



Aboriginal Affairs and
Northern Development Canada

Affaires autochtones et
Développement du Nord Canada

Aboriginal Affairs and Northern Development Canada

Internal Audit Report

Audit of Nutrition North Canada

Prepared by:

Audit and Assurance Services Branch

Project#: 13-48

June 2013

CIDM#: 5348376

TABLE OF CONTENTS

ACRONYMS ii

EXECUTIVE SUMMARY 1

1. INTRODUCTION AND CONTEXT5

2. AUDIT OBJECTIVE AND SCOPE5

3. APPROACH AND METHODOLOGY7

4. CONCLUSION.....8

5. FINDINGS AND RECOMMENDATIONS.....8

 5.1. *Governance*9

 5.2. *Stewardship*.....11

 5.3. *Citizen-focused Services*15

 5.4. *Results and Performance*16

6. MANAGEMENT ACTION PLAN18

Appendix A: Audit Criteria.....21

ACRONYMS

AANDC	Aboriginal Affairs and Northern Development Canada
CPC	Canada Post Corporation
IT	Information Technology
NAO	Northern Affairs Organization
NNC	Nutrition North Canada
TB	Treasury Board

EXECUTIVE SUMMARY

Background

Nutrition North Canada (NNC) is a subsidy program that seeks to improve access to perishable healthy food in isolated northern communities. NNC was launched April 1, 2011. The objective of the NNC is to make healthy foods more accessible and affordable to residents of isolated northern communities by subsidizing eligible food shipped to those northern communities.

Prior to NNC, AANDC operated the Food Mail Program, which provided funding to the Canada Post Corporation (CPC) for the purposes of transporting foods and other eligible non-food items to isolated communities by air. On March 30, 2010, the government of Canada ratified the replacement of the Food Mail Program with a market-driven food subsidy program (i.e. NNC). The Food Mail Program ended on March 31, 2011.

NNC provides a subsidy directly to northern retailers, food suppliers/distributors, and northern country food processors¹ that apply, meet the program's requirements and register with NNC by signing funding agreements with AANDC. The lists of eligible items and northern communities and schedules of subsidy rates, vary by community and by category of eligible items, and are maintained by AANDC and posted on the departmental website. Through NNC, subsidy payments are made to recipients based on the weight of eligible items shipped to eligible communities. NNC recipients are responsible to: pass the subsidy on to consumers; provide proof of the nature of shipments; provide some visibility for the program (e.g. through messages on customer receipts, in-store signage, etc.); and, to provide data on products shipped and their pricing.

NNC has created funding arrangements with eligible recipients who submit subsidy claims to NNC for reimbursement. To assist NNC in processing recipient subsidy claims, NNC has entered into an agreement with a third party claims processor who is responsible for receiving, reviewing and processing recipient subsidy claims and supporting documentation.

Program oversight is provided by an Oversight Committee composed of senior executives from AANDC, Health Canada and Transport Canada. Additional oversight is provided by an Advisory Board which is composed of external members who collectively represent a wide range of perspectives and interests of northern residents and communities. The role of the Advisory Board is to provide information and advice to the Minister of AANDC to help guide the management, direction and activities of the NNC.

¹ NNC provides a subsidy for the transportation of country foods (e.g. Arctic char, muskox, caribou, etc.) between northern country food processors/distributors registered with NNC and eligible northern communities.

Since price is not the only factor which influences consumption, NNC is supported by Health Canada. As part of NNC, Health Canada receives approximately \$2.5M in contribution funding which is used to support and fund nutrition promotion and education initiatives in eligible communities.

NNC operations are managed by the Devolution and Territorial Relations Directorate, within the Northern Affairs Office (NAO). The NNC annual budget is fixed at \$60 million, and does not include an annual automatic budget escalator. \$53.9M of this fixed budget is distributed by AANDC through funding arrangements amongst eligible recipients.

AANDC	Annual Program Funding
Vote 1: personnel, claims processing contract, compliance review contract, Advisory Board support, data collection, marketing / communication material	\$3.4M
Vote 10: contribution funding	\$53.9M
Health Canada	
Vote 1: community implementation, capacity building, support	\$0.3M
Vote 10: contribution funding	\$2.5M
Total	\$60M

* Totals may not add up due to rounding

Audit Objective and Scope

The objective of this audit was to assess the extent to which the Nutrition North Canada (NNC) program has been implemented as intended, and to the extent that adequate governance, risk management, and management controls are in place to support effective and efficient administration and program delivery.

The audit scope included an assessment of the following:

- Program governance and risk management activities;
- Processes and controls in place to determine eligibility of participating communities, suppliers, and retailers;
- Processes and controls in place to determine subsidy rates;
- Processes and controls in place to manage funding agreements (review, approval, monitoring/reporting, compliance);
- Processes and controls in place to review and approve applications from potential recipients;
- Program controls in place to assure appropriate oversight of the third-party claims processor and approval of claim payments; and,
- Program planning, performance measurement, monitoring, and reporting activities.

The scope of the audit included all NNC activities during the period April 1, 2011 through to March 31, 2013. The audit did not include Health Canada NNC funding used to support and fund nutrition promotion and education initiatives in eligible communities.

The audit did not include activities related to the former Food Mail Program.

The scope of the audit included program controls in place to assure there was appropriate oversight of the third-party claims processor but did not include examination of the third-party claims processor's own internal controls.

Statement of Conformance

This audit conforms with the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

Observed Strengths

Throughout the audit fieldwork, the audit team observed examples of how controls are properly designed and are being applied effectively by NNC. This has resulted in several positive findings which are listed below:

- The Advisory Board membership includes adequate external representation, and the Board meets regularly to exercise its advisory responsibilities;
- Procedural documents, which describe the process & controls used to ensure volumes, food and shipment costs are recorded accurately and in a timely manner, have been provided to recipients and the Claims Processor;
- Communication strategies and mechanisms are used to support sharing of timely, relevant and reliable information to consumers, recipients and other stakeholders;
- Eligibility assessment criteria and a consistent approach was used to assess recipient eligibility (i.e. retailers and suppliers);
- Feedback from users and stakeholders is used as input in making program decisions; and,
- The program is transparent in reporting performance measurement data and reports measurable results on eligible food item prices and items shipped.

Conclusion

Generally, the audit found that control practices related to the Nutrition North Canada program are adequate. Some opportunities for improvement were noted to strengthen management practices in the following areas: governance, cost containment measures, compliance reviews, claims processor oversight, eligibility assessments and performance measurement.

Recommendations

The audit team identified areas where control practices and processes could be improved, resulting in six recommendations, as follows:

1. The Assistant Deputy Minister of the Northern Affairs Organization should clarify the purpose and role, membership, and meeting frequency required to implement an effective Oversight Committee and review the purpose and role of the Advisory Board for the next phase of program implementation, taking into consideration the level of program resources available to support Advisory Board activities.
2. The Assistant Deputy Minister of the Northern Affairs Organization should continue to support cost containment strategy measures undertaken by the program, and monitored by the Oversight Committee, in order for the program to remain within approved budget levels.
3. The Assistant Deputy Minister of the Northern Affairs Organization should: document the risks and rationale used in selecting recipients for compliance reviews; create a compliance review plan based on this approach; retain the evidence gathered during the compliance reviews; and, ensure observations made in published reports specifically address the key risks and intended scope and approach.
4. The Assistant Deputy Minister of the Northern Affairs Organization should: request information on the claims processor quality assurance approach to determine whether an audit of the current claims processor is necessary; ensure payment review and approval procedures are adequately documented; develop a risk-based sampling approach for recipient claims; and, investigate appropriate contract requirements for future claims processor contracts (i.e. service monitoring and service auditor report).
5. The Assistant Deputy Minister of the Northern Affairs Organization should establish a process for periodic review and policy discussion regarding food items and community eligibility.
6. The Assistant Deputy Minister of the Northern Affairs Organization should implement tools/systems with access controls to effectively collect data, conduct trend analysis, and monitor changes in the price of food basket items, and complete awareness and retail surveys to obtain feedback on program progress and retailer costs.

Management Response

Management is in agreement with the findings, has accepted the recommendations included in the report, and has developed a management action plan to address them. The management action plan has been integrated in this report.

1. INTRODUCTION AND CONTEXT

1.1. *Nutrition North Canada*

Nutrition North Canada (NNC) is a subsidy program that seeks to improve access to perishable healthy food in isolated northern communities. NNC was launched April 1, 2011. The objective of the NNC is to make healthy foods more accessible and affordable to residents of isolated northern communities by subsidizing eligible food shipped to those northern communities.

Prior to NNC, AANDC operated the Food Mail Program, which provided funding to the Canada Post Corporation (CPC) for the purposes of transporting foods and other eligible non-food items to isolated communities by air. The Food Mail Program was a transportation subsidy program which allowed CPC to provide subsidized transport rates to shippers for the movement of eligible items to eligible communities. Sharply increasing populations and fuel prices, however, forced AANDC to seek additional resources yearly to support the delivery of the Food Mail Program. On March 30, 2010, the government of Canada ratified the replacement of the Food Mail Program with a market-driven food subsidy program (i.e. NNC). The Food Mail Program ended on March 31, 2011.

NNC provides a subsidy directly to retailers, suppliers, and country food processors that apply, meet the program's requirements and register with NNC by signing funding agreements with AANDC. Subsidy rates are determined on a per-kilogram of shipped eligible food basis and are customized by community. The lists of eligible items, northern communities eligible, and subsidy rates are maintained by AANDC and posted on the departmental website.

Through NNC, subsidy payments are made to recipients based on the weight of eligible items shipped to eligible communities. NNC recipients are responsible to: pass the subsidy on to consumers; provide proof of the nature of shipments; provide some visibility for the program (e.g. through messages on customer receipts, in store signage, etc.); and, to provide data on products shipped and their pricing. There are three categories of eligible recipients including: northern retailers, food suppliers/distributors and northern country food processors.

- Northern retailers: retailers who operate stores located in eligible communities where eligible items are available for purchase;
- Food Suppliers/distributors: retailers, wholesalers, and distributors who operate a business outside of eligible communities, who supply small northern retailers, eligible institutions and individuals with eligible items; and,
- Northern country food processors: All country food processors/distributors in eligible communities who meet the program's selection criteria.

NNC has created funding arrangements with eligible recipients who submit subsidy claims to NNC for reimbursement. To assist NNC in processing recipient subsidy claims, NNC has entered into an agreement with a third party claims processor (Saskatchewan Indian institute of

Technologies, in partnership with Crawford & Company) who is responsible for receiving, reviewing and processing recipient subsidy claims and supporting documentation.

Program oversight is provided by an Oversight Committee composed of senior executives from AANDC, Health Canada and Transport Canada. Additional oversight is provided by an Advisory Board which is comprised of external members who collectively represent a wide range of perspectives and interests of northern residents and communities. The role of the Advisory Board is to provide information and advice to the Minister of AANDC to help guide the management, direction and activities of the NNC.

Since price is not the only factor which influences consumption, NNC is supported by Health Canada. As part of NNC, Health Canada receives approximately \$2.5M in contribution funding which is used to support and fund nutrition promotion and education initiatives in eligible communities.

NNC operations are managed by the Devolution and Territorial Relations Directorate, within the Northern Affairs Office (NAO). The NNC annual budget is fixed at \$60 million, and does not include an annual automatic budget escalator. \$53.9M of this fixed budget is distributed by AANDC through funding arrangements amongst eligible recipients.

Although NNC replaced the former Food Mail Program, NNC was launched on April 1, 2011 as an entirely new program. During the introductory phase of NNC, program management noted that significant effort, time and attention was required by NNC program management and staff to develop new practices and processes while also managing and responding to increased public and media inquiries on the new program. Given the NNC is a market-driven program, predicting consumer demand was challenging and there was limited data or similar programs from which to draw experiences or lessons learned.

2. AUDIT OBJECTIVE AND SCOPE

2.1. *Audit Objective*

The objective of the audit was to assess the extent to which the Nutrition North Canada (NNC) program has been implemented as intended, and to the extent that adequate governance, risk management, and management controls are in place to support effective and efficient administration and program delivery.

2.2 *Audit Scope*

The audit scope included an assessment of the following:

- Program governance and risk management activities;
- Processes and controls in place to determine eligibility of participating communities, suppliers, and retailers;
- Processes and controls in place to determine subsidy rates;

- Processes and controls in place to manage funding agreements (review, approval, monitoring/reporting, compliance);
- Processes and controls in place to review and approve applications from potential recipients;
- Program controls in place to assure there is appropriate oversight of the third-party claims processor and approval of claim payments; and,
- Program planning, performance measurement, monitoring, and reporting activities.

The scope of the audit included all NNC activities during the period April 1, 2011 through to March 31, 2013. The audit did not include Health Canada NNC funding used to support and fund nutrition promotion and education initiatives in eligible communities.

The audit did not include activities related to the former Food Mail Program.

The scope of the audit included program controls in place to assure there was appropriate oversight of the third-party claims processor but did not include examination of the third-party claims processor's own internal controls.

3. APPROACH AND METHODOLOGY

The audit of Nutrition North Canada was planned and conducted in accordance with the *Internal Auditing Standards for the Government of Canada*, as set out in the Treasury Board *Policy on Internal Audit*.

Sufficient and appropriate audit procedures have been conducted and evidence gathered to support the audit conclusion provided and contained in this report.

The probability of significant errors, fraud, non-compliance, and other exposures was considered during the planning phase of the audit.

The principal audit techniques used included:

- Interviews with key management and staff personnel;
- Review of relevant documentation related to the management and administration of the NNC;
- Evaluation of the system of internal controls over governance, stewardship (claims processor, eligibility assessment and cost containment strategy), client-focused services (communication program) and results and performance;
- Review of a sample of 15 recipient funding arrangements and a review of 25 payments made to recipients; and,
- Walkthrough testing of the claims process from the receipt claim to the payment.

The approach used to address the audit objectives included the development of audit criteria against which observations and conclusions were drawn. The audit criteria developed for this audit are included in Appendix A.

4. CONCLUSION

Generally, the audit found that control practices related to the management of Nutrition North Canada program were adequate. Some opportunities for improvement were noted to strengthen management practices in the following areas: governance, cost containment measures, compliance reviews, claims processor oversight, eligibility assessments and performance measurement.

5. FINDINGS AND RECOMMENDATIONS

Based on a combination of the evidence gathered through the examination of documentation and systems, analysis and interviews, each audit criterion was assessed by the audit team and a conclusion for each audit criterion was determined. Where a significant difference between the audit criterion and the observed practice was found, the risk of the gap was evaluated and used to develop a conclusion and to document recommendations for improvement.

Observations include both management practices considered to be adequate as well as those requiring improvement. Recommendations for corrective actions accompany observations of management areas identified for improvement.

Throughout the audit fieldwork, the audit team observed examples of how controls are properly designed and are being applied effectively by NNC. This has resulted in several positive findings which are listed below:

- The Advisory Board membership includes adequate external representation, comprised of members who collectively represent a wide range of perspectives and interests of northern residents and communities, and the Board meets regularly to exercise its advisory responsibilities;
- Procedural documents, which describe the process & controls used to ensure volumes, food and shipment costs are recorded accurately and in a timely manner, have been provided to recipients and the Claims Processor;
- Communication strategies and mechanisms are used to support sharing of timely, relevant and reliable information to consumers, recipients and other stakeholders;
- Eligibility assessment criteria and a consistent approach was used to assess recipient eligibility (i.e. retailers and suppliers);
- Feedback from users and stakeholders is used as input in making program decisions; and,

- The program is transparent in reporting performance measurement data and reports measurable results on eligible food item prices and items shipped.

5.1. Governance

5.1.1. Governance

Governance is the foundation for all other components of internal control. Governance bodies should receive sufficient, complete, timely and accurate information to maintain an effective oversight role, and meet regularly to ensure that there is adequate challenge and discussion on all matters related to program administration. In addition, the governance structure should be used to ensure consumers and stakeholders have input into program decision-making processes.

For NNC, the governance structure includes an Oversight Committee and an external Advisory Board.

Oversight Committee

The NNC Oversight Committee was formed to provide oversight on the program direction and operations on an ongoing basis. In addition, the Oversight Committee is intended to: monitor the achievement of program objectives; the effectiveness of cost containment measures; and, provide direction to NNC program management on program policy and operations matters. The Oversight Committee is also responsible for approving changes to subsidy rates. During the launch of NNC, the Oversight Committee was established to oversee the work plan for the introduction of the NNC, as well as the transition from the former Food Mail Program.

The audit found areas for improvement with respect to the Oversight Committee:

- Only two Oversight Committee meetings occurred during the audit period, which is considered insufficient in order to achieve the Oversight Committee's intended objective as described in the Oversight Committee Terms of Reference;
- The composition and long-term role and purpose of the Oversight Committee was questioned by Committee participants interviewed. Although the Oversight Committee is expected to consist of Assistant Deputy Minister and Director General level executives from AANDC, Health Canada and Transport Canada, the audit found that Oversight Committee members often delegated their attendance. Also, several Committee members interviewed felt that Transport Canada participation was no longer required (Transport Canada attended only one meeting) since the NNC was not providing a transportation subsidy, as did the Former Food Mail Program.; and,
- The Oversight Committee did not function as an approval or decision-making body; it was used mostly for information sharing and discussion purposes. The audit found that members did not receive information which would have enabled them to review subsidy rates or to monitor the application of the Cost Containment Strategy as outlined in approved NNC program design documentation.

Without structured meetings, a clear role aligned with NNC accountability obligations, and participation at an appropriate level, the Oversight Committee cannot effectively fulfill its responsibilities, as outlined in approved NNC program design documentation, and effectively monitor the achievement of NNC program objectives.

Advisory Board

The Advisory Board is composed of external members who collectively represent a wide range of perspectives and interests of northern residents and communities. The role of the Advisory Board is to provide information and advice to the Minister of AANDC to help guide the management, direction and activities of the NNC. Members of the Advisory Board are appointed by the Minister for a three (3) year term.

During the introductory phase of NNC, the Advisory Board performed an important role in educating the public, informing program management, and helping to ensure northerner input was considered in the development of policy and on operational aspects. In performing this role the Advisory Board tried to respond quickly to northern resident and community concerns; as a result, the activities of the Advisory Board were reactive (e.g. responding to media inquiries). During this introductory phase, NNC program staff also provided significant secretarial and administrative support to the Advisory Board.

Based on a review of the Advisory Board work plan and in discussions with interviewees, the audit found the Advisory Board work plan suggests that during the introductory phase, the Advisory Board, rather than advising on operational matters, occasionally performed operational activities that typically would be managed by the program (e.g. holding structured meetings with major retailers, providing retailers with communication products). In addition, the role described in the Advisory Board Terms of Reference is broad. Interviewees also expressed concern whether NNC program staff would be unable to sustain the current level of resources required to support the Advisory Board. As NNC exits the program introductory phase and enters the next phase of implementation, there is an opportunity to review and clarify the role and purpose of the Advisory Board.

Without a clearly defined role for the Advisory Board, aligned to program objectives and priorities, there is increased risk the Advisory Board will not be used efficiently or effectively in providing direction and advice to NNC or the Minister on program policy and operational matters.

Recommendation:

1. The Assistant Deputy Minister of the Northern Affairs Organization should clarify the purpose and role, membership, and meeting frequency required to implement an effective Oversight Committee and review the purpose and role of the Advisory Board for the next phase of program implementation, taking into consideration the level of program resources available to support Advisory Board activities.

5.2. Stewardship

5.2.1. Cost Containment Strategy

As with any transfer payment contribution program, it is important to ensure program financial stability, sustainability, and predictability while responding to cost pressures. Important elements of a cost containment strategy include establishing and implementing cost containment approaches, regular reporting on progress and cost pressures, and presenting key information to an oversight or governing body to allow for effective monitoring.

Given yearly cost increases under the former Food Mail Program, AANDC was required to include a Cost Containment Strategy as part of the NNC program design. In the NNC program design documentation, the Cost Containment Strategy outlines the adjustment options available to the department to contain costs within the fixed budget and a high level approach on how to use these options. The Cost Containment Strategy includes regular reporting on program costs and pressures and establishes the Oversight Committee as the approval authority for subsidy rate revisions.

NNC subsidy rates are the primary element that can be adjusted on a periodic basis to ensure NNC remains within its fixed budget. In 2011-12, as more up-to-date forecasts and information on shipping costs by community became available, there was an opportunity for NNC to adjust subsidy rates to make them fair among communities and to allow for the NNC budget to be fully utilized.

The audit found that during Oversight Committee meetings, program costs were presented and discussed; however, no decisions were taken by the Oversight Committee to adjust the subsidy rates in order to ensure program costs remained within the approved amounts. The audit also found that typical cost pressures such as inflation and increases in program popularity/demand were not addressed in the design of the program, as the program budget does not have an automatic annual budget escalator. NNC program management reported they requested at the time of development of NNC that the program design account for a growing demand for food; however, no cost of living or growth index was approved for the program's funding.

Without a proper and timely implementation of cost containment strategy measures there is increased risk that NNC will exceed its annual program budget. In addition, cost pressures such as inflation and increased demand for the program may make cost containment measures more difficult to implement without modifications to the cost containment strategy.

Recommendation:

2. The Assistant Deputy Minister of the Northern Affairs Organization should continue to support cost containment strategy measures undertaken by the program, and monitored by the Oversight Committee, in order for the program to remain within approved budget levels.

5.2.2. Compliance reviews

For transfer payment contribution programs, it is important to establish an appropriate recipient monitoring framework to ensure that: funding recipients are in compliance with the terms and conditions of their funding agreements; adequate controls are in place; and, key program recipient risks and considerations are addressed. A recipient compliance review plan should be developed to support the allocation of resources to areas that represent the most significant priorities and highest risks. In addition, program management should retain all supporting documentation to ensure proper due diligence for any compliance review work performed.

For NNC, an independent auditor has been contracted to conduct recipient compliance reviews on behalf of NNC. Compliance reviews are conducted on behalf of NNC to ensure that recipients (i.e. retailers and suppliers) who receive subsidies through NNC are compliant with the terms and conditions of their funding agreements and to ensure the necessary controls are in place to appropriately subsidize eligible foods. To ensure NNC program objectives are adequately met, NNC program management selects recipients for compliance reviews based on program management's assessment of risks.

The audit found areas for improvement with respect to the NNC compliance review process:

- Although NNC program management has completed several compliance reviews (7 reports are published on the NNC web site for 2011-12), a compliance review plan has not been documented which adequately demonstrates the risk factors considered by NNC program management in selecting recipients for compliance review;
- While the scope and approach outlined in the compliance review statement of work address key risks and compliance concerns, the published compliance review reports do not adequately or consistently report findings on these areas. For example, the published reports provide limited conclusions on key risk such as: profit margins on subsidized versus unsubsidized products; sale and/or purchasing records and supporting documentation to verify compliance with program requirements; and, reporting and claiming systems and procedures, however there is insufficient information on the findings that lead to the conclusions; and,
- Lastly, although the statement of work used for the compliance reviews specifies that the deliverables to be provided to NNC should include all supporting compliance review working papers, the audit found that NNC program management has not requested this information and was not aware to what extent evidence was gathered or was conducted to support claims made in the published report.

Without a risk-based compliance review plan that includes documented rationale, there is a risk that compliance reviews are not conducted to mitigate the most significant priorities and risks. In addition, without proper monitoring and documented support of compliance review work performed, there is a risk that compliance reviews are not conducted in accordance with the intended approach and that key risks are not adequately addressed or reported.

Recommendation:

3. The Assistant Deputy Minister of the Northern Affairs Organization should: document the risks and rationale used in selecting recipients for compliance reviews; create a compliance review plan based on this approach; retain the evidence gathered during the compliance reviews; and, ensure observations made in published reports specifically address the key risks and intended scope and approach.

5.2.3. Claims Processor

Verifying recipient claims includes verifying the claim for accuracy and validity (i.e. appropriate volumes are being claimed), only eligible items are being claimed, and payments are correct. Supporting documentation and analysis used to reconcile payments should also be retained with suitable quality assurance procedures and evidence of review and approval by delegated authorities.

NNC has outsourced, through a competitive procurement process, the administration and verification of subsidy claims to a claims processor (Saskatchewan Indian Institute of Technologies, in partnership with Crawford & Company). Recipients submit invoices and waybills detailing shipment information such as weight by category of eligible items, destination community, and recipient (store, individual, etc.) to the claims processor. The claims processor is responsible for verifying the claim for validity and accuracy and compiling shipment data for analysis by NNC program staff. NNC program staff use this information to reconcile claims with recipient forecasts and process payments.

NNC has instructed the claims processor to perform their review of recipient claims by selecting a sample of 50 lines from the supporting documentation attached to the claim. The claim review process, therefore, entails a review of 50 lines per recipient per month. The audit found that the sample selection performed by the claims processor is done randomly (with occasional specific direction from NNC on priority areas). The audit found that the random sample selection is generally not based on a documented risk assessment which considers the risk level of both the recipient and the food item. In addition, as some claims have less than 50 lines, these claims are fully reviewed.

The audit also found that NNC has not adequately monitored all deliverable and service requirements clauses outlined in the claims processor service contract (e.g. service level agreement reports).

In instances where third party service providers are used to perform program operational activities, there are typically two options to consider in order to receive assurance over controls exercised by the third party: include a “right to audit” clause in the service contract; or, in the contract negotiation phase, require the service provider to provide a service auditor report to provide assurance that the controls they are exercising on the program’s behalf are operating effectively. In the case of NNC (where the service contracts is already established), a “right to audit” clause is included in the claims processor contract; however, NNC has not elected to conduct an audit of the claims processor, nor has NNC requested information on the claims processor quality assurance approach. NNC does have claim processing process maps with

key control points in the claim process, and program staff indicated that they have conducted an onsite walkthrough of SIIT and Crawford procedures. These practices can provide the program with assurance over the adequacy of the design of the Claims Processors' control framework, However, they do not provide assurance over the effectiveness of their controls (i.e. are they functioning as designed). This is achieved through the review of the reporting and results from a Quality Assurance review process/framework and/or results of SIIT/Crawford's internal audits of the process. At the time of the audit this information has not been provided to the program.

Once claims have been reviewed by the claims processor, NNC staff are responsible for performing a review and analysis of the recommended amount and preparing payments based on the amount recommended by the claims processor. The audit found that there is insufficient procedural documentation to describe the analysis and work performed by NNC in calculating the recipient payments (i.e. advance payments, corrections to support actual payment) and one instance was noted (out of 15) where evidence was missing to adequately demonstrate that approval of a claim was made by a delegated authority.

Without adequate oversight of the claims processor there is a risk that claims processor processes are not properly implemented. When there is insufficient assurance or attestation from the claims processor that appropriate controls or practices are in place, and functioning as designed, to verify the accuracy and validity of claims, there is increased risk to NNC, who is ultimately accountable, that claims are not recorded or processed accurately.

Recommendation:

4. The Assistant Deputy Minister of the Northern Affairs Organization should request information on the claims processor quality assurance approach to determine whether an audit of the current claims processor is necessary; ensure payment review and approval procedures are adequately documented; develop a risk-based sampling approach for recipient claims; and, investigate appropriate contract requirements for future claims processor contracts (i.e. service monitoring and service auditor report).

5.2.4. Eligibility Assessment

It is essential that management have practices in place to assess program eligibility in a consistent and transparent manner. Eligibility criteria should be established to ensure that eligibility assessments reflect program requirements. As applicable, program management should be able to demonstrate that applicants submitted a complete application, met all eligibility criteria, and are able to fulfill all program requirements.

For NNC, three eligibility assessments are performed: communities; recipients (retailers and suppliers); and, food items.

- Communities: to be eligible for NNC a community must lack year-round surface transportation (i.e. no permanent road, rail or marine access), and have benefitted from the former Food Mail Program;

- Recipients: three types of businesses can apply – northern retailers, southern suppliers and northern country food processors/distributors; and,
- Food Items - eligible food items include a variety of perishable healthy foods, such as fresh fruit, frozen vegetables, bread, meat, milk and eggs. Eligible foods can be fresh, frozen, refrigerated, or have a shelf life of less than one year, and must be shipped by air. In addition, NNC provides subsidies for country foods (e.g. Arctic char, caribou, and musk-ox) harvested in eligible northern communities.

With respect to community eligibility, the audit found that only communities using the former Food Mail Program are considered eligible for NNC, and this eligibility requirement is articulated on the NNC public website. As per NNC program design documents, communities that did not use the Food Mail Program are not considered eligible for the subsidy under NNC. In 2012/13, NNC committed to define and communicate a set of community eligibility criteria; however, to date, this has not occurred. In addition, the level of eligibility (i.e. full or nominal subsidy) for communities is supposed to be reviewed annually, based on food basket prices and shipment volumes, but this review has not yet occurred. NNC program management noted that amending the list of eligible communities requires a change in program policy and approval by central agencies.

The audit also noted that the list of eligible food items was reviewed in November 2011. Although the NNC web site states that the food item list will be reviewed annually, always taking into account feedback from northerners, NNC reported that the food eligibility list remained unchanged for 2012/2013. NNC program management noted that amending the list of eligible food items also requires a change in program policy.

Without proper and thorough assessment of recipient eligibility, there is a risk that recipients are inappropriately included or excluded from the program. In addition, without a practice or process in place to ensure periodic review and policy discussion on eligible food items and communities, there is increased risk that program objectives will not be fully realized.

Recommendation:

5. The Assistant Deputy Minister of the Northern Affairs Organization should establish a process for periodic review and policy discussion regarding food items and community eligibility.

5.3. Citizen-focused Services

Communication mechanisms should support the sharing of timely, relevant and reliable information to consumers, recipients and other stakeholders. In addition, feedback from users and other stakeholders should be used to influence strategic and operational planning.

Given that the transition from the Food Mail Program to NNC received significant media attention and NNC continues to receive media attention, the audit found that NNC has benefited from having a robust communication strategy to address stakeholder concerns in a timely manner. The NNC Communication Strategy was continuously updated based on feedback

received. As part of the Communication Strategy, NNC established mechanisms to receive comments and questions from northern community members and other stakeholders. A key objective of the Communication Strategy was to educate northerners about the program, and how it works to ensure greater awareness, understanding, and potential participation. In addition, the audit noted that the Communication Branch supporting NNC has taken the steps to obtain feedback from northern retailers as input to program decisions.

Lastly, the audit noted that funds are set aside on an annual basis to promote and increase awareness of NNC through the use of signage (with translation) and updates on the NNC website.

Recommendation:

No recommendations were identified in this area.

5.4. Results and Performance

5.4.1. Performance Measurement Strategy

It is important that performance measurement strategies be in place and linked to program objectives. Performance measures should be reasonable and demonstrate outcomes as well as accountability and transparency. Management should also monitor performance against planned results and adjust course as needed.

NNC has developed a Performance Measurement Strategy which is intended to help ensure that performance indicators and data collection methods are well defined and in place to support program monitoring. Key activities in the Performance Measurement Strategy include providing, monitoring, and verifying subsidies for eligible foods and promoting program awareness, outreach and engagement. Immediate NNC outcomes include: access to subsidized nutritious food in eligible communities; and, residents in eligible communities are informed about the program and subsidy levels. The collection of shipping and pricing data is a fundamental aspect of the NNC. Key indicators listed in the strategy include value of subsidy, weight of eligible food shipped, food basket prices, level of awareness in program and subsidy levels, estimated weight of eligible food purchased per capita (to show increase in healthy consumption).

NNC receives price and shipment data from all retailers and suppliers who are registered with the program. Several different reports are published on the NNC web site. These reports provide information on the types and amounts of products that receive a subsidy under the program. Data is reported by fiscal year, by quarter, by product category, by province or territory, or by community. The Revised Northern Food Basket (RNFB) is a performance measurement tool that AANDC currently uses to monitor trends in the cost of healthy eating in isolated northern communities eligible for the NNC program. The RNFB is a representative combination of foods that meets most nutrient requirements and food serving recommendations in Canada's Food Guide for a family of four for one week. The NNC web site also reports the cost of the RNFB and reports the cost of the RNFB in March 2012 had declined by approximately 8%, on average, as compared to when the former Food Mail Program was in place.

The audit found that while NNC has collected a significant amount of data on subsidized food, NNC has outgrown the tools used to gather and analyze the data. As a result, the audit found that NNC is not able to adequately analyze the data and identify any possible trends (e.g. retailer pricing information cannot be adequately analyzed to identify possible price anomalies). In addition, access to NNC database files is not adequately restricted, increasing the risk of unauthorized access and tampering. NNC is currently working with the Department's Information Management Branch to be able to use the Departmental data warehouse system. This will greatly increase NNC's capacity to analyze data and identify trends. The tool is expected to be fully implemented by March 2014.

The NNC Performance Measurement Strategy includes the completion of an annual survey to determine the level of awareness about NNC and subsidy levels. The audit found that NNC had not yet developed the awareness survey to obtain feedback from northern community members. Although delayed, a retail study was underway to better understand northern retailer costs.

In order to build upon current data collection and reporting practices, there is a risk that without proper tools/systems and access controls, NNC may not effectively and efficiently collect data and conduct data and trend analysis or important data may be mistakenly corrupted, altered, or destroyed. There is a risk that without consumer awareness and retail surveys to obtain feedback, NNC will not be able to establish baseline awareness data or meet program obligations outlined in the NNC Performance Measurement Strategy.

Recommendations:

6. The Assistant Deputy Minister of the Northern Affairs Organization should implement tools/systems with access controls to effectively collect data, conduct trend analysis, and monitor changes in the price of food basket items, and complete awareness and retail surveys to obtain feedback on program progress and retailer costs.

6. MANAGEMENT ACTION PLAN

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Assistant Deputy Minister of the Northern Affairs Organization should clarify the purpose and role, membership, and meeting frequency required to implement an effective Oversight Committee and review the purpose and role of the Advisory Board for the next phase of program implementation, taking into consideration the level of program resources available to support Advisory Board activities.</p>	<p>The purpose and role of the Advisory Board will be reviewed</p> <p>Details regarding the purpose, role, membership, and meeting frequency of the NNC Oversight Committee will be examined and clarified.</p>	<p>Assistant Deputy Minister, Northern Affairs Organization</p>	<p>February 2014</p> <p>March 2014</p>
<p>2. The Assistant Deputy Minister of the Northern Affairs Organization should continue to support cost containment strategy measures undertaken by the program, and monitored by the Oversight Committee, in order for the program to remain within approved budget levels.</p>	<p>The manner in which the Oversight Committee carries out its role and fulfills its mandate, including application of the Cost Containment Strategy in a manner that respects authorities, will be reviewed and clarified.</p>	<p>Assistant Deputy Minister, Northern Affairs Organization</p>	<p>March 2014</p>
<p>3. The Assistant Deputy Minister of the Northern Affairs Organization should: document the risks and rationale used in selecting recipients for compliance reviews; create a compliance review plan based on this approach; retain the evidence gathered during the compliance reviews; and, ensure observations made in published reports specifically address the key risks and intended scope and approach.</p>	<p>The risks and criteria used to select recipients who will be subjected to compliance reviews will be documented.</p> <p>A compliance review plan will be established.</p> <p>The evidence is retained by the compliance audit form and available</p>	<p>Assistant Deputy Minister, Northern Affairs Organization</p>	<p>December 2013</p> <p>March 2014</p>

	upon request. Options for retention and proper storage and disposal of working papers will be examined as part of the compliance review plan.		
4. The Assistant Deputy Minister of the Northern Affairs Organization should: request information on the claims processor quality assurance approach to determine whether an audit of the current claims processor is necessary; ensure payment review and approval procedures are adequately documented; develop a risk-based sampling approach for recipient claims; and, investigate appropriate contract requirements for future claims processor contracts (i.e. service monitoring and service auditor report).	<p>The program will build on its current periodic site visits and make further inquiries to review quality assurance. NNC will request ongoing quality assurance reviews and/or internal audits ensure processes are working as intended.</p> <p>Approval procedures and payment review processes for recording keeping, training and succession planning purposes will be documented.</p> <p>A risk-based sampling approach will be developed.</p> <p>Future contracts for claims processors will ensure appropriate requirements for quality assurance.</p>	Assistant Deputy Minister, Northern Affairs Organization	<p>March 2014</p> <p>March 2014</p> <p>April 2014</p>
5. The Assistant Deputy Minister of the Northern Affairs Organization should establish a process for periodic review and policy discussion regarding food items and community eligibility.	A practice to examine the options and viability of bi-annual review of food items and community eligibility will be implemented. Key NNC governance bodies (Advisory Board and Oversight Committee) and partners such as Health Canada will	Assistant Deputy Minister, Northern Affairs Organization	March 2014

	be consulted.		
6. The Assistant Deputy Minister of the Northern Affairs Organization should implement tools/systems with access controls to effectively collect data, conduct trend analysis, and monitor changes in the price of food basket items, and complete awareness and retail surveys to obtain feedback on program progress and retailer costs.	<p>Appropriate tools and systems to collect and analyze trends is being designed and will be implemented.</p> <p>A comprehensive study of northern retailing to obtain feedback from northern customers, communities, and retailers will be completed.</p>	Assistant Deputy Minister, Northern Affairs Organization	<p>March 2014</p> <p>June 2014</p>

Appendix A: Audit Criteria

The audit objective was linked to audit criteria developed in alignment with Treasury Board of Canada Secretariat's *Audit Criteria related to the Management Accountability Framework: A Tool for Internal Auditors (March 2011)*. Additional audit criteria were developed to address specific risks identified in the planning phase.

Audit Criteria	
Governance	
1.1	Oversight bodies collectively possess sufficient knowledge, experience and meet regularly to exercise a meaningful oversight function.
1.2	Oversight bodies mandate is established and communicated. Members receive quality information in order to fulfill their role.
Stewardship	
2.1	Volumes, food and shipment costs are recorded accurately and in a timely manner to support accurate and timely claim processing.
2.2	An appropriate recipient monitoring framework is in place to ensure recipients are passing on the subsidy to consumers.
2.3	Management has established processes to develop and manage the service agreement with the third party Claims Processor.
2.4	The eligibility of communities, recipients, subsidy rates and food items is assessed consistently and transparently.
Citizen-focused Services	
3.1	Communication mechanisms exist and support sharing of timely, relevant and reliable information to consumers, recipients and other stakeholders.
3.2	Feedback from users and other stakeholders drives strategic and operational planning.
Results and Performance	
4.1	Performance measurement strategies are in place and linked to Program objectives.
4.2	Management monitors performance against planned results and adjusts the course as needed.