

## Chapter 6

# Saskatchewan Liquor and Gaming Authority— Regulating Locally Manufactured Craft Alcohol

### 1.0 MAIN POINTS

Consumers are increasingly purchasing craft alcohol products made in Saskatchewan. Craft alcohol sales nearly doubled in 2020–21 compared to 2017–18.

*The Alcohol and Gaming Regulations Act, 1997*, assigns the Saskatchewan Liquor and Gaming Authority responsibility for regulating and controlling the manufacturing, possession, sale, and delivery of beverage alcohol in Saskatchewan, including locally manufactured craft alcohol. At November 30, 2021, the Authority had issued permits to 64 different craft alcohol producers in the province.

At November 30, 2021, the Authority had effective processes, except in the following areas, to regulate the production and sale of locally manufactured craft alcohol in Saskatchewan. It needs to:

- Obtain craft alcohol quality assurance results (i.e., product analysis reports from laboratories) every two years as required by its policy
- Inspect high-risk areas specific to craft alcohol manufacturing and use a risk-based approach when determining how frequently to inspect craft alcohol producers
- Renew craft alcohol permits prior to expiry
- Perform reasonability assessments of craft alcohol producers' monthly sales and production information to help ensure the collection and accuracy of all production levy revenue

Receiving product analysis reports and regularly inspecting high-risk areas specific to craft alcohol manufacturing helps ensure craft alcohol producers are producing alcohol that is safe to consume and is consistent with advertised alcohol content. Without effective processes, the public may face increased health and safety risks associated with the consumption of locally manufactured craft alcohol (e.g., consuming tainted alcohol, consuming alcohol with higher alcohol content than labelled).

Effective regulatory processes must also treat craft alcohol producers consistently and fairly (e.g., when renewing craft alcohol permits), and confirm the Authority receives all revenues (e.g., production levies) it should.

### 2.0 INTRODUCTION

This chapter reports the results of our audit of the Saskatchewan Liquor and Gaming Authority's processes to regulate the production and sale of locally manufactured craft alcohol in Saskatchewan.



Locally manufactured craft alcohol refers to craft alcohol products produced and sold in the province (e.g., cider, beer, distilled alcohol, wine). Craft alcohol means beverage alcohol produced by fermentation or distillation in accordance with policies outlined for craft breweries, craft distilleries, craft wineries, craft cideries, and craft refreshments; it does not include alcohol manufactured pursuant to a bottling-manufacturing permit (i.e., manufacturers who blend and repackage bulk alcohol purchased from elsewhere and do not ferment or distill their own products).<sup>1</sup>

Our audit did not examine the enforcement of laws related to the illegal production of craft alcohol, as this is not under the Authority's responsibility.<sup>2</sup>

## 2.1 Regulating Craft Alcohol

*The Alcohol and Gaming Regulation Act, 1997*, and *The Alcohol Control Regulations, 2016*, provide the Authority with the following responsibilities (see **Figure 1**) as it relates to regulating locally-manufactured craft alcohol producers.

**Figure 1—The Authority's Provincial Regulatory Responsibilities for Craft Alcohol**

- Approve an application for a permit subject to any terms and conditions that it considers appropriate (including determining the duration of the permit)
- Refuse any application for a permit
- Refer any application for a permit to the Liquor and Gaming Licensing Commission for a hearing when it determines it is in the public interest to do so<sup>A</sup>
- Inspect locally-manufactured craft alcohol producers
- Enforce terms and conditions, and legislation relating to permits
- Impose penalties against a producer for non-compliance with terms and conditions and/or legislation
- Suspend or cancel a permit

Source: *The Alcohol and Gaming Regulation Act, 1997*, s. 19(1).

<sup>A</sup> The Commission is an independent body of between three and seven members appointed by the Lieutenant Governor in Council. Its mandate is to ensure appropriate application of legislation and regulations governing liquor. The Commission, at the request of a permittee, reviews decisions of the Authority with respect to liquor and gaming licensing, registration, and cancellations/suspension matters within the Authority's jurisdiction, which includes all provincial liquor permittees. *The Alcohol and Gaming Regulation Act, 1997*, s. 21, 30.

At November 30, 2021, there were 64 locally-manufactured craft alcohol producers in the province. Craft alcohol producers have been in Saskatchewan, and regulated by the Authority, since the early 1990's.

As described in **Figure 2**, production and sale of craft alcohol in Saskatchewan over the past five years is increasing. There were over 50% more locally-manufactured craft alcohol producer permits in 2020–21 compared to 2016–17. In 2020–21, locally-manufactured craft alcohol products comprised 4.3% of the Authority's annual beverage alcohol sales.

<sup>1</sup> *Commercial Liquor Permittee Manual*, p. 101. [www.slga.com/liquor/for-craft-producers](http://www.slga.com/liquor/for-craft-producers) (15 July 2021). The Authority also issues permits under clause 28(1)(c) of *The Alcohol Control Regulations, 2016*, to allow for the bottling of bulk alcohol. Under this permit, producers can blend and bottle alcohol without fermentation or distillation.

<sup>2</sup> Law enforcement agencies (e.g., municipal police services, RCMP) are responsible for enforcing laws related to the illegal production of alcohol.

**Figure 2—Sales and Permits for the Authority’s Liquor Segment of Locally Manufactured Craft Alcohol**

	2016–17	2017–18	2018–19	2019–20	2020–21
Authority’s Total Beverage Alcohol Quantity Sold <sup>A</sup> (thousand litres)	Not available <sup>C</sup>	90,459	88,074	84,939	92,502
Locally Manufactured Craft Alcohol Quantity Sold <sup>A</sup> (thousand litres)	Not available <sup>C</sup>	2,442	3,171	3,530	3,932
Market Share of Locally Manufactured Craft Alcohol Sales <sup>A</sup>	Not available <sup>C</sup>	2.7%	3.6%	4.2%	4.3%
Locally-Manufactured Craft Alcohol Producer Permits <sup>B</sup>	46	58	63	66	71

Source: Saskatchewan Liquor and Gaming Authority records.

<sup>A</sup> Includes both direct sales and sales through distributors.

<sup>B</sup> This may include more than one permit per craft alcohol producer if they produce more than one type of alcohol product (e.g., production of craft beer and craft spirits requires two separate permits).

<sup>C</sup> The Authority did not have this information available.

## 2.2 Importance of Effective Regulation of Locally Manufactured Craft Alcohol

Consumers rely on accurate information from alcohol manufacturers in order to make informed decisions regarding the type and quantity of alcoholic beverages consumed. Effective regulation of craft alcohol production reduces the risk of the public consuming unsafe alcohol or alcohol inconsistent with labelling (e.g., more alcohol in the product than stated may lead to consumer impairment greater than expected after consuming one serving).

In February 2019, a complaint received by the Saskatchewan Liquor and Gaming Authority resulted in the Authority temporarily shutting down a craft alcohol producer’s taproom and the recall of some of the producer’s spirits. Five of the products tested by the Authority from the producer had higher alcohol content than labelled. The difference in the alcohol content ranged from 0.2%–4.1%. The craft alcohol producer found its testing equipment improperly calibrated.<sup>3</sup>

The Authority follows Canadian industry-standard volume tolerances for alcohol. These vary based on the type of alcohol (e.g., wine, beer, spirits) and generally range from 0.3%–1.0% of declared alcohol content. For example, table wine can have the alcohol content vary by 1.0% of the declared alcohol content. The Authority verifies alcohol composition and safety by reviewing certificates of analysis that craft producers obtain from a laboratory. If a product does not meet acceptable tolerances, it will typically result in a product recall and suspended sales.

Without effective processes to regulate locally manufactured craft alcohol, the Authority faces increased risk that it may not fulfill its legislated responsibilities to help protect the public. As a result, the public may face increased health and safety risks associated with the consumption of locally manufactured craft alcohol (e.g., consuming tainted alcohol, consuming alcohol with higher alcohol content than stated on packaging).

<sup>3</sup> [www.cbc.ca/news/canada/saskatchewan/slqa-testing-minhas-sask-recall-taproom-1.5034712](http://www.cbc.ca/news/canada/saskatchewan/slqa-testing-minhas-sask-recall-taproom-1.5034712) (9 February 2022).



Effective regulatory processes must also treat craft alcohol producers consistently and fairly (e.g., when assessing permit applications or imposing sanctions for non-compliance), and confirm the Authority receives all revenues (e.g., production levies) it should.

### 3.0 AUDIT CONCLUSION

We concluded that, for the 12-month period ended November 30, 2021, the Saskatchewan Liquor and Gaming Authority had, other than the following areas, effective processes to regulate the production and sale of locally manufactured craft alcohol in Saskatchewan.

The Authority needs to:

- Obtain craft alcohol quality assurance results (i.e., certificates of analysis) every two years as required by policy
- Inspect high-risk areas specific to craft alcohol manufacturing and use a risk-based approach when determining how frequently to inspect craft alcohol producers
- Renew craft alcohol permits prior to expiry
- Perform reasonability assessments of craft alcohol producers' monthly sales and production reporting to help ensure the collection of all production levies

Figure 3—Audit Objective, Criteria, and Approach

**Audit Objective:**

The objective of this audit was to assess whether the Saskatchewan Liquor and Gaming Authority, for the 12-month period ended November 30, 2021, had effective processes to regulate the production and sale of locally manufactured craft alcohol in Saskatchewan.

**Audit Criteria:**

Processes to:

1. **Approve eligible craft alcohol producers to produce and sell craft alcohol**
  - Set appropriate requirements for craft alcohol producers consistent with legislation and good practice
  - Confirm applicants meet established requirements (e.g., use qualified staff, verify applicant information)
  - Issue permits timely with appropriate requirements to successful applicants
2. **Monitor compliance with permit and quality control requirements**
  - Set guidance for monitoring compliance with permit and quality control requirements (e.g., checklists, inspection procedures, certificates of analysis, product recall procedures, penalties, escalation processes for identification of non-compliance, enforcement of corrective action)
  - Set risk-based plans for inspecting permitted craft alcohol producers
  - Regularly assess compliance with permit and quality control requirements (e.g., use qualified staff, complete inspections in accordance with established processes, review certificates of analysis for new product lines)
  - Investigate complaints about craft alcohol producers in a timely manner
  - Analyze craft alcohol production and sales data collected to identify any irregularities or issues
3. **Address and report on non-compliance and product safety**
  - Require prompt action on non-compliance based on severity of non-compliance
  - Escalate action on continued non-compliance (e.g., cancel or suspend permit, report non-compliance to appropriate authorities)
  - Report information on non-compliance and related enforcement actions to senior management and the public

**Audit Approach:**

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate the Authority's processes, we used the above criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management and an external advisor. The Authority's management agreed with the above criteria.

We examined the Authority's policies and procedures relating to the regulation of locally manufactured craft alcohol. We assessed the Authority's permit application templates and permit conditions for consistency with legislation and good practice. We tested samples of permit approvals, permit renewals, inspections, and actions taken on identified non-compliance to verify the Authority followed its established procedures. In addition, we analyzed data to determine the frequency of Authority inspections, and analyzed monthly craft alcohol production information submitted by producers. We also used an independent consultant with subject matter expertise to help us identify good practice, and assess the Authority's processes.

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 4.1 Locally-Manufactured Craft Alcohol Permit Requirements Consistent with Legislation

The Saskatchewan Liquor and Gaming Authority set requirements for craft alcohol producers consistent with legislation and good practice.

The Authority makes its Liquor Licensing and Inspection Services Branch responsible for permitting, inspecting, and monitoring craft alcohol producers. The Branch is part of the Authority's Regulatory Services Division. The Division is also responsible for permitting, inspecting, and monitoring commercial liquor permittees (e.g., restaurants, taverns, and retail stores that sell alcohol to the public).

In October 2016, the Authority published an updated, detailed *Commercial Liquor Permittee Policy Manual* that includes requirements for craft alcohol producers (manufacturers). The Manual is for both internal (i.e., staff) and external (e.g., public, applicant, producer) use, and is accessible to the public on the Authority's website.<sup>4</sup> The Authority last updated the Manual in January 2021.

See **Figure 4** for a summary of the Manual's contents.

**Figure 4—Content of Commercial Liquor Permittee Policy Manual at January 2021**

- **General Information:** how to use the manual; summary of permit classes (e.g., restaurant, tavern, manufacturing); summary of legislation
- **Process to Apply to Obtain a Permit:** summary of information required to apply for a permit; permit renewal process; permit fees
- **Manufacturer Permits:** facility standards; quality assurance requirements; packaging and labelling requirements; sale of products; record keeping, production levies, and reporting requirements; minimum and maximum production requirements of craft alcohol producers
- **Inspections:** overview of the Authority's regulatory processes to assess whether permittees comply with operating requirements
- **Disciplinary Action:** summarizes potential actions the Authority may take to address and correct identified non-compliance with operating requirements

Source: Adapted from the Authority's *Commercial Liquor Permittee Policy Manual*.

<sup>4</sup> [www.slga.com/liquor/for-craft-producers](http://www.slga.com/liquor/for-craft-producers) (12 July 2021).



We found the Manual consistent with legislative requirements and good regulatory practice.<sup>5</sup> The Manual is sufficiently detailed and easy to understand. It outlines the requirements for an applicant to apply for a craft alcohol producer permit and outlines operating requirements of approved craft alcohol producers.

The Authority issues manufacturing permits to locally-manufactured craft alcohol producers for the production and sale of craft alcohol products. Permits cover facility standards, quality assurance, packaging and labelling, sale of manufactured products, delivery of products to consumers, sales to minors, record keeping, and provision of alcohol samples to customers. We found the permit requirements consistent with legislative requirements.

See **Figure 5** for the production levels for each type of craft alcohol in order for a locally-manufactured craft alcohol producer to be considered a craft producer, and therefore subject to regulation by the Authority.<sup>6</sup>

**Figure 5—Craft Alcohol Manufacturing Production Levels**

Alcohol Manufacturer Type	Production Level (litres)
Craft Distillery	250 – 350,000
Craft Winery	2,000 – 350,000
Craft Cidery	2,000 – 350,000
Craft Refreshments	2,000 – 350,000
Craft Brewery	5,000 – 3,000,000

Source: [www.slga.com/liquor/for-craft-producers](http://www.slga.com/liquor/for-craft-producers) (12 July 2021).

We also found the Authority keeps craft alcohol applicants and producers informed of changes to operating requirements.

In November 2020, we noted the Authority emailed approved craft alcohol producers informing them of changes to its craft alcohol producer permit. A few months prior to implementing these changes, the Authority consulted with craft alcohol producers, obtaining their input on the proposed changes. Changes included introducing the concept of two types of craft alcohol producers (type 1 and type 2).<sup>7</sup> The Authority also changed the production levies charged based on the type of producer, increased the maximum annual production limit (i.e., how much a craft alcohol producer can produce and still be considered a locally-manufactured craft alcohol producer), and reduced the minimum annual production limits. We found this communication timely and easy to understand.

<sup>5</sup> The Authority updated the *Commercial Liquor Permittee Policy Manual* in January 2021 to include changes for craft type 1 and type 2 producers. In addition, the Authority is in the process of drafting a manual specific to alcohol manufacturers it regulates (currently a section in the *Commercial Liquor Permittee Policy Manual*).

<sup>6</sup> The Authority considers production levels that exceed that in **Figure 5** to be a regional or national manufacturer (e.g., Molsons). Regional and national manufacturers cannot distribute products directly to retailers and consumers like craft alcohol producers can. These manufacturers must apply to, and obtain approval from, the Authority to distribute their products through the Authority's distribution warehouse or an approved third-party warehouse. The Authority regulates national and regional alcohol manufacturers who produce alcohol in Saskatchewan; there is one permitted regional alcohol manufacturer at November 30, 2021. For example, a regional manufacturer is a brewery producing 3,000,001 to 40,000,000 litres of beer per year and a national manufacturer is a brewery exceeding 40,000,000 litres per year.

<sup>7</sup> Type 1 producers ferment 100% of their product on-site. Type 2 producers ferment less than 100% and source the remaining alcohol content from another manufacturer.

Having consistent and understandable publicly-available regulatory requirements for craft alcohol producers allows the Authority to be transparent in its requirements. This increases the ability for craft alcohol producers to follow the Authority's requirements, as well as potential applicants to understand the permit application process and requirements they will have to meet if they are successful in obtaining a permit.

## 4.2 Adequately Confirming Applicants Meet Requirements

The Saskatchewan Liquor and Gaming Authority effectively confirms applicants for craft alcohol production permits meet established requirements.

The Authority uses its *Commercial Liquor Permittee Policy Manual* application requirements as guidance to staff on what information the Authority requires applicants to submit with their application. See **Figure 6** for a summary of the Authority's craft alcohol producer permit approval process.

**Figure 6—Craft Alcohol Producer Permit Approval Process**

- **Receipt of permit application:** Licensing Specialist reviews application for completeness to ensure the applicant submitted all required documentation. Where an applicant fails to provide key information (e.g., criminal record checks for all shareholders, floor plan of proposed establishment approved by engineer that it meets building-code requirements), staff follow up with the applicant by phone or email.
- **Site inspection before production begins:** Inspector performs pre-permit inspection of business location verifying facility set-up meets operating requirements (e.g., equipment located as per floor plan, proper storage of ingredients).
- **Initial permit approved** in accordance with delegation of authority and issued to applicant to allow the production of craft alcohol.
- **Review of quality assurance reporting (i.e., lab test reports)** to determine whether craft alcohol products are safe for consumption.
- **Full permit approved** in accordance with delegation of authority and issued to applicant to allow the sale of craft alcohol produced (issued once quality assurance requirements met).

Source: Adapted from the *Commercial Liquor Permittee Policy Manual*.

The Authority set its craft alcohol permit operating requirements (e.g., approved to sell craft alcohol onsite and online for delivery, which product lines the producer has been approved to sell) based on *The Alcohol Control Regulations, 2016*. We also found these operating requirements consistent with good practice.

Once Liquor Licensing and Inspection Services Branch staff check that an applicant met all requirements, its IT system automatically generates an approval letter and permit based on applicant information. Having system-generated permits creates consistent permits. Permits expire every three years.

Our testing of eight craft alcohol producer permits (out of 16 total new craft alcohol producer permits issued between December 1, 2020 and November 30, 2021) found:

- All applicants provided up-to-date criminal record checks for shareholders who had greater than a 20% share.
- All applicants met the requirements for notifying the public of proposed new craft alcohol producers (i.e., advertising the proposed new business at least one day per week for two consecutive weeks) and no public objections received.



- All applicants provided a building inspection report and city/municipality approval for the business.
- All applicants paid the required application fee.
- Branch inspectors performed pre-permit inspections of the producer's premises with no concerning inspection findings (e.g., black mould).
- The Branch issued manufacturing permits, approved in accordance with the delegation of authority that contained permit conditions requiring applicants to submit required quality assurance reporting.
- All applicants submitted the required quality assurance reporting (lab test reports) for their first five unique products (e.g., for a craft beer producer, the producer submitted lab test reports for its first five unique beers). These lab test reports confirm the product's safety and reliability of craft alcohol content.
- The Branch issued full permits, approved in accordance with the delegation of authority that contained permit operating conditions consistent with good practice and legislation.

Our testing of producer permits also found Branch staff often wait on applicants to submit missing information. In some instances, a significant delay (e.g., two years) between when Branch staff received the initial application and issued the permit approval occurred because applicants were untimely in submitting missing information. As such, the Authority has not set a service standard for how timely staff must approve craft alcohol producer permit applications. Overall, we found the Authority conducted timely reviews of complete applications.

Having adequate processes to review and approve craft alcohol producer applications helps ensure the Authority only allows eligible producers to manufacture and sell craft alcohol in the province.

### 4.3 Permit Renewals Untimely

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The Saskatchewan Liquor and Gaming Authority did not always send timely renewal reminders to craft alcohol permit holders, resulting in alcohol production without valid permits.

Craft alcohol producer permits expire after three years.

The Branch staff's process is to send renewal reminder letters to active permit holders one month (i.e., 30 days) in advance of the permit expiry date. Staff rely on the Saskatchewan Liquor and Gaming Authority's IT system to inform them when a renewal is coming due.

An error with the IT system, noticed by Authority staff in October 2021, resulted in the system not notifying staff when permit renewals were coming due. As a result, Branch staff did not send timely permit renewal letters from December 2020 to October 2021. The Authority resolved the issue with its IT system in November 2021.



Our testing of 10 permit renewals found the Authority did not issue nine renewal letters at least one month in advance of permit expiry, rather it sent these renewal letters three to 14 days before expiry.

Since Branch staff had not issued timely renewal reminders, our testing of 10 permit renewals (out of 12 total permit renewals between December 1, 2020 and November 30, 2021) found four instances where craft alcohol producers operated between three to 41 days without a valid permit. We also found that two of these producers without valid permits had produced at least some craft alcohol during this time.

The Authority's legislation does not allow craft alcohol producers to produce alcohol without a valid permit.<sup>8</sup>

The Branch's current process is to send renewal letters 30 days in advance of permit expiry. Our analysis of the 10 permit renewals tested found that it took, on average, 42 days from when Branch staff sent the renewal letter to when Branch staff issued an approved permit renewal. Therefore, the Branch should also consider sending permit renewal reminders more than 30 days prior to permit expiry.

While permit renewals were not always timely, we found renewed permits (once issued) contained permit conditions consistent with the Authority's regulations.

By not sending out timely permit renewal letters, there is an increased risk of craft alcohol producers forgetting to renew or not renewing their permit prior to expiry. This increases the risk of craft alcohol producers operating for an extended period without a valid craft alcohol permit, as required by legislation.

- 1. We recommend the Saskatchewan Liquor and Gaming Authority renew locally-manufactured craft alcohol producer permits prior to expiry as required by *The Alcohol and Gaming Regulation Act, 1997*.**

## 4.4 Inspectors Qualified in Enforcement

Saskatchewan Liquor and Gaming Authority staff responsible for assessing whether applicants meet permit conditions and approved craft alcohol producers follow operating requirements have robust regulatory enforcement experience, but lack alcohol manufacturing expertise. Rather, the Authority relies on independent quality assurance processes to confirm reliability of craft alcohol content and safety.

The Liquor Licensing and Inspection Services Branch employed 22 staff at November 2021. The positions included one director, three managers, seven licensing specialists, one policy analyst, and 10 liquor inspectors. Branch staff are located in both Regina and Saskatoon.

The Authority appropriately uses job descriptions to set out expected educational and experience requirements for its staff. The Authority requires liquor inspectors to have a

<sup>8</sup> *The Alcohol and Gaming Regulation Act, 1997*, s. 92.



background in law enforcement or a regulatory environment. Law enforcement experience gives them the skills to effectively:

- Inspect whether producers comply with operating requirements
- Investigate complaints received

While we found all 10 liquor inspectors had significant experience in law enforcement or a regulatory environment, none of the inspectors had expertise in alcohol or food-related manufacturing. Having expertise of alcohol manufacturing processes would improve inspectors' abilities to identify whether producers manufacture alcohol inconsistent with good practice. The Authority provided some training to inspectors around the processes to manufacture alcohol in February 2021. For example, training topics included distilling and brewing, equipment used to manufacture alcohol, and packaging processes. Also, the use of a robust inspection checklist that considers all alcohol manufacturing-specific risks would assist inspectors in completing sufficient inspections (see **Section 4.6**).

The Authority does not rely on inspectors to perform craft alcohol quality reviews. Instead, it relies on its quality assurance process (i.e., independent laboratory certificates of analysis) to determine whether craft alcohol produced meets safety requirements.<sup>9</sup> See **Section 4.7** for more information about the Authority's quality assurance processes.

Having suitably trained staff to carry out inspections helps ensure these activities identify issues with alcohol manufacturing processes that may exist and helps protect the public.

## 4.5 Risk-Informed Inspection Plan Needed as Inspections Not Regularly Occurring

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At November 2021, the Saskatchewan Liquor and Gaming Authority was not performing regular inspections of craft alcohol producers and had not developed a risk-informed inspection plan for craft alcohol producers.

The Authority performs ongoing inspections (after permits issued) on an ad hoc basis and relies on complaints (see the Authority's processes to investigate complaints in **Section 4.9**) as its means of monitoring whether craft alcohol producers follow established operating requirements (i.e., legislation, requirements in the *Commercial Liquor Permittee Policy Manual*). It assigns inspectors to certain craft alcohol producers in the province.

Branch inspectors perform a pre-permit inspection of the producer's premises before issuing a permit. There were 71 craft alcohol producer permits at March 31, 2021. For the 12-month period ended November 30, 2021, inspectors performed 10 inspections and 24 pre-permit inspections.

Once craft alcohol producers received an approved permit, the Authority did not always regularly inspect them. Our analysis found the average time between inspections was almost 12 months. We also found the Authority had not inspected 19 craft alcohol

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<sup>9</sup> Craft alcohol producers send samples of their products to an approved laboratory (e.g., Liquor Control Board of Ontario) that analyzes the chemical composition and alcohol by volume. The laboratory report provided to the Authority is known as a certificate of analysis.

producers since their pre-permit inspection (almost 30% of permitted producers), with the longest time without an inspection being 36 months.

The Authority's IT system does not have the ability to run a report for management to review whether inspections occur as frequently as they should.

The Authority has not set an expectation for how often inspectors should periodically inspect craft alcohol producers. A risk-based inspection plan would help management determine when to inspect producers and when to follow up with inspectors who do not conduct timely inspections.

Having an inspection plan that states the required frequency of craft alcohol producer inspections will help reduce the risk of non-compliance going unnoticed for an extended period. It is good practice to develop inspection plans based on risk. Such plans use risks (e.g., non-compliance) to determine the nature and extent (frequency) of inspections.

Having a written risk-informed inspection plan would help the Authority allocate its resources to the highest priority areas, which is important as inspectors are also responsible for inspecting all commercial liquor permittees including craft alcohol producers.

2. We recommend the Saskatchewan Liquor and Gaming Authority implement a risk-informed plan for inspecting locally-manufactured craft alcohol producers.

## 4.6 Inspection Checklists Missing Key Alcohol Manufacturing Risks

Saskatchewan Liquor and Gaming Authority inspectors use checklists to guide craft alcohol inspections, but these checklists do not contain all key risk areas specific to manufacturing craft alcohol.

Up to October 2021, inspectors used a licensed-establishment inspection report (i.e., a checklist to document all types of liquor establishment inspections including restaurants and taverns) for documenting inspection findings. The checklist portion of this report focused on areas more specific to restaurants and taverns such as overserving customers, minors present, and whether the licensed establishment complies with requirements when hosting video lottery terminals (e.g., signage, records).

While serving customers or minors may be applicable to craft alcohol producers, these are not significant risks associated with manufacturing alcohol. Instead, the craft alcohol inspection checklist should focus on the unique risks associated with manufacturing. In October 2021, management drafted a new inspection checklist for craft alcohol producers; however, we did not see evidence of staff using this checklist between October and November 30, 2021. The new inspection checklist considers more risks associated with manufacturing, but still is not a complete listing of all manufacturing risks (see **Figure 7**).



Also, the old licensed-establishment inspection report did not require staff to consider whether craft producers complied with important Authority operating requirements such as:

- The Authority's quality assurance policy for craft producers (discussed further in **Section 4.7**)
- Maintaining adequate records of alcohol production information (e.g., amounts produced, sold, destroyed)
- Complying with Federal Government traceability requirements (e.g., recording product batch information on products such as to enable a product recall, if necessary)<sup>10</sup>

The new inspection checklist includes these operating requirements.

**Figure 7—Craft Alcohol Manufacturing Risks, Related Consequences, and whether New Manufacturing Inspection Checklist Addresses each Risk**

Manufacturing Risk	Consequence	Risk Addressed in New Manufacturing Inspection Checklist
Methanol not properly removed during distillation process (e.g., during the production of spirits)	Illness, blindness, or fatality if excessive methanol is ingested, inhaled, or absorbed through the skin (severe illness or worse can be caused by as little as 30 millilitres or 2 tablespoons)	Yes: requires inspector to check whether producer documented accurate product formulas (this would address how much product from each distillation phase to keep or discard)
Not listing allergens (e.g., oats, sulphites, gluten) on product label	Allergic reaction	Yes: requires inspector to check labelling requirements
Not using food-grade chemicals to clean manufacturing equipment	Illness	<b>No</b>
Not properly measuring and recording alcohol content	Excessive intoxication, or over charging when alcohol content is less than stated	Yes: requires inspector to confirm the producer has processes to determine and verify alcohol content, determine deviations, and calibrate equipment to test alcohol content
Continued fermentation if container is improperly sealed <sup>A</sup>	Injury to consumer if can/bottle bursts	<b>No</b>
Damage to glass bottles during bottling	Risk of consuming broken glass	<b>No</b>

Source: Manufacturing risks and consequences adapted from understanding of industry good practices.

<sup>A</sup> For example, in 2016, the Ontario alcohol regulator ordered a recall of certain craft alcohol in cans due to some cans bursting due to excessive internal pressure. [torontosun.com/2016/11/08/concerns-over-bursting-beer-cans-prompt-lcbo-recall](https://www.torontosun.com/2016/11/08/concerns-over-bursting-beer-cans-prompt-lcbo-recall) (17 February 2022).

In addition to adding further manufacturing risks, we identified the new manufacturing inspection checklist could be further improved by requiring inspectors to check compliance with certain Authority policies for craft alcohol. These could include checking whether craft alcohol producers obtain approval prior to purchasing bulk spirits, and meet requirements for collaboration manufacturing.<sup>11,12</sup>

<sup>10</sup> The Federal Government's traceability requirements are outlined in the *Safe Food for Canadians Regulations*, Part 5.

<sup>11</sup> The Authority requires craft producers to obtain its approval prior to purchasing each batch of bulk spirits from manufacturers outside the province. (*Commercial Permittee Liquor Policy Manual*, s.14.2(d)).

<sup>12</sup> Collaboration manufacturing is when two or more craft alcohol producers work together to create a product at a single production facility. The Authority requires the host manufacturer not only to always be present during production, but also to report the production in its monthly production reporting, and pay the production levy. *Collaboration Manufacturing by Saskatchewan Craft Alcohol Producers* policy, [www.slga.com/liquor/for-craft-producers#StandalonePolicies](http://www.slga.com/liquor/for-craft-producers#StandalonePolicies) (1 June 2021).

Having inspection checklists that address all key risk areas associated with manufacturing alcohol, as well as address the Authority's policy requirements, would help Authority inspectors check whether craft alcohol producers comply with their permit operating requirements. These checks and balances also decrease the risk to public safety (e.g., consuming alcohol with a higher than labelled alcohol content).

3. **We recommend the Saskatchewan Liquor and Gaming Authority utilize a locally-manufactured craft alcohol inspection checklist addressing all key risks associated with alcohol manufacturing.**

## 4.7 Quality Assurance Processes Adequate, But Not Always Followed

The Saskatchewan Liquor and Gaming Authority requires craft alcohol producers to submit laboratory reports verifying products are safe for consumption, but does not follow up with producers who are delinquent in submitting required reporting every two years.

In **Section 4.2**, we describe that we found the Authority appropriately received the required quality assurance reports (certificates of analysis) prior to issuing a craft alcohol producer a permit to allow it to initially sell alcohol products to consumers.

We found the Authority had not been following up with producers who did not submit certificates of analysis. The Authority's quality assurance policy requires craft alcohol producers to submit certificates of analysis (lab test reports) for a minimum of one active product from each alcohol product line every two years.<sup>13</sup> For example, if the Authority permits a craft producer to produce craft beer and craft spirits, it would be required to submit updated lab reports for at least one beer and one spirit every two years. We found that the Authority is one of the few regulatory bodies across Canada that requires craft alcohol producers to submit certificates of analysis on an ongoing basis.

Authority staff maintain a listing of craft alcohol producers and due dates for required certificates of analysis. At November 5, 2021, we found over half of the permitted product lines on its tracking sheet (43 out of 83 product lines) required certificates; craft alcohol producers had not submitted these by the deadline, and the Authority had not followed up. Some of these craft alcohol producers had not provided certificates of analysis to the Authority for more than nine months past the deadline.

By not following up on overdue certificate of analysis renewals, there is an increased risk of craft alcohol producers producing alcohol that is not at advertised alcohol content or does not meet quality assurance standards. This increases the risk of an adverse impact on human health (i.e., illness, overconsumption). Also, following up on outstanding reports helps the Authority and craft alcohol producers confirm equipment is measuring alcohol content accurately.

4. **We recommend the Saskatchewan Liquor and Gaming Authority obtain certificates of analysis from locally-manufactured craft alcohol producers every two years as required by its quality assurance policy.**

<sup>13</sup> Beverage Alcohol Quality Assurance Policy for Direct Distribution by Craft Producers, [www.slga.com/liquor/for-craft-producers#Standalone%20Policies](http://www.slga.com/liquor/for-craft-producers#Standalone%20Policies) (1 June 2021).



## 4.8 Adequately Documented Processes to Address Identified Non-Compliance

The Saskatchewan Liquor and Gaming Authority has adequately documented processes for when Liquor Licensing and Inspection Services Branch staff identify non-compliance by craft alcohol producers.

When inspectors identify non-compliance by a craft alcohol producer (via inspection or because of a complaint received), the Authority requires them to inform the producer of the identified non-compliance immediately. Inspectors do not determine corrective action on non-compliance. Instead, they inform their manager of the identified non-compliance, who makes a decision on whether the matter warrants enforcement action, such as a warning letter or other sanctions (e.g., administrative penalty [i.e., fines], suspension or cancellation of permit).<sup>14</sup> We found the Authority's policies on enforcement action consistent with the Authority's legislation.

If management determines the non-compliance requires enforcement action, the Authority established how timely it must inform producers and has an appropriate documented process to help ensure consistency in treatment. Inspectors must inform craft alcohol producers of the escalated enforcement action within 30 days of the identified non-compliance.

While the Authority does not have a template for staff to use when drafting correspondence for more severe forms of enforcement action, it uses only one person to draft this correspondence (i.e., Director, Liquor Licensing and Inspection Services Branch or Vice President, Regulatory Services Division depending on the type of enforcement action) to help ensure appropriate and consistent action. Therefore, senior management is aware of any severe instances of non-compliance and related enforcement action through this process.

For the 12-months ended November 30, 2020, inspectors performed nine inspections and 45 investigations (i.e., an assessment of a complaint received), while for the 12-months ended November 30, 2021, inspectors performed 10 inspections and 23 investigations. There were no instances where management took enforcement action (e.g., administrative penalty, cancellation or suspension of permit) during the 12-months ended November 30, 2021. We examined four inspections and four investigations and found none warranted enforcement action.

See **Figure 8** for the Authority's enforcement action over the past four years.

**Figure 8—Craft Alcohol Enforcement Actions**

	2017–18	2018–19	2019–20	2020–21
Educational guidance	2	7	4	0
Warnings	1	1	0	0
Sanctions <sup>A</sup>	2	5	2	1
<b>Total</b>	<b>5</b>	<b>13</b>	<b>6</b>	<b>1</b>

Source: Saskatchewan Liquor and Gaming Authority records for the fiscal year-ended March 31.

<sup>A</sup> Sanctions include both administrative penalties (i.e., fines) and permit suspension or cancellation.

<sup>14</sup> Administrative penalties are set in *The Alcohol Control Regulations, 2016*, Table 5. Penalties range from \$500 to \$10,000.

Quarterly, the Authority posts liquor permittees' instances of non-compliance (including craft alcohol producers) on its website. We found the information on its website sufficient for the public to understand the violation and to which permittee the non-compliance related.

By having a formalized process for taking effective, timely enforcement action, the Authority reduces the risk of craft alcohol producers continuing to not comply with the Authority's operating requirements. This also reduces the risk to public safety (e.g., consuming unsafe alcohol).

## 4.9 Timely and Adequate Complaint Resolution

Saskatchewan Liquor and Gaming Authority inspectors sufficiently resolve complaints received.

The Authority's IT system tracks all complaints received by the Liquor Licensing and Inspection Services Branch. When the Branch receives a complaint (e.g., producer operating in an unlicensed location), management reviews the complaint to determine whether it has merit. If a complaint has merit, management assigns an inspector to investigate the complaint further.

The Authority received 15 complaints during the 12-months ended November 30, 2021.

While the Authority has not set a formal expectation for how timely staff should resolve complaints received, our testing of four investigations of complaints received found staff conducted timely follow-up (e.g., within two days of receiving the complaint). Establishing a formal timeframe expectation would promote a consistent approach to complaint resolution amongst staff.

For each of the four complaints tested, staff contacted the craft alcohol producer and conducted an investigation. We found staff sufficiently investigated and documented the resolution of the complaints in the IT system.

Adequately resolving complaints received and reported by the public about craft alcohol producers enables the Authority to monitor and address situations that may identify producers not complying with operating or manufacturing requirements.

## 4.10 Analysis of Monthly Reported Craft Alcohol Sales Needed

The Saskatchewan Liquor and Gaming Authority does not assess the reasonability of alcohol production and sales information submitted by craft alcohol producers before billing for production levies.<sup>15</sup>

Craft alcohol producers pay the Authority a production levy on craft alcohol sold directly to consumers or retailers. Monthly, craft alcohol producers submit production and sales reporting to the Authority. The Authority uses this reported sales volume to determine how much production levy each craft alcohol producer must remit.

<sup>15</sup> The Authority charges craft alcohol producers a production levy (fee per litre sold) based on the type of alcohol produced (e.g., beer, wine, cider) and based on the type of producer (i.e., type 1 or type 2).



Production levy rates are lower than the markup that applies if craft producers sell craft products to the Authority (i.e., if the Authority's warehouse distributes craft products). For example, the production levy on the first 50,000 litres of spirits is up to \$0.70 per litre of product versus the markup being 73% of the product's purchase price. See **Figure 9** for the production levies the Authority collected in each of the last five years.

**Figure 9—Production Levies 2016–2021 (thousands of dollars)**

2016–17	2017–18	2018–19	2019–20	2020–21
\$369	\$452	\$767	\$1,301	\$2,902

Source: Saskatchewan Liquor and Gaming Authority records.

The Authority sets out its requirement for craft alcohol producers to report monthly production and sales information in its *Commercial Liquor Permittee Policy Manual*. The Authority expects producers to submit reporting on year-to-date production, direct sales, and returned products. Once received, Authority staff determine craft alcohol producers' production levy based on this information.

We found the Authority did not have evidence of staff following its process to assess the reasonability of production and sales information submitted by craft alcohol producers. This information drives the production levy the Authority charges producers, thus producers may have a bias to underreport sales.

We expected the Authority would formally review the reported data to assess for reasonability and follow up when it identified situations that may suggest risk of errors in the information reported. For example, significant changes in production or sales levels, and differences between opening inventory of one month and closing inventory of the prior month.

We analyzed producers' monthly reported information for the audit period by comparing opening inventory of one month to closing inventory of the prior month and recalculating production levies charged by the Authority. We found:

- The Authority charged the correct production levy rate based on the craft alcohol type the producer manufactures.
- The Authority calculated the production levy correctly (i.e., levy rate multiplied by litres of total sales).
- For 33 instances out of 594 items where opening inventory of one month did not agree with closing inventory of the prior month, we found no evidence of the Authority obtaining explanations for the differences from the producers. We consider these records to be at a higher risk of containing errors in reported amounts, and thus an incorrect production levy charged. Differences ranged from opening inventory being less than expected by more than 11,000 litres to being higher than expected by over 35,000 litres.

In 2021, the Authority's Internal Audit Branch completed an audit of a craft alcohol producer to assess whether the producer kept adequate records to support the annual production and sales information, and whether the Authority assessed an appropriate production levy



for 2019. Using financial information, invoices, inventory records, and sales records from the craft alcohol producer, the Authority determined the producer underreported its 2019 sales by about 2,000 litres, or about 2.6% of its annual 2019 total. This resulted in the Authority charging about \$5,000 less production levy for 2019 than it should have.

By having ineffective processes to assess producer-prepared production and sales information, the Authority is at risk of receiving inaccurate production levies.

5. We recommend the Saskatchewan Liquor and Gaming Authority perform reasonability assessments of locally-manufactured craft alcohol producers' monthly sales and production reporting to help ensure collection of all production levies.

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