



Review: Application of the Service Fees Act

Deck Report
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List of acronyms and abbreviation

SFA	<i>Service Fees Act</i>
PCH	Department of Canadian Heritage
CAVCO	Canadian Audio-Visual Certification Office
CPTC	Canadian Film or Video Production Tax Credit
PSTC	Film or Video Production Services Tax Credit
CCI	Canadian Conservation Institute
FPR	Financial Planning and Reporting
TBS	Treasure Board Secretariat
RBAP	Risk Based Audit Plan
CFO	Chief Financial Officers
STAR	Departmental Financial System

1. Overview

Context

The *Service Fees Act* (SFA or the Act) was established in 2017 and amended in June 2023. It replaced the User Fees Act, modernizing the legislative framework for cost-effective service delivery. The SFA aims to enhance transparency and oversight through streamlined fee approval processes, service standards, automatic annual fee adjustments, and annual reporting to Parliament.

The Department of Canadian Heritage (PCH) collectively accumulate over \$5 million annually in service fees through the following programs:

- 1.Canadian Audio-Visual Certification Office (CAVCO):** Funded by fees from applicants, CAVCO collaborates with the Canada Revenue Agency to manage two refundable income tax credits for the film and video production sector: the Canadian Film or Video Production Tax Credit (CPTC) and the Film or Video Production Services Tax Credit (PSTC).
- 2.Canadian Conservation Institute (CCI):** CCI charges fees for professional services, publications, and workshops/conferences. Professional services represent the bulk of CCI's service offerings and include, but are not limited to, conservation treatments, scientific analysis and facilities assessments.
- 3.Capital Experience:** The Capital Experience Branch, through the Rent and Loan Program, rents festival equipment to not-for-profit associations and government agencies in Canada's Capital Region. Capital Experience also charges fees for food concessions at major events and the rental of brochure space for tourist brochures.

The **Financial Planning and Reporting (FPR) group** within Chief Financial Officer Branch plays a key role in implementing, and ensuring complying with, the requirements of the SFA. While fee-charging programs set fees and performance standards (where applicable), the FPR group is responsible for preparing the annual Fees Report and a required 'fee inventory' for Treasure Board Secretariat (TBS).

Note: While the department collects fees from other federal government departments, the *Service Fees Act* does not apply to such fees.

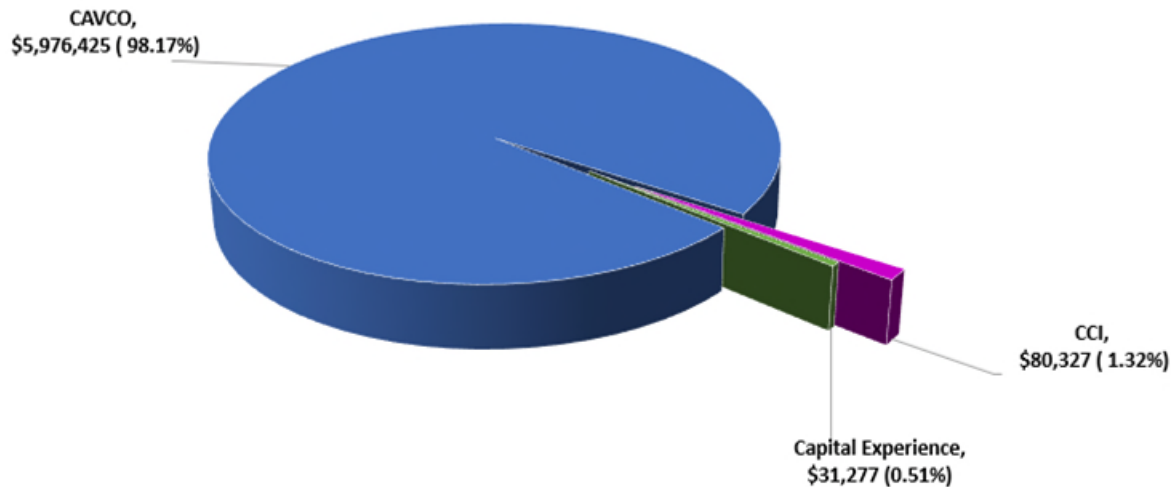
1. Overview

Context (cont'd)

The following table and chart summarizes PCH's revenue in the past five years by fee-charging program, highlighting CAVCO as the main contributor, with revenue being affected by the COVID-19 pandemic.

Year	CAVCO	CCI	Capital Experience	Total
2018-2019	\$ 5,508,780	\$ 239,616	\$ 43,767	\$ 5,792,163
2019-2020	5,949,793	63,587	37,924	6,051,304
2020-2021	4,985,193	18,145	1,999	5,005,336
2021-2022	5,788,071	23,956	10,164	5,822,192
2022-2023	7,650,287	56,332	62,531	7,769,150
Average/Year (last 5-years)	\$ 5,976,425	\$ 80,327	\$ 31,277	\$ 6,088,029

Average Annual Service Fees for 5 Years per PCH Annual Fees Reports



Note: The amounts presented in the charts above do not include fees that have been paid by other federal departments or entities (as the *Service Fees Act* does not apply to such fees).

1. Overview

About the engagement

Project Authority

The authority for this engagement was derived from the 2023-2024 Risk Based Audit Plan (RBAP), which was recommended by the Departmental Audit Committee and approved by the Deputy Minister.

The depth and breadth of the engagement was broader than a micro-audit and suited more to a review as it related to the application of service fee act, therefore the title of the engagement was adjusted accordingly.

Audit Objective

The objective of this review was to assess the adequacy of processes and controls in place to support the Department's implementation of and adherence to the Service Fees Act.

Audit Scope

The scope of the engagement covered the review of policies and procedures in place and functioning to track, monitor and report on service standards; review and revise service fees as appropriate; establish cost estimates in relation to services provided and in support of annual reporting; and receive and process service requests and to collect fees.

The review relied on information gathered during the Audit of the Canadian Audio-Visual Certification Office completed in early 2022.

2. Findings and Recommendations

Criteria 1: Performance Standards and Remission

Performance standards are in place, where required, and processes have been established to track and monitor results against these standards and in support of remission.

- The requirements of the SFA include establishing performance standards in accordance with Treasury Board policies or directives where applicable, ensuring that consultation precedes any amendments to performance standards, and making performance standards accessible to the public.
- Only CAVCO fees are required to meet the performance standard requirements of the SFA, as CCI and Capital Experience fees are exempt based on their fee-setting authorities.
 - Note: exemptions to SFA requirements based on fee-setting authorities are explained more fully in relation to criterion 2 of the review.
- The review found CAVCO processes for tracking and reporting performance results against performance standards to be appropriate. Key dates relating to the receipt and review of tax credit applications and the issuance of tax credit certificates are captured in CAVCO's application management system. Performance results are posted monthly on the PCH website for all issued certificates.
- The review also found that the information reported monthly on performance results by CAVCO was accurate and complete. The review confirmed that the monthly performance results posted online by CAVCO for 2022-2023 were consistent with the information captured in its application management system.

2. Findings and Recommendations

Criteria 1: Performance Standards and Remission (cont'd)

- As a result of an amendment to the SFA in June 2023, CAVCO fees are subject to remission.
 - Remission is the reimbursement to a fee-payer of a fee or portion of a fee paid in respect of a service, use of facility, right or privilege or regulatory process, for which the department determines the performance standard was not met.
- The TB *Directive on Charging and Special Financial Authorities* advises that Chief Financial Officers (CFO) are responsible for ensuring that a departmental policy and procedures for granting remission to fee-payers are established and adhered to.
- The review found that CAVCO is making progress in establishing a policy and approach for remission, aligned with TBS guidelines and aiming for implementation by April 1, 2025. Further, efforts are being made to revise performance standards to better identify and eliminate the impact of client-related delays.
- To date, FPR group has been providing CAVCO with support and assistance as and when requested. The review noted that further support and oversight will be required from FPR group as CAVCO completes its analysis and begins to develop the remission policy and procedures.

Recommendation:

- None

2. Findings and Recommendations

Criteria 2: Fee Setting Authorities and Periodic Fee Reviews

Fee-setting authorities are identified, and service fees are periodically reviewed and revised, where appropriate, taking into consideration the cost-of-service provision and other relevant pricing factors.

- Identifying the fee setting authority for a fee or group of fees is important as some sections of the SFA do not apply to certain fee-setting authorities.
 - 'Fees set by a contract' are not subject to the Act's requirements regarding performance standards, consultation and review for new or revised fees, and annual fee increases tied to the Consumer Price Index.
- The review found that fee-setting authorities were appropriately identified (in 2018 and 2019) for all fee charging programs (i.e., CAVCO, CCI and Capital Experience).
- Of note, two acceptable options for categorizing service fees were identified for CCI and Capital Experience that included:
 - The fee-setting authority could be considered as further to the authority conferred to the Minister under the *Canadian Heritage Act*, in which case no exemption from various sections of the Act would apply.
 - The fee-setting authority could be considered as further to the Minister's inherent authority to enter into a contract, in which case many sections of the Act would not apply to these fees.
- The latter approach was adopted by CCI and Capital Experience resulting in SFA exemptions as noted above.

2. Findings and Recommendations

Criteria 2 : Fee Setting Authorities and Periodic Fee Reviews (cont'd)

- CFOs are responsible for ensuring that a departmental plan to periodically review activities for which fees are charged is established and implemented (as per the *TB Directive on Charging and Special Financial Authorities*).
 - Periodic fee reviews are to occur on a predetermined cycle (e.g., every 3-5 years) to ensure that the factors that support pricing decisions remain relevant (e.g., taking into consideration costs, policy objectives, user impact, contextual and environmental factors). Reviews should result in recommendations to senior management on both fee levels and service offerings (e.g., maintain the status quo, revise fees, etc.).
- The FPR group developed a draft Periodic Fee Review Framework and Periodic Fee Review Plan (2022-23 to 2026-27) in 2022 to address TBS requirements and expectations but no progress has been made since that time on finalizing these documents and implementing the plan.
- The review found that some fee review activities have been conducted by fee-charging programs, primarily by CCI, but none of this work meets the expectations of TB directives and guidelines.
- It was evident from the review that the fees (and corresponding services) of both CCI and Capital Experience require a thorough review, as they have not been updated or assessed in recent years and certain offerings may no longer be warranted.

2. Findings and Recommendations

Criteria 2 : Fee Setting Authorities and Periodic Fee Reviews (cont'd)

Recommendation:

- The CFO should ensure that a departmental plan (and framework if appropriate) is established and implemented to periodically review activities for which fees are charged, with the plan including adequate direction, support and oversight of fee-charging programs in completing fee reviews.
- The DG Major Events, Commemorations and State Ceremonial should conduct a review of the fees and services offered by the Rent and Loan Program, taking into consideration the cost-of-service provision and other relevant pricing factors, to determine their relevance and to ensure the rationale for pricing decisions is appropriately documented.
- The DG Heritage should conduct a review of the fees and services offered by the Canadian Conservation Institute, taking into consideration the cost-of-service provision and other relevant pricing factors, to determine their relevance and to ensure the rationale for pricing decisions is appropriately documented.

2. Findings and Recommendations

Criteria 3: Costing Methodology and its Application

Processes are in place and functioning as intended to ensure cost estimates in support of the setting of fees and annual reporting are reasonable.

- The SFA requires that departments prepare an annual Fees Report that includes, but is not limited to, the fees that were payable in the previous year and the costs incurred in relation those fees.
- In general, the review found the costing methodology implemented by FPR group to align with past and current TBS costing guides and guidelines; and incorporate the recommendations from an external review from 2019.
- Further, the review verified that the costing methodology was followed and that costs were reasonably estimated in support of the 2022-2023 annual Fees Report, although certain exceptions were identified (e.g., input information related to departmental costs, used to establish cost drivers, were not correct).
- The review did note that the procedures to be followed within the costing methodology, to develop the annual cost estimates, were not adequately documented and that the primary costing tool (i.e., excel workbook) could be enhanced to better support the attribution of internal service costs (e.g., for identifying and revising inputs to cost drivers).

Recommendation:

- The CFO should, in support of the annual exercise to determine the cost of services provided by fee-charging programs, enhance documented procedures and tools in support of clear and accurate cost estimations.

2. Findings and Recommendations

Criteria 4: Receipt of service requests

Processes and controls are in place to support the receipt of service requests and the determination and collection of service fees.

- Fee-charging programs are responsible for determining the service fee to be charged to a client and for preparing an invoice requisition (where applicable) to allow Accounting Operations to prepare and issue an invoice and to record the revenue and the receivable in the Departmental Financial System (STAR).
 - For CAVCO, fees are calculated and collected upfront using their application management system.
 - For CCI and Capital Experience, fees are calculated manually, and an invoice is issued after the service is provided. This is because the exact amount of service needed isn't known beforehand, despite per diem rates being available online. Program staff are responsible for collecting overdue payments.
- The review found that processes and controls are in place to support the receipt of service requests, the preparation of invoice requisitions and fee collection by fee-charging programs.

Recommendation:

- None

3. Conclusion

Based on the review findings, adequate processes and controls are in place to support the Department's adherence to the *Service Fees Act*. Policies and procedures are in place and functioning to track, monitor and report on service standards; to establish cost estimates in relation to services provided and in support of annual reporting; and to receive and process service requests and collect fees. However, further work is required to ensure that pricing decisions are periodically reviewed and are relevant; and that adequate procedures and tools are in place to support the department's costing methodology.

Original signed by

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With the support of external resources

4. Management Action Plan

Recommendations	Management Assessment and Actions	Responsibility	Target Date
<p>1. The Chief Financial Officer should ensure that a departmental plan (and framework if appropriate) is established and implemented to periodically review activities for which fees are charged, with the plan including adequate direction, support and oversight of fee-charging programs in completing fee reviews.</p>	<p>Management accepts the recommendation.</p> <p>Actions</p> <ol style="list-style-type: none"> 1. Complete the work already in progress in developing a Periodic Fee Review Framework and Periodic Fee Review Plan. The framework will be presented at FITHR and EXCOM for endorsement and approval. 2. Implementation of the Periodic Fee Review 	<p>CFOB / FPRM</p>	<ol style="list-style-type: none"> 1. September 2024 2. March 2025
<p>2. The Director General of Major Events, Commemorations and Capital Experience should conduct a review of the fees and services offered by the Rent and Loan Program, taking into consideration the cost-of-service provision and other relevant pricing factors, to determine their relevance and to ensure the rationale for pricing decisions is appropriately documented.</p>	<p>The Major Events, Commemorations and Capital Experience Branch accepts this recommendation.</p> <ol style="list-style-type: none"> 1. The Branch will conduct a review of the program availability, standards, fee structure and equipment offered by the Rent and Loan Program to ensure they are aligned with the Department's priorities and objectives. 2. The Branch will review program fees according to the Periodic Fee Review Framework and Periodic Fee Review Plan to be developed by the Chief Financial Officer Branch. 	<p>Director General, Major Events, Commemorations and Capital Experience</p>	<ol style="list-style-type: none"> 1. September 2025 2. March 2027

4. Management Action Plan (cont'd)

Recommendations	Management Assessment and Actions	Responsibility	Target Date
<p>3. The Director General of Heritage Group should conduct a review of the fees and services offered by the Canadian Conservation Institute, taking into consideration the cost-of-service provision and other relevant pricing factors, to determine their relevance and to ensure the rationale for pricing decisions is appropriately documented.</p>	<p>The Heritage Group accepts this recommendation.</p> <ol style="list-style-type: none"> 1. The Canadian Conservation Institute (CCI) and the Canadian Heritage Information Network (CHIN) will conduct a review of their service fee structure, in conjunction with a review of the relevance and the equitable availability of their products and services to ensure they are aligned with the Department's priorities and objectives. This will be undertaken within the scope of the <u>2021-2026 CCI and CHIN Strategic Plan</u>, and will draw on the expertise and resources made available by the Chief Financial Officer Branch. 2. The Canadian Conservation Institute (CCI) and the Canadian Heritage Information Network (CHIN) will review user fees according to the Periodic Fee Review Framework and Periodic Fee Review Plan to be developed by the Chief Financial Officer Branch. 	<p>Director General, Heritage Group</p>	<p>1. March 2026</p> <p>2. March 2027</p>
<p>4. The Chief Financial Officer should, in support of the annual exercise to determine the cost of services provided by fee-charging programs, enhance documented procedures and tools in support of clear and accurate cost estimations.</p>	<p>Management accept the recommendation</p> <p>Actions</p> <p>FPRM will develop documentation to support the costs estimations.</p>	<p>CFOB / FPRM</p>	<p>December 2024</p>