Chapter 1

Section 1.09

Ontario Cannabis Retail Corporation

Follow-Up on 2021 Value-for-Money Audit:

Ontario Cannabis Retail Corporation

RECOMMENDATION STATUS OVERVIEW

		Status of Actions Recommended				
	# of Actions Recommended	Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	7	6				1
Recommendation 2	9	7				2
Recommendation 3	2	2				
Recommendation 4	4	3	1			
Recommendation 5	5	5				
Recommendation 6	2	1	1			
Recommendation 7	7	4	2	1		
Recommendation 8	3	3				
Recommendation 9	2	2				
Recommendation 10	5	4	1			
Recommendation 11	1			1		
Recommendation 12	5	4	1			
Recommendation 13	4	2	2			
Recommendation 14	2	2				
Recommendation 15	3	3				
Recommendation 16	2	2				
Total	**63**	**50**	**8**	**2**	**0**	**3**
%	**100**	**79**	**13**	**3**	**0**	**5**

Overall Conclusion

The Ontario Cannabis Retail Corporation (OCRC), as of November 15, 2023, has fully implemented 79% of actions we recommended in our *2021 Annual Report*. OCRC has made progress in implementing an additional 13% of the recommended actions.

OCRC has fully implemented recommendations such as creating a more structured, consistent and transparent approach to its product selection. It has established and documented standard operating procedures that guide its personnel during product selection, and developed evaluation criteria for product selection that it uses in documenting evaluations and the rationale for its decisions on product selection. After the evaluation is completed, OCRC communicates its decision on the product selection to the licensed producer. OCRC has also established a formal process for licensed producers to appeal product-selection decisions. In order to strengthen oversight of its third-party logistics provider, Domain Logistics, OCRC formalized the roles and responsibilities of both entities by creating a matrix that identifies tasks performed by both entities and specific personnel responsible for implementing and overseeing them. As well, OCRC's internal audit team has developed standard operating procedures for reviewing and verifying invoices submitted by Domain Logistics, and OCRC has developed new key performance indicators for Domain Logistics and has set targets for them. To build public awareness around the use of cannabis, as well as to promote responsible consumption and protect youth, OCRC has released a number of articles through the Education Hub section on its website with information on differences between legal and illegal cannabis products and on the effects of excessive cannabis use.

OCRC is in the process of implementing recommendations such as requiring Domain Logistics to incorporate performance metrics into its subcontractor agreements. Domain Logistics is currently working on revising its agreements with delivery subcontractors to incorporate delivery performance metrics. In addition, OCRC is working on implementing its social responsibility strategy. The social responsibility team has created goals and timelines and is working to achieve them. OCRC has also presented its planned strategic activities to the Finance and Governance Committee of its Board of Directors.

However, OCRC has made little or no progress on 3% of the recommended actions. For example, it has not explored tools such as Ontario's Digital Identity Program to strengthen controls over online ordering of cannabis by individuals under the age of 19. OCRC is awaiting further details and instructions on the Province's launch of this digital ID program. OCRC has also not required Domain Logistics to incorporate longer data-retention requirements into all subcontractor agreements. OCRC informed us that OCRC's Privacy and Freedom of Information team is planning to perform a privacy impact assessment to determine appropriate data-retention requirements. OCRC plans to implement this recommendation by March 2024.

The status of actions taken on each of our recommendations is described in this report.

Background

According to the *Ontario Cannabis Retail Corporation Act, 2017* (Act), the Ontario Cannabis Retail Corporation's (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 the years since legalization, the legal cannabis industry in Canada has experienced a great deal of change, as has the agency itself. Originally created as a subsidiary of the Liquor Control Board of Ontario (LCBO), OCRC became a standalone corporation within its first eight months. Internally, the agency experienced a high turnover of its senior executives.

At the time of our audit, OCRC employed 223 full-time-equivalent employees and 12 contract staff. A significant part of its operations (including distribution centre staffing) was outsourced to a third-party service provider, Domain Logistics, which managed the distribution centre and delivery to e-commerce (online) customers and private retail stores. Since 2018/19, OCRC's business had grown in response to the scaling up of Ontario's retail marketplace. During this time, OCRC's revenue had grown tenfold while its expenses (including the cost of sales, and selling, general and administrative expenses) had increased sixfold.

For the fiscal year ending March 31, 2023, OCRC's revenue totalled $1.47 billion ($652 million in 2021), with a gross margin for online customer sales totalling $11.1 million ($37 million in 2021). Its wholesale operation had increased significantly since OCRC's inception, with a gross margin of $311.8 million for the same year end ($108 million in 2021). While OCRC's revenues had increased and the corporation had weathered many operational challenges, our audit concluded that OCRC needed to strengthen some areas of its operations in order to effectively administer the *Ontario Cannabis Retail Corporation Act, 2017* and its regulations.

Some of our significant findings were:

- Product availability was a common complaint from retail sellers. Our July 2021 survey of authorized retailers found that 47% of respondents were "not satisfied" and 19% were "very dissatisfied" with the availability of products from OCRC. 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 or available for retail stores to order.
- OCRC had recently implemented a value-based pricing approach for listed cannabis products, which was not based on sufficient analysis and was not transparent to licensed producers. Provinces such as British Columbia, Alberta, Manitoba and Quebec used a fixed mark-up pricing approach and OCRC originally used the same approach, but switched to a value-based pricing approach in 2020. However, a thorough analysis of the risks and benefits of this new pricing approach had not been 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. Our audit found that category managers and OCRC's pricing analyst did not document what considerations or market research data went into their pricing decisions.
- OCRC did not have a formal appeal process for product listing decisions, and senior management sometimes reversed product listing rejections without any documented rationale, contributing to a perceived lack of fairness as seen by licensed producers.
- OCRC did not have effective mechanisms to oversee the use, retention and safeguarding of customer information retained by its service providers. In May 2021, it 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 focused on building OCRC's data analytics function, it lacked a data governance component, including identification of what data the enterprise acquired, where that data resided, how that data was being used and what compliance obligations applied. As well, it did not have effective mechanisms to oversee the use and retention of customer data gathered by Domain Logistics and its subcontractors, which created privacy concerns.
- OCRC did not have sufficient verification of age controls in place to prevent minors from purchasing cannabis through its online store. Specifically, it relied on customers' self-declaration of age and did not verify customers' ages using independent information sources. Online (e-commerce) customers were simply required to enter their date of birth to confirm their age before they entered OCRC's online store (Ontario Cannabis Store, or ocs.ca) to browse or purchase products.
- OCRC did not have documentation to support its non-competitive procurement decisions. Since January 2019, when the agency began operating as a standalone agency, 24 of its procurements had been non-competitive, for a total value of approximately $7 million. The audit found that OCRC had no documentation in any of these cases and no business cases were prepared.

We made 16 recommendations, consisting of 63 action items, to address our audit findings. We received commitment from the Ontario Cannabis Retail Corporation that it would take action to address our recommendations.

Status of Actions Taken on Recommendations

We conducted assurance work between April 2023 and August 2023. We obtained written representation from the Ontario Cannabis Retail Corporation that effective November 15, 2023, it has provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Merchandising

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;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that Ontario Cannabis Retail Corporation (OCRC) did not offer any in-house training or provide job aids or standard operating procedures to its category managers. Category managers informed us that they relied on their own retail industry experience and familiarity with products and licensed producers to evaluate product submissions. 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 our follow-up, we found that OCRC has established standard operating procedures for its category managers who select cannabis products, to guide them in documenting their evaluations. Each product item is scored on five categories: product innovation, cost/value (compared to other products in the market), execution (producer's ability to fill purchase orders and satisfy quality assurance requirements), market support (producer has a plan to raise market awareness) and performance (past sales figures). OCRC has also made the scoring guidance publicly available on its website, allowing the licensed producers to see the product listing criteria and requirements. In addition, the category managers received an internal briefing in January 2022 on factors they should look at when scoring the submissions, which was presented to them by the Senior Director of Merchandising.

- *develop a set of core evaluation criteria for each product category;*
- *document evaluations, considerations and rationale for decisions on product selection;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that OCRC did not have formal assessment criteria or frameworks to evaluate product submissions by licensed producers. Its Supplier Manual does not have a specific list of formal and mandatory criteria that category managers must use for scoring submissions. As a result, individual category managers had wide discretion in choosing which submitted products to list. We reviewed all the submissions and documentation supporting the listing of products for the February 2021 product listing call, and found that category managers documented only their final decisions, not the decision-making process or the meetings where decisions were made. For example, there was no documentation to demonstrate how category managers scored each submission, how they weighted different assessment criteria, or their rationale for accepting or rejecting a submission. OCRC did not require category managers to document the product-evaluation process sufficiently and support it with clear and consistent criteria, and as a result their decision-making was not transparent.

In our follow-up, we found that OCRC has established a scoring system for its category managers to use when evaluating products. (See the first action item in **Recommendation 1** for the five scoring areas.) When licensed producers submit their products, OCRC ensures that each item is given a documented score, decision and supporting commentary. OCRC has created a template for product evaluations, and it documents both pre-submission and formal submission evaluations, and communicates its decisions to the producers.

- *gain a better understanding of production cycles and the seasonality of cannabis products in order to inform timelines of bulletins, submissions and purchase orders;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that tight timelines for product listing submissions and deliveries for new listings introduced supply chain challenges for licensed producers, because new products can take up to 16 weeks from the start of development, through production to packaging, before product delivery is possible. For new product listing calls completed in 2021, the time between publication of the Assortment Needs Bulletin and the date when producers had to submit the products averaged eight weeks. 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 the first product launch date, 8% of purchase orders were issued less than three weeks before the required delivery date, 88% of purchase orders were issued between three and four weeks before, and only 4% of purchase orders were issued more than four weeks before. This means that successful producers had only 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. Given the typical 16-week production process, many producers we interviewed expressed concerns about the difficulty in meeting OCRC's purchase requests within the short turnaround time. They indicated that, at times, resources had to be prioritized to serve the Ontario market over other provinces to meet OCRC's timelines and quantities.

In our follow-up, we found that in August 2022, OCRC's merchandising team engaged licensed producers to review the plant growing cycles. Following this research, OCRC ran a licensed producer engagement event in fall 2022 where it suggested alternative product call cycles. During the engagement, OCRC's Insights team conducted one-on-one interviews with nine licensed producers of different types and sizes to obtain their feedback on the product call schedule. Even though the findings did not show major concern among the producers around the product call timing, OCRC has adjusted the timing of product calls to four times a year. The merchandising team felt that this adjustment would support advanced planning and improve co-ordination between licensed producers and OCRC, and better support producers' product manufacturing and growth cycles.

- *formalize communication with licensed producers throughout the product selection process, including supplier notification of product call schedule changes;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that OCRC did not provide sufficient notification to licensed producers about the cancellation of two product calls in 2021 and other changes. Producers had to proactively, and frequently, monitor OCRC's website for changes to the product call schedule. OCRC also did not include the last revision date on its website, making it difficult for producers to keep track of when changes were made and the period to which they applied.

In our follow-up, we found that OCRC had established three main instances when it communicates product selection information to the licensed producers: the Assortment Needs Bulletin (to communicate types of product OCRC is looking for), pre-screen feedback and final selection outcomes. Since our 2021 audit, OCRC has not made any changes to the scheduled dates of the product calls.

- *establish a formal process for licensed producers to appeal product selection decisions;*

  Status: Fully implemented.

Details

In our 2021 audit, we found OCRC did 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 licensed cannabis producers we interviewed indicated that they sometimes escalated their concerns about rejected products to OCRC's CEO, and that OCRC sometimes reversed its initial rejections. OCRC's merchandising team confirmed that there were such instances, and that such communications were verbal and were not formally documented or tracked. While we did not come across any preferential treatment given to licensed producers for product listings, such informal escalations and decision reversals can create a perceived lack of fairness, equity and independence. Not all licensed producers may have the same level of access and relationship to the OCRC senior leadership team.

In our follow-up, we found that OCRC has developed and implemented an appeal process for licensed producers. Starting January 2022, the Senior Manager of Business Process and Planning has led the development of this process, consulting with OCRC departments such as policy, merchandising, legal and communications. OCRC's CEO approved the new process in February 2022, and it became publicly available on OCRC's website the same month. Under the new process, appeals should be completed within 20 days, at the conclusion of which the licensed producer is notified in writing of the decision. Appeal decisions are to be made by the Ontario Cannabis Store Product Submission Appeals Committee, which consists of the Director of E-Commerce, Director of Supply Chain, Director of Quality & Regulatory Compliance, Senior Director of Merchandising and a Vice President of the Executive Office.

- *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.*

  Status: No longer applicable.

Details

In our 2021 audit, we found that OCRC's product listing process at the time was not as formal and as transparent as it could be. This may have led to the perception and risk of preferential treatment being given to certain licensed producers.

In our follow-up, we found that OCRC has communicated with other provinces to learn about their product listing approaches to inform its product call schedules. Additionally, OCRC attended a product listing webinar hosted by Health Canada where other jurisdictions presented their approaches, followed by questions and answers. After conducting this research, OCRC determined that performing a cost/benefit analysis is not feasible, as Ontario has vastly different market conditions and a different distribution model than other provinces. In addition, OCRC had developed its current approach after having consultations with the Ministry of Finance.

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).*

Status: Fully implemented.

Details

In our 2021 audit, we found that OCRC's value-based pricing approach for listed cannabis products was not based on sufficient analysis and was not transparent to licensed producers. Provinces such as British Columbia, Alberta, Manitoba and Quebec use fixed mark-up pricing. OCRC originally used this approach, but switched to value-based pricing in 2020. We found that a thorough analysis of risks and benefits of this new pricing approach had not been prepared to allow OCRC's Board of Directors 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 did not document what considerations or market research data went into their pricing decisions.

In our follow-up, we found that OCRC considered preparing a business case for its value-based pricing model, but, based on its research and applicable comparisons, determined that a business case recommending a fixed mark-up would better enable it to address our key findings. It presented the business case to its Board of Directors in November 2022. OCRC conducted an assessment to understand best practices and to inform its proposed approach, and evaluated wholesale and retail pricing structures at comparable government wholesalers in Alberta and British Columbia, and regulators in Saskatchewan and Manitoba.

OCRC was not able to determine the effects of value-based pricing on product purchase costs, since the size and scope of the regulatory environment have evolved dramatically since value-based pricing was first approved. In particular, the increased number of producers and the size of OCRC's product catalogue have placed downward pressure on purchase costs, making it difficult to correlate value-based pricing with product costs. OCRC has looked at how margins are affected by value-based pricing and noted that, since the average margins differ under value-based pricing and fixed mark-up by design, it is not feasible to complete a gross margin comparison. Fixed mark-up allows OCRC to strategically lower the margins to achieve the desired market outcome.

OCRC completed an analysis of the pros and cons of value-based pricing and highlighted that this model would result in different product-to-product prices for producers of different sizes within the same subcategory. In order to summarize the complaints and issues with value-based pricing, OCRC conducted a producer study, consisting of a short questionnaire, to measure stakeholder satisfaction. Pricing was a top-ranked issue among respondents, with many reporting negative experiences around transparency and wholesale price calculations.

In its business case to its Board, OCRC noted its limited ability to compare its pricing models to prices in the illegal market due to difficulties in measuring illegal market prices accurately and consistently. In OCRC's assessment and comparison of prices across Canadian provinces, it also evaluated business models at comparable government wholesalers (Alberta, British Columbia and Quebec) relative to Ontario's. It has formally recommended to its Board the adoption of a fixed mark-up pricing approach, similar to models used in Alberta and British Columbia, the provinces with comparable distribution models. During the transition to the fixed mark-up approach, OCRC has put in place formal processes that govern pricing and listing.

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 delisting decisions, including providing reasons to support decisions for delisting.*

Status: Fully implemented.

Details

We found in our 2021 audit that in January 2021, OCRC initiated its first formalized product review exercise, 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. Category managers may decide to change a delisting decision based on their discussions with licensed producers. 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, deviations from the established delisting criteria are not tracked.

In our follow-up, we found that OCRC has formally documented the delisting process along with the criteria and has shared this information with licensed producers through a webinar held in October 2022. This information was also included in a Supplier Manual that is publicly available on OCRC's website. In addition, OCRC's merchandising team has developed standard operating procedures, which it last revised in November 2022, outlining the delisting process, including roles and responsibilities, procedures and specific criteria that need to be met to support delisting decisions. The updated standard operating procedures require OCRC to include the reason for any decision to delist a product.

Supply Chain and Logistics Management

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;*

Status: In the process of being implemented by January 2024.

Details

We found in our 2021 audit that OCRC's inventory forecasts differed significantly from its actual inventory demand. One of the likely contributing factors to the differences between forecasts and actual demand is that OCRC does not receive timely point-of-sale data from retail stores. OCRC forecasts inventory on a weekly basis but receives retail sales reports only once a month from the Alcohol and Gaming Commission of Ontario (AGCO).

In our follow-up, we found that OCRC's information technology team has started a new project with a goal to obtain point-of-sale data from the retail stores. The estimated completion date is January 2024. Once point-of-sale data can be accessed, it will be available to the inventory management team to assist them in forecasting and planning. Originally, OCRC received the store data from AGCO. However, under the new approach, OCRC will receive the store data directly from cannabis stores and share it with AGCO and Health Canada (in line with federal and provincial requirements). At the time of our audit, OCRC was in the process of onboarding Ontario's cannabis stores to enable OCRC to receive their point-of-sales data.

- *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.*

Status: Fully implemented.

Details

We found in our 2021 audit that product availability has been a common complaint from private retail stores. Our July 2021 survey of authorized retailers found that 47% of respondents were "not satisfied" and 19% "very dissatisfied" with the availability of products from OCRC. 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. Our review of a sample of weekly forecasts in that period found that OCRC underestimated inventory demand 42% of the time, while actual demand was on average 145% higher. OCRC overestimated inventory demand the other 58% of the time, with an average difference between forecast and actual sales of 40%. OCRC did not have a process in place to regularly analyze differences between forecast and actual inventory needs, or to investigate and address the root causes of the variances. Its forecasting model did not incorporate seasonal demand for some products, customer preferences and trends, and market saturation data.

In our follow-up, we found that in September 2022, OCRC set up a new Supply Chain Planning System. The new system outlines a formalized process and allows OCRC's demand planning team to make more accurate product forecasts. OCRC has started using Excel worksheets with information regarding fill rates for each individual stock item to assist in identifying which products have inventory shortages to minimize such occurrences. This allows OCRC to reallocate and acquire products in a timely manner, so that retailers can have sufficient inventory to meet demand. As a result of this work, OCRC's in-stock rate increased to 94% for more popular items and to 90% for all items in OCRC's catalogue (compared to 81% during our 2021 audit).

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;*

Status: Fully implemented.

Details

We found in our 2021 audit that OCRC did not have robust oversight of Domain Logistics, a third-party provider managing OCRC's warehousing and delivery functions. At the time of our audit we noted that the OCRC team tasked with managing the relationship with Domain Logistics did not have standard operating procedures to guide its work in overseeing Domain's performance. OCRC was not sufficiently and routinely reviewing the reports submitted by Domain Logistics and not reviewing supporting documents for the costs Domain billed to OCRC.

In our follow-up, we found that OCRC had developed a matrix that identifies various processes relating to oversight of Domain Logistics. The matrix also specifies personnel from both OCRC and Domain who are responsible, accountable or should be consulted or informed for each process. In addition, in March 2023, OCRC's internal audit team developed and approved standard operating procedures for reviewing invoices submitted by Domain Logistics. Internal audit aims to assess whether the invoices accurately capture Domain's performance and the payment amounts have proper supporting documentation. Per the documented procedures, Domain is to provide the OCRC internal audit team with supporting documentation for each invoice, and the internal audit team will reconcile the billings. This document is scheduled to be reviewed every two years unless earlier changes to the process are required.

- *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.*

  Status: Fully implemented.

Details

We found in our 2021 audit that the agreement between OCRC and Domain Logistics contained key performance metrics for the provider to report on: the order fill rate, accuracy of inventory counts, order processing time and the number of safety incidents in the warehouse. However, in contrast to the Alberta Gaming, Liquor and Cannabis Commission, OCRC's agreement with Domain Logistics did not have performance metrics such as delivery accuracy, on-time delivery or order accuracy. Domain Logistics gave OCRC weekly reports with data for each metric in the agreement, but even though OCRC had been working with Domain Logistics for three years, there were no established targets for these metrics. Domain Logistics was not held accountable for achieving measurable performance targets for its services. Without performance targets agreed to and set by OCRC, the reporting did not challenge Domain to achieve any set performance standards. We also noted that OCRC reimbursed Domain Logistics for any costs incurred on behalf of OCRC and paid Domain an additional management fee based on costs incurred. Under the agreement, OCRC bore the financial risks and covered all costs incurred by Domain Logistics. Based on our review of invoices submitted by Domain Logistics to OCRC, we found that OCRC had never requested or reviewed supporting documentation for costs billed. As a result, OCRC had not validated the accuracy of these invoices.

In our follow-up, we found that OCRC had increased Domain's key performance indicators to 13 and has established a target for each indicator. We also found that OCRC had developed a process for regular review of key performance indicators. OCRC conducts these reviews on a monthly basis and compares the results to the targets. During this review, OCRC compares the monthly financial performance to its most recent forecast. Material variances are discussed with Domain. In the invoice review process discussed in the second action item of **Recommendation 5**, OCRC's internal audit reviews every invoice Domain bills to OCRC to ensure that amounts are reasonable, and assesses whether the amounts are accurate and have proper supporting documentation.

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;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that individual business units within OCRC were responsible for managing and overseeing various agreements with vendors. There was no consistent or standard approach for effective management of vendors of various sizes and importance to OCRC's operations. 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 managing vendor contracts, including monitoring and documenting vendor performance. At the time of our 2021 audit, this Vendor Management Framework had not yet been implemented.

In our follow-up, we found that OCRC has implemented the Vendor Management Framework, which provides direction to its business units on managing and overseeing existing contracts. In addition, OCRC now requires all manager-level staff and above to complete a training module (developed internally) on appropriate vendor management. The training allows OCRC to ensure that its managerial staff are familiar with the Vendor Management Framework and are ready to apply it if necessary.

- *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.*

  Status: In the process of being implemented by February 2024.

Details

In our 2021 audit, we found that there had been no periodic reporting to the Board on the results of OCRC's oversight of key third-party service providers, including 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.

In our follow-up, we found that OCRC had begun implementation of a new governance process. The objective of this process is to identify and categorize vendors that are critical to ongoing business operations. The extent to which a vendor is critical to OCRC's operations will determine the level of oversight and the reporting requirements that OCRC will apply to a specific vendor. The draft was presented to the Senior Director of Internal Audit and Chief Legal and Administrative Officer in June 2023, and the procurement team was working on a presentation for the senior leadership team to receive their approval. Upon approval, OCRC intends to start reporting on significant vendor performance and the status of the contracts to its Board. The reporting is expected to start in February 2024.

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;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that the agreement between OCRC and Domain Logistics required Domain to obtain written consent from OCRC before engaging subcontractors. With the exception of transportation and delivery services, we noted that OCRC did not have a current list of subcontractors engaged by Domain and did not track its own formal consents to Domain to engage subcontractors.

In our follow-up, we found that OCRC had obtained a list of subcontractors from Domain Logistics that OCRC classifies as critical, meaning that they could interfere with OCRC's capacity to store and deliver product and could impact OCRC's business. Domain Logistics provides the list to OCRC on a quarterly basis. At the time of our follow-up, the list consisted of seven subcontractors that provide delivery services, temporary warehouse workers and security services. Subcontractors are selected based on their service offers and cost.

- *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;*

  Status: In the process of being implemented by March 2025.

Details

In our 2021 audit, we found that OCRC provided Domain Logistics with standard template agreements to use for the delivery companies it engages as subcontractors. However, the agreements did not include delivery time performance metrics. In addition, through our review of hiring documentation, we found that not all required checks had been completed or documented by the staffing agencies that Domain Logistics engaged to provide temporary staff for OCRC's distribution centre. For example, hiring requirements include two reference checks, but our review of documentation for agency staff in 2020 found that in 18 out of 20 cases, only one or no references had been checked when agency staff were hired.

In our follow-up, we found that OCRC checks compliance through the annual attestation that Domain Logistics completes to confirm that it has satisfied all the criteria in its agreement with OCRC and that the subcontractors operate in line with OCRC policies. In addition, OCRC also reviews Domain subcontractors' key performance indicators on a monthly basis. OCRC will discuss with Domain the sharing of subcontractor agreements during the next review of OCRC's service agreement with Domain in March 2025.

- *identify subcontractors whose performance is critical for operations;*
- *confirm that Domain Logistics establishes, obtains and retains relevant performance information from subcontracted service providers (e.g., that service providers confirm recipient's age prior to direct delivery, delivery time performance, etc.);*

  Status: Fully implemented.

Details

In our 2021 audit, we found that the agreement between OCRC and Domain Logistics required Domain to obtain written consent from OCRC before engaging subcontractors, although with the exception of transportation and delivery services, OCRC did not have a current list of Domain's subcontractors and did not track formal consents to engage subcontractors. For example, OCRC had not provided formal consent for engaging specific staffing agencies, a security services firm and a construction company. And although OCRC had approved delivery subcontractors, OCRC did not have a line of sight into the delivery companies' operations and performance. OCRC did not require Domain Logistics to provide periodic reports on delivery subcontractors' performance, even though timeliness of delivery is a key factor for customer satisfaction. While delivery companies submitted regular summary reports to Domain Logistics, these reports did not show key performance data such as the actual time of delivery.

In our follow-up, we found that, as noted in the first action item of **Recommendation 7**, OCRC had identified Domain's critical subcontractors. Working with OCRC, Domain had developed a dashboard showing its subcontractors' status in key performance indicators. Domain also obtained confirmation from its subcontractors that the subcontracted delivery drivers had completed training in age verification, as described in **Recommendation 12**.

- *have Domain Logistics incorporate performance metrics such as delivery time performance into all subcontractor agreements;*

  Status: In the process of being implemented by March 2024.

Details

In our 2021 audit, we found that the standard template agreements OCRC provided to Domain Logistics to use for the delivery companies it engaged as subcontractors did not include delivery time performance metrics.

In our follow-up, we found that OCRC was working with Domain Logistics to incorporate appropriate delivery metrics into Domain's subcontracts. OCRC had informed Domain of the changes it required in the subcontractor agreements, and Domain was working on implementing them with a targeted date of completion of March 2024.

- *have Domain Logistics incorporate longer data retention requirements (e.g., minimum one year) into all subcontractor agreements;*

  Status: Little or no progress.

Details

In our 2021 audit, we found that subcontractors kept data on deliveries for only 30 days. This limited any analysis that Domain Logistics or OCRC could undertake regarding the performance of delivery service providers.

In our follow-up, we found that longer data-retention requirements had not yet been incorporated into all subcontractor agreements. OCRC's Privacy and Freedom of Information team was planning to perform a privacy impact assessment to determine appropriate data-retention requirements. OCRC planned to implement this recommendation by March 2024.

- *obtain monthly subcontractor 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.*

  Status: Fully implemented.

Details

In our 2021 audit, we found that Domain Logistics had a number of active leases for equipment used in the warehouse that OCRC leases, such as security equipment, conveyers and racking. The arrangement with Domain Logistics required OCRC to reimburse the full cost for leased equipment, and to pay Domain a management fee for administering these leases, which increases in tandem with the increased cost of the leases. This arrangement left OCRC responsible for ensuring that value for money is obtained for all expenses incurred by Domain. In 2020/21, OCRC paid approximately $1.6 million to Domain for the leases. Our analysis showed that over the course of the leases, OCRC will have made lease payments covering the full value of the equipment, $12 million. However, there were no bargain purchase options at the end of the leases. At the time of our audit, with some leases nearing expiry, OCRC did not have clarity on whether it would continue to lease or directly buy replacement equipment. We noted that it is important for OCRC to monitor staffing arrangements and costs incurred by Domain Logistics, 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.

In our follow-up, we found that OCRC was obtaining monthly cost and performance information on Domain Logistics' critical subcontractors. In addition, OCRC obtained a cost/benefit analysis from Domain providing a rationale for outsourcing to subcontractors. The analysis considers the benefits of the current transportation, security and staffing solutions and compares the costs to market rates.

Customer Service

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.*

  Status: Fully implemented.

Details

In our 2021 audit, we found that the recent transition from outsourced to in-house customer care staffing in February 2021 had resulted in longer wait times for inquiries, claims and complaints due to about a 50% reduction in dedicated customer care support and more retail stores. For example, the target length of time for OCRC to resolve customers' claims and complaints increased from 15 days to 40 days for product quality issues, and to 30 days for delivery and purchase order issues. In addition, the resolution time for these cases significantly increased after the transition. For example, the average time to resolve product quality complaints increased from 14 days to 59 days. We also noted that 53% of retailers who responded to our July 2021 survey described themselves as "not satisfied" or "very dissatisfied" with OCRC's ability to deal with customer complaints in a timely manner.

In our follow-up, we found that since OCRC has fully migrated its customer support service from using an external provider to being an in-house function, it had been monitoring its new customer support model, including monitoring and reviewing key performance indicators and looking at customer feedback in order to improve internal processes. For the fiscal year 2023/24, OCRC had updated the performance targets for its customer support centre. Some of OCRC's goals include improving the average time it takes to handle a call, its customer survey response rate, resolution rate and average speed of answer. Since our 2021 audit, the service levels for e-commerce customers who contacted OCRC by phone or chat have improved from 42% and 32% to 96% and 97% respectively. For e-commerce customers, the average speed of answer for calls improved to 30 seconds compared to 9.5 minutes in 2021. For wholesale customers, the average speed of answer for phone calls was 27 seconds in 2023 compared to 4.5 minutes in 2021.

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;*

  Status: Fully implemented.

Details

We found in our 2021 audit that OCRC forwarded all product quality complaints to the respective licensed producers for follow-up. In addition, OCRC prepared scorecards for its 10 largest producers (by volume), containing overall statistics on customer quality complaints relating to their products. OCRC also facilitated meetings four times a year with these 10 producers, where information on quality issues was shared and discussed. Although OCRC notified smaller producers when it received complaints relating to their products, it did not share and discuss general information on quality issues with them. These smaller producers accounted for 43% of all customer complaints and 35% of OCRC's revenue, and likely would benefit from such information

In our follow-up, we found that OCRC had implemented standard operating procedures around customer care and complaint handling. OCRC was also providing consistent feedback to all types of licensed producers on quality and complaints in order to raise awareness around customer issues with their products. OCRC shares this feedback through a Vendor Compliance Report that is available to each licensed producer through the OCRC Data Portal.

- *use customer complaints data to inform future product listing decisions.*

  Status: Fully implemented.

Details

In our 2021 audit, we found that smaller licensed producers would benefit from more customer complaints data, and OCRC could benefit from discussions and evaluations of the overall quality of products. We noted that 70% of all quality-related product complaints related to vapes. Although OCRC informed us that many of these complaints may be due to the complexity of this product, we were not able to verify this or determine if the vapes were defective, since the complaint files we sampled did not contain any information about the results of investigations by their producers.

In our follow-up, we found that OCRC had started tracking a new metric called complaints per million units (CPMU), which is found by dividing the number of units customers complained about for a specific product by the number of units of this product sold in millions. Merchandising is using the CPMU metric to inform its product listing decisions. CPMU is considered in the execution scoring criteria in OCRC's product call process, described in **Recommendation 1**.

Promoting Responsible Consumption and Protecting Youth

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;*

Status: Fully implemented.

Details

In our 2021 audit, we found OCRC had 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 licence from Health Canada), and the risks associated with purchasing cannabis products in the illegal market. Cannabis bought on the illegal market can be laced with harmful chemicals. In February 2020, OCRC and the OPP collaborated with the National Research Council to test cannabis products seized from the illegal market. They found that these products do not meet OCRC's strict safety and quality controls on the amount of THC and product ingredients, packaging, labelling, production, testing and marketing, as well as the product's appeal to young persons. Illegal products may also contain fillers or unknown contaminants.

In our follow-up, we found that the National Research Council has conducted a comparative study on legal and illegal cannabis on behalf of OCRC. OCRC released it to the public on its website in April 2022. In addition, OCRC has a number of articles available in the Education Hub on its website covering how to ensure the customer is purchasing legal cannabis and how to spot unregulated cannabis products. They describe unregulated stores and mail order marijuana websites, and the consequences of purchasing from these sources. OCRC's website also shares a list of provincial cannabis retail stores and a picture of the provincial cannabis retail seal that every authorized cannabis store in Ontario must display so that customers can verify that the cannabis they are purchasing is legal.

- *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;*

Status: Fully implemented.

Details

In our 2021 audit, we found that other provinces have put in place initiatives and programs focusing on cannabis education, research, harm prevention and responsible consumption. For example, the 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 and offers a program that allows participants to virtually experience the dangers of impaired driving. At the time of our audit, OCRC had begun implementing its social responsibility strategy, but had no similar cannabis-awareness initiative. Public Health Ontario provides information such as the health effects of cannabis exposure in pregnancy and breastfeeding; the risks of simultaneous use of alcohol and cannabis; and the risks of 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, OCRC's online store (Ontario Cannabis Store, or ocs.ca) did not have links or references to these resources.

In our follow-up, we found that OCRC has provided links to Public Health Ontario's and Public Health Canada's information on cannabis consumption and purchasing on its website in the Education Hub. In addition, we found that information on the excessive consumption of cannabis is also available in the Health Effects section of the Education Hub.

- *implement the social responsibility strategy approved by the Board in November 2020.*

  Status: In the process of being implemented by October 2024.

Details

In our 2021 audit, we found that even though promoting social responsibility is a legislated requirement of OCRC, it had no staff assigned to develop a social responsibility strategy until late 2020. At the time of our audit, OCRC had only one employee dedicated to its social responsibility program. In November 2020, OCRC's Board of Directors approved a social responsibility strategy to implement between 2021 and 2024, whose objective is public education on responsible cannabis consumption and safeguarding youth and children.

In our follow-up, we found that OCRC was working on a social responsibility strategy with the estimated completion date of October 2024. The social responsibility team created implementation plans and timelines for specific strategy pillars and developed strategic activities that it presented to the Finance and Governance committee in May 2023.

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.

Status: Little or no progress.

Details

In our 2021 audit, we found that OCRC did not have sufficient age-verification 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 OCRC sells cannabis online, it 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). 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.

In our follow-up, we found that OCRC has engaged the Province on its Digital Identity Program and has attended two meetings to discuss possible opportunities to achieve the necessary age controls over online ordering. OCRC is awaiting further details and instructions on the Province's launch of its digital ID program.

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;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that when customers purchase cannabis products on the OCRC website, they can select either Canada Post or Domain Express delivery. For customers who select Domain Express, products are delivered by one of the two delivery service providers subcontracted by Domain Logistics. Domain Logistics requires all of its delivery subcontractors to verify age of recipient when delivering cannabis products. During COVID lockdowns, the Alcohol and Gaming Commission of Ontario required cannabis retailers and their direct employees 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, OCRC and Domain Logistics did not have any mandatory training or certification requirements for individuals who deliver cannabis products. Moreover, neither OCRC nor Domain Logistics had set specific protocols or standards for delivery companies or guidance for deliveries to condominium or apartment buildings.

In our follow-up, we found that OCRC had developed training materials to be provided to the companies that deliver product on its behalf. The training materials were provided to and discussed with Domain Logistics, and Domain provided them to its delivery subcontractors. The delivery process was aligned to cannabis regulations and CannSell requirements approved by the Alcohol and Gaming Commission of Ontario.

- *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;*

Status: In the process of being implemented by January 2024.

Details

In our 2021 audit, we found that delivery subcontractors did not have to document the age-verification process that was performed. Therefore, it was not possible for Domain Logistics to validate that age verification was performed at the time of delivery. For example, there was no record of the type of photo ID checked (not all photo ID shows the date of birth). In addition, recipient signatures were not always required or recorded by Domain Logistics' subcontractors. For example, one delivery subcontractor did not request signatures during COVID-19.

In our follow-up, we found that Domain had set up dashboards that were being regularly shared with OCRC. These dashboards provided OCRC with information on whether the delivery providers were meeting their targets for key performance indicators. OCRC was continuing to work with Domain Logistics to obtain regular reports on which type of identification documents were checked during successful deliveries, with an estimated completion date of January 2024. Further, Domain Logistics has been providing training to its subcontractors on which types of ID can be accepted as proof of age. If none of these documents are presented, the delivery subcontractor labels the delivery as "incomplete." Reports listing incomplete deliveries are disclosed to Domain Logistics and OCRC daily.

- *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.*

Status: Fully implemented.

Details

In our 2021 audit, we found that the agreement between OCRC and Canada Post for cannabis delivery services states that if the recipient appears to be 30 years of age or younger, then Canada Post will request government-issued identification for proof of age. The agreement also indicates that Canada Post will provide digital confirmation that a Canada Post employee has 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 a recipient was under the age of 19.

In our follow-up, we found that Canada Post provides OCRC with access to its parcel tracking system. This allows OCRC to see age-verification information for each delivery, which OCRC reviews regularly. Canada Post employees code the reason for not completing a delivery, including cases where "Valid proof of identification [was] not provided." Any concerns are escalated to Corporate Security. To date, no escalations have been reported. Corporate Security reviews the reports of incomplete deliveries due to age identification on a quarterly basis and investigates further if necessary. No instances have required further investigation thus far.

Information and Data Management

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;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that in May 2021, OCRC developed a new data strategy that focused on data analytics capabilities. However, at the time of our audit, OCRC had not shared this strategy with its Board for feedback, direction and approval.

In our follow-up, we found that OCRC developed a data strategy that supports overall data management and governance and presented it to the Board of Directors in September 2022.

- *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;*

  Status: In the process of being implemented by March 2024.

Details

In our 2021 audit, we found that OCRC's data strategy lacked a data governance component, including identification of what data the enterprise has, where the data resides, how the 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, and their classification and retention schedules.

In our follow-up, we found that in December 2022, OCRC created a data governance policy whose purpose is to establish uniform data governance standards across OCRC and to identify the shared responsibilities for assuring the integrity of the data, and effectively and efficiently serving OCRC's needs. The policy provides direction on the classification, ownership and security of data, and clarifies accountability for data and information. At the time of our audit, OCRC was in the process of determining data retention standards with an aim to include these standards in its data policy by March 2024.

- *obtain access to the data gathered by Domain Logistics and its subcontractors;*

  Status: Fully implemented.

Details

In our 2021 audit, we found that the agreement between OCRC and Domain Logistics clearly states that all data pertaining to OCRC is the exclusive property of OCRC. However, we found that OCRC did not have access to all data collected by Domain and its subcontractors.

In our follow-up, we found that Domain Logistics now collects recipient name, ID type, signature and carrier correspondence with customers in the course of package delivery. In the event of a complaint or privacy breach whose investigation requires access to the information collected by Domain, OCRC works with Domain to access that information and Domain provides the requested information.

- *implement appropriate safeguarding and retention standards to be complied with by Domain Logistics and its subcontractors.*

  Status: In the process of being implemented by March 2024.

Details

In our 2021 audit, we found that OCRC did not have access to all data in Domain Logistics' and its subcontractors' systems, including customer information, and did not know how customer information was being safeguarded. As well, OCRC lacked effective mechanisms to oversee the use and retention of customer data gathered by Domain Logistics and its subcontractors. Domain and its delivery subcontractors obtain data relating to OCRC customers and transactions, such as name, email address, phone number and delivery address. Delivery companies gather additional data, including signatures, form of ID checked, time of delivery and delivery notes.

In our follow-up, we found that OCRC implemented a data governance policy in December 2022 that also applies to its third-party providers. As a result, Domain is required to follow the same data safeguarding standards as OCRC. OCRC is also bound by Ontario's *Freedom of Information and Protection of Privacy Act* (FIPPA), which establishes rules for handling personal information in the public sector. We found that FIPPA requires an institution that uses personal information to retain the information for at least one year after use. Even though Domain deletes delivery information after 30 days, OCRC stores the purchase records in its internal systems, allowing OCRC to fulfill the FIPPA requirement to retain personal information for one year. In August 2023, OCRC, working with Domain, conducted a privacy impact assessment to ensure the protection of OCRC's personal customer information that is collected, used, retained and destroyed in the course of Domain's operations. This assessment outlined privacy risks and recommended mitigations needed to ensure privacy compliance. OCRC is in the process of creating an internal policy outlining specific data-retention requirements for each type of information collected, with an estimated date of March 2024 for completing this policy.

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.*

Status: Fully implemented.

Details

In our 2021 audit, we found that since January 2019, when OCRC began operating as a standalone agency, over half of its procurements had been non-competitive. OCRC had awarded 24 non-competitive contracts valued at approximately $7 million out of a total of 42 contracts ($43 million). While appropriate management approvals were obtained at OCRC for awarding these contracts and special circumstances or exception clauses had been invoked, no business cases had been prepared. 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 whether the special circumstances or exceptions cited by OCRC existed and justified non-competitive procurement.

In our follow-up, we found that OCRC was using competitive procurement in accordance with its policy. Per the procurement policy, OCRC's procurement team is involved in purchases of all consulting services and all goods and non-consulting services valued over $25,000. OCRC conducts competitive procurement through open competition or invitational competition, depending on the good or service being procured and its value. By using competitive procurement, OCRC aims to ensure that its procurements are open, fair and transparent. Also, since March 2022, OCRC has required a business case for all new non-competitive procurements consistent with the requirements of OCRC's procurement policy, and has created a mandatory non-competitive form to document business cases. The form requires the requester of the non-competitive procurement to list the purpose, value, business rationale and how the procurement complies with procurement policies and Supply Chain Ontario measures. All non-competitive procurements are approved by responsible individuals per OCRC's procurement delegation of authority thresholds and all non-competitive procurements valued at over $250,000 are reported to the Finance and Governance Committee of the Board of Directors.

Performance Measurement and Accountability

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 area 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.*

Status: Fully implemented.

Details

In our 2021 audit, we found that OCRC did not have a consistent set of non-financial metrics to measure its yearly performance and progress, even though it had been tracking a set of consistent metrics related to its financial objectives. Many of the targets OCRC had set for itself were vague, difficult to measure, or moving targets. We also noted that until 2021/22, OCRC had not set performance targets and timelines. OCRC internally monitored and publicly reported on customer satisfaction, order fill rate, inventory turnover and customer counts, but did not regularly report on and discuss operational performance with its Board using consistent metrics, dashboards or scorecards.

In our follow-up, we found that OCRC's business plan for 2022–2025 includes relevant financial and non-financial performance indicators to be tracked. The plan has been approved by the Minister of Finance. For its financial key performance indicators, OCRC has set targets for desired level of revenues, expenses and net profit for the Province. OCRC also has set non-financial performance indicators to help it achieve its strategic objectives. These indicators include growth in product assortment, reduction in complaints, customer sentiment score and views of the social responsibility section on OCRC's website. In addition, OCRC has developed reports, dashboards and scorecards that it presents to the Board of Directors on a quarterly basis. OCRC also reported on its key objectives and its progress against targets in its latest annual report.

Human Resources Management

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.*

Status: Fully implemented.

Details

In our 2021 audit, we found that OCRC had not established a robust employee performance management framework. We reviewed a sample of 25 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 included 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. OCRC determined annual individual performance based on an informal assessment of whether employees achieved their goals satisfactorily, without stating clear and specific criteria for what constituted the satisfactory achievement of goals. There was no guidance for setting annual goals.

In our follow-up, we found that OCRC had developed a three-level rating system for each employee's individual performance (does not meet expectations, meets expectations, exceeds expectations), with 30% of the eligible performance award for non-bargaining unit employees based on individual performance and 70% based on company performance. The system was presented to the Board of Directors in fiscal year 2022/23 and approved prior to rollout. To assist managers with employee reviews, OCRC's human resources team provided a training deck that outlines rating criteria and the specific performance measures employees are graded on.

The integrated performance management program outlines a compensation approach that incorporates an individual's achievement of performance goals as well as corporate performance. Every fiscal year, each OCRC employee meets with their manager and sets two business goals and one in-role developmental goal. For performance reviews, employees are graded based on their core competencies, technical role requirements and goal attainment.