/22 fiscal year (a target was not set for 2020/21), indicating it is falling short. As such, this is contributing to the availability issues experienced by retailers. In the case of accessories, we found that, from the period from January 1, 2021 to June 30, 2021, on average 56% of accessory products were not in stock for retail stores to order. Retailers can purchase accessories from other suppliers.

From our review, the most common category of products out of stock were dried flower, which accounted for 42% of the out-of-stock instances, and comprises 36% of OCRC’s product assortment. The second and third most commonly out of stock items were accessories (19%) and pre-rolls (15%). These two product categories account for 13% and 15% of OCRC’s product assortment. In addition, during the same period, we noted that in about 4% (748/17,790) of cases, core products were out of stock. Per OCRC’s supplier manual, core products are the top 100 most popular and in demand products that OCRC makes a commitment to always have in stock for purchase.

Overestimating Inventory Demand Resulted in Overstocking of Inventory with Certain Products

When OCRC overestimates customer demand and overstocks inventory, the negative impact is mostly borne by licensed producers, who are required by contract to accept returns of unsold inventory at their full cost. OCRC reserves the right to return inventory if a product is not sold within 120 days and producers are required to provide a full refund. We reviewed the data on product returns and noted that between April 2020 and March 2021, 67% of all products OCRC returned to licensed producers, amounting to over half a million units of inventory, were returned because the product was not selling. (The other 33% of returns were due to missing barcodes, missing exercise stamps, damaged products and other issues with product packaging.) The resulting refund by licensed producers to OCRC in 2020/21 was \$6.6 million. Licensed producers cannot re-sell returned inventory to another province because Health Canada prohibits the repackaging and reselling of returned products. Returned products would also have lost their freshness so producers likely have to destroy them and incur a loss.

A negative consequence of overstocking inventory is that it can temporarily tie up OCRC’s funds and can reduce cash available to OCRC to use for other areas such as customer support (see **Section 4.3**) or social responsibility initiatives (see **Section 4.4**). If unaddressed, routine overstocking of inventory also could

create the perceived need for additional storage or warehouse space.

RECOMMENDATION 4

In order to improve its inventory management, improve product availability for ordering by private retail stores and to reduce the number of out-of-stock occurrences or product returns to licensed producers, we recommend that OCRC:

- implement a process to obtain retail store sales data on a weekly or bi-weekly basis;
- establish a formal process to perform on-going analysis of differences between forecasts and the actual demand and investigate and address the root causes of the variances;
- undertake in-depth analysis of the accumulative differences and root causes for over- and under-stocking and develop actions to minimize these occurrences; and
- improve the forecasting model using better information to provide a more accurate estimation of future demand.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations and agrees that improvements and transparency in its inventory management system and inventory forecasting model will result in efficiencies for OCRC and the industry.

Currently OCRC does not have access to timely Point-of-Sale (POS) data but is working with the industry and the Alcohol and Gaming Commission of Ontario to integrate these systems which will improve inventory management and forecasting substantially. Additional systems and processes will be implemented to strengthen OCRC's inventory forecasting capabilities.

4.2.2 Inventory Management Metrics Have Improved Since Inception

OCRC performs inventory management in-house, and we found that its inventory management metrics have improved since inception. As of September 2020,

OCRC established the following inventory management targets: rolling inventory turns over 52 weeks greater or equal to six times, less than 5% of inventory over 180 days, and 4-6 of weeks of available supply. Inventory turns is defined as the number of times inventory is used (sold) in a year. We noted that targets for the key performance indicators are being met. In particular, between September 2019 and August 2021, inventory turns have improved from 3.9 times to 7.9 times. In addition, inventory turns have been consistently above six times since the target was established in the fall of 2020. Aged inventory over 180 days has improved from 8.8% in April 2020 to 2.9% in August 2021, exceeding the target of 5%. OCRC's target for weeks of supply has consistently been met since April 2020. As of August 2021, OCRC's value for weeks of supply (on hand) is 5.5.

4.2.3 Ineffective Oversight of Services Provided and Costs Billed by Domain Logistics

A significant part of OCRC's inventory warehousing and distribution operations is outsourced to Domain Logistics, which manages OCRC's warehouse and product delivery to customers and private cannabis retail stores. During our audit, we noted that OCRC did not have robust oversight over Domain Logistics. OCRC was not performing the oversight anticipated by some provisions in its service agreement with Domain Logistics and can better perform its oversight role.

Individual business units within OCRC are responsible for managing and overseeing various agreements with vendors. There is no consistent or standard approach for effective management of vendors of various sizes and importance to OCRC's operations. This means OCRC's procurement team is not tracking information on the past performance of a service provider it uses when considering them for a future engagement.

In the fourth quarter of 2020, OCRC drafted a Vendor Management Framework which, if put in place, could provide direction to its business units on how to manage vendor contracts, including ways to monitor and document

vendor performance. However, at the time of our audit, this framework was not being implemented. We also noted that there has been no periodic reporting to the Board on the results of OCRC's oversight of key third party service providers, including Domain Logistics.

The agreement between OCRC and Domain Logistics contains key performance metrics for the provider to report on. Specifically, the key performance indicators for Domain Logistics are the order fill rate, accuracy of inventory counts, order processing time and the number of safety incidents in the warehouse. However, in comparison with Alberta Gaming, Liquor and Cannabis Commission, OCRC's agreement with Domain Logistics does not have performance metrics such as delivery accuracy, on-time delivery or order accuracy.

Domain Logistics gives OCRC weekly reports with data for each metric in the agreement. However, even though OCRC has been working with Domain Logistics for three years, there are no established targets for these metrics. Domain Logistics is not held accountable for achieving measurable performance targets for the service it provides. In addition, without performance targets agreed to and set by OCRC, current reporting does not challenge Domain Logistics to achieve any set performance standards.

As part of the weekly reports provided to OCRC, Domain Logistics includes data on the number of product orders that are forecasted, budgeted and delivered. We noted that this data was provided for OCRC online sales but was consistently missing for wholesale orders. OCRC did not identify this omission, confirming that it does not sufficiently and routinely review the weekly reports submitted by Domain Logistics. When we interviewed Domain Logistics, they were not able to explain why this data was missing from the weekly reports.

We reviewed the work of the OCRC logistics team that is tasked with managing the relationship with Domain Logistics and noted that at the time of our audit there were no standard operating procedures created for this team to guide their work in overseeing

Domain Logistics' performance. Established standard operating procedures support the consistent and effective management of service providers, and they become especially important when there are staffing changes.

According to the vendor agreement between OCRC and Domain Logistics, they are to meet weekly to discuss operating and performance issues. We noted that until March 2021 OCRC did not keep minutes of its meetings with Domain Logistics, including action items. OCRC started capturing issues discussed at these weekly meetings in March 2021 during our audit. Having detailed meeting minutes helps keep track of issues discussed and supports a practice of following up on outstanding items.

OCRC reimburses Domain Logistics for any costs incurred on behalf of OCRC and pays an additional management fee to Domain Logistics based on costs incurred. Under the agreement, OCRC bears the financial risks and covers all costs incurred by Domain Logistics. Therefore, it is important for OCRC to review detailed receipts and documents supporting Domain Logistics' invoices to verify the accuracy and justification for expenses charged. This is also important because the higher the costs incurred, the higher the amount required to be paid to Domain Logistics as management fee.

Based on our review of invoices submitted by Domain Logistics to OCRC, we found that OCRC has never requested or reviewed supporting documentation for costs incurred that are billed to OCRC. As a result, OCRC had not validated the accuracy of these invoices. For example, we reviewed the invoices for IT costs charged by Domain Logistics. The invoices provide information on which IT applications were charged for, but have no details of how the charges were calculated. Not having the detailed breakdown of costs incurred negatively impacts OCRC's ability to confirm that it is getting the best value for money from the costs billed by Domain Logistics' for its operation of warehousing and delivery services on behalf of OCRC.

RECOMMENDATION 5

In order for OCRC to conduct and strengthen its oversight of Domain Logistics performance and billing so that it consistently receives value for money, we recommend that OCRC:

- formalize and clarify OCRC roles and responsibilities for overseeing the operational and financial performance of Domain Logistics;
- develop standard operating procedures for the OCRC logistics team to follow to monitor Domain Logistics' performance and billings;
- review key performance metrics required for effective oversight of Domain Logistics;
- establish a target for each key performance metric and review Domain's performance against these targets on a monthly basis; and
- develop and implement a detailed monthly review process of Domain Logistics' invoices to enable OCRC to obtain and analyse costs related to supply chain that can inform current oversight work and future contract negotiations and amendments.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations and will implement stronger oversight and governance of its arrangement with Domain Logistics to ensure ongoing value for money.

OCRC's contractual relationship with Domain Logistics originally began under the Liquor Control Board of Ontario before being transferred to the OCRC. Since then, Domain Logistics has supported the OCRC in growing the wholesale retail store network, which services over 1,000 stores across the province and has expedited e-commerce delivery through the OCRC e-commerce platform.

The OCRC will take steps to strengthen its relationship with Domain Logistics through more formalized roles and responsibilities, improvements to standard operating procedures, key performance indicators and targets, and contract oversight.

RECOMMENDATION 6

To receive value for money and high quality of services from all of its vendor contracts, we recommend that OCRC:

- finalize and implement a Vendor Management Framework, including formal processes and systems to assess vendor performance and validate compliance with service agreements; and
- provide periodic reports to its Board on significant services provided by third party vendors and vendor performance, the continuing cost/benefits from these services, oversight results under key agreements, and recommendations for contract amendments based on this work.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations.

OCRC has developed a Vendor Management Framework. Training for management and staff commenced in October 2021 and implementation will continue through 2022.

OCRC will provide periodic reports to its board on significant services by third-party vendors.

4.2.4 No Oversight of Services Subcontracted by Domain Logistics

The agreement between OCRC and Domain Logistics requires that prior to engaging subcontractors Domain Logistics obtains written consent from OCRC. With the exception of transportation and delivery services, we noted that OCRC does not have a current list of subcontractors engaged by Domain Logistics and does not track formal consents to engage subcontractors. For example, OCRC did not provide formal consent for engaging specific staffing agencies, a security services firm and a construction company. Furthermore, although delivery subcontractors were approved by OCRC, OCRC did not have a line of sight

into the operations and performance of delivery companies which are responsible for product recipient age verification. Under legislation, delivery companies must confirm a recipient's age before completing the delivery of an order if the recipient appears to be under 25 years of age.

OCRC uses the services of Domain Logistics and Canada Post for all shipping and delivery to its online customers. Domain Logistics has subcontracts with two delivery service providers, QMS and Pineapple Express, who can provide same day deliveries to end customers. In April 2021, 24% or 22,627 orders were delivered by Canada Post and 76% or 70,379 orders were delivered via Domain's delivery subcontractors (Domain Express service). **Figure 7** provides an overview of delivery options for online customers as of April 2021.

In comparison, almost all other Canadian provinces only use Canada Post or Purolator to deliver cannabis products. Unlike in Ontario, other provinces directly contract with Canada Post and Purolator for delivery services rather than through subcontracting arrangements. Both Canada Post and Purolator have very clear requirements on obtaining signatures upon delivery and have a list of acceptable IDs for verifying customers' age.

Delivery windows for private retailers ranged between three to five hours. We reviewed a sample of 239 wholesale orders made by the private retail stores between June 21, 2021 and July 23, 2021 and found that 57 orders (24%) were delivered outside the delivery windows communicated to retailers. In our review we found examples where the actual delivery times were up to eight hours before or four hours after the stated delivery windows. Further, we noted that drivers subcontracted by Domain Logistics manually noted actual delivery times on the bill of lading document and did not input this information in any digital system or database. Therefore, this part of information on delivery was not easily available to Domain or OCRC for analysis and performance tracking of delivery services.

OCRC provided Domain Logistics with standard template agreements to use for the delivery

companies it engages as subcontractors. However, the current agreements do not include delivery time performance metrics. OCRC does not require Domain Logistics to provide periodic reports on delivery subcontractors' performance even though timeliness of delivery is a key factor for customer satisfaction.

We noted that while delivery companies submitted regular summary reports to Domain Logistics, these reports were limited because they did not show key performance data such as the actual time of delivery. During our audit, we also noted that subcontractors keep data on deliveries for only 30 days (refer to **Section 4.5.1**). This limits any analysis that Domain Logistics or OCRC could undertake periodically regarding the performance of delivery service providers. OCRC also does not conduct sufficient oversight or provide notable input into the training of delivery staff on cannabis-related regulations and compliance with age verification requirements, and privacy and data management. **Section 4.4.2** provides additional observations and recommendations related to delivery service providers' age verification process.

Domain Logistics engaged staffing agencies to provide temporary agency staff to work at the distribution centre. OCRC does not track which staffing agencies Domain Logistics use and how they are selected. Through the review of hiring documentation we found that not all required checks had been completed or documented by the staffing agencies. For example, hiring requirements include two reference checks. We reviewed the documentation for agency staff in 2020 and found in 18 out of 20 cases, only one or no references were checked when agency staff were hired.

In addition, we noted that Domain Logistics had a number of active leases for equipment used in the warehouse. Per the arrangement with Domain Logistics, OCRC is required to reimburse the full cost for leased equipment, plus pay Domain Logistics a management fee for administering these leases based on lease costs. The higher the costs that Domain Logistics bills OCRC, the higher the management fee that must be paid.

In 2020/21 OCRC paid approximately \$1.6 million to Domain Logistics for the leases. Our analysis showed that over the course of the leases arranged by Domain Logistics, OCRC will have made lease payments covering the full value of equipment over the terms of the leases (\$12 million). However, we noted that there are no bargain purchase options at the end of the leases. This means that OCRC will have to continue making the lease payments in order to use the same equipment it effectively already paid for, or it will have to buy other replacement equipment directly. At the time of our audit, with some leases expiring soon, OCRC did not have clarity on whether they would continue to lease or directly buy replacement equipment (e.g., security equipment, conveyers, racking).

OCRC monitoring staffing arrangements and costs incurred by Domain Logistics is important, given that OCRC pays Domain Logistics for all costs incurred plus a management fee that increases as costs increase. Therefore, OCRC is responsible for ensuring that value for money is obtained for all expenses incurred by Domain Logistics.

RECOMMENDATION 7

For OCRC to improve its overall oversight of Domain Logistics and to confirm that contractual requirements are met in a cost-effective manner, we recommend that OCRC:

- obtain complete information on all subcontractors engaged by Domain Logistics and how they are engaged (e.g. through a competitive RFP process, etc.) and maintain the list current;
- regularly review agreements between Domain Logistics and its subcontractors to confirm that they are aligned with OCRC's policies and the primary agreement with Domain Logistics;
- identify subcontractors whose performance is critical for operations;
- confirm that Domain Logistics establishes, obtains and retains relevant performance information from sub-contracted service

providers (e.g. that service providers confirm recipient's age prior to direct delivery, delivery time performance, etc.);

- have Domain Logistics incorporate performance metrics such as delivery time performance into all sub-contractor agreements;
- have Domain Logistics incorporate longer data retention requirements (e.g. minimum one year) into all sub-contractor agreements; and
- obtain monthly sub-contractor cost and performance information from Domain Logistics and analyse to confirm cost-effective performance to make and/or address any needed improvements as soon as possible.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations and will obtain information from Domain Logistics to ensure oversight of sub-contractors is aligned with commercial arrangements set out by OCRC.

OCRC will also obtain complete information on all sub-contractors engaged by Domain Logistics and keep the list up to date.

OCRC will develop and clarify processes and procedures with regards to performance targets and regular reporting.

4.2.5 When Required, Cannabis Products Are Appropriately Disposed Of Or Returned To Licensed Producers

When OCRC needs to return cannabis products to licensed producers, it can either physically return products or destroy them as agreed with producers. OCRC uses services of a third party, Daniels Sharpsmart, for product destruction. Since February 2021, OCRC has improved oversight of the destruction process in order to eliminate the possibility of product diversion to the illegal market. When OCRC returns products to licensed producers, it tracks all steps in the process and has appropriate controls in place.

Destruction of unsold inventory by retail stores so that it is not diverted to the illegal market is within the purview of the Alcohol and Gaming Commission of Ontario.

4.3 Customer Service

4.3.1 Recent Changes to Customer Care Have Led to Reduced Customer Service Staff and Downgraded Time-Related Performance Targets

From October 2018 to February 2021, OCRC outsourced its online sales customer support service. With the introduction of the wholesale channel in 2019, an in-house customer service team was formed to service wholesale customers (private retail stores). In February of 2021, OCRC brought the online sales customer support function in-house, so that both wholesale and online customers are now being serviced by the same OCRC customer service team.

In January 2020, prior to this transition, OCRC created a business case analysis to assess the costs and benefits of an outsourced versus in-house customer service model. The benefits of an in-house customer service model included anticipated annual cost savings of approximately \$550,000, based on the assumption of 20 full-time in-house customer service employees. The cost-benefit analysis also included qualitative benefits of moving to an in-house model such as increased operational efficiency and access to OCRC systems, an increased sense of responsibility for OCRC's customer service representatives, and improved control over the hiring process. OCRC has not revisited its business case to see if benefits would be achieved given changes in staffing levels from initially planned and the increase in the number of retail cannabis stores and customers. We also noted that the business case to move the online customer service team in-house was not shared or discussed with the Board.

Prior to and after the transition, we noted that online and wholesale customer service performance was tracked and measured against internally established targets for each contact method

(i.e. chat, phone and webform). However, we noted that immediately after the transition in February 2021, OCRC lowered the performance targets in March 2021 for both online and wholesale customer support. See **Appendix 13** for a summary of changes to OCRC's customer service performance targets along with the actual performance results (discussed in **Section 4.3.2** below). For example,

- "Average Speed of Answer" measures how long customers need to wait to get in contact with a customer service agent via phone or chat. This performance target was set at 45 seconds prior to the transition. It was increased to eight minutes in March 2021 and then decreased to five minutes in June 2021.
- "Resolution Times for Issues" measures the length of time between a customer's first contact with OCRC regarding an issue and when OCRC provides a final response to the customer to resolve the issue. Issues can be related to deliveries (i.e. delays, missed deliveries, etc.), purchase orders (i.e. short shipments, damages, overages, etc.) or product quality (i.e. freshness, malfunctioning of vape products, etc.). Prior to the transition, the target resolution time was 15 days for each type of issue. In June 2021, the resolution time target was downgraded to 40 days for product quality issues and 30 days for delivery and purchase order issues.
- "First Contact Resolution" measures the number of customer calls that can be resolved during the first contact, not requiring follow up. This performance target was 98% prior to the transition. It was downgraded to 95% in March 2021 and was further downgraded to 70% in June 2021.

The key reason for lowering the targets was the reduction in customer service representatives available to handle all online and wholesale customer issues, in the context of significant growth of retail stores. Prior to the transition, OCRC had a total of 26 agents (22 outsourced for online sales and four in-house for wholesale sales) operating from 10am to 7pm, seven days a week. As of the actual launch of

the fully in-house customer service model on February 13th 2021, OCRC had only nine customer service representatives, serving both wholesale and online customers with hours of operation from 9am to 5pm from Monday to Saturday. OCRC then expanded its in-house customer service team to 12 customer service representatives in June 2021, with the expectation for the team to grow to 14 customer service representatives by the end of September 2021. However, even with the planned expansion of the in-house customer service team, we noted that it would still be about half the size of the original in-house and outsourced staffing size before the transition.

OCRC told us the addition of 15 new district sales managers in 2021/22 providing support to wholesale customers (retail stores) was expected to prevent problems and complaints. District sales managers are responsible for managing direct relationships with retail stores, and for providing assistance in revenue forecasting, product assortment recommendations, sales data sharing, and order support. However, unlike customer service representatives, district sales managers do not handle customer inquiries or complaints. These staffing changes were not reflected in the business case for the in-house customer support function.

4.3.2 Customer Care Has Declined, with Longer Customer Wait Times for Inquiries, Claims, and Complaints

With the recent change to the in-house customer service and reduction in staffing, we found that the overall customer experience has been negatively impacted because of significantly longer wait times.

Currently, the average time a customer has to wait to connect with a customer service agent is eight and a half minutes via phone (up from 59 seconds) and almost 11 minutes via chat (target was five minutes for each). The response times grew because there are fewer customer service agents. We also noted that the number of customer calls that could be resolved during the first contact and that did not require follow up, decreased from 98% to 40% (target was 70%). We conducted a survey in July 2021 of the wholesale customers (private retail stores) and 48% of respondents said they were either not satisfied or very dissatisfied with OCRC's ability to deal with their inquiries in a timely manner.

Additionally, we found that the resolution time for all claims and complaints has also significantly increased. At OCRC, resolution time is measured as the length of time between a customer's (wholesale or e-commerce) first contact with OCRC regarding an issue and when OCRC provides a final response to the customer to resolve the issue. For example:

Figure 11: Ontario Cannabis Retail Corporation Case Resolution Time Frames, February 2021–July 2021

Source of data: Ontario Cannabis Retail Corporation

| Days Open | Delivery ¹ | | Purchase Order ² | | Product Quality ³ | | Overall | |
|-------------------------|-----------------------|------------|-----------------------------|------------|------------------------------|------------|--------------|------------|
| | Case Count | % | Case Count | % | Case Count | % | Case Count | % |
| ≤ 15 Days | 274 | 83 | 961 | 62 | 1,943 | 29 | 3,178 | 37 |
| > 15 days and ≤ 30 days | 16 | 5 | 177 | 11 | 1,132 | 17 | 1,325 | 15 |
| > 30 days and ≤ 90 days | 22 | 7 | 239 | 15 | 2,075 | 31 | 2,336 | 27 |
| > 60 days and ≤ 90 days | 18 | 5 | 123 | 8 | 908 | 13 | 1,049 | 12 |
| > 90 days | 1 | <1 | 58 | 4 | 676 | 10 | 735 | 9 |
| Total | 331 | 100 | 1,558 | 100 | 6,734 | 100 | 8,623 | 100 |

1. Delivery cases include issues relating to delays and missed deliveries.
2. Purchase order cases include issues relating to short shipments, damages and overages.
3. Product quality cases include issues relating to freshness and malfunctioning of vape products.

- The resolution time for claims related to purchase orders (i.e. short shipments, damages, overages, etc.) increased from 10 days to 40 days (target was set to 30 days in June);
- The resolution time for issues related to deliveries (i.e. delays, missed deliveries, etc.) increased from 11 days to 45 days (target was set to 30 days in June 2021); and,
- The resolution time for product quality complaints increased from 14 days to 59 days (target was set to 40 days in June 2021). We noted that only 56% of complaints were resolved within the target of 40 days. Specifically, as **Figure 11** shows, 13% of complaints took between 60 days and 90 days to resolve and an additional 10% of cases took more than three months to resolve.

We also found that as of July 8, 2021, there were 2,190 complaints or cases related to product quality that had not been resolved, 32% (or 698) of which remained open for more than 90 days since the customer first contacted OCRC about the issue (see **Figure 12**).

These extended timelines negatively impact the customer's experience. Our survey in July 2021 of the retail stores indicated that 53% of respondents were not satisfied or very dissatisfied with OCRC's ability to deal with customer complaints in a timely manner. Eighty six percent of respondents suggested

that a reasonable time for OCRC to deal with a complain would be a week or less.

Our review of case history showed that delays from the customer service team contributed to the long resolution times for complaints. For example, one online quality assurance case was open for 136 days. We noted that the customer provided all supporting information on February 24, 2021, however OCRC's customer service team did not forward the information to OCRC's quality assurance team until March 3, 2021 causing a one-week delay. Then, OCRC's quality assurance team investigated the complaint and approved a refund on March 4, 2021. For OCRC to process a refund, the customer must first return the products to OCRC using OCRC issued return shipping labels. However, OCRC's customer service team did not notify the customer about the refund and did not send the return shipping labels until June 17, 2021, causing a further additional three-month delay.

We also noted two other examples related to delivery complaints that took more than two months to close. In both of these cases, the online customers contacted OCRC via webform, and an OCRC customer service representative did not reach out to the customers for additional information until two months later. Due to the two-month delay between the customers' initial contact and OCRC's first response, OCRC customer service representatives were not able to make a follow up contact with the

Figure 12: Ontario Cannabis Retail Corporation Pending Customer Service Cases as of July 8, 2021

Source of data: Ontario Cannabis Retail Corporation

| Days Open | Delivery ¹ | | Purchase Order ² | | Product Quality ³ | | Overall | |
|-------------------------|-----------------------|------------|-----------------------------|------------|------------------------------|------------|--------------|------------|
| | Case Count | % | Case Count | % | Case Count | % | Case Count | % |
| ≤ 15 Days | 5 | 19 | 120 | 38 | 571 | 26 | 696 | 27 |
| > 15 days and ≤ 30 days | 12 | 44 | 57 | 18 | 368 | 17 | 437 | 17 |
| > 30 days and ≤ 90 days | 7 | 26 | 63 | 20 | 295 | 13 | 365 | 14 |
| > 60 days and ≤ 90 days | 1 | 4 | 36 | 11 | 258 | 12 | 295 | 12 |
| > 90 days | 2 | 7 | 41 | 13 | 698 | 32 | 741 | 29 |
| Total | 27 | 100 | 317 | 100 | 2,190 | 100 | 2,534 | 100 |

1. Delivery cases include issues relating to delays and missed deliveries.
2. Purchase order cases include issues relating to short shipments, damages and overages.
3. Product quality cases include issues relating to freshness and malfunctioning of vape products.

customers and closed the two cases, citing inactivity. According to OCRC, these significant delays were due to insufficient resources in the customer service team to address the volume of customer contacts.

We had similar observations when reviewing complaints from wholesale customers. In one instance, a wholesale quality assurance case was open for 135 days. The private retail store communicated with OCRC on February 23, 2021 and OCRC's customer service team followed up to request additional information on March 6, 2021. The private retail store provided the information by April 12, 2021. The OCRC's customer service team did not review responses provided by the quality assurance team and get back to the customer until one month later, on May 25, 2021. OCRC eventually closed the case on July 8, 2021 due to customer inactivity. Again, these delays were said to be the result of insufficient staff on the customer service team.

RECOMMENDATION 8

To improve customer service related to the timeliness for addressing inquiries, claims and complaints, we recommend that OCRC:

- establish more timely performance targets for its customer support centre based on customer feedback;
- align the customer support centre resources and processes to achieve more timely performance targets; and
- ensure that all customers receive a timely follow up.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendation to improve customer service.

The goal of moving OCRC's customer service function in-house was to improve the oversight of customer service performance and to provide better customer service for end consumers and OCRC's retail partners.

As processes are developed over the coming months to improve response times and address

Figure 13: Quality Complaints by Product Type, January 2020–December 2020

Source of data: Ontario Cannabis Retail Corporation

| Product Type | Number of Cases | % |
|--------------|-----------------|------------|
| Vapes | 6,157 | 71.13 |
| Flower | 1,829 | 21.13 |
| Edibles | 243 | 2.81 |
| Concentrates | 152 | 1.76 |
| Oils | 126 | 1.46 |
| Beverages | 117 | 1.35 |
| Capsules | 27 | 0.31 |
| Topicals | 5 | 0.06 |
| Total | 8,656 | 100 |

complaints, OCRC anticipates improvements in service levels.

Broader efforts are being made to work with OCRC's retailer partners to improve underlying wholesale policies and procedures which have been a main source of customer inquiries.

4.3.3 Insufficient Efforts to Reduce Customer Complaints on Product Quality Issues

We reviewed complaints received by OCRC between April 2019 and March 2021. **Figure 13** summarizes product quality related complaints. All product quality related complaints are forwarded to the respective licensed producers for follow up actions. Typically, licensed producers choose to refund a customer as a way to improve customer relations even if there isn't a product defect issue.

We noted that OCRC prepared scorecards for its ten largest licensed producers by volume, which contained overall statistics about customer quality complaints related to their products. OCRC facilitated meetings four times a year with these ten licensed producers where information on quality issues was shared and discussed. Although smaller producers are notified when a complaint for their product is received, general information on quality issues are

not similarly shared and discussed by OCRC with them. However, these smaller licensed producers account for 43% of all customer complaints received by OCRC as well as 35% of OCRC's revenue and likely would benefit from such information. Equally, OCRC could benefit from discussions and evaluations about the overall quality of their products.

One notable trend in complaints includes vape products, which represent around 15% of all sales and accounted for 70% of all product quality related complaints. The majority of customer complaints related to leaking, clogging or malfunctioning of the electric components. OCRC informed us that many of these customer complaints may be due to the complexity of the vape product, the intricate physical components in the vaporizers, or customers not using the vaporizers correctly. However, we were not able to verify this information or determine if the products were defective since the complaint files we sampled did not contain any information or details about the results of the investigation by the licensed producers.

RECOMMENDATION 9

To reduce customer complaints related to product quality, we recommend that OCRC:

- provide similar customer feedback and information to smaller licensed producers that is being presented to the top ten (by volume) licensed producers; and
- use customer complaints data to inform future product listing decisions.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to share customer feedback information with all licensed producers with the goal of improving product quality.

In response to customer feedback, OCRC is in the process of implementing changes to return procedures for product quality complaints. This is expected to result in a decline in customer quality complaints overall.

4.4 Promoting Responsible Consumption and Protecting Youth

4.4.1 Slow Progress on Implementing a Social Responsibility Strategy and Initiatives

Promoting social responsibility is one of OCRC's requirements in the *Ontario Cannabis Retail Corporation Act, 2017* (Act). However, from its inception in December 2017 until late 2020, OCRC had no staff assigned to develop a social responsibility strategy or to implement any social responsibility initiatives. The first and only employee dedicated to the social responsibility program started at OCRC on August 10, 2020.

Figure 14 shows OCRC's social responsibility strategy, which was approved by OCRC's Board in November 2020 for implementation between 2021 and 2024. Among other objectives, the strategy aims to educate the public about the topics such as responsible consumption and how to safeguard cannabis access from youth and children.

Over the last few years, public education by OCRC on responsible cannabis consumption and product safety has not been keeping pace with increasing public health incidents.

The Ontario Poison Centre reports a growing number of incidents related to unsafe consumption of cannabis products. Since the legalization of cannabis, safety incidents related to consumption of dried flower cannabis products almost doubled from 120 in 2018 to 217 in 2020. Children under the age of five and children between six and 12 had five times more incidents in 2020 than in 2018 (214 and 97 cases compared to 43 and 19 cases, respectively). Among teens (12-19), incidents almost doubled (32 in 2018 to 62 in 2020). In August 2020, Health Canada likewise issued an alert regarding the accidental ingestion of edible cannabis products. The alert was initiated as a result of increased instances of children accidentally ingesting illegal edible cannabis products and experiencing serious harm resulting in hospitalization. Health Canada found that illegal edible cannabis products appear similar to regular candies or foods and are often stored in locations such as the fridge or

Figure 14: Ontario Cannabis Retail Corporation’s Social Responsibility Strategy, 2021–2024

Source of data: Ontario Cannabis Retail Corporation

| Primary Focus for Year 1 – 3 | | Added After Progress on Pillars 1 and 2 |
|--|---|--|
| Strategic Pillars | | |
| 1. Establishing a Foundation for Sustainability | 2. Creating a Vibrant and Inclusive Industry | 3. Advancing Cannabis Knowledge |
| Objective | | |
| Begin measuring and educating on sustainability at the OCS and in the marketplace, establishing a foundation for a future sustainable industry. | Strengthen diversity and inclusion within the OCS and Ontario cannabis industry. | Strengthen evidence-based cannabis education among Ontarians – particularly on responsible consumption. |
| March 2024 End Goals | | |
| <p>We will have established a measurement system and educational resources for sustainability at the OCS and within the cannabis industry.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Communicate sustainability best practices • Evaluate and rate current products based on third-party defined sustainability standards • Draft a sustainability vision for moving forward • Recognize sustainable partners on OCS.ca | <p>We will have established employment equity and supplier diversity programs that promote diverse societal participation in the industry.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Strive towards a percentage of suppliers/LPs who are black, Indigenous and people of colour. • Partner with AGCO to identify systemic regulatory and commercial barriers. • Maintain a workforce that is reflective of Ontario’s population. | <p>We will have taken steps to assist the academic community in filling gaps in existing cannabis education, including funding critical research.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Create new channels of dissemination for employees, retailers and consumers to access robust cannabis knowledge. • Host annual knowledge transfer sessions to discuss and disseminate new research. |
| Year 1 (2021/22) Initiatives | | |
| <p>Establish an understanding of the problem and future direction.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Participate in national collaborations to share ideas and learning related to sustainability • Conduct a scan to uncover sustainability metrics within the cannabis industry • Understand sustainability within the OCS | <p>Set expectations internally for external implementation.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Launch a Diversity & Inclusion Strategy • Begin measuring diversity within industry • Participate in external forums to support the growth of diversity in the cannabis sector • Leverage existing OCS platforms to promote diverse industry participants | <p>Strengthen efforts to gather and disseminate existing credible research.</p> <p>Examples:</p> <ul style="list-style-type: none"> • Establish a repository of credible research • Develop a community of practice with other provinces to align on disseminating cannabis knowledge and messaging • Leverage OCS Learn brand to launch new consumer-facing education resources |

freezer and without child-resistant packaging. Legal edible cannabis products are packaged according to strict requirements from Health Canada in order not to be appealing to children.

OCRC has so far not provided any information or education to the public on the differences between regulated cannabis products and products sold in the illegal market (including mail order marijuana

websites that operate without a license from Health Canada), and the risks associated with purchasing cannabis products in the illegal market. Cannabis bought from the illegal market can be laced with harmful chemicals such as fentanyl, pesticides and other toxins that can cause serious effects on one's health. In February 2020, OCRC, along with OPP, collaborated with the National Research Council to undertake testing of cannabis products seized from the illegal market. They found that products purchased from illegal sources do not meet the strict safety and quality controls implemented by OCRC, including a cap on the amount of THC, product ingredients, packaging, labelling, production, testing, and marketing, including appeal to young persons. Many seized illegal products may also be using fillers or potential unknown contaminants.

Even when purchased from the legal market and regulated sources, cannabis carries risks associated with consumption, particularly for youth and young adults. A 2017 study by the Canadian Paediatric Society noted that cannabis can cause long term damage to the developing brain. The study linked the use of cannabis in youth (up to 20 years old) to increased dependence on cannabis and to other substance use disorders such as tobacco smoking. The study also associated cannabis use in youth with increased likelihood of mental illnesses such as depression, anxiety and psychosis. Additionally, the study noted cognitive decline and diminished performance in school.

In comparison to Ontario, other provinces and public agencies, such as Alberta Gaming, Liquor and Cannabis Commission and British Columbia Cannabis Legalization and Regulation Secretariat, measure customer awareness of responsible cannabis use. The Prince Edward Island Cannabis Management Corporation reports on annual spending for projects on corporate social responsibility and results of the corporate citizenship survey, which is designed to obtain feedback on corporate social responsibility from external stakeholders.

Other provinces have initiatives and programs focusing on cannabis education, research, preventing

harm and responsible consumption in place. For example, Newfoundland Labrador Liquor Corporation (NLC) works with the RCMP and Mothers Against Drunk Driving (MADD) to create awareness about the dangers of cannabis-impaired driving. NLC also offers a Responsible Choices program that illustrates the dangers of driving high by allowing participants to virtually experience what driving impaired by cannabis is like.

At the time of our audit, OCRC had begun implementing its social responsibility strategy, but had put no similar cannabis use awareness initiative in place. Public Health Ontario provides information such as the health effects of cannabis exposure in pregnancy and breastfeeding; the risk factors for simultaneous use of alcohol and cannabis; and the risk factors for driving under the influence of cannabis. Public Safety Canada has information on its website about buying cannabis online and the risks of purchasing from illegal sources. However, we noted that ocs.ca did not have links or references to these resources.

RECOMMENDATION 10

To build awareness about the risks of purchasing and using cannabis from the illegal cannabis market and to provide education on responsible consumption, we recommend that the Ontario Cannabis Retail Corporation:

- use the findings from National Research Council to educate the public on characteristics of cannabis that is produced and sold legally as compared to cannabis products purchased in the illegal market;
- provide education to the public on how to distinguish between legal and illegal sources of cannabis, including mail order websites;
- provide links or reference to Public Health Ontario's and Public Safety Canada's information on cannabis consumption and purchasing;
- provide education on excessive cannabis consumption; and
- implement the social responsibility strategy approved by the Board in November 2020.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to build public awareness about the risks of purchasing cannabis from illegal sources.

OCRC began implementing the Board approved 2021-24 Social Responsibility Strategy in April 2021, including ensuring educational resources are made publicly available. Additionally, OCRC launched its first "buy legal" campaign in October 2021, which aims to directly educate consumers on the benefits of legal cannabis.

4.4.2 Insufficient Processes to Protect Youth

In keeping with its purpose to prevent underage cannabis use and reduce the illegal cannabis market, the federal *Cannabis Act* penalizes those who sell to underage youth. In line with this, the *Ontario Cannabis Retail Corporation Act* prohibits OCRC from selling cannabis to an individual under 19 years of age. It prohibits licensed producers from creating products or using marketing designed to entice underage youth to purchase cannabis. However, we found that OCRC has insufficient processes in place to prevent minors from purchasing cannabis through its online store, or to ensure that minors are not receiving deliveries of cannabis products when shipped from the warehouse.

Weak Age Verification Process for Online Customers

Since legalization, federal, provincial and territorial cannabis legislation has focused on two competing objectives: protecting children and youth; and eliminating the illegal cannabis marketplace. OCRC wants to provide convenient access in order to attract customers from the illegal market while implementing controls to protect children and youth.

Age-verification on legal cannabis platforms has been one area where the industry has debated how best to balance these two objectives.

In 2019, Health Canada warned that simple self-attestation of age may be easily circumvented and that additional steps must be taken to prevent youth access to cannabis. By contrast, a vast majority of public and private retailers in Canada have countered

that additional gating measures to access legal platforms would motivate consumers to remain shopping on a range of illegal platforms that do not include such measures.

At OCRC, age gating (controls used to restrict access for those who are not appropriately-aged) occurs first when an online purchase is made and again when the purchased product is delivered. Age gating at the point of purchase involves two steps. First, all online visitors are required to enter their date of birth to confirm that they are 19 years of age or older before they can enter ocs.ca to browse or purchase. Second, online visitors must agree to OCS's Terms and Conditions, which require that individuals must be at least 19 years of age, before they can complete their online purchase. In both of these instances, age gating in Ontario is based on self-declaration alone.

While most public and private cannabis retailers in Canada use a similar self-attestation method as the OCRC, at the time of our audit we noted that Alberta had a more rigorous process. In order to enter Alberta's online cannabis store, customers have to enter their name and address in order to have their age verified using programmed links with various public databases. This provides an added level of assurance that products are being sold only to those over the authorized age. Additionally, the Ontario Lottery and Gaming Corporation uses a similar age verification process on their online lottery platform to ensure consumers are Ontario residents. OCRC informed us that underage purchasing was one of the reasons orders got cancelled. However, cancelled orders are not consistently and properly documented in OCRC's system so data on the frequency or the extent of attempted underage purchases was unavailable.

RECOMMENDATION 11

In order to have strong controls over the online ordering of cannabis products by individuals under the age of 19, we recommend that OCRC explore tools such as the Government of Ontario's

future digital identification program, while balancing the mandate of reducing the illegal market.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendation and will work with relevant provincial ministries and the AGCO to consider available options for all legal cannabis platforms in Ontario to strengthen control over the online ordering of cannabis products by individuals under the age of 19.

In assessing the viability of available technology options, OCRC will consider its mandate to both prevent the sale of cannabis to individuals under the age of 19, and to provide a convenient online customer experience that helps eliminate sales to the illegal market.

Age Verification Not Consistently Performed During Deliveries

For private retail store purchases, all customers, regardless of how old they look, are required to show identification to verify age requirements before they can enter a cannabis store.

When customers purchase cannabis products on the OCS website, they have the option to select either Canada Post or Domain Express delivery. The agreement between OCRC and Canada Post states that if the recipient appears to be 30 years of age or younger, then Canada Post will request the recipient provide a government-issued identification for proof of age. The agreement also indicates that Canada Post will provide digital confirmation that a Canada Post employee complied with proof of age processes. However, Canada Post has not been providing OCRC with any records or reports on age verification upon delivery, or the number of unsuccessful deliveries because of a recipient being under the age of 19.

For customers who select Domain Express delivery, cannabis products are delivered by one of the two delivery service providers who are sub-contracted by Domain Logistics: Pineapple Express or QMS. Domain Logistics requires all of its delivery subcontractors

to verify age of recipient when cannabis products are delivered. Customers are allowed, however, to delegate receipt to another individual who meets the same age verification requirements. We found that 617 deliveries made between April 6, 2021 and May 5, 2021 were left with concierges and security personnel in condominium buildings. Such personnel would not be required to verify the age of individuals subsequently picking up their deliveries from the security or front desks. While these 617 recorded instances were only slightly over 1% of total deliveries made by Domain Logistics' subcontractors, leaving cannabis delivery with a concierge or condo security personnel does not effectively prevent minors from getting access to cannabis products.

We also found that delivery subcontractors do not have to document the age verification process that was performed. Therefore, it is not possible for Domain Logistics to validate that age verification has actually been performed at the time of delivery. For example, there is no record as to what type of photo ID is checked. This is important because not all photo ID contains date of birth information. In addition, recipient signatures are not always required or recorded by Domain Logistics' subcontractors. For example, Pineapple Express did not request signatures during COVID-19.

In the liquor industry, under the *Liquor Licence Act, 1990*, only holders of a liquor delivery service licence are permitted to deliver alcohol products. AGCO requires that the holder of the liquor delivery service license remain accountable for ensuring delivery subcontractors comply with all requirements of the regulation, including the responsible sale and service of alcohol. In addition, individuals involved in the delivery of alcohol must be Smart Serve certified (a mandatory certification program designed to educate responsible alcohol service). During COVID lockdowns, cannabis retailers and their direct employees were required to hold a certification from CannSell—a mandatory training program designed to educate learners about cannabis legislation, regulations and compliance, usage, consumption and product

knowledge. However, we found that OCRC and Domain Logistics do not have any mandatory training or certification requirements for individuals involved in the delivery of cannabis products. Moreover, neither OCRC nor Domain Logistics have set specific protocols or standards for delivery companies or guidance for deliveries to condominium or apartment buildings.

RECOMMENDATION 12

In order to have stronger oversight of age verification processes of Domain Logistics' delivery subcontractors and Canada Post, to have a better understanding of the extent of attempted purchases of cannabis by individuals under the age of 19 and to minimize the risk of cannabis products being delivered to underage individuals, we recommend that OCRC:

- develop appropriate policies and procedural training material for companies that are contracted directly by OCRC or Domain Logistics to deliver cannabis products, with a focus on age verification;
- require Domain Logistics to provide training and guidance on age verification to subcontracted delivery companies in line with OCRC's policies;
- align Domain's delivery processes with the regulatory framework set by the Alcohol and Gaming Commission of Ontario for private cannabis retail stores;
- obtain periodic formal reports from Domain Logistics on the performance of delivery providers, including records or reports on age verification upon delivery, including the form of ID checked and the number of unsuccessful deliveries because of a recipient being under the age of 19; and
- request that Canada Post provide OCRC with all information on age verification and unsuccessful deliveries as required under its contract and follow up with Canada Post on any identified issues after reviewing this information.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to work with Domain Logistics and Canada Post to implement stronger age verification processes and reporting, such as reporting the form of ID checked and the number of unsuccessful deliveries due to a recipient being under the age of 19.

OCRC will work with its partners to ensure staff training and alignment of its delivery processes with those set by the Alcohol and Gaming Commission of Ontario for private cannabis retail stores.

4.5 Information and Data Management

4.5.1 OCRC Does Not Have Effective Mechanisms to Safeguard Customer Information Retained by Its Service Providers

It is critical for OCRC to have a robust data strategy and governance, covering how various types of data are stored, moved and archived, in order to comply with laws and regulations and to be able to use historical information for analysis and planning. However, we found that up until May 2021, OCRC did not have any data strategy or record retention policy.

In December 2020, OCRC established its first information classification policy. At the time of our audit, OCRC was also undertaking a records management project in order to establish best practices consistent with the *Archives and Recordkeeping Act* (the "ARA") and the *Freedom of Information and Protection of Privacy Act* ("FIPPA"). Recently, in May 2021, OCRC also developed a data strategy that focused on data analytics capabilities but had not shared the data strategy with its Board for its feedback, direction and approval. While the new data strategy is focused on building OCRC's data analytics function, there is a lack of a data governance component including identification of what data the enterprise has, where that data resides, how that data is used and what compliance obligations apply. At the time of our audit OCRC had not yet developed an inventory list of all data sets, their classification and retention schedules.

As well, OCRC still requires effective mechanisms to oversee the use and retention of customer data gathered by Domain Logistics and its subcontractors. Domain Logistics and its delivery subcontractors obtain various data related to OCRC customers and transactions such as name, email address, phone number and delivery address. Some additional data is gathered by delivery companies, including signatures, form of ID checked, time of delivery and delivery notes. The agreement between OCRC and Domain Logistics clearly states that all data pertaining to OCRC is the exclusive property of OCRC. We found that OCRC did not have access to all data collected by Domain Logistics and its subcontractors.

OCRC's privacy policy states that all customer information is protected in accordance with Ontario's *Freedom of Information and Protection of Privacy Act* (FIPPA) and data is retained for a minimum of one year as per **section 49.11** (1) of FIPPA. However, we noted that according to the contractual agreement, Domain Logistics and its subcontractors are only required to keep data (including customer data) in their systems for 30 days (with additional archived period of 120 days). In addition, since OCRC did not have access to all data in Domain Logistics' and its subcontractors' systems, including customer information and as such OCRC did not have access or know how this customer information was being safeguarded.

RECOMMENDATION 13

To improve data and information management, governance, and compliance with laws and regulations, we recommend that the Ontario Cannabis Retail Corporation:

- present its recent data strategy to the Board for feedback, direction and approval;
- develop a data governance framework covering data collection, ownership, security, privacy and retention, and regularly review this framework to ensure compliance with applicable legislative requirements and best practices;

- obtain access to the data gathered by Domain Logistics and its subcontractors; and
- implement appropriate safeguarding and retention standards to be complied with by Domain Logistics and its subcontractors.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to improve its data information management and governance.

OCRC will refine and present a data strategy to the board. It will subsequently develop a data governance policy to ensure compliance with legislative requirements. OCRC will also obtain data from Domain in alignment with its commercial arrangement.

The data strategy will include appropriate safeguarding and retention standards for third-party data.

4.6 Procurement

4.6.1 No Documentation to Support the Justification For Non-Competitive Procurements

As a Crown corporation, OCRC is required to follow the Ontario Public Service (OPS) Procurement Directive which contains procurement rules. OCRC has established its own procurement policy which is consistent with the OPS Procurement Directive. The procurement policy outlines the process for OCRC to conduct the procurement of goods and services in an open, fair and transparent way that results in the best value for money. According to the policy, the procurement of goods valued at or over \$25,000 or services (consulting and non-consulting) valued at or over \$100,000 requires an open competitive process. The policy allows non-competitive procurement if there are special circumstances or exceptions consistent with the OPS Procurement Directive. In the case of an exception, OCRC's policy makes clear that a detailed business case is needed to justify choosing the non-competitive model for the procurement.

Since January 2019, when OCRC began procurements as a standalone agency, 24 of its 42 procurements were non-competitive procurements, for a value of approximately \$7 million. Based on our review of a sample of non-competitive procurements, it appears generally reasonable for these procurements to be non-competitive.

However, we found that none of the procurement files contained the required business case documentation as per OCRC's internal policy. While appropriate management approvals were obtained for these contract awards and the appropriate special circumstances or exemption clause for non-competitive procurement was indicated in the files, there were no business cases presented, as required by OCRC's procurement policy. OCRC also did not have any documentation to support the special circumstances or exceptions that would justify non-competitive procurement.

RECOMMENDATION 14

To comply with its own procurement policy and to confirm that it is obtaining value for money from its procurement contracts, we recommend that OCRC:

- use competitive procurement in accordance with its procurement policy; and
- when competitive procurement is not used, complete and document the required business case.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to improve compliance with the procurement policy.

OCRC will implement improved documentation of business cases for non-competitive procurements.

4.7 Performance Measurement and Accountability

4.7.1 OCRC Does Not Have a Consistently Used Set of Non-Financial Performance Metrics with Targets

OCRC has been tracking a set of consistent metrics related to its financial objectives. However, it does not have effective processes to ensure the long-term monitoring of non-financial performance objectives and its progress toward meeting its legislated mandate of buying, possessing and selling cannabis and related products; determining the varieties, forms or types of cannabis and related products it sells and the prices at which it sells them; and promoting social responsibility in connection with cannabis.

We noted that OCRC does not use consistent metrics to monitor and assess its non-financial performances from year to year. For example, for the objective "divert customers from illicit market," the performance metrics in 2019/20 were the growth of online customer visits and the conversion growth for ocs.ca. The new performance metrics in 2020/21 were the number of wholesale retail partners that OCRC onboards and the number of products OCRC sells. These metrics were subsequently changed yet again to having 1,000 stores ordering from OCRC by September 1, 2021. **Figure 15** shows the changes in OCRC's performance metrics from inception to date. We also noted that up until 2021/22, OCRC did not establish any performance targets and timelines.

OCRC has not yet established performance metrics for its social responsibility mandate. Cannabis agencies in other provinces have been tracking such metrics. For example, Alberta Gaming, Liquor and Cannabis Commission and British Columbia Cannabis Legalization and Regulation Secretariat both measure customer awareness of responsible cannabis use. The Prince Edward Island Cannabis Management Corporation reports on funding for corporate social responsibility initiatives and results of the corporate citizenship survey.

We noted that OCRC needs to improve its performance reporting to the Board on both its financial

Figure 15: Changes to Ontario Cannabis Retail Corporation's Non-Financial Performance Metrics, 2019/20-2021/22

Source of data: Ontario Cannabis Retail Corporation

| Performance Metrics per Business Plan | | | |
|---|---|--|--|
| Strategic Objective | 2019/20 | 2020/21 | 2021/22 |
| Divert customers from the illegal market | Online customer visit growth for ocs.ca | Significantly grow the number of wholesale retail partners that OCS onboards | 1,000 stores ordering by September 1, 2021 |
| | Conversion growth for ocs.ca | Increase the number of products OCS sells through ocs.ca and to authorized stores - particularly in categories of edibles, extracts and topicals | n/a* |
| | Percentage increase in illegal market conversion rate | Percentage increase in market share from the illegal market | Increase illegal market capture to 60% by the end of 2021/22 |
| Deliver a customer-focused experience | Average speed to answer a call from HelloOCS | Launch Business-to-Business ordering solution for authorized retailers | n/a* |
| | Percentage of calls answered within one minute | Increase the number of communities that have access to same-day/next-day shipping and increase the number of same-day/next-day transactions | n/a* |
| | Percentage of emails to HelloOCS answered within 24 hours | Launch ocs.ca Click and Collect | n/a* |
| Operate from a privacy- and education-first platform | n/a* | n/a* | n/a* |
| Deliver value for Ontarians | Average OCS weekly order fill rate | n/a* | n/a* |
| | On time delivery rate | n/a* | n/a* |
| Modern, agile and inclusive workplace | Employee engagement rate on pulse checks | Launch an employee engagement survey | 75% employee satisfaction rate annually |
| | Voluntary turnover rate | Increase the number of diversity and inclusion initiatives launched | 100% employee participation in annual goal setting |
| | Percentage of employees internally promoted or seconded | n/a* | n/a* |

* No performance metric was reported for the corresponding strategic objective

and operational performance. For the Board to discharge its responsibilities more effectively, it requires periodic and consistent information on OCRC's financial, operational and strategic performance. For example, OCRC internally monitors

and publicly reports metrics on customer satisfaction, order fill rate, inventory turnover and customer counts. While these various operational metrics are tracked internally and continue to evolve, OCRC has not yet established a consistent format

(dashboards, scorecards) for reporting to the Board which would be comparable to enable the Board oversee and trend OCRC's operational performance from one Board meeting to another.

We also noted that OCRC consistently reports to the Board and the public on its progress converting customers from the illegal market. However, this objective is not explicitly stated in OCRC's legislated mandate and various planning documents. The Province did not assign this responsibility to any one agency as it relies on the Ontario Provincial Police to enforce cannabis laws; the AGCO to license private retail stores and regulate retail store sales; and the OCRC to be the exclusive online retailer and wholesaler of recreational cannabis. The current metric used to report on legal market capture is based on a voluntary survey of individuals over 15 years of age conducted by Statistics Canada.

RECOMMENDATION 15

So that OCRC can measure and report on its performance regarding its mandate, business objectives and operational results, we recommend that OCRC:

- develop and formalize both financial and non-financial performance metrics (targets and actual results) overall and for each areas of its business with targets for each strategic objective;
- develop consistent reports, dashboards, scorecards for management use and for regular reporting to the Board; and
- enhance reporting on consistent trended financial and non-financial performance metrics (targets and actual results) in its annual reports.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to formalize its performance metric development and reporting.

OCRC has begun monitoring and is in the process of reporting to the board on its strategic

goals and objectives identified in its 2021–24 Business Plan.

OCRC will establish consistent non-financial operational performance metrics, reports, dashboards and scorecards for management and the board.

4.8 Governance

We noted that OCRC's governance processes are evolving. As the agency had many changes within its senior executive team and adjusted to changes in government direction, the relationship between management and the Board has been maturing. The current Memorandum of Understanding between the Ministry of Finance and OCRC was signed in August 2020. It was reviewed in 2021, but the results from this review were not finalized as at September 1, 2021. We noted that, with regard to some strategic changes, the Board was not always provided with sufficient information or time to make informed decisions. For example, the Board did not have the opportunity to adequately assess the risk and benefit of the change to a value-based product pricing approach. We also noted that with the exception of financial performance metrics, the Board has not been receiving periodic reports on a consistent set of key operational performance metrics, including progress with the social responsibility mandate. Throughout our audit, we noted that OCRC has proactively taken a number of corrective actions to address our concerns and is committed to continue to make improvements to its governance practices.

4.9 Human Resources Management

We identified several past issues in OCRC's human resources management processes, including reference checks not being conducted for job applicants and the lack of cost benefit analysis on the use of contractors for OCRC's information technology department. However, we noted that OCRC has taken a number of corrective actions. As a result, since June 2020, we noted improvements in OCRC's human resource

management processes. For example, due diligence is being conducted appropriately for job applicants and the analysis for the use of contractors was reviewed and approved by the Board. However, at the end of our fieldwork, we still noted weaknesses in OCRC's employee performance management process, as summarized below.

4.9.1 Performance Pay Not Based on a Robust Employee Performance Management Process

We reviewed a sample of twenty-five employee performance reviews from 2018/19 to 2020/21. OCRC did not have formal procedures and guidance on managing employee performance, such as a process for setting employee annual objectives and conducting performance reviews. OCRC also did not have clear competencies for various levels of the organization or personal performance goals and targets in order to objectively and consistently evaluate employees' performance.

From our review of 2018/19 and 2019/20 Board materials (Human Resources and Compensation Committee) we noted that with respect to bonus payments in these years OCRC based performance awards solely on company performance without consideration of individual performance. In 2018/19 corporate performance was measured by OCRC meeting the October 17 launch deadline. In 2019/20 the measure was the ability to achieve the profit target. In both years, the corporate performance goals were met. As a result, all employees received bonuses at the top of their eligibility range.

In 2020/21, performance awards were based on 70% of corporate performance and 30% individual employee performance. Corporate performance was measured as the ability to achieve profit targets. This measurement is not balanced with other key mandates of OCRC, including social responsibility. Individual performance was determined by an employee's achievement of individual annual

objectives. However, whether or not an employee achieved their set goals in a satisfactory way was only informally assessed. There are no clear and specific criteria set for what constitutes the satisfactory achievement of goals. Furthermore, there is no guidance for setting annual goals.

RECOMMENDATION 16

To effectively manage human resources and objectively assess performance, we recommend that the Ontario Cannabis Retail Corporation:

- develop and implement a Board-approved performance management framework for all employee levels within the organization, including process and procedures for employee performance reviews, rating criteria and annual goal setting with quantitative performance measures which align with OCRC's strategic objectives and business plans; and
- develop and obtain Board approval for a standard compensation approach for all employee levels linked to a performance management framework incorporating corporate performance.

OCRC RESPONSE

OCRC accepts the Auditor General's recommendations to improve the effectiveness of managing human resources for the corporation.

OCRC has commenced efforts to strengthen its human resources operating model to support its growing business. OCRC will focus on the development and implementation of an integrated performance management program that will be presented to the board for approval in 2022. The program will clearly outline a compensation approach that incorporates an individual's achievement of performance goals, as well as corporate performance.

Appendix 1: Timeline of Medical and Recreational Cannabis Legalization

Prepared by the Office of the Auditor General of Ontario

| Date | Events |
|---------------------|---|
| Jul 31, 2000 | Terrance Parker, a Toronto man with epileptic seizures, wins his 23-year court battle to use cannabis for medical purposes. Parker was first arrested in 1987 for cannabis possession but was acquitted due to “medical necessity,” as cannabis eases his condition where two brain surgeries and various medications could not. In 1996, he was charged with possession, cultivation and trafficking for growing the plant. He appealed to the Canadian Charter of Rights and Freedoms and a judge ruled in his favour. The Crown appealed the decision, but in 2000 the Ontario Court of Appeal found the current cannabis law unconstitutional because it did not take medical use into account. |
| Jul 30, 2001 | Health Canada approves access to cannabis for medical use for patients who receive support from their physician. The first medical cannabis law, Marihuana for Medical Access Regulations, is enacted. Patients can grow their own cannabis plants (under a personal use production licence) and/or designate someone else to produce marihuana on their behalf. |
| Jun 7, 2013 | Marijuana for Medical Purposes Regulations replaces Marihuana for Medical Access Regulations. This new law assists the development of a commercial industry for the cultivation and distribution of cannabis. Patients can purchase cannabis from licensed producers for medical use. |
| Jun 11, 2015 | The federal government allows individuals to possess and consume other types of cannabis products for medical purposes besides dried cannabis flower. Licensed producers are now allowed to produce and distribute dried cannabis, cannabis oils, fresh marihuana buds, and leaves. |
| Dec 4, 2015 | The federal government indicates its intentions to legalize, regulate and restrict access to cannabis for recreational use. |
| Jun 30 2016 | The Minister of Justice and Attorney General of Canada, the Minister of Public Safety and Emergency Preparedness, and the Minister of Health announced the creation of a nine-member Task Force on Cannabis Legalization and Regulation (“the Task Force”). The Task Force is formed to work with the provincial, municipal, territorial governments, Indigenous governments, experts and the public to discuss legalization of cannabis for recreational use. |
| Oct 26, 2016 | In Ontario, the cabinet agrees that the Ministry of the Attorney General will lead policy work around the federal commitment to legalize, regulate and restrict access to marihuana. |
| Aug 24, 2016 | The Access to Cannabis for Medical Purposes Regulations is established to allow individuals to grow their own cannabis plants for medical use in addition to being able to purchase cannabis from a licensed producer, as long they have been prescribed by their physician to do so. Also, patients can continue to designate someone on their behalf to grow marijuana plants. |
| Apr 13, 2017 | The federal government introduces Bill C-45, the <i>Cannabis Act</i> , which contains the rules for legal possession, use, cultivation, distribution and selling of cannabis in Canada. |
| Sep 6, 2017 | The Ontario government begins to work with the Liquor Control Board of Ontario. The plan is to use the agency’s resources to prepare for the organizational structure and retail sale of cannabis for recreational use. |
| Oct 17, 2018 | The <i>Cannabis Act</i> comes into effect. Cannabis is legalized in Canada. |

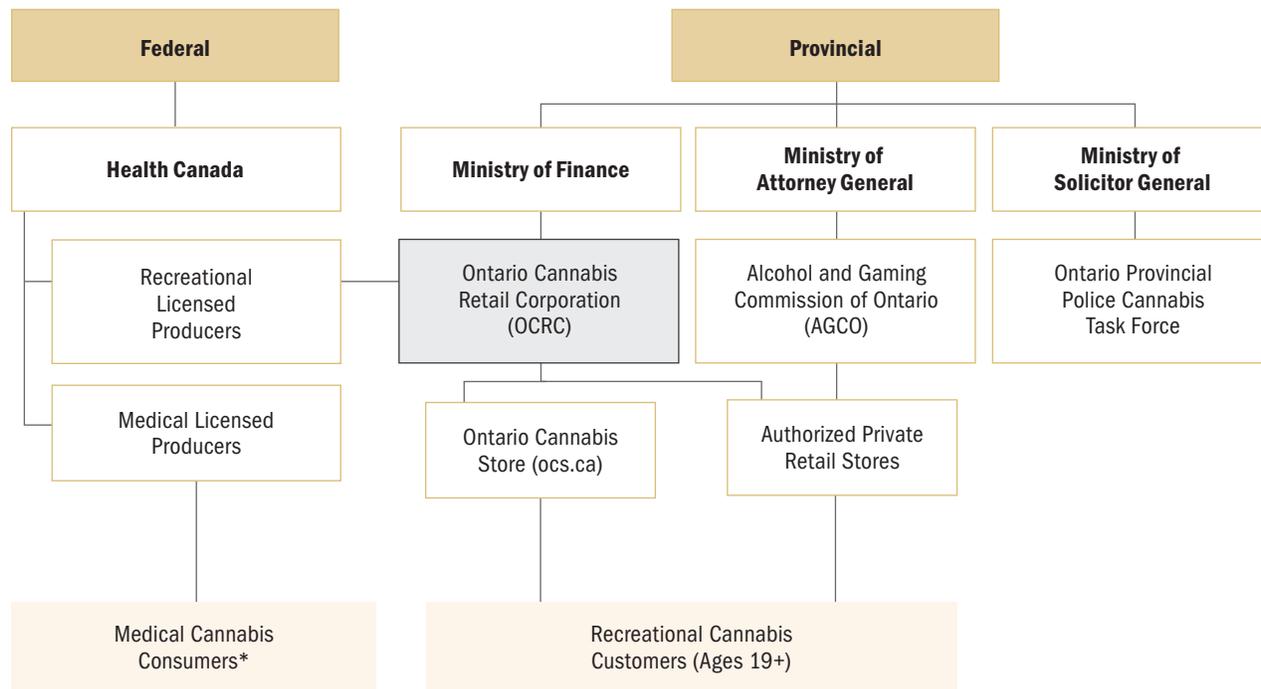
Appendix 2: Cannabis Legislation and Regulations

Prepared by the Office of the Auditor General of Ontario

| Legislation | Description |
|--|--|
| Federal | |
| <i>Cannabis Act, 2018</i> | <ul style="list-style-type: none"> • Legalizes the use of cannabis for recreation in Canada • Contains rules regarding the possession, sale and use of cannabis and cannabis products in Canada • Allows provinces to further restrict the use of cannabis in their jurisdictions through provincial legislation • Gives provinces responsibility for setting up and administering their own cannabis retail model • Enables cannabis retailers to purchase cannabis only from the producers authorized by this Act |
| Cannabis Regulations | <ul style="list-style-type: none"> • Identifies the different types of cannabis products • Identifies different types of cannabis licences for producers, and specific rules for each type of licence • Contains specific rules regarding the promotion and labelling of cannabis products |
| Provincial | |
| <i>Ontario Cannabis Retail Corporation Act, 2017</i> | <ul style="list-style-type: none"> • Establishes a corporation whose purpose is to: <ul style="list-style-type: none"> - Possess, buy and sell cannabis and related products; - Determine the types of cannabis it sells and the prices at which it sells; and - Promote social responsibility in connection with cannabis use • The corporation shall not operate physical retail stores directly or indirectly |
| <i>Cannabis Control Act, 2017</i> | <ul style="list-style-type: none"> • Establishes rules relating to sale and distribution of cannabis in Ontario • Permits only retailers licensed by the Province to sell cannabis • Requires retailers to purchase all their cannabis inventory from the Ontario Cannabis Retail Corporation (OCRC) • Specifies that sale and distribution of cannabis to minors (persons under the age of 19) is prohibited under the Act • Outlines the actions police forces are authorized to take to carry out enforcement of the Act |
| <i>Cannabis Licence Act, 2018</i> | <ul style="list-style-type: none"> • Does not apply to OCRC • Governs the oversight of private cannabis retailers in Ontario • Sets the limits on the amount of cannabis that can be sold at the store • Contains requirements for obtaining cannabis retail operator's license, for which the holder can purchase cannabis only from OCRC • Gives the Alcohol and Gaming Commission of Ontario the authority to request information from OCRC on the amount of cannabis sold to a particular private retail operator |
| <i>Smoke-Free Ontario Act, 2017 (amended 2018)</i> | <ul style="list-style-type: none"> • Specifies the locations where cannabis products cannot be sold or used • Contains the rules pertaining to advertising and packaging of vapour products |

Appendix 3: Key Players in Ontario’s Recreational Cannabis Market

Prepared by the Office of the Auditor General of Ontario



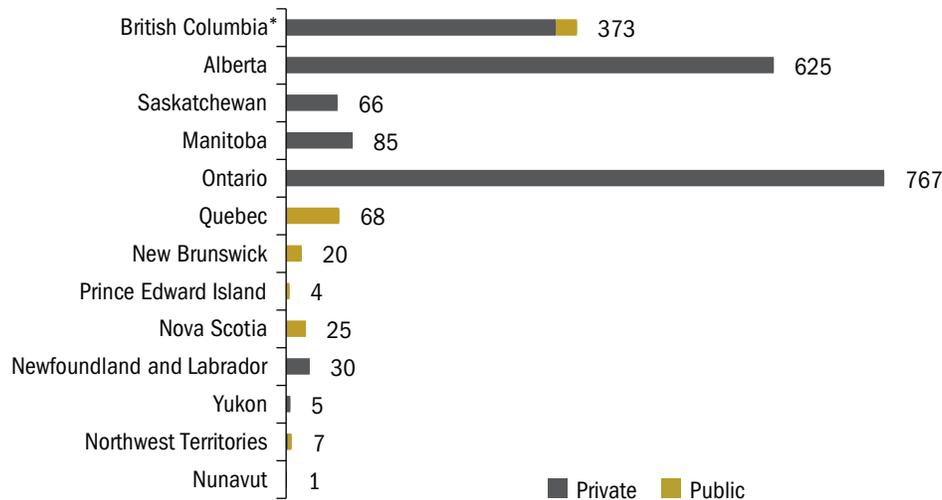
| | |
|--|---|
| Health Canada | <ul style="list-style-type: none"> • Authorizes and licenses cultivation, processing and sale of cannabis and licensed cannabis producers • Conducts compliance and enforcement activities including inspection of licensed facilities • Performs quality assurance and product testing of cannabis products • Ensures the packaging and labeling of cannabis products adheres to legislation and regulations |
| Ontario Cannabis Retail Corporation | <ul style="list-style-type: none"> • Crown corporation • Ontario’s exclusive online retailer of recreational cannabis • Exclusive wholesaler of recreational cannabis for authorized retail stores |
| Recreational Licensed Producers | <ul style="list-style-type: none"> • Supply cannabis to OCRC |
| Ontario Cannabis Store (ocs.ca) | <ul style="list-style-type: none"> • Exclusive online retail store |
| Alcohol and Gaming Commission of Ontario | <ul style="list-style-type: none"> • Authorizes and regulates the sale of cannabis at private retail stores • Licenses retail store operators and managers • Ensures authorized retail stores only sell legal cannabis by inspecting store inventory • Promotes responsible sale of cannabis by preventing cannabis sale to minors |
| Authorized Private Retail Stores | <ul style="list-style-type: none"> • Purchase exclusively from OCRC • Prior to January 22, 2019, municipalities could opt out of having retail stores in their community |
| Ontario Provincial Police Cannabis Task Force | <ul style="list-style-type: none"> • Eliminates illegal cannabis stores in Ontario • Works with AGCO, OCRC and other system partners to eliminate the illegal cannabis market • Shares insights about the legal and illegal cannabis market with AGCO, OCRC and other system partners |

Ontario Cannabis Retail Corporation is the focus of this VFM audit

* Medical cannabis consumers may also purchase from the recreational market through ocs.ca or from authorized private retail stores.

Appendix 4: Recreational Cannabis Retail Stores by Province and Territory, as of June 2021

Prepared by the Office of the Auditor General of Ontario



| | |
|----------------------------------|---|
| British Columbia | Hybrid Retail: Licensed private and government-operated retail stores; government-operated e-commerce (bccannabisstores.com) |
| Alberta | Private Retail: Licensed private-operated retail stores; government-operated e-commerce (albertacannabis.org) |
| Saskatchewan | Private Retail: Licensed private-operated retail stores and e-commerce |
| Manitoba | Private Retail: Licensed private-operated retail stores and e-commerce |
| Ontario | Private Retail: Licensed private-operated retail stores and government-operated e-commerce (ocs.ca) |
| Quebec | Government Retail: Government-operated retail stores and e-commerce (sqdc.ca) |
| New Brunswick | Government Retail: Government-operated retail stores and e-commerce (cannabis-nb.com) |
| Prince Edward Island | Government Retail: Government-operated retail stores and e-commerce (peicannabiscorp.com) |
| Nova Scotia | Government Retail: Government-operated retail stores and e-commerce (cannabis.mynslc.com) |
| Newfoundland and Labrador | Private Retail: Licensed private-operated retail stores; government-operated e-commerce (shopcannabisnl.com) |
| Yukon | Private Retail: Licensed private-operated retail stores; government-operated e-commerce (cannabisyukon.org) |
| Northwest Territories | Private Retail: Licensed private-operated retail stores; government-operated e-commerce (ntlcc-cannabis.ca) |
| Nunavut | Private Retail: Licensed private-operated retail stores; government-operated e-commerce (nulc.ca) |

* The store count for British Columbia is as of September 9, 2021.

Appendix 5: Chronology of Significant Events

Prepared by the Office of the Auditor General of Ontario

| Date | Milestone |
|-------------------|---|
| 2017 | |
| Dec 12 | Ontario Cannabis Retail Corporation (OCRC) is created as a subsidiary of Liquor Control Board of Ontario (LCBO). |
| 2018 | |
| Mar 9 | OCRC's Chair of the Board of Directors is appointed. |
| Apr 16 | OCRC's interim President is appointed. |
| Jun 29 | OCRC's permanent President is appointed. |
| Aug 8 | OCRC's new President and Chief Executive Officer is appointed. |
| Aug 13 | Provincial government changes OCRC's mandate to make physical retail stores privately owned and operated. |
| Oct 17 | Legislation enacted to separate OCRC from LCBO. Canada legalizes cannabis for recreational use. Ontario Cannabis Store (ocs.ca) launches and receives 98,000 orders within the first 24 hours of operation. |
| Dec 13 | Ontario announces phased approach to licensing authorized retail stores in response to national supply shortage. Expression of Interest lottery held to select 25 initial store operators in five regions across Ontario. |
| 2019 | |
| Jan 1 – Apr 30 | OCRC prepares for wholesale launch, including developing key operational policies and data sharing arrangement with the Alcohol and Gaming Commission of Ontario (AGCO). |
| Mar 25 | OCRC begins to onboard new retailers. |
| Apr 1 | First 10 physical retail stores start opening in Ontario. |
| Jun 14 | Health Canada publishes regulations outlining rules to support the production and sale of cannabis edibles, extracts and topicals. |
| Sep 6 | OCRC's new interim President and Chief Executive Officer is appointed. |
| Sep 26 | OCRC's new Chair of the Board of Directors is appointed. |
| Oct 17 | Federal government authorizes cannabis edibles, extracts and topicals. |
| Dec 12 | Provincial government announces cancellation of the lottery-based capped licensing of retail stores. The AGCO establishes an open market allocation with no limits on the number of stores. |
| 2020 | |
| Jan 16 | Ontario Cannabis Store launches cannabis edibles, extracts and topicals. |
| Feb 26 | OCRC's interim President and Chief Executive Officer is confirmed as a permanent President and Chief Executive Officer. |
| Mar 30 | OCRC establishes its Internal Audit and Enterprise Risk Management function. |
| Mar 31 | Fifty-three retail stores are open as of this date. |
| Apr 1 | AGCO starts granting five retail store authorizations per week. |

| Date | Milestone |
|-------------|---|
| Apr 7 | COVID-19 emergency measures announced allowing for temporary retailer delivery and curbside pickup. |
| Jun 9 | OCRC secures new distribution centre in Guelph. |
| Aug 1 | OCRC begins transition to new distribution centre. |
| Sep 16 | OCRC's new distribution centre opens in Guelph. |
| Sep 28 | OCRC's new interim President and Chief Executive Officer is appointed. |
| Sep 29 | AGCO starts granting 10 retail store authorizations per week. |
| Dec 8 | AGCO starts granting 20 retail store authorizations per week. |
| Dec 21 | COVID-19 measures reintroduced, allowing for temporary retailer delivery and curbside pick-up. |
| 2021 | |
| Feb 16 | AGCO starts granting 30 retail store authorizations per week. |
| Mar 24 | OCRC's new interim President and Chief Executive Officer is appointed. |

Appendix 6: Ontario Cannabis Retail Corporation Organizational Chart, as of March 31, 2021

Source of data: Ontario Cannabis Retail Corporation



Note: As of March 31, 2021 Ontario Cannabis Retail Corporation employed 223 full time equivalent employees and 12 contact staff.

1. Merchandising Division manages new product releases to both private retail stores and the e-commerce platform. This division is also involved in strategic vendor management, which includes assessing vendors and producers.
2. Wholesale and Store Partnership Division is responsible for supporting the growth and success of private retail stores. The Customer Care group within this division manages and escalates customer complaints, inquiries, product returns and other issues.
3. Operations Division is responsible for inventory management as well as distribution and transportation of products to e-commerce and wholesale (private retail store) customers. This division is also responsible for procurement services not related to cannabis products.
4. Information Technology Division is responsible for all information technology systems and for ensuring data security, including customer data.
5. General Counsel and Corporate Secretary Division operates a corporate security team responsible for measures to protect the integrity of the legal market and minimize the risk of legal cannabis products being diverted to the illegal market. OCRC's internal audit function is also part of this division.

Appendix 7: Ontario Cannabis Retail Corporation's Revenue and Expenses, 2018/19–2020/21 (\$ million)

Source of data: Ontario Cannabis Retail Corporation

| | 2018/19 | 2019/20 | 2020/21 | 3-Year Change (%) |
|--|----------------|---------------|---------------|-------------------|
| Revenue from Operations | | | | |
| Revenue | 63.95 | 299.02 | 651.71 | 919 |
| Other Income ¹ | 0.00 | 1.53 | 0.14 | n/a |
| Total Revenue | 63.95 | 300.55 | 651.85 | 919 |
| Expenses from Operations | | | | |
| Cost of Sales | 44.09 | 225.78 | 505.75 | 1,047 |
| Salaries and Benefits | 9.27 | 19.45 | 27.67 | 198 |
| Warehouse and Logistics ² | 0.00 | 10.04 | 25.75 | n/a |
| Information Systems and Technology Support | 5.25 | 9.77 | 7.86 | 50 |
| Shared Services ³ | 24.88 | 6.46 | 0.07 | (100) |
| Impairment ⁴ | 8.99 | 0.00 | 0.00 | (100) |
| Termination of Leases ⁴ | 0.98 | 0.00 | 0.00 | (100) |
| Other Expenses | 11.96 | 8.86 | 12.27 | 3 |
| Total Expenses | 105.42 | 280.36 | 579.37 | 450 |
| Income (Loss) from Operations | (41.47) | 20.19 | 72.48 | 275 |
| Finance Income | 0.50 | 0.73 | 0.73 | 46 |
| Finance Cost | (1.06) | (2.28) | (3.00) | 183 |
| Total Comprehensive Income (Loss) | (42.03) | 18.64 | 70.21 | 267 |

1. Other income includes trade day income, reversal of provision for contract terminations and gain on disposal of fixed assets.

2. Liquor Control Board of Ontario (LCBO) entered into an arrangement with a warehousing services provider on behalf of OCRC. The warehousing services provider leases a warehouse facility from a third party. On July 1, 2019, the warehousing services agreement with the service provider was assigned from LCBO to OCRC. Prior to that date, all warehousing and logistics expenses were paid by LCBO and included in the shared services expenses. All warehousing and services costs since the contract was assigned have been paid by OCRC.

3. In support of OCRC's establishment and initial operations, LCBO provided shared services, goods and other property to OCRC that were recoverable by LCBO on a cost basis.

4. The government announcement on August 13, 2018 to discontinue the establishment of government-operated retail stores resulted in certain assets being recognized as impaired and all of the store leases were terminated or settled.

Appendix 8: Ontario Cannabis Retail Corporation Key Operational Activities

Prepared by the Office of the Auditor General of Ontario

Key Activities

1. Conduct market and consumer demand research to guide calls for new products
2. Hold product calls for vendors to submit products and evaluate submissions for alignment with research and consumer demand
3. Onboard and release new products on B2B portal¹ and ocs.ca²
4. Conduct monthly demand planning for new and existing in-market products based on historical sales trends
5. Create and issue purchase orders for supply planning based on inputs from forecasted demand
6. Collaborate with vendors to manage sales orders and replenishment schedules
7. Receive ordered products from producers at the OCRC distribution centre
8. Receive and process sales orders from B2B portal and ocs.ca
9. Fill sales orders using inventory from the OCRC distribution centre
10. Deliver products to retail stores and ocs.ca customers

1. B2B (business-to-business) portal is a platform used by wholesale customers (retail stores) to order cannabis products from OCRC.

2. ocs.ca is an online (e-commerce) platform used to sell cannabis products directly to end-user consumers.

Appendix 9: Number of Licensed Cannabis Retail Stores by Municipality as of July 12, 2021

Source of data: Ontario Cannabis Retail Corporation

| | | | | | | | |
|----------------|----|---------------|----|---------------|----|------------------------|-----|
| Acton | 2 | Deep River | 1 | Lindsay | 2 | Rosseau | 1 |
| Ajax | 4 | Delhi | 1 | Listowel | 2 | Sarnia | 8 |
| Alexandria | 1 | Dryden | 1 | London | 22 | Sauble Beach | 1 |
| Alliston | 2 | Dundas | 2 | Longbow Lake | 1 | Sault Ste. Marie | 7 |
| Almonte | 1 | Dunnville | 1 | Midland | 4 | Scarborough | 30 |
| Amherstburg | 2 | East York | 11 | Milton | 5 | Scotland | 1 |
| Ancaster | 3 | Elliot Lake | 1 | Minden | 1 | Shelburne | 1 |
| Angus | 1 | Elmvale | 1 | Napanee | 1 | Simcoe | 5 |
| Arnprior | 2 | Embrun | 1 | Nepean | 6 | Smiths Falls | 2 |
| Arthur | 1 | Essex | 1 | New Liskeard | 1 | Southampton | 1 |
| Aurora | 5 | Etobicoke | 16 | Newcastle | 1 | Springwater | 1 |
| Aylmer | 1 | Fonthill | 1 | Niagara Falls | 11 | St. Catharines | 16 |
| Bancroft | 1 | Fort Erie | 2 | North Bay | 7 | St. Thomas | 4 |
| Barrie | 12 | Fort Frances | 2 | North York | 34 | Stittsville | 2 |
| Barry's Bay | 1 | Gananoque | 1 | Northbrook | 1 | Stoney Creek | 6 |
| Beamsville | 1 | Georgetown | 2 | Orangeville | 4 | Stouffville | 2 |
| Belle River | 2 | Gloucester | 5 | Orillia | 5 | Stratford | 4 |
| Belleville | 4 | Goderich | 1 | Orleans | 7 | Strathroy | 2 |
| Binbrook | 1 | Grand Bend | 2 | Oshawa | 15 | Sturgeon Falls | 1 |
| Blenheim | 2 | Gravenhurst | 2 | Ottawa | 30 | Sudbury | 5 |
| Blind River | 1 | Guelph | 9 | Owen Sound | 4 | Temagami | 1 |
| Bobcaygeon | 2 | Hagersville | 1 | Parry Sound | 2 | Thornbury | 1 |
| Bowmanville | 2 | Haliburton | 1 | Pembroke | 6 | Thorold | 2 |
| Bracebridge | 2 | Hamilton | 39 | Perth | 1 | Thunder Bay | 14 |
| Bradford | 2 | Hanover | 2 | Petawawa | 2 | Tilbury | 2 |
| Brampton | 18 | Harrow | 1 | Peterborough | 8 | Tillsonburg | 4 |
| Brantford | 9 | Hawkesbury | 1 | Petrolia | 2 | Timmins | 4 |
| Bridgenorth | 1 | Hillsdale | 1 | Pickering | 4 | Toronto | 161 |
| Brockville | 2 | Huntsville | 6 | Picton | 2 | Trenton | 2 |
| Burlington | 15 | Innisfil | 1 | Port Colborne | 2 | Uxbridge | 3 |
| Caledonia | 1 | Kanata | 7 | Port Dover | 2 | Val Caron | 1 |
| Cambridge | 11 | Kapuskasing | 1 | Port Elgin | 1 | Vanier | 2 |
| Carleton Place | 1 | Kemptville | 3 | Port Hope | 1 | Wallaceburg | 2 |
| Carlisle | 1 | Kenora | 2 | Port Perry | 1 | Wasaga Beach | 5 |
| Chatham | 7 | Kincardine | 1 | Port Sydney | 1 | Waterdown | 3 |
| Chelmsford | 1 | Kingston | 9 | Prescott | 1 | Waterloo | 7 |
| Coboconk | 1 | Kirkland Lake | 1 | Rama | 1 | Watford | 1 |
| Cobourg | 2 | Kitchener | 13 | Red Lake | 1 | Welland | 5 |
| Collingwood | 4 | Lakefield | 1 | Renfrew | 3 | Whitchurch-Stouffville | 2 |
| Cookstown | 1 | Lakeshore | 1 | Richmond | 1 | Windsor | 22 |
| Cornwall | 4 | Lansdowne | 1 | Rockland | 3 | Woodstock | 5 |
| Crystal Beach | 1 | Leamington | 1 | Rockwood | 1 | York | 4 |

Appendix 10: Ontario Cannabis Retail Corporation Total Sales and Grams Sold by Product Categories in 2020/21

Source of data: Ontario Cannabis Retail Corporation

| | | ocs.ca | | Retail Stores | | % of sales |
|---------------|-------------------------------------|--------------------------------|---------------|--------------------------------|---------------|------------|
| | | (\$ million) | (000 g) | (\$ million) | (000 g) | |
| Dried Flower | Milled Flower | 1.501 | 391 | 6.178 | 1,235 | 59 |
| | Whole Flower | 68.826 | 11,808 | 411.397 | 55,189 | |
| Vapes | 510 Thread Vape Cartridges | 14.561 | 848 | 81.804 | 4,081 | 16 |
| | Disposable Vape Pens | 4.247 | 151 | 14.594 | 455 | |
| | Proprietary Systems Vape Cartridges | 1.741 | 73 | 4.800 | 163 | |
| | 510 Thread Vape Kits | 1.691 | 67 | 5.984 | 207 | |
| Pre-rolled | Single Strain Packs | 6.935 | 846 | 89.920 | 8,598 | 12 |
| Edibles | Hard Edibles | 0.141 | 5 | 0.349 | 13 | 4 |
| | Baked Goods | 0.201 | 43 | 0.630 | 117 | |
| | Chocolate | 3.094 | 557 | 9.864 | 1,491 | |
| | Soft Chews | 3.385 | 410 | 18.158 | 1,609 | |
| Oils | Bottled Oils | 8.632 | 239 | 18.494 | 499 | 4 |
| | Oral Sprays | 2.027 | 23 | 2.437 | 37 | |
| Beverages | Cold Beverages | 1.620 | 1,266 | 8.712 | 5,196 | 1 |
| | De-alcoholized Drinks | 0.075 | 88 | 0.496 | 399 | |
| | Hot Beverages | 0.601 | 22 | 1.305 | 40 | |
| Capsules | Softgels | 4.747 | 225 | 9.266 | 206 | 2 |
| | Shatter | 0.227 | 13 | 2.160 | 120 | |
| | Wax | 0.083 | 6 | 0.626 | 41 | |
| | Hash | 1.504 | 278 | 6.523 | 1,096 | |
| | Distillates | 0.048 | 4 | 0.125 | 7 | |
| | Resin and Rosin | 0.575 | 36 | 4.041 | 256 | |
| | Kief and Sift | 0.499 | 109 | 1.172 | 209 | |
| Topicals | Lotions and Creams | 1.005 | 20 | 3.100 | 57 | <1 |
| | Bath | 0.075 | 32 | 0.344 | 147 | |
| Seeds | Seed Packs | 0.471 | 42 | 0.453 | 38 | <1 |
| Totals | | 128.512 (15%) | 17,602 | 702.932 (85%) | 81,506 | |

Appendix 11: Cannabis Customer Segments, 2019/20

Source of data: Ontario Cannabis Retail Corporation

| Heavy Consumption¹ | | | | |
|---|--|--------------------------------|--|--|
| | Segment A | Segment B | Segment C | Segment D |
| | 11% of Consumers | 11% of Consumers | 8% of Consumers | 9% of Consumers |
| Demographics | Female, aged 35-54 | Male, aged 18-34 | Male, aged 18-34 | Male, aged 18-34 |
| Reason for Use | Sleep aid, stress relief | Relaxation, sleep aid | Enhanced mood, stress relief | Stress relief, pain relief |
| Annual Income | < \$60,000 | \$60,000 – \$100,000 | < \$60,000 | < \$60,000 |
| Price Sensitivity | High | Low | High | Moderate |
| Preferred Access | Online, legal | Retail Store, legal | Online, illegal | Retail Store, illegal |
| Preferred Product | Wellness products | All strains; edible cannabis | Vapes, edibles, pre-rolls | Sativa strains; dried cannabis |
| Moderate/Light Consumption² | | | | |
| | Segment E | Segment F | Segment G | Segment H |
| | 9% of Consumers | 24% of Consumers | 8% of Consumers | 9% of Consumers |
| Demographics | Female, aged 35-54 | Male, aged 18-34 | Male, aged 18-34 | Male, aged 18-34 |
| Reason for Use | Medical use (e.g., pain relief) | Relaxation, socializing | Relaxation, stress relief | Stress relief, recreation |
| Annual Income | < \$60,000 | > \$100,000 | \$60,000 – \$100,000 | > \$100,000 |
| Price Sensitivity | Low | Low | Moderate | Low |
| Preferred Access | Retail Store, illegal | Any, value discretion/privacy | Online, illegal | Any, infrequent purchasers |
| Preferred Product | Indica strains/ CBD dominant; edible cannabis and dried cannabis | Hybrid strains; dried cannabis | Sativa strains; dried cannabis and edible cannabis | Hybrid strains; edible cannabis and CBD products |

1. Heavy consumers represent 39% of all cannabis consumers but drive 90% of total spending.

2. Moderate/Light consumers represent 61% of all cannabis consumers but drive 10% of total spending.

Appendix 12: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1. Ontario Cannabis Retail Corporation (OCRC) has effective governance and accountability structures which are aligned with best practices and ensure that OCRC achieves its legislative mandate and complies with applicable government requirements and guidelines.
2. OCRC safely sources, effectively prices and lists cannabis and related products to meet customer demand and help divert consumers from the illegal market.
3. OCRC effectively and efficiently warehouses, inventories and distributes products to provide customers with timely, convenient, private and secure access to cannabis and related products.
4. Customer inquiries and complaints are resolved in a timely manner and root causes are addressed.
5. OCRC effectively promotes social responsibility by providing consumers with evidence-based education and information on responsible cannabis consumption. Individuals under 19 years of age are prevented from accessing cannabis products through the e-commerce platform ocs.ca.
6. OCRC follows competitive, fair and transparent processes in procuring goods and services. OCRC effectively manages and oversees contracts with third-party vendors to ensure compliance with performance and accountability requirements in contracts. Poor performance is documented and addressed in a timely manner.
7. OCRC uses accurate and timely data and information for decision-making and day-to-day operations. Customer and other sensitive data is secure.
8. OCRC manages human resources, including hiring, promotion, and managing consultants and contractors, efficiently and effectively to fulfill mandated responsibilities.
9. Meaningful performance indicators and targets are established, regularly monitored and compared against actual results so that goals, legislative and other requirements, guidelines and best practices are achieved. Results are publicly reported and corrective actions are taken on a timely basis when issues are identified.

Appendix 13: Ontario Cannabis Retail Corporation Customer Support Centre Performance Metrics, January 2020–June 2021

Source of data: Ontario Cannabis Retail Corporation

| Prior to Transition In-House | | |
|--|---|---|
| | 2020 Targets (Jan 2020 – Dec 2020) | 2020 Actuals (Jan 2020 – Dec 2020) |
| Average Speed of Answer Phone & Chat (e-commerce & wholesale) | 45 s | 59 s |
| Average Handle Time Phone & Chat (e-commerce & wholesale) | 8 m | 5 m 20 s |
| First Contact Resolution (%) | 98 | 98 |
| Quality Assurance Resolution Times | 15 days | 14 days |
| Carrier Resolution Times | 15 days | 11 days |
| Distribution Centre Resolution Times | 15 days | 10 days |
| Number of Customer Service Representatives | Total 26: 4 for wholesale (in-house), 22 for e-commerce (outsourced) | |
| Hours of Operation | 10 am - 7 pm; Sunday to Saturday | |
| Post Transition to In-house Model | | |
| | 2021 Targets (As of March 2021) | Actuals (As of March 2021) |
| Average Speed of Answer Phone & Chat (e-commerce & wholesale) | 8 m | 35 m |
| Average Handle Time Phone & Chat (e-commerce & wholesale) | 8 m | 6 m |
| First Contact Resolution (%) | 95 | 90 |
| Quality Assurance Resolution Times | 15 days | 39 days |
| Carrier Resolution Times | 15 days | 13 days |
| Distribution Centre Resolution Times | 15 days | 12 days |
| Number of Customer Service Representatives | 9 Total | |
| Hours of Operation | 9 am - 5 pm; Monday to Saturday | |

| | Q1 2021 Targets (As of June 2021) | Actuals Week 12 (As at June 14 2021) |
|---|---|--|
| Average Speed of Answer | | |
| Ecommerce Chat | 5 m | 10 m 52 s |
| Ecommerce Phone | 5 m | 8 m 35 s |
| Ecommerce Webform | 48 h | 13 h 5 m |
| Wholesale Chat | 5 m | 1 m 26 s |
| Wholesale Phone | 5 m | 4 m 59 s |
| Wholesale Webform | 24 h | 12 h 14m |
| Average Handle Time | | |
| Ecommerce Chat | 12 m | 9 m 56 s |
| Ecommerce Phone | 8 m | 7 m 28 s |
| Ecommerce Webform | 5 m | 3 m 11s |
| Wholesale Chat | 12 m | 8 m 9 s |
| Wholesale Phone | 8 m | 11 m 10 s |
| Wholesale Webform | 10 m | 3m 33s |
| First Contact Resolution (%) | 70 | 40 |
| Quality Assurance Resolution Times | 40 days | 59 days |
| Carrier Resolution Times | 30 days | 45 days |
| Distribution Centre Resolution Times | 30 days | 40 days |
| Number of Customer Service Representatives | 12 Total (To increase to 14 by end of Q2 2021/22) | |
| Hours of Operation | 9 am - 5 pm; Monday to Saturday | |



Office of the Auditor General of Ontario

20 Dundas Street West, Suite 1530
Toronto, Ontario
M5G 2C2
www.auditor.on.ca

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