

Chapter 19

Saskatchewan Liquor and Gaming Authority— Regulating Recreational Cannabis

1.0 MAIN POINTS

By December 2023, Saskatchewan Liquor and Gaming Authority implemented seven of the eight recommendations we originally made in 2020 related to regulating recreational cannabis.

Effective regulatory processes help to prevent the sale of legal recreational cannabis to youth, keep profits from cannabis sales in the regulated market (i.e., away from criminals), and protect public safety by allowing adults to access legal cannabis.

The Authority still needs to improve its policies and guidance to communicate identified non-compliance to permittees in a timely way. We found instances where the Authority did not formally notify non-compliant permittees of infractions found during inspections for more than 175 days after the investigation report date. Without formally communicating issues of non-compliance timely, permittees may continue to commit infractions.

The Authority strengthened its process to monitor sanctions and warnings. We found the Authority uses both its regulatory IT system and other tracking spreadsheets to monitor the status of sanctions.

The Authority finalized and approved its Risk-Based Inspections Policy and Cannabis Sanctioning Guideline for staff to consistently perform expected procedures. We found staff follow this guidance when completing regulatory activities (e.g., inspections).

The Authority also provided sufficient reporting to senior management that included information about non-compliance with cannabis retail and wholesale permit conditions, trend analysis of cannabis markets, and licensed producer registrations.

2.0 INTRODUCTION

2.1 Background

The Saskatchewan Liquor and Gaming Authority, and its Cannabis Licensing and Inspections Branch in particular, is responsible for regulating the distribution and sale of recreational cannabis (e.g., cannabis plants, concentrates, edibles) in Saskatchewan. *The Cannabis Control (Saskatchewan) Act* gives the Authority the responsibility for regulating recreational (i.e., non-medicinal) cannabis retail and wholesale businesses, and licensed producers.^{1,2}

¹ Order in Council 347/2018 dated July 12, 2018, designates the Saskatchewan Liquor and Gaming Authority as the Cannabis Authority contemplated under *The Cannabis Control (Saskatchewan) Act*.

² **Retail permittee** is a business that engages in the retail sale of cannabis for public consumption and use. **Wholesale permittee** is a business that purchases wholesale cannabis products from licensed producers and distributes the products to retail permittees. **Licensed producer** is a business, licensed by the Federal Government, which grows, packages, and sells finished cannabis products.



Increased health risks, especially to minors (e.g., long-term brain impacts), associated with the use of cannabis make the regulation of its sale and distribution important. The Authority has regulated the cannabis industry since cannabis became legal in Canada in October 2018.

During the early stage of regulating recreational cannabis, the Authority focused its efforts on educating retail and wholesale permittees about operating requirements. It has since moved to enforcing identified non-compliance with requirements.

Saskatchewan uses a fully private distribution and sales model for cannabis. The Authority issues permits to privately owned and operated recreational cannabis retail and wholesale businesses. It also registers licensed producers allowing the sale of the producers' cannabis in Saskatchewan to retail and wholesale permittees (i.e., verifies the licensed producer has a federal permit and meets requirements to sell products in Saskatchewan).

At December 2023, the Authority regulated 182 cannabis retailers, 192 licensed producers, and five wholesale businesses.

2.2 Focus of Follow-Up Audit

This chapter describes our first follow-up audit of management's actions on the recommendations we made in 2021.

In 2021, we assessed the Saskatchewan Liquor and Gaming Authority's processes to regulate the distribution and sale of recreational cannabis in Saskatchewan. Our *2021 Report – Volume 1*, Chapter 10, concluded that, for the 12-month period ended December 31, 2020, the Authority had, except for the eight areas where we made recommendations, effective processes to regulate the distribution and sale of recreational cannabis in Saskatchewan.³

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate the Authority's progress toward meeting our recommendations, we used the relevant criteria from the original audit. Authority management agreed with the criteria in the original audit.

To carry out our follow-up audit, we interviewed Authority staff responsible for regulating the distribution and sale of recreational cannabis in Saskatchewan, examined key documents (e.g., policies and procedures, inspection plans, sanctions guideline), and other records. We also tested a sample of permit applications, inspections, and non-compliance communications.

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at December 31, 2023, and the Saskatchewan Liquor and Gaming Authority's actions up to that date.

³ *2021 Report – Volume 1*, Chapter 10, pp. 131–150.

3.1 Tracking of Key Regulatory Activities Improved

We recommended the Saskatchewan Liquor and Gaming Authority develop guidance for centrally keeping results from its key regulatory activities of recreational cannabis (e.g., assessment of cannabis permit applications).

(2021 Report – Volume 1, p. 138, Recommendation 1; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

The Saskatchewan Liquor and Gaming Authority prepared and followed appropriate guidance to record results from its key regulatory activities (e.g., assessing permit applications, conducting inspections).

The Authority created procedure guides that provide reasonable guidance to regulatory staff. For licensing, it prepared procedure guides for retail store and wholesale permittees and another guide for registering licensed producers.

The guides provide procedures to staff for tracking information provided by the permittee in both the Authority's network system (central location while it reviews an application) and in its IT regulatory system (all information stored once application decision is made). This supports standard tracking of the necessary information staff must obtain and do while assessing the permit application (e.g., completing due diligence procedures such as criminal record checks). We found the documented procedures reasonable.

In 11 permit applications tested, we found the Authority followed its procedures as expected and entered 10 of the 11 application files into its IT regulatory system after approving the application. At the time of testing (December 2023), the Authority was still processing the one remaining permit application.

For inspections, the Authority drafted a Cannabis Inspector Standard Operating Procedures Manual. The Manual includes the Authority's expected processes for recording inspections of retail stores and wholesale permittees. Although the Manual was still in draft at March 2024, we found the documented expectations reasonable.

We also tested a sample of 19 inspection reports and found staff properly recorded the reports in the Authority's IT regulatory system consistent with expected procedures.

Recording all key information in one central location enables the Authority to effectively supervise that staff complete sufficient due diligence procedures while reviewing permit applications and monitor the frequency of inspections. This reduces the risk of approving permittees with questionable backgrounds or character. Also, it reduces the risk of losing information or duplicating requests for information.



3.2 Risk-Informed Inspection Plan Established and Monitored

We recommended the Saskatchewan Liquor and Gaming Authority implement a risk-informed plan for inspecting retail and wholesale permittees who sell or distribute recreational cannabis. (2021 Report – Volume 1, p. 140, Recommendation 2; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

We recommended the Saskatchewan Liquor and Gaming Authority actively monitor the frequency of inspections of retail and wholesale permittees who sell or distribute recreational cannabis, and obtain reasons for delayed inspections. (2021 Report – Volume 1, p. 142, Recommendation 3; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

Effective March 2022, the Saskatchewan Liquor and Gaming Authority implemented a risk-based inspection policy outlining processes for staff to determine the risk level of retail and wholesale permittees, as well as the required inspection frequency based on assessed risk. The Authority also improved its tracking of inspections to enable it to monitor the frequency of inspections consistent with expectations.

The Authority’s Risk-Based Inspections Policy reasonably sets out the determining factors in establishing the risk level, the formula for determining risk level, and the inspection frequency associated with the assessed risk level.

The risk-level calculation is based on three factors:

- History of non-compliance
- Risks identified during application assessment (e.g., risks identified during due diligence procedures)
- Permit type (e.g., high-risk cannabis retailers integrated into other retail stores that allow minors)

The Authority will recalculate risk scores when one of these factors change (e.g., permittee sanctioned for non-compliance). The Policy assigns an inspection frequency for each risk level, see **Figure 1**.

Figure 1—Risk-Based Inspections Policy Risk Level and Inspection Frequency

| Risk Level | Inspection Frequency |
|------------|----------------------|
| Low | 12 weeks |
| Medium | 8 weeks |
| High | 4 weeks |

Source: Saskatchewan Liquor and Gaming Authority’s Risk-Based Inspections Policy.

We tested 19 permittees and found the Authority correctly determined the risk level based on the determining factors and associated inspection frequency in all 19 cases. We also found the Authority updated risk scores for the 19 permittees (e.g., if permittees received a sanction).

The Authority also improved its monitoring of inspection frequency for retail and wholesale permittees in a tracking spreadsheet. We found it maintained a spreadsheet identifying each permittee, expected inspection frequency, and date of inspections. While IT system changes could provide a more efficient process to track inspections, using a manual tracking process still allows the Authority to formally monitor completed inspections.

We assessed the completeness of the Authority's spreadsheet to track inspections by comparing it to information from its regulatory IT system and found staff regularly updated the list and kept it current. We found the spreadsheet complete and it contained sufficient information to verify staff monitor the frequency of inspections.

We also analyzed inspections completed during the audit period. Of 912 inspections, Authority inspectors conducted 715 (78.4%) of these within the expected number of days based on the Risk-Based Inspections Policy. Delays for inspections ranged between 1–79 days with the average delay at approximately 14.3 days. Where inspections were delayed, Authority inspectors conducted subsequent inspections by the next deadline, indicating they were monitoring the frequency of inspections.

Having a risk-based inspection plan helps the Authority allocate its resources to the highest priority areas. Actively monitoring permittees better enables the Authority to detect significant non-compliance issues.

3.3 Guidance for Addressing Non-Compliance and Enforcement Actions Established

We recommended the Saskatchewan Liquor and Gaming Authority approve policies governing the escalation of regulatory enforcement actions to take to address identified non-compliance with cannabis permit operating requirements. (2021 Report – Volume 1, p. 144, Recommendation 4; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

We recommended the Saskatchewan Liquor and Gaming Authority advise permittees when the Authority expects to start taking regulatory enforcement actions (e.g., fines) to address identified non-compliance with cannabis permit operating requirements. (2021 Report – Volume 1, p. 144, Recommendation 5; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

The Saskatchewan Liquor and Gaming Authority finalized and approved its Cannabis Sanctioning Guideline and advised permittees of it taking regulatory enforcement actions when permittees are non-compliant with permit-operating requirements.



The Guideline provides clear guidance to staff for implementing sanctions with non-compliant retailers and wholesalers, depending on the level of non-compliance. Inspectors continue to focus on educating non-compliant permittees; however, in cases of continued non-compliance, or a higher level of infraction severity, staff will sanction (e.g., fine and/or suspend or cancel permit) the permittee. The Guideline shows infraction categories, examples of infractions, and the actions the Authority will take to address non-compliance. For example, if the Authority finds a permittee possessing or selling cannabis not produced by a federally licensed producer, it will immediately suspend the permit.

Authority inspectors are familiar with the Cannabis Sanctioning Guideline and make their recommendations to management accordingly. The Manager of Inspections and Integrity reviews and approves the inspection reports and provides sanction recommendations to management for approval.

We sampled five infractions where the Authority issued a warning letter or sanction and found that in all five cases, the Authority followed its Guideline as required. For example, for one infraction we reviewed, the Authority sanctioned a cannabis retail permittee for having an employee who did not complete the Authority required 'Cannasell' course (i.e., responsible service training requirement for cannabis retail staff). The Authority appropriately sent a warning letter to the permittee as this was their first offence for a Category II infraction.

On April 30, 2021, the Authority emailed written notice to cannabis permittees informing them it will issue sanctions for non-compliance (e.g., fine and/or suspend or cancel permit). On this effective date, the Authority progressed from only educating permittees to imposing warnings and sanctions and sent an email to permittees.

Having an approved and enforced sanction guideline enables the Authority to take consistent actions to address identified non-compliance. This promotes fair treatment of all permittees.

3.4 Timely Issuance of Sanctions for Identified Non-Compliance Required

We recommended the Saskatchewan Liquor and Gaming Authority promptly communicate to cannabis retail and wholesale permittees sanctions about addressing identified non-compliance. (2021 Report – Volume 1, p. 145, Recommendation 6; Public Accounts Committee agreement February 6, 2023)

Status—Not Implemented

The Saskatchewan Liquor and Gaming Authority does not have a set policy for timely issuance of sanctions and warning letters for identified non-compliance. It did not communicate its enforcement actions to address non-compliance to permittees in a timely way.

The Authority has not established a set timeline for informing non-compliant permittees of issued sanctions as part of either its Cannabis Sanctioning Guideline or Cannabis Service Standards.

Authority management indicated an informal expectation of six months (183 days) from identifying an infraction to formally notifying the permittee of the Authority's intended enforcement actions (e.g., issuing fines, canceling permits, requiring specific training). However, this does not align with its expectations for other Authority-regulated industries such as communicating sanctions within 60 days (from end of investigation) when regulating commercial liquor permittees.⁴ Also, not issuing formal sanctions for six months makes it more likely permittees do not work to comply with expected operating requirements and increases risks to public health and safety. The Authority indicated it does informally discuss the results of its inspections with permittees prior to issuing sanctions (e.g., at end of inspection).

Although the Authority, through its Cannabis Sanctioning Guideline, sets out infraction categories and escalation actions from education to enforcement (**Section 3.3**), we found the Authority neither communicates non-compliance issues timely to permittees nor consistently follows its own informal expectation of six months.

For severe infractions (e.g., failure to request identification from a purchaser who appears under 25 years of age, selling cannabis products to a minor), the Authority will directly sanction the permittee, while the Authority may provide education (e.g., discussion, warning letter) for less severe infractions (e.g., retail not open the minimum required hours).

For three of five non-compliance cases we tested, staff issued letters (e.g., warning letter, financial penalty letter) over 183 days after it started its investigation (i.e., more time than management's informal expectation).

We found for four of five warning/sanction letters we tested, the Authority took longer than 60 days to provide its sanction letter after it completed its investigation; provided between 99–235 days after the investigation report date.

We also found the Authority was not following what we consider an appropriate target. We analyzed all sanctions in its tracking spreadsheet. At December 2023, 14 sanctions were issued and 14 were in progress. For the 14 issued sanctions, staff issued the sanction on average 187 days after the completed investigation (ranged from 51–306 days). For the 14 investigations completed with planned sanctions, staff had not yet issued letters at December 2023 with an average of 114 days (ranged from 60–196 days since the completed investigation).

By not issuing sanctions timely, the Authority increases the risk of cannabis permittees continuing to not comply with operating requirements. This may increase risk to public safety (e.g., retail permittees selling cannabis to minors).

We tested five permittees who were sanctioned for non-compliance and found the Authority appropriately approved the sanction for all five permittees consistent with its expectations (e.g., warning letters approved by Cannabis Licensing and Inspections Branch Director, sanctions approved by Vice President).

⁴ In addition, we note in our 2022 audit, the Authority formally planned to notify locally manufactured craft alcohol permittees of sanctions within 30 days (from end of investigation). *2022 Report – Volume 1, Chapter 6*, pp. 87–103, section 4.8.



3.5 Effective Monitoring of Non-Compliance and Enforcement Actions

We recommended the Saskatchewan Liquor and Gaming Authority enable effective monitoring of the status of enforcement actions to address cannabis retail and wholesale permittee identified non-compliance from operating requirements. (2021 Report – Volume 1, p. 145, Recommendation 7; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

The Saskatchewan Liquor and Gaming Authority effectively monitors the status of enforcement actions to address cannabis permittee non-compliance.

The Authority's regulatory IT system does not have the capability to report on the history of identified non-compliance and enforcement actions to address non-compliance. The regulatory IT system can report on individual instances of non-compliance identified.

Instead, the Licensing and Inspections Branch Director maintains and updates a list of sanctioned permittees and the rationale for those sanctions on a spreadsheet. The Director updates the spreadsheet when they receive notifications from the Manager of Inspections and Integrity of any warnings or sanctions issued. Both the Director and Manager have spreadsheet access to see sanction history, add any necessary sanctions, or increased fines for repeat violations.

We compared non-compliance information from the Authority's regulatory IT system to the sanctions spreadsheet and both sources had consistent information. Therefore, the Authority effectively monitors non-compliance issues through its current systems.

The Authority further monitors the status of enforcement actions through repeated inspections set in its Risk-Based Inspections Policy. The Authority does not increase the inspection frequency on sanctioned permittees to determine whether they have become compliant unless, as indicated in **Section 3.2**, repeated non-compliance affects the permittee's risk level (i.e., increases risk level) thereby increasing the frequency of scheduled inspections.

Tracking history of permittee non-compliance enables management to monitor that it consistently and appropriately follows its Cannabis Sanctioning Guideline.

3.6 Reporting Non-Compliance to Senior Management

We recommended the Saskatchewan Liquor and Gaming Authority periodically give senior management written reports on the nature and extent of non-compliance with cannabis retail and wholesale permit conditions, and related enforcement strategies and actions. (2021 Report – Volume 1, p. 147, Recommendation 8; Public Accounts Committee agreement February 6, 2023)

Status—Implemented

The Saskatchewan Liquor and Gaming Authority's Cannabis Licensing and Inspections Branch provides senior management with written reports on the nature and extent of non-compliance with cannabis retail and wholesale permit conditions (e.g., inspections completed, actions taken).

The Authority provides annual status reports that include data and trend analysis of cannabis retail and wholesale markets; licensed producer registrations; compliance; and cannabis inventory reporting to senior management. For example, reports included year-over-year trends in permitted cannabis retail locations, registered suppliers, applications received, and inspections completed during the year.

The Cannabis Licensing and Inspections Branch also contributes to quarterly reporting by providing quarterly updates to the Authority's regulatory division reporting. These updates are not as comprehensive as the annual reports because they only provide information around permits and the Minors as Test Shoppers (MATS) program non-compliance (e.g., a new enforcement strategy since the original audit). However, these reports provide sufficient, additional information to senior management about the nature and extent of non-compliance with cannabis retail and wholesale permit conditions, and related enforcement strategies and actions.

By reporting this information to senior management, the Authority decreases the risk senior management does not have information necessary to determine whether its regulatory model and approach is working as intended, and to identify whether adjustments are necessary.

