

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

Contribution Agreement
Signed on March 24, 2011
with
North West Company

by Samson & Associates
March 31, 2012

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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 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 air ship 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 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 the North West Company for its Iqaluit store for the period April 1, 2011 to December 31, 2011. The review was conducted at the North Mart Store in Iqaluit, Nunavut, from March 12 to 13, 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 North Mart Store.

2.5 Conclusion

The recipient has complied with the objectives of the review.

Custom Plastic Label Protectors & Laminated Custom Poster



NNC Eligible Product Sea Lifted & Old Style NNC Red Label



3.0 Compliance with the Objectives

3.1 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 rates on cash register receipts and signage was on display throughout the store.

Observation Note: The review found that the recipient has taken extraordinary steps to animate the purpose and intent of the NNC program by producing customized signage and purchasing specialized plastic sleeves to identify the price of products with and without the subsidy.

During the walkthrough of the store, the store manager identified three types of signs in the store for products. Those with no NNC label on the shelf sticker, those with a NNC red dot on the shelf sticker and those with a NNC shelf sticker. The NNC red dot signs are being phased out and full store conversion is expected this year. Every product in the store was labeled as either NNC or non-NNC. This has been somewhat problematic as many NNC eligible products are only sea lifted. For example, jams, salad dressings and relish do not have a NNC label as these all arrive by sea lift.

The North West Company has taken the initiative of the NNC program very seriously by designing a signage program and laminating all posters advertising the program with the company logo at the bottom of the sign. In addition, shelf price stand-out signs, which display the subsidy as well as the price without the subsidy, are run on a custom computer program. The home office has taken an additional step and has purchased plastic protectors for these signs. The new posters and shelf price stand-out signs stand out better, are neater, and the plastic covering makes the signs more robust as well as easier to clean. There are currently 120 signs in the store showing the savings realized by the NNC program.

In addition, the review made of a cash sales ticket found that the subsidy rate was 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 Comments:

The North West Company has been committed to showing our customers complete transparency for the Nutrition North Canada (NNC) price savings since the program's launch on April 1st, 2011. We have invested significantly in company-developed, open communication designed to prominently display the customers' savings. The NNC sign packages in Iqaluit are typical of signage in all Northern and NorthMart stores across northern Canada, and clearly state that the NNC subsidy is being passed on to consumers.

It is the intent of The North West Company to leverage the NNC program to bring the lowest price possible to all northern consumers in all healthy living products. We will continue to pass on the entire Nutrition North Canada price savings, as directed by the Aboriginal Affairs and Northern Development Canada Department (AANDC) of the Canadian Federal Government. Additionally, The North West Company will continue to fully support AANDC and Health Canada initiatives and independently develop transparent communication.

Michael McMullen
Executive Vice President Northern Canada Retail
The North West Company

Auditor's Response:

No response is required.