ONTARIO CANNABIS STORE

April 1, 2022

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Christopher Tyrell
Clerk of the Committee

Procedural Services Branch
Legislative Assembly of Ontario
1405-99 Wellesley Street West
Toronto, Ontario M7A 1A2

Re: Update for Value For Money Audit Action Plans

Dear Mr. Tyrell,

I am pleased to provide a response on the action plans and timetable for the implementation of the Auditor General's Value for Money Audit (VFM) audit recommendations.

The VFM audit of Ontario Cannabis Retail Corporation (OCRC) outlined 16 recommendations with 55 sub-criterion recommendations across eight key areas of the agency. OCRC is developing and implementing action plans with major milestones to support the of completion for each of the recommendations.

OCRC has assessed all 55 sub-criterion recommendations from the Auditor General. OCRC acknowledges the importance and value in the 55 recommendations, as a result has implemented 20 recommendations (36%), made significant progress for 18 recommendations (33%), and made some progress for 17 recommendations (31%).

For a detailed review, please refer to the attached Summary Status Table in Response to the Report of the Auditor General of Ontario. If you have any questions about the submission provided, please contact Steve Naylor, Steve.Naylor@OCS.ca.

Sincerely,

David Lobo
Interim President and Chief Executive Officer
Ontario Cannabis Retail Corporation

Summary Status Table in Response to the Report of the Auditor General of Ontario

[Value-for-Money Audit: Ontario Cannabis Retail Corporation]

[December 2021]

[Ministry of Finance]

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
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 OCRC: • 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.	• In summer 2021, OCRC began to improve the product listing process with a focus on the documentation of criteria used by OCRC to evaluate product submissions. OCRC has documented and trained scoring guidance and selection procedures for all licensed producers. • OCRC has established a scoring system against four dimensions which include: (a) product innovation; (b) execution/performance; (c) cost/value; and (d) market support. • OCRC ensures that each SKU submitted has a documented score, decision and supporting commentary to licensed producers. • OCRC has adjusted the timing of product calls to support advance planning and improved coordination between licensed producers and OCRC. OCRC has implemented quarterly calls to better supports LPs manufactured product and planned plant growth cycles. • OCRC is working with licensed producers to strengthen our consumer insights by providing three communications: (a) assortment needs bulletin; (b) pre-screen feedback; and (c) final selection. • OCRC has enhanced procedures and policies to facilitate openness and transparency to support business planning for licensed producers by establishing changes/escalation policies. Furthermore, OCRC has developed and implemented appeals process for licensed producers. • OCRC has begun communicating with other provincial jurisdictions to learn about their product listing approaches to inform OCRC's product call schedule.	• OCRC has met all its management action plans as agreed to with the Auditor General by February 28, 2022.

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[December 2021]

[Ministry of Finance]

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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 and 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;		• OCRC has begun a comprehensive analysis of the results of its current pricing policy and areas for improvement aligned with VFM findings. A formal review of the OCRC Pricing Policy will be brought forward to the Board in Fall 2022. In the interim, steps have been taken to provide greater clarity to Licensed Producers on how the current pricing policy is applied.

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• 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).		
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 cannabis products, 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.	• 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 fall 2021, OCRC formalized and documented its process for delisting products and communicated it to stakeholders. • OCRC will continue to improve this process in fiscal 2022-23 as part of its broader merchandising efforts.	• OCRC has met all its management action plans as agreed to with the Auditor General by February 28, 2022.

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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.	• Domain Logistics, the OCRC's third-party distribution partner, has been collaborating with OCRC to centrally monitor all receiving variances. • OCRC, with assistance from Domain, has created a centralized reporting cadence utilizing a mutually accessible SharePoint site for holistic actions and recording of activities. • On a monthly basis, OCRC and Domain attend a KPI review meeting to discuss reported metrics related to inventory receiving variances for the purpose of monitoring and identifying necessary actions.	• At this time, OCRC does not have access to timely Point-of-Sale (POS) data from Licensed Retailers. However, the agency is working with industry stakeholders and the Alcohol and Gaming Commission of Ontario to integrate these systems which will substantially improve inventory management and forecasting. • OCRC is using store open data to better forecast product demand and ensure that products are in stock. • OCRC is utilizing the Licensed Producer quarterly meetings to forecast product demand. OCRC actively manages inventory levels to proactively ensure inventory is fresh.

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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.	• With the development of the monthly meetings, OCRC uses this process to clarify roles and responsibilities of each party as defined in the contract. • OCRC has worked with Domain to identify key operational and financial measures that are reviewed monthly with regards to the subcontractors and cost management. • OCRC has developed regular KPI and financial performance reviews with Domain on a monthly basis to discusses material variances compared to the most recent forecast. This review is documented in correspondence. • OCRC is working with Domain to establish the rationale for subcontracting work, and to document the process for seeking justification and OCRC approval of selected subcontractors. • Domain is to report to the OCRC monthly on KPIs with all subcontractors. Domain is responsible for ensuring that KPIs will be reviewed with subcontractors monthly, including the recording of all pertinent points and action items. • OCRC has developed and presented an annual attestation to be completed by Domain. This attestation is intended to ensure that Domain remains compliant with all reporting requirements, operational and financial commitments, and responsible practices and that all non-compliance is recorded and addressed.	• OCRC to continue to work with Domain to formalize a process of invoice review, to be completed in April 2022.

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Recommendation # 6: To receive value for money and high quality of services from all of its vendors 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 developed a Vendor Management Framework and required that all manager level staff and above complete training on the requirements for appropriate vendor management processes.	• OCRC undertook a procurement audit in 2022 to improve its overall procurement practices and vendor management. The recommendations are on-track to be implemented in Q1 2022-2023. • OCRC board is aware of the procurement audit and its recommendations. • In 2022, OCRC will work on the process to communicate with the board on the cost benefit analysis for key agreements.

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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;	• OCRC and Domain have a new subcontractor approval workflow that identifies three steps for selection and approval. • Domain has retained OCRC for written approval for final subcontractor selection after the issuance of the Auditor General Report. • OCRC has established a cost-benefit analysis of existing subcontractors and its documentation is part of the selection process for new subcontractors. • OCRC has identified, with the assistance of Domain, the subcontractors who are essential to the performance of OCRC operations. • Domain, working with the OCRC, piloted a hub and spoke model to achieve all KPIs. After a successful pilot in one region, this model was expanded into other regions in the province.	• OCRC to work with Domain to ensure that appropriate delivery metrics are incorporated in subcontracts. • OCRC is investigating the appropriate data retention requirements and identifying OCRC business needs for the data.

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)
• 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. **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 has been monitoring the customer service support model that was implemented at the start of the audit period.	• OCRC has prioritized the recruiting of additional resources to support its customer support centre. In 2022-23, OCRC will be looking at revising the customer service support model and adjusting customer service resources to meet KPIs.

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Recommendation # 9: To reduce customer complaints related to product quality, we recommend: • 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 is currently sharing customer feedback information during meetings with large Licensed Producers. • OCRC's new product recall process evaluates the Licensed Producer's ability to deliver quality products to the marketplace before accepting the product in our SKU.	• OCRC is continuing to improve the information flow with all Licensed Producers. The goal over the next year is to have a process that ensures small Licensed Producers have the same access to customer feedback as larger Licensed Producers.
Recommendation # 10: To build awareness about the risk of purchasing and using cannabis from the illegal cannabis market and to provide education on responsible consumption, we recommend that the OCRC: • 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;	• OCRC developed a Social Responsibility Strategy which launched in April 2021. • In mid-October 2021, OCRC launched an advertising campaign focused on the benefits of buying legal cannabis. The campaign lasted to the end of November 2021 and was advertised on social media, OCS.ca and other sources. OCS.ca new users increased by 39% during the campaign period. • Overall, the campaign delivered 108,298,273 impressions, 309,533 clicks and a total of 16,837,595 completed views. • OCRC worked with Deloitte to develop a report on the positive economic and social impacts of Canada's legal cannabis sector. The report was released by Deloitte in February 2022 and was received well. The report was referenced by several stakeholder groups and industry communications. • Proposed release of NRC report is by March 31, 2022.	• In June 2022, OCRC will launch its Education Hub to provide Ontarians with researched-based education on cannabis and social responsibility tools inform decisions on purchasing and consumption. • OCRC is expanding its partnerships with social responsibility organizations and drug-policy experts aligned with its Social Responsibility Strategy.

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• provide education on excessive cannabis consumption; and • implement the social responsibility strategy approved by the Board in November 2020. **<u>Recommendation # 11:</u>** In order to have strong controls over the online ordering of cannabis products by individual 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 has engaged the government on the Digital ID program and has attended two meetings to-date to discuss possible opportunities that can be leveraged to achieve the necessary controls over online ordering for those 19+. • Government has engaged OCRC to support some of their planning on this matter.	 • OCRC continues to work with the Government of Ontario to explore the viability digital identification program.

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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		• OCRC is developing policy and procedures post Covid-19 restrictions being eliminated including, implementing stronger 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 has committed to open dialogue with our transportation partners (Domain and Canada Post) to ensure that staff training and delivery processes align with those applicable to authorized private cannabis retail stores.

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• 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. **<u>Recommendation # 13:</u>** To improve data and information management, governance, and compliance with laws and regulations, we recommend that the OCRC: • 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; • implement appropriate safeguarding and retention standards to be complied with by Domain Logistics and its subcontractors	• OCRC's data strategy has been developed and will be presented to the board for approval in March 2022. It supports overall data management and governance. • OCRC has communicated to Domain Logistics OCRC's desire to capture data maintained by their delivery subcontractors.	• OCRC to continue to develop the framework covering data collection, ownership, security, privacy, and retention. Furthermore, OCRC will assess compliance of the strategy against regulatory and best practices of other agencies and jurisdictions. • OCRC will establish regular review periods for the framework. • OCRC to assess regulatory compliance for data requested from Domain/subcontractors and develop a standardized mechanism to import data from subcontractors, taking into consideration regulatory and storage requirements. • OCRC will collaborate with Domain to ensure safeguards and retention standards are in place. • OCRC is committed to continuously improving our data information management and governance in fiscal 2022-2023.

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<u>Recommendation # 14:</u> To comply with its own procurement policy and to confirm that its obtaining value for money for 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.	• Since March of 2022, OCRC has required a business case for all non-competitive procurements consistent with the current expectations of the procurement policy.	• OCRC has met all its management action plans as agreed to with the Auditor General by March 2022.
<u>Recommendation # 15:</u> 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 has started establishing consistent non-financial operational performance metrics, including reports, dashboards and scorecards that are reported to management and the board. • OCRC instituted significant financial KPIs in March 2021. KPIs for financial performance comparing budgeted weekly sales with actual weekly sale for product type. • KPIs around inventory aging were implemented. • Human Resources KPIs reflecting employee turnover, recruitment and retention were developed and reported to both the Senior Leadership team and the Board’s Human Resource, Communication and Compensation Committee.	• OCRC has begun monitoring and is in the process of reporting to the board on its strategic goals and objectives identified in its 2021–2022 Business Plan. • OCRC’s 2022-25 business plan includes relevant financial and non-financial KPIs that will be tracked as the plan is implemented, following formal approval by the Minister of Finance.

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Recommendation # 16: To effectively manage human resources and objectively assess performance, we recommend that the OCRC: • 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 has developed a 3-rating system for employee's individual performance. • The integrated performance management program will outline a compensation approach that incorporates an individual's achievement of performance goals, as well as corporate performance. The approach will be compliant with all relevant government directives and applicable legislation.	• The system will be presented to the board in fiscal 2022-2023 for approval prior to rollout.