



# Ontario Cannabis Retail Corporation 2021 Value-for-Money Audit

## Why we did this audit

- Ontario Cannabis Retail Corporation (OCRC) sells cannabis online to end customers and is the sole wholesaler of recreational cannabis to authorized retail stores. It is a new crown corporation, having commenced selling Cannabis in 2018.
- Since inception, OCRC has had many changes with its senior executive team and the Board, and adjustments to shifts in government direction.

## Why it matters

- OCRC has undergone significant growth, increasing its revenue from \$64 million in 2018/19 to \$652 million in 2020/21. Its expenses also increased six-fold during the same period.
- 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".
- OCRC outsources most of its supply chain operations, including warehousing and product distribution operations to a third-party service provider.

## What we found

### Product Listing and Pricing Decisions Not Standardized

- Until April 2021, OCRC did not use any formal criteria to evaluate product submissions, so decisions about products selected for sale were not transparent.
  - OCRC created a scorecard with evaluation criteria after we began our audit, but it was not required to be used.
  - Where it was used, some decisions did not align with the criteria.
- OCRC does not have a formal appeal process for product listing decisions.
  - Senior management sometimes reverses product listing rejections; but these communications were verbal, and the rationale was not formally documented or tracked, contributing to a perceived lack of fairness by licensed producers.
- OCRC's decision to change from a fixed mark-up to a value-based pricing approach for listed cannabis products is not based on sufficient analysis and is not transparent to licensed producers.

### RECOMMENDATION 1, 2, 3

### Inventory Shortages

- Product availability has been a common complaint from private retail stores.
- Inaccurate inventory forecasting has contributed to products being out of stock, impacting potential sales for the first six months of 2021.
- OCRC has been appropriately disposing or returning cannabis products to licensed producers when required.

### RECOMMENDATION 4

### Weak Oversight of Key Service Provider

- There is no effective oversight of services provided by its major service provider, Domain Logistics, despite significant monitoring requirements in its agreement.
- OCRC's arrangement with Domain Logistics to lease equipment does not provide value for money.

### RECOMMENDATION 5, 6, 7

<p><b>Customer Service Delays</b></p>	<ul style="list-style-type: none"> <li>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, and more retail stores.</li> </ul> <p><b>RECOMMENDATION 8, 9</b></p>
<p><b>Weak Efforts in Age Verification and Social Responsibility</b></p>	<ul style="list-style-type: none"> <li>OCRC is progressing slowly with its social responsibility mandate.</li> <li>OCRC does not have sufficient age verification controls in place to prevent minors from purchasing cannabis through its online store or obtaining it inadvertently from third party delivery operators. However, the implementation of these controls also imposes a risk that minors may purchase from the illegal market. This poses difficulties for OCRC with the mandate to ensure that cannabis is not sold to minors, while also not wanting minors to purchase cannabis from the illegal market.</li> </ul> <p><b>RECOMMENDATION 10, 11, 12</b></p>
<p><b>Customer Data Security Needs Tighter Mechanisms</b></p>	<ul style="list-style-type: none"> <li>OCRC does not have effective mechanisms to oversee the use, retention and safeguarding of customer information retained by its service providers.</li> </ul> <p><b>RECOMMENDATION 13</b></p>
<p><b>Non-Competitive Procurement Rationale Not Documented</b></p>	<ul style="list-style-type: none"> <li>Since January 2019, when OCRC began operating as a standalone agency, over a half of its procurements have been non-competitive.</li> <li>OCRC does not have documentation to support its decisions to procure non-competitively.</li> </ul> <p><b>RECOMMENDATION 14</b></p>
<p><b>Inconsistent Performance Measurement and Reporting</b></p>	<ul style="list-style-type: none"> <li>OCRC's governance processes are evolving and improving.</li> <li>OCRC does not yet have a consistent set of non-financial metrics to measure its yearly performance and progress.</li> <li>OCRC does not sufficiently report on its operational performance to its Board.</li> </ul> <p><b>RECOMMENDATION 15</b></p>
<p><b>Performance Management Needs Development</b></p>	<ul style="list-style-type: none"> <li>OCRC's hiring processes require some work, it has taken a number of corrective actions to make improvements in these areas.</li> <li>OCRC has not established a robust employee performance management framework.</li> </ul> <p><b>RECOMMENDATION 16</b></p>

## Conclusions

- OCRC still needs to make improvements to effectively operate under and administer the Ontario Cannabis Retail Corporation Act, 2017 and its regulations.
- OCRC is progressing slowly with its overall social responsibility mandate to provide public education on responsible cannabis consumption.

Read the report at [www.auditor.on.ca](http://www.auditor.on.ca)