

**COMPLIANCE REVIEW REPORT
for Aboriginal Affairs and Northern Development Canada
Nutrition North Canada**

**Contribution Agreement
Signed on April 1, 2011
with
Arctic Co-operatives Ltd.**

**by Samson & Associates
March 31, 2012**

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APPENDIX A - Recipient's Comments to the Draft Report and the Auditor's Response

1.0 Executive Summary

On April 1, 2011, the Nutrition North Canada replaced the Food Mail Program, which was operated by Canada Post since the late 60's. Much like Food Mail, the purpose of Nutrition North Canada is to make nutritious food more accessible and more affordable to residents of isolated northern communities that lack year-round surface and marine transportation links to southern centres.

Accordingly, Aboriginal Affairs and Northern Development Canada commissioned a compliance review based on specific objectives for the period covering April 1, 2011 to December 31, 2011. The results of the review are as follows:

i) Program Visibility

Review Objective: Verify that program visibility requirements are met (e.g. subsidy rates are written on cash receipts and program material, such as posters, are clearly visible in the store).

Conclusion: The review found that the recipient was clearly identifying the NNC subsidy rate on cash register receipts and signage was on display throughout the store.

ii) Respect of Program Rules

Review Objective: Verify that recipients respect all program rules, especially in regards to sales to ineligible customers such as mining camps or construction companies.

Conclusion: The review revealed that the recipient was respecting the program rules with respect to sales to ineligible customers.

2.0 Introduction

2.1 Background

On April 1, 2011, Nutrition North Canada (NNC) replaced the Food Mail Program, which was operated by Canada Post since the late 60's. Much like Food Mail, the purpose of NNC is to make nutritious food more accessible and more affordable to residents of isolated northern communities that lack year-round surface and marine transportation links to southern centres.

There are currently 103 communities eligible for the program (82 are eligible for a full subsidy and 21 for a partial subsidy), located in Nunavut, the Northwest Territories, Yukon, Labrador, Quebec, Ontario, Manitoba and Saskatchewan. Two levels of subsidy rates per kilogram have been established for each community; Level 1 (higher) for the most nutritious perishable foods and Level 2 (lower) for other eligible items. Communities where operating and transportation costs are higher (e.g. Grise Fiord, Nunavut) tend to have higher subsidy rates.

Northern retailers and southern suppliers registered with the program (the recipients) are responsible to manage their supply chain and claim a subsidy from NNC for eligible food and non-food items that they ship by air to eligible communities. On a monthly basis, they must submit a claim form (kg x subsidy rates), a detailed shipment report (kg per item, community, client type, etc.), invoices and waybills to receive the payment (most receive advance payments based on forecasted weights). These documents are submitted to the program's claims processor under contract with Aboriginal Affairs and Northern Development Canada (AANDC) (the Saskatchewan Institute of Information Technology in collaboration with Crawford). The claims processor verifies the claims and provides NNC with a recommendation for payment. Registered northern retailers must also submit, directly to NNC, a monthly pricing report for a pre-determined list of food items. These and other program requirements are identified in the contribution agreements between the recipients and AANDC.

As of December 31, 2011, seven northern retailers and 26 southern suppliers were registered with NNC. Northern retailers are those entities that operate one or multiple food retail stores in eligible communities. Southern suppliers are food providers operating out of non-NNC eligible communities that supply eligible items directly to small northern retailers, commercial establishments (restaurants, etc.), social institutions (daycares, etc.) and individuals (referred to as direct or personal orders) located in eligible communities.

The selection of recipients for this compliance review was based on perceived risk and geographical location. Risk levels for compliance review purposes were based on the current experience with recipients regarding the claiming and reporting process, i.e. difficulties encountered by the claims processor, on information brought to the program's attention by interested parties, and on materiality. For practicality and cost-effectiveness reasons, at least two recipients have been selected per geographical location.

2.2 Objectives

The objective of the recipient compliance review is to provide assurance that the NNC recipient is in compliance with the terms and conditions of the funding agreements signed with AANDC. Specifically, the compliance review will:

1. Verify that program visibility requirements are met (e.g. for northern retailers, that subsidy rates are written on cash receipts and program material, such as posters, are clearly visible in the store, and, for southern suppliers, that the amount of the subsidy reduction is clearly identified on customers' invoices);
2. Verify that recipients respect all program rules, especially with respect to sales to ineligible customers such as mining camps or construction companies.

2.3 Scope

The scope included the funding provided by AANDC to Arctic Co-operatives Ltd. for its Iqaluit store for the period April 1, 2011 to December 31, 2011. The review was conducted at the offices of the Arctic Co-operatives Gas Bar in Iqaluit, Nunavut, on March 14, 2012.

2.4 Approach and Methodology

The compliance review included the following procedures:

- Performing an on-site visit and verifying that program visibility requirements were met (e.g. subsidy rates are written on cash receipts and program material, such as posters, are clearly visible in the store); and
- Performing interviews and a review of accounts receivable to determine if ineligible customers were benefiting from the subsidy when placing orders through the Gas Bar.

2.5 Conclusion

The recipient has complied with the objectives of the review.

Arctic Co-operatives Ltd. Gas Bar, Iqaluit, Nunavut



NNC Poster and Shelf Display of Gas Bar Items



3.0 Compliance with the Objectives

3.1 Visibility Requirements

Review Objective: Verify that program visibility requirements are met (e.g. subsidy rates are written on cash receipts and program material, such as posters, are clearly visible in the store).

Conclusion: The review found that the recipient was clearly identifying the NNC subsidy rates on cash register receipts and signage was on display throughout the store.

Observation Note: During the walkthrough of the gas bar, a poster advertising the NNC program was observed by the coffee dispenser. This is the highest traffic area of the store. In addition, a review was made of a sales ticket and found that the subsidy rates were clearly presented below the sales total on the ticket.

3.2 Respect of Program Rules

Review Objective: Verify that recipients respect all program rules, especially in regards to sales to ineligible customers such as mining camps or construction companies.

Conclusion: The review revealed that the recipient was respecting the program rules with respect to sales to ineligible customers.

APPENDIX A - Recipient's Comments to the Draft Report and the Auditor's Response

Recipient's Comments:

The Co-op System is committed to working with AANDC and its auditors, claims processor and other stakeholders to ensure that the maximum benefit of the NNC program is passed along to consumers in the remote markets that we serve. All System business units and Member Co-ops are provided support to engender compliance with the stipulations of the Grants and Contributions Agreement. We have reviewed the contents of the auditor's report at the Iqaluit Gas Bar and concur with the auditor's review of this operation from an NNC compliance perspective.

Auditor's Response:

No response required.