

Management Response and Action Plan: Horizontal Audit of Service Fees and Cost Recovery

From: Innovation, Science and Economic Development Canada

**For follow-up purposes - Detailed actions to address the
recommendations in the report.**

| Recommendation | Planned action on the recommendation | Responsible official (position) | Target completion date |
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| <p>Recommendation 1: (medium level) CMS should establish a process to verify the accuracy of the data received from programs to populate the Departmental Fees Report to ensure that the information reported is accurate. Review and validation of data processes should be documented, and evidence of their completion should be retained.</p> | <p>In the past year, the CMS Service Fees Team conducted preparatory meetings to engage with all stakeholders. This ensured that clear expectations and timelines were established, questions were addressed, and alignment among stakeholders was achieved. The aim was to assist sectors in compiling accurate data for their reports by providing additional time to validate the annual data and consult with their internal partners.</p> <p>Additionally, for 23-24, the CMS Service Fees Team developed an automated tools to reduce manual effort, streamline the review process, and enhance compliance in the reporting of over</p> | | |

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| | <p>500 service fees. This information is captured in the fee inventory report used for the departmental fees report.</p> <p>Moving forward, the CMS Service Fees Team will continue to focus on automating processes and enabling sectors to carry out specific tasks efficiently. In the last reporting exercise, the CMS Service Fees Team provided sectors and programs with a checklist specifying guidelines and requirements for various aspects of fee reporting and documentation as well as a Cheat Sheet 101 to hone basic knowledge on Fees.</p> <p>To ensure the checklist serves as an effective tool for verifying the accuracy of data provided by sectors and</p> | | |

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| | <p>programs, the CMS Service Fees Team will enhance its review process and undertake the following actions:</p> | | |
| | <p>1. Checklist development: Review the internal checklist to include additional validation items such as a cross-references with sector websites to ensure compliance to the requirements beyond the Departmental Fees Report guidelines. Review the current sectors and programs checklist to ensure that all requirements are up to date.</p> | <p>Action 1: CMS – Director General, Corporate Finance, Systems and Procurement Branch</p> | <p>Action 1: FY 25-26, Q1 (Before the launch of the next Fees Report)</p> |

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| | 2. Verification steps for sectors and programs: Promote specific steps for sectors and programs to verify checklist items through the launch presentation and check-in sessions. | Action 2: CMS – Director General, Corporate Finance, Systems and Procurement Branch | Action 2: FY 25-26, Q2 |
| | 3. Submission of completed checklists: Require stakeholders to submit completed checklists as evidence of review, and keep on file. | Action 3: CMS – Director General, Corporate Finance, Systems and Procurement Branch | Action 3: FY 25-26, Q2 (As part of the required documents) |

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| | <p>4. Internal review process: Implement a risk based approach review using the internal checklist and document evidences of the review. The risk criteria would encompass factors such as previous report errors, the experience level of sector employees, and items identified in the audit report.</p> | <p>Action 4: CMS – Director General, Corporate Finance, Systems and Procurement Branch</p> | <p>Action 4: FY 25-26, Q3</p> |

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| <p>Recommendation 2: (medium level) CMS should ensure that cost recovery rates are calculated and validate supporting information from programs during the fee review process. This will ensure that fee prices are supporting the expected cost recovery level.</p> | <p>Following the tabling of the 23–24 report the CMS service fees team has implemented a new Fee Review Plan. This updated process involves a comprehensive review of all fees, identifying those that may not meet established criteria. The review plan supports audit recommendations to ensure service fees align with expected cost recovery levels and enhances overall monitoring and validation capabilities.</p> <p>CMS relies on sector-led data to perform this challenge function. Sectors and programs at ISED use their own costing models to determine the direct costs of delivering services. This information is not readily accessible in</p> | | |

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| | <p>ISED's financial system of records. Additionally, sectors and programs use separate systems to track services from request to delivery, including the amounts charged per service request. These secondary systems are mostly restricted to sector and program staff and operate under varying procedures across ISED. As a result, CMS has access only to partial information (e.g., total revenue earned, total FTEs), which limits its ability to independently assess key aspects such as direct costs.</p> <p>To ensure that fee prices support the expected cost recovery levels, CMS requires greater visibility into the data and methodologies used to calculate costs and</p> | | |

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| | revenues for each fee or fee grouping. Accordingly, the following steps will be taken: | | |

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| | <p>1. Leverage Service Fees Working Group sessions for best practice sharing: Clearly delineate that direct cost responsibility lies with the sectors and programs. The CMS Service Fees team will host working group sessions and utilize some of this time to facilitate the exchange of best practices, particularly from clients with established direct costing methodologies. These sessions will create a collaborative learning platform. Insights and successful methodologies shared will be</p> | <p>Action 1: CMS – Director General, Corporate Finance, Systems and Procurement Branch</p> | <p>Action 1: FY 25-26, Q1 (During upcoming Service Fees Working Group Session)</p> |

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| | <p>documented and disseminated for sectors and FMAs to reference and potentially adopt in their own processes. The CMS Service Fees team will initiate this during the next session, featuring presentations from sectors and programs with refined methodologies.</p> | | |

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| | <p>2. Clarify roles and responsibilities: Define and document the responsibilities and outline a clear framework where the CMS Costing team handles indirect costs, sectors and programs manage direct costs, and FMAs provide advisory support.</p> | <p>Action 2: CMS – Director General, Corporate Finance, Systems and Procurement Branch CMS – Director General, Resources, Planning and Investments Branch</p> | <p>Action 2: FY 25-26, Q2</p> |
| | <p>3. Develop standard indirect costing methodology: The CMS Costing team will document and share a standardized methodology for calculating indirect costs.</p> | <p>Action 3: CMS – Director General, Resources, Planning and Investments Branch</p> | <p>Action 3: FY 25-26, Q2</p> |

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| | <p>4. Establish guidelines and procedures for indirect costs: After documenting a standardized methodology for calculating indirect costs, the CMS Costing team will create tools and procedures with clear guidelines. These will be shared with FMAs to ensure they can effectively advise and support Sectors and Programs on costing proposals, where the expected cost recovery rates will be documented.</p> | <p>Action 4: CMS – Director General, Resources, Planning and Investments Branch</p> | <p>Action 4: FY 25-26, Q3</p> |

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| Recommendation 3: (medium level) CMS should ensure that programs have developed and implemented a procedure to ensure the quality of the information collected in their systems, including for the calculation of program performance against service standards. | <p>Each sector and program has distinct service standards that vary significantly in complexity and technicality, depending on the nature of the service or fee. This makes it difficult for CMS to effectively assess whether these standards were met, and if not, to determine the extent to which they were missed.</p> <p>To address this recommendation, CMS will request that sectors and programs document and share information on how service standards are applied. Accordingly, the following actions will be taken:</p> | | |

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| | <p>1. Notify sector and program leads of upcoming required actions: During the next Service Fees Working Group session, sectors and programs will be informed that the CMS Service Fees team will send a call out to requesting procedures. Additionally, discussions will be held regarding the potential for common controls to simplify the process and communicate CMS expectations concerning the information to be collected for manual entries.</p> | <p>Action 1: CMS – Director General, Corporate Finance, Systems and Procurement Branch</p> | <p>Action 1: FY 24-25, Q4</p> |

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| | <p>2. Request documentation from sectors and programs: The CMS Service Fees Team will issue a tasking to sectors and programs requesting their respective procedures. This will include detailed guidelines on :</p> <ul style="list-style-type: none"> ○ The method by which data is collected and the process for validating this data. ○ The calculation method used to determine the amount of the remission. ○ The roles and responsibilities of individuals involved at each step of the process to | <p>Action 2 :</p> <p>CMS – Director General, Corporate Finance, Systems and Procurement Branch</p> | <p>Action 2: FY 24-25, Q4</p> |

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| | ensure accountability and clarity. | | |
| | <p>3. Sectors and programs to provide documentation:</p> <p>Once the respective procedures have been documented within the requested timelines, the finalized documents will be shared with CMS Service Fees Team</p> | <p>Action 3 :</p> <p>Sectors / Programs</p> | <p>Action 3 :</p> <p>FY 25-26, Q2</p> |

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| | 4. Focused validation of transactions requiring manual entries: CMS Revenue will develop and document a sampling methodology to sample remissions that are more prone to error. They will then establish regular monitoring/quality checks by performing routine audits to review data accuracy, consistency, and compliance with the methodologies and standards which have been documented. | Action 4: CMS – Director General, Corporate Finance, Systems and Procurement Branch | Action 4: FY 25-26, Q4 |

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