Final Report
Audit of Revenue Management

Canadian Nuclear Safety Commission

Office of Audit and Ethics

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1.0 Executive Summary

1.1 Background

The Canadian Nuclear Safety Commission (CNSC) regulates the use of nuclear energy and materials in Canada, to protect health, safety, security and the environment and to respect Canada’s international commitments on the peaceful use of nuclear energy. The CNSC Cost Recovery Program provides financing of the CNSC’s regulatory activities, by charging licensees their share of the costs of the regulatory regime.

The CNSC was funded exclusively through an annual appropriation from Parliament before 2008-2009. In 2007, the CNSC received Treasury Board approval to phase in a revenue spending authority, beginning in 2008-2009 with full implementation in 2009-2010. The revenue spending authority allows the CNSC to re-spend revenues from fees and establishes a more sustainable funding regime.¹

1.2 Audit objectives, scope and approach

The Office of Audit and Ethics (OAE) identified revenue management as a priority following CNSC’s transition to the revenue spending authority. The audit of revenue management was included in the 2009-2010 Risk-based Audit Plan. The OAE engaged Ernst & Young to assist in the conduct of the audit.

The objectives of the audit were to provide the President and senior management with:

- Assurance that risk management, governance and controls over the revenue management processes are in place and functioning as intended; and
- Recommendations for improvements.

The audit focused on revenue management practices in place during the 2009-2010 fiscal year and related policies and procedures. There is no formal risk management process in place at the CNSC for revenue management; however, the audit focused on risk management activities, which existed for revenue management. The audit examined Regulatory Activity Plan fees that represents 91% of the cost recovered revenues in 2009-2010.

The audit approach included an initial risk assessment and interviews with key members of the CNSC to develop an understanding of the major risks and issues associated with revenue management activities. It also included a review of documentation such as policies, procedures and reports. The audit scope included the testing of key controls identified in the revenue management process for the 2009-2010 fiscal year.

¹ CNSC’s Annual Financial Statements as of March 31, 2009 – Funding of Operations
1.3 Overall conclusion

The objectives of this audit covered the areas of risk management, governance and controls as they relate to revenue management processes. The audit identified that controls and processes are in place and functioning as intended. The audit also concludes that opportunities for improvement exist as detailed in the Summary of Observations.

1.4 Summary of observations

Observations raised in the report have been classified in terms of priority in accordance with risk criteria as defined in Appendix B. We recommend that areas of high risk with a potential for high impact on CNSC’s objectives be addressed in the short term, areas of medium impact should be addressed in the medium term (e.g. one year) and those with low impact are areas where change is desirable.

The audit reports on effective practices as well as areas for improvement on the management of revenues. Five areas for improvement have been identified - two (2) with high impact, two (2) medium impact, and one (1) low impact as summarized below:

### High impact observations

- **Governance and oversight - Formal oversight and approval.** We observed that roles and responsibilities are defined and understood for revenue management activities. As for the areas for improvement, the audit identified that there was no formal oversight and approval process for various activities affecting revenues such as changes to the regulatory activity plans (RAP) and approval of adjustments to the RAP fees which represent approximately 91% of the CNSC revenues in 2008-2009.\(^2\) In order to minimize the risk of unknown and unplanned revenue fluctuations, the CNSC should develop a formal oversight and approval process including a Delegation of Authority Matrix specifically for changes to regulatory activities that have an impact on the initial RAP fee estimates and final billing at year-end.

- **Finance/Operations revenue integration.** The audit identified several areas where operating and revenue management activities were well integrated such as the co-development of the quarterly Corporate Performance Reports and monthly licensee reports. As for areas of improvement, an informal process of communication exists regarding changes to regulatory plans throughout the year. There is a risk that changes to regulatory plans are not appropriately understood, communicated or approved resulting in material fee adjustments at year-end. The CNSC should define a formal process of communication between Finance and Operations branches. This process should be formally developed between the various branches, documented and approved by senior management.

\(^2\) CNSC’s Annual Financial Statements as of March 31, 2009 – Note 9
Medium impact observations

- **Governance and oversight - Quarterly reporting.** Quarterly Corporate Performance Reports and monthly reporting on licensee revenues enable senior management to monitor revenue status and activities. There are opportunities to improve the revenue reporting processes and the revenue information provided to senior management. These include reducing the amount of time to produce and table the quarterly Corporate Performance Reports to senior management, further development of key revenue performance indicators, revenue management action plans and producing and analysing revenue results as of the quarter ended.

- **RAP fee determination and adjustments.** Our review of the information on file to support the calculation of RAP fees noted that inputs, assumptions, and supporting rationale are documented. However, our audit noted that there was no documentation supporting the end-to-end process for calculating the initial RAP fees as well as subsequent adjustments and billing to licensees. There is a risk that if employees in key positions were to leave the CNSC, corporate knowledge essential for this core revenue process would be lost. There is also a risk that the quarterly review and calculation of the revised fees may not be performed consistently for all licensees. The CNSC should document the end-to-end process for the calculation of initial RAP fees including the calculation of adjustment to fees based on revised regulatory activity plans and actual/known cost recovery information. As part of the documented process, the CNSC should consider formalizing the billing of permanent changes to RAP fees as part of the quarterly billing process.

Low impact observation

- **Time coding.** For fees that are initially estimated on the basis of RAPs, the CNSC’s calculation of the actual fees is dependent on accurate time recording of staff activities. The audit noted that the control framework for time coding and reporting is in place and adequately manages risks. However, we identified that timesheets are not task oriented and are only required to be submitted once a month thus leading to an increased risk of time coding inaccuracies. The CNSC could further develop the time recording process such as requiring timesheets to be task oriented and submitted on a more frequent basis to further promote time recording accuracy and overall accountability for time charged to direct and indirect activities.
2.0 Introduction

2.1 Background

The Canadian Nuclear Safety Commission (CNSC) regulates the use of nuclear energy and materials in Canada, to protect health, safety, security and the environment and to respect Canada’s international commitments on the peaceful use of nuclear energy. The CNSC Cost Recovery Program provides financing of the CNSC’s regulatory activities, by charging licensees their share of the costs of the regulatory regime.

The CNSC was funded exclusively through an annual appropriation from Parliament before 2008-2009. The CNSC recovers most costs associated with its regulatory activities from licensees in accordance with the Canadian Nuclear Safety Commission Cost Recovery Fees Regulations (2003). In 2007, the CNSC received Treasury Board approval to phase in a revenue spending authority, beginning in 2008-2009 and with full implementation in 2009-2010.

The Regulations also state that some licensees, such as hospitals and universities, are exempt from paying fees, and fees are also not charged for activities that result from CNSC obligations that do not provide a direct benefit to identifiable licensees. These include activities associated with Canada’s international obligations (including the non-proliferation of nuclear weapons), public responsibilities such as emergency management and public information programs, and updating of the Nuclear Safety and Control Act and associated regulations as appropriate.3

These activities continue to be funded through Parliament’s appropriations.

The revenue spending authority allows the CNSC to re-spend revenues from fees and establishes a more sustainable funding regime. There are four revenue streams at the CNSC:

- Regulatory Activity Plan Fees ($78.8M) – Fees generated from licensing, certification and compliance regulatory activities. Power reactors, nuclear research and test establishments, uranium processing facilities, radioactive waste facilities, and uranium mines and mills represent the majority of the revenue stream.
- Formula Fees ($4.3M3) – Fees generated from licensed activities related to nuclear substances, Class II nuclear facilities and dosimetry services. Nuclear substances fees represent a majority of the fees derived from formula fees.
- Fixed Fees ($0.46M3) – Fees generated from transport licensees and transport package certificates, radiation device and prescribed equipment certificates, and exposure device operator certificates.
- Non-Licensing and Non-Certifications ($3.4M) – Non-licensing and non-certification represents revenue from other sources not covered in the above revenue streams. Special projects represent a majority of the revenue earned in this stream. Special projects are activities undertaken with specific outside entities seeking the CNSC’s expertise.

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3 CNSC’s Annual Financial Statements as of March 31, 2009 – Funding of Operations
4 CNSC’s Annual Financial Statements as of March 31, 2009 – Note 9
A further breakdown of the CNSC’s revenues shows that the top seven licensees represent 91% of the CNSC’s cost-recovered revenues. The top seven licensees as of 2008-2009 are as follows:

- AREVA
- Atomic Energy of Canada Limited (AECL)
- Bruce Power
- Cameco
- Hydro Quebec
- NB Power
- Ontario Power Generation (OPG)

2.2 Audit objectives, scope and criteria

Objectives

The objectives of the Audit of Revenue Management were to provide the President and senior management with:

- Assurance that risk management, governance and controls over the revenue management processes are in place and functioning as intended; and
- Recommendations for improvements.

Scope

The audit focused on revenue management processes and practices in place during the 2009-2010 fiscal year and related policies and procedures. The audit examined RAP fees from the top seven licensees.

The initial planning and risk assessment identified the following revenue management processes and systems as the focus of the audit:

- Governance and oversight
- Finance/operations revenue integration
- Time coding
- RAP fee determination and adjustments
- Accounts receivable, cost recovery and financial systems

The scope of this audit did not include planning of the regulatory activities that form the basis of the fees estimates, or the collections and dispute resolution of accounts receivable, provision of doubtful accounts, write-offs, financial statement close process, or revenue recognition. In addition, at the time of the audit, the CNSC reporting tool (Cognos) was not fully implemented and was therefore not included in our scope.

The audit fieldwork was conducted between February and May 2010.

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5 Corporate Performance Report 2008-2009 Results for Q4
Audit Criteria

The five audit criteria for the internal audit on revenue management are as follows:

Governance and oversight

- Governance framework for revenue management exists including a clear delineation of roles and responsibilities.

Finance/Operations revenue integration

- Effective integration exists between operating and revenue management activities.

Time coding

- An effective control framework exists for time management to support accurate and timely coding.

RAP fee determination and adjustments

- RAP fee determination and adjustments are supported by documented procedures, inputs, rationale, and assumptions.

Accounts receivable, cost recovery and financial systems

- Cost recovery and accounts receivable information is reliable and supported by high-quality data.

The five audit criteria and 15 sub-criteria are listed in Appendix A.
3.0 Approach & methodology

During the planning phase, interviews were conducted with key members of the CNSC and an initial risk assessment was performed to develop an understanding of the major risks and issues associated with revenue management activities. Relevant policies and procedures were reviewed to assess whether risk management, governance and control processes were in place to mitigate such risks. There is no formal risk management process in place at the CNSC; however, the audit focused on risk management activities, which existed for revenue management.

Based upon the planning results and the detailed audit program, we conducted interviews with key stakeholders to further understand the revenue processes, we reviewed documentation such as policies and tested key controls identified in revenues management processes for the 2009-2010 fiscal year.

A preliminary debrief with key stakeholders to discuss observations and seek clarification was undertaken prior to releasing a draft report for management’s comment.

Risk assessment

The purpose of the risk assessment was to identify potential areas of risk that could affect revenue management. The assessment identified and ranked key risks that formed the basis of the audit criteria stated above. The following are the highest risks identified:

- Governance and oversight – The revenue spending authority was fully implemented in 2009-2010. A risk exists that roles and responsibilities regarding revenue management activities are not fully defined and understood.
- Finance/Operations revenue integration - There are shared revenue management activities performed between Accounting, Systems and Controls Division, Finance Resource Management Planning and Reporting Division, Regulatory Operations Branch and Regulatory Operations Coordination Division. There is a risk that revenue activities involving multiple branches are not well understood and not fully developed.
- Time coding – Time recording and tracking is the basis used for adjusting RAP fees at year-end. There is a risk that timesheet coding is not well understood leading to incorrect RAP fee adjustments at year-end.
- RAP fee determination and adjustments – RAP fees are adjusted at year-end to reflect actual regulatory activities performed. There is a risk that differences between the initial RAP fee estimates and the final fee adjustments are not clear and understood due to the complexity of the cost recovery formula.
- Accounts receivable, cost recovery and financial systems – The IT environment is complex and consists of multiple systems that are not well integrated. A risk exits that data is not accurately transferred between systems thus leading to inaccurate RAP fee determination and adjustments.
○ The accounts receivable ledger is manually tracked on an excel spreadsheet. There is a risk that manual keying errors would lead to inaccurate or incomplete accounts receivable information.

4.0 Observations & Recommendations

4.1 Governance and oversight

Audit Criteria #1 - A governance framework for revenue management exists including a clear delineation of roles and responsibilities

A strong governance framework is essential to managing revenue within the revenue spending authority at the CNSC. Various components contribute to a strong governance framework for managing revenue including defined roles and responsibilities, adequate revenue monitoring and oversight and effective approval mechanisms over revenue related activities.

In accordance with the Finance and Administration Directorate Governance Directive and Naming Convention & Roles and Accountabilities, the roles and responsibilities for revenue management are shared between Accounting, Systems and Controls Division (ASCD), Finance Resource Management Planning and Reporting Division (FRMD), Regulatory Operations Branch (ROB) and Regulatory Operations Coordination Division (ROCD).

Effective practices

The audit noted several effective practices in the CNSC’s governance framework for revenue. Specifically, the audit noted the following:

○ Roles and responsibilities for revenue management activities are defined and understood between the ASCD, FRMD, ROB, and ROCD.

○ Revenue monitoring information is produced for senior management as part of the quarterly Corporate Performance Reports. Monthly reports on licensee revenues and revenue forecasts are also prepared for management. As part of the revenue monitoring reports, key financial performance indicators are monitored to assess and measure revenue activities such as revenue by license type and for the top seven licensees, revenue variances, revenue forecasting and accounts receivable aging.

Areas of improvement: Formal oversight and approval (High impact)

The result of our audit work indicated that CNSC’s governance framework for revenue did not have a formal oversight and approval process for various revenue management activities. For example, there are no formal approval requirements for changes to planned regulatory activities and for the calculation of adjustments to the RAP fees at year-end. Consequently, there is a risk that the absence of formal review and approval processes could result in
Unauthorized changes to regulatory activities that materially increase or decrease cost recovery fees for a licensee. A lack of a formal approval or challenge process for RAP fee adjustments at year-end increases the risk that errors in the calculation of the final fees would remain undetected and result in inaccurate invoices. Furthermore, due to the costing relationship and cost recovery methodology, there may be a direct impact on other licensees if a RAP fee is adjusted incorrectly. That is, a positive adjustment for one licensee could result in a negative adjustment for other licensees.

### 4.1.1 Recommendations

The CNSC should develop a formal oversight and approval process which includes a Delegation of Authority Matrix specifically for revenue management activities. The matrix should define the responsibility for approving different revenue activities/transactions and include approval thresholds based on the materiality of the revenue activity. The Delegation of Authority Matrix should take into account the approval of changes to regulatory activity plans that affect the cost recovery fees.

**Management response**

Management agrees that an oversight and approval process for revenue management should be formalized. The process will be documented and approved by management by December 31, 2010.

Effective April 1, 2010, CNSC Management approved a new Costing Methodology (introduced after the completion of this audit) which greatly reduces the potential for significant RAP-based fee variances and thus revenue management risk. Therefore, a specific delegation is not required.

The New Costing Methodology acknowledges certain extraordinary circumstances for when RAP-based fee estimates may need to be adjusted in year, such as the unexpected withdrawal or submission of a major application. The above referenced oversight and approval process for revenue management will therefore focus on the management of such events. In the above-referenced oversight and approval process to be developed, in no way would the consideration and approval of a fee changes delay or otherwise inhibit or constrain the Commission, or any Designated Officer or Inspector, who has the responsibility and authority to assure safe operations at licensed facilities and activities, from carrying out appropriate and timely regulatory activities and action.

Regulatory activities (originally planned or otherwise) are carried out under the direct authority and supervision of Operations management and therefore management does not consider that there is a significant risk of unauthorized regulatory activities taking place. Recent improvements in the monitoring and timely ongoing reporting to management of resource utilization further reduces any such risk.
Areas of improvement: Quarterly reporting (Medium impact)

Quarterly Corporate Performance Reports present an integrated view of the CNSC’s performance against key activities and highlight the resources that enable their achievement. The report is prepared jointly by representatives of Corporate Services, Regulatory Affairs and Regulatory Operations Branches. From our review of the 2009-2010 Q2 and Q3 Corporate Performance Reports, we found that revenue monitoring practices are in place, however, we noted areas where improvements could further advance senior management’s revenue monitoring efficacy:

- Q2 and Q3 Corporate Performance Reports were not produced and tabled with senior management in timely manner, taking on average six (6) weeks. Industry norms suggest a targeted time of 30 days to produce these types of reports. Management responsible for producing the Corporate Performance Reports commented that delays in Q2 and Q3 were due to increase in workload demands, such as, the CNSC Strategic Review Exercise. In Q2, part of the delay was due to the withdrawal of the Bruce Power New Build Initiative which required the revision of costing and resource activities. Although delays were, in part, caused by increased activity, revenue information that is presented to management an average of six weeks after the end of quarter may not be sufficient to support timely senior management decision making.

- Financial key performance indicators (KPIs) for revenue have been developed and are reported in the quarterly Corporate Performance Reports. KPI’s include revenue forecasts, accounts receivable aging, and reporting on recoverable and non-recoverable costs on full time employees (FTE). However, KPI’s have not been developed to track and report on direct and indirect activity revenue levels, recoverable and non-recoverable revenues nor year-to-date revenue earned compared to year-to-date revenue budgets. The further development of KPI’s would help the CNSC better assess actual revenue performance as compared to revenue objectives.

- Management action plans for revenue related performance (such as action plans to mitigate risks to revenue variances, lower regulatory activity levels, RAP adjustments) are not provided to senior management through the quarterly reporting process. The absence of such plans increases the risk that ongoing activities and/or decisions affecting revenues may not be aligned with the CNSC’s revenue objectives. For example, a shift of FTE from recoverable activities to non-recoverable activities may result in a revenue shortfall as appropriation funding is fixed for non-recoverable activities. The quarterly reports should provide senior management with an action plan indicating how risks to revenues will be mitigated and how management proposes to ensure revenue performance will continue to be aligned with CNSC’s objectives.

- Discrepancies were noted in the year-to-date revenue information in the quarterly reports. For example, in the Q3 Corporate Performance Report, year-to-date revenue was reported as of November 30, 2009 whereas all other data was reported of December 31, 2009. The discrepancy is due to a cut-off issue with revenue data which makes it difficult to compare revenue with other year-to-date information.
4.1.2 Recommendations

The CNSC should develop a more timely quarterly reporting process.

The CNSC should further develop revenue KPIs such as tracking of direct and indirect activity revenue levels, recoverable and non-recoverable revenues, and year-to-date revenue earned compared to year-to-date revenue budgets.

The CNSC should consider providing management action plans for revenue related performance where risks arise such as licensee revenue variances, lower regulatory activity levels, and adjustments to RAP estimates.

The CNSC should ensure that the date of the cumulative year-to-date revenue information is consistent with other information in the Corporate Performance Report.

Management response

Management agrees with the observations.

Effective April 1st, 2010, CNSC implemented a New Costing Methodology. With that methodology, Regulatory Activity Plan (RAP) fees will remain a fixed proportion of the CNSC total cost. This method of determining the final fee adjustments reduces the level of detail required for in-year forecasts and eliminates the need to perform a cost allocation. This simplification will improve the timeliness of quarterly reporting. Quarterly reports to management will be scheduled within 30 days of the end of the quarter.

Financial key performance indicators (KPIs) for revenue have been developed and are reported in the quarterly Corporate Performance Reports. KPI’s include revenue forecasts, accounts receivable aging, and reporting on recoverable, non-recoverable costs for full time employees (FTE) and revenue and Revenue Budget vs Year-to-date Actuals. The organization will continually review and improve the KPIs to monitor its performance. A review will consider the impact of the new costing allocation model on KPI’s and new measures where there is unclear or missing financial indicators information will be evaluated.

The current quarterly reporting process includes risks identified and recommendations for management where there is a significant risk in revenue related activities. - as it was required in 2009 with the withdrawal of the Bruce Power new build applications.

The introduction of the new Costing Methodology mitigate the risk of fee variance previously associated with changes from initially planned regulatory activities. Finance and Administration Directorate (FAD) will ensure the date of cumulative information in the Corporate Performance Report is consistent.
4.2 Finance/Operations revenue integration

Audit Criteria #2 - Effective integration exists between operating and revenue management activities

Revenue management activities are shared between ASCD and FRMD of the Finance and Administration Directorate (hereinafter referred to as Finance) and the Operational branches, that is, the Regulatory Operations Branch (ROB) and the Technical Services Branch (hereinafter referred to as Operations). Finance is responsible for revenue reporting, cost recovery internal controls, fee determination and adjustments, and billing and invoice preparation. Operations is responsible for implementing, managing and monitoring the regulatory activity plans. ROB and more specifically ROCD coordinates the development and implementation of the regulatory activity plans within Operations.

At the beginning of every year, the CNSC is required to prepare regulatory activities plans (RAPs) for the applicable facilities (approx 100) and to estimate the cost recovery fees applicable to each licensee. Once the RAPs are final, Finance applies CNSC’s costing formula to determine the fees for each individual RAP and the total estimated CNSC revenues from the planned regulatory activities for the fiscal year. Based on this estimate, licensees are issued quarterly invoices of equal amounts. Throughout the year, the RAPs are updated to reflect changes to licensee activities, new and emerging priorities and to meet CNSC’s overall regulatory and compliance requirements. At year-end, fees are adjusted to reflect the actual cost of the regulatory activities performed as compared to the estimated cost of the initial regulatory activity plan. Historically an adjusted invoice was only issued at year end, however, for the 2009-2010 fiscal year a mid-year invoice was issued to reflect changes to planned activities and resulting adjustments to cost recovery fees. The Operations Planning and Reporting Tool (OPRT) is used to track changes to the activities identified in the RAPs and the Integrated Time Accounting System (ITAS) records the effort expended against the planned activities.

Effective practices

The audit noted several areas where operating and revenue management activities were well integrated between Operations and Finance. Specifically, we noted the following effective practices:

- Co-development of the quarterly Corporate Performance Report and monthly licensee reports which requires the compilation of various sources of information produced by different branches and systems.

- An integral component of the costing formula is CNSC’s ability to track the employees’ time spent on direct and indirect activities. This is achieved through the Integrated Time Accounting System (ITAS) where some 300 task codes have been defined. Our review indicated that the task codes in ITAS were consistent with OPRT task codes used for planning and implementation of the regulatory program.
Areas of improvement: Finance/Operation revenue integration (High impact)

During our interviews, Operations management indicated that due to the complexity of the costing formula there is a lack of understanding of the cost recovery formula, particularly when changes to the RAPs have cost recovery (revenues) implications. The financial impact resulting from the aforementioned changes are only known to Finance after they compile the costs for the monthly revenue reports.

There are no formal and documented procedures regarding changes to planned regulatory activities particularly when these changes have a direct impact on the projected cost recovery fees. Informal communication processes regarding changes to planned regulatory activities are in place between the branches. The current practice requires that changes to planned activities be approved by the program director responsible for the activity and employee’s director that will be tasked with the new activity. However, this process is not formally documented.

As part of the audit, we tested 25 changes to planned regulatory activities processed in OPRT during the 2009-2010 fiscal year. The results indicated there were six (6) cases with evidence of only one director approval and 19 cases that had no evidence or audit trail of director approvals. The absence of a formal and structured process for changes to RAPs increases the risk that changes will not be appropriately communicated, understood or approved and that senior management will not be informed in a timely manner of changes to regulatory activities that could result in material adjustments to cost recovery fees.

4.2.1 Recommendations

The CNSC should define a formal process of communication between Finance and Operations for changes to planned regulatory activities that affect the cost recovery fees. This process should be formally developed between Finance and Operations, documented and approved by senior management. The process should stipulate the approvals required for changes to RAPs, how approvals are to be documented, and the flow of communication between Finance and Operations.

Management response

Management concurs that a more systematic and timely communication between Operations and Finance of significant changes from planned regulatory activities that could affect revenues would benefit both Senior Management and the licensees about possible effects.

As noted in 4.1, management agrees that a formal oversight and approval process will be documented and approved by management by December 31, 2010. This oversight process will address formal communications between Finance and Operations.

Effective April 1st, 2010, with the New Costing Methodology, RAP-based fees will remain a fixed proportion of the CNSC total cost. Licensee Fees will no longer be impacted by the fluctuations (increase or decrease) from Regulatory Activity Plans (RAP), except in extraordinary situations, such as when a licensee unexpectedly withdraws or submits a major application. The type of Operations/Finance communications to be address in the
The aforementioned formal oversight and approval process will focus on managing those types of events.

The risk to in-year revenue management from small changes to regulatory activities is greatly reduced as a result of the above-noted changes. Nevertheless, the referenced process within the Operations Branches for assuring that participating Directors agree upon and approve the addition or removal of regulatory tasks and/or the authorization of new staff participants on regulatory tasks in the OPRT has been, and will continue to be followed. This is, in part, to inform the regulatory activity planning process on which fees will continue to be based. The change process, including the proper recording of the change agreements between the responsible Directors, will be formally documented and communicated by December 31, 2010.

4.3 Time coding

Audit Criteria #3 - An effective control framework exists for time management to promote accurate and timely coding

Licensees are billed annually on projected regulatory activities planned for their site. Annual fee adjustments are invoiced at year-end based on actual time recorded as direct and indirect activities throughout the year. CNSC’s costing formula is driven by the direct activities performed by Operations such as compliance work on uranium mills and mines or power plants. Indirect activities, which include overhead such as legal and financial management activities are allocated to licensees based on the weighted value of indirect activities. Changes to the estimated fees may be the result of changes to direct and indirect activities or a combination of both.

Effective cost recovery at the CNSC is dependent on accurate tracking and reporting of time for direct and indirect activities by CNSC staff. The actual time is costed by Finance using integrated formulas and analysis of timesheet data. Inaccurate time coding can result in incorrect year-end adjustments to RAP fees and invoice to licensees. In April 2009, the CNSC conducted a comprehensive time coding review with an objective of simplifying time coding practices. As per the Time Accounting Guidelines, employees are required to submit an electronic timesheet (ITAS) on a monthly basis.

Effective practices

The audit noted that a control framework for time coding and reporting is in place and adequately manages risks. Specifically, we noted the following effective practices:

- Respective Directors must approve their employees’ timesheet submission in ITAS.
- The Coding Committee must review and approve the creation of all new/revised ITAS codes.
- Time coding guidance available time accounting guide and is available to all staff on the CNSC’s intranet, BORIS

**Areas of improvement: Time coding (Low impact)**

Managers and employees interviewed generally agreed that task-based approach and more frequent timesheet submissions would increase the accuracy of time reporting. The longer the period of time before a timesheet has to be submitted, the higher the risk of inaccurate reporting of tasks performed. Efficient and timely recording of direct and indirect activities is essential for accurate cost recovery monitoring and calculations as well as year-end RAP fee adjustments.

### 4.3.1 Recommendations

To further promote time recording accuracy and overall accountability for time charged to direct and indirect activities, the CNSC should further develop the time recording process such as requiring timesheets to be task oriented and submitted on a more frequent basis.

**Management response**

Management notes that a detailed review of cost codes was performed in 2008-2009, reducing the number of codes from approximately 800 to 400, in part, to simplify the time recording process. This reduction of detail tracking directly impacted the timesheets for approximately half the CNSC staff.

Furthermore, Operation Branches management approved a revised Standard Planning Format for use in the next planning cycle. A standard format would eliminate much of the unnecessary complexity in activity planning that is associated with a current lack of common format below the cost code level (i.e., tasks) across the various program areas. Management expects that this, together with the aforementioned cost code reform would, in addition to improving the accuracy of RAPs and related fee estimates, reduce the potential for timesheet errors and lateness.

A review of the need for timesheet information is currently being assessed and will be presented to management in September 2010. The outcome of this project may further refine the direction to the level of detail activities are tracked.
4.4 Regulatory Activity Plan fee determination and adjustments

_Audit Criteria #4 - Regulatory Activity Plan fee determination and adjustments are supported by documented procedures, inputs, rationale, and assumptions_

The determination of the cost recovery fees and adjustments, as required, are core revenue management processes at the CNSC. Fees charged for the licensing and compliance activities are governed by CNSC Cost Recovery Fees Regulations. Various sources of inputs, rationale, and assumptions are used to calculate the CNSC’s recoverable costs, direct and indirect, incurred in the discharge of their mandate.

**Effective practices**

Our review of cost recovery information on file indicated that inputs, assumptions, and supporting rationale for the calculation of RAP fees are properly documented. Specifically, the audit found documentation supporting the calculation of RAP fees such as cost allocation cross mapping, costing allocation methodology, average salary inputs and assumptions and services without costs. The cost allocation cross mapping document identifies the methodology used to generate the costs for annual planning and in-year monitoring processes. The costing allocation and methodology document describes actual and budgeted expenses recorded in costs codes within each branch. Average salary and employee benefits are used for the valuation of direct and indirect activities for costing at the CNSC.

**Areas of improvement: RAP fee determination and adjustments (Medium impact)**

The audit found that there were no detailed and documented operating procedures of the financial system and processes used to calculate the RAP fees. There is a risk that if employees in these key positions were to leave the CNSC, corporate knowledge essential for the calculation of RAP fees (initial and final) would be lost. Furthermore, loss of corporate knowledge could result in delays carrying out core revenue management activities.

The core revenue management process also lacks documentation regarding the quarterly billing cycle and the year-end adjustments to the estimated RAP fees. Although, fee estimates may be adjusted during the year on an ad hoc basis due to changes to the planned regulatory activities, there is a risk that the quarterly review and calculation of the revised fees may not be performed consistently for all licensees.

**4.4.1 Recommendations**

The CNSC should document the end-to-end process for the calculation of initial RAP fees including the calculation of adjustment to fees based on revised regulatory plans and actual/known cost recovery information. The documented process should capture all inputs and assumptions, billing protocols, identify key stakeholders in the process, and provide step-
by-step instructions for calculating and invoicing RAP fees to licensees. Procedures should be communicated to staff and updated as required. As part of the process documentation, the CNSC should consider formalizing the billing of permanent changes to RAP fees as part of the quarterly billing process.

**Management response**
Management agrees with the observation. However, effective April 1st, 2010, with the New Costing Methodology, RAP fees will remain a fixed proportion of the CNSC total cost. Licensee Fees will no longer be impacted by the fluctuations (increase or decrease) in Regulatory Activity Plan (RAP), it is not expected that quarterly revision of fee estimates will be required.

The initial calculation of fee estimates on the basis of RAPs is an element of the planning process. A detailed mapping of the past fee calculation process was included as an element of the CPMRS project and presented in 2008-2009 to internal stakeholders. An updated RAP-based fee calculation process document will be prepared to incorporate the changes with the New Costing Methodology (December 31, 2010) and to include all elements of the billing cycle. The new costing methodology will include documenting the process to capture inputs, identify stakeholders, clarify roles and responsibilities and provide an instruction for users.

### 4.5 Accounts receivable, cost recovery and financial systems

<table>
<thead>
<tr>
<th>Audit Criteria #5 - Cost recovery and accounts receivable information is reliable and supported by high-quality data</th>
</tr>
</thead>
</table>

The IT environment consists of multiple systems and applications that support revenue processes and data management. Specifically, Louis Accounting, ITAS, OPRT, Hyperion, Excel spreadsheets and Freebalance are used to administer different revenue management activities including the accounts receivables.

The accounts receivable ledger is set up outside of Freebalance in an Excel Spreadsheet. It is, therefore, essential that checks and reconciliations between Louis Accounting, accounts receivable spreadsheets, and Freebalance be properly designed and implemented to mitigate the risk of errors during the transfer of data.

**Effective practices**
The audit noted that internal controls are in place to assure the accuracy and integrity of data maintained in the various accounting systems and particularly of the accounts receivable. The results of our audit tests indicated that controls in place were operating effectively. Specifically, we noted the following key effective controls:
- Reconciliations are performed between billing system (Hyperion RAP fee adjustments) and financial system (Freebalance) which support the annual financial statements reporting process.
- Reconciliations are performed monthly between the account receivable sub-ledger (Louis Accounting) and financial systems (Freebalance).

**Areas of improvement**

No findings of significance identified.

**5.0 Conclusion**

The objectives of this audit covered the areas of risk management, governance and controls as they relate to revenue management processes. The audit identified that controls and processes are in place and functioning as intended. The audit also concludes that opportunities for improvement exist in the following areas:

- Although roles and responsibilities are defined and understood for revenue management activities, there is a need to formalize authorities and accountabilities for the various revenue activities including review and approval of adjustments to the RAP fees and changes to planned regulatory activities that could impact fees.
- Senior management oversight responsibilities are supported by information provided in the quarterly corporate performance reports and monthly licensee reports, although, comprehensive revenue KPI’s and management action plans to address high risk areas will further enhance senior management decision-making ability.
- Operating and revenue management activities are well integrated. The absence of formal communication processes regarding changes to regulatory activity plans impact the efficiency of the revenue management.
- The audit confirmed that an effective control framework for time coding and reporting is in place and adequately manages risks; however, opportunities exist to further promote time coding accuracy.
- The review of RAP fee documentation confirmed that inputs, assumptions, and supporting rationale of RAP fees are documented. The audit noted, however, that there was no documentation supporting the end-to-end process for the calculation of initial RAP fees and subsequent adjustments and billing to licensees.

**6.0 Acknowledgment**

The Office of Audit and Ethics would like to express its appreciation for the full cooperation received from employees of the CNSC during the conduct of the audit.
Appendix A - Management Action Plan

4.1.1 Recommendation: The CNSC should develop a formal oversight and approval process which includes a Delegation of Authority Matrix specifically for revenue management activities. The matrix should define responsibility for approving different revenue activities/transactions and include approval thresholds based on the materiality of the revenue activity. The Delegation of Authority Matrix should take into account the approval of changes to regulatory activity plans that affect the cost recovery fees.

<table>
<thead>
<tr>
<th>Unit Responsible</th>
<th>Management Action Plan (MAP)</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAD FRMD</td>
<td>Develop formal oversight and approval process for revenue transactions. The process will be documented and approved by management by December 31, 2010. The oversight and approval process for revenue management will focus on the management of events such as extraordinary circumstances for when RAP-based fee estimates may need to be adjusted in year (eg. unexpected withdrawal or submission of a major application).</td>
<td>December 31, 2010</td>
</tr>
</tbody>
</table>
4.1.2 Recommendation:

The CNSC should develop a more timely quarterly reporting process.

The CNSC should further develop revenue KPIs such as tracking of direct and indirect activity revenue levels, recoverable and non-recoverable revenues, and year-to-date revenue earned compared to year-to-date revenue budgets.

The CNSC should consider providing management action plans for revenue related performance where risks arise such as licensee revenue variances, lower regulatory activity levels, and adjustments to RAP estimates.

The CNSC should ensure that the date of the cumulative year-to-date revenue information is consistent with other information in the Corporate Performance Report.

<table>
<thead>
<tr>
<th>Unit Responsible</th>
<th>Management Action Plan (MAP)</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAD FRMD</td>
<td>Quarterly reports to management will be scheduled within 30 days of the end of quarter.</td>
<td>September 3, 2010</td>
</tr>
<tr>
<td></td>
<td>The organization will continually review and improve the KPIs to monitor its performance. A review will consider the impact of the new costing allocation model on KPI’s and new measures where there is unclear or missing financial indicators information will be evaluated.</td>
<td>October 1, 2010 and ongoing</td>
</tr>
<tr>
<td>FAD FRMD</td>
<td>Revenue related risks and activities will be emphasized in the Quarterly Financial reports that are provided to MC,</td>
<td></td>
</tr>
<tr>
<td>DRIMPM-ROCD</td>
<td>Revenue related information will be reconciled with other information found in the Corporate performance report.</td>
<td>October 1, 2010 and ongoing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
4.2.1 **Recommendation**: The CNSC should define a formal process of communication between Finance and Operations for changes to planned regulatory activities that affect the cost recovery fees. This process should be formally developed between Finance and Operations, documented and approved by senior management. The process should stipulate the approvals required for changes to RAPs, how approvals are to be documented, and the flow of communication between Finance and Operations.

<table>
<thead>
<tr>
<th>Unit Responsible</th>
<th>Management Action Plan (MAP)</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAD FRMD</td>
<td>As noted in 4.1, management agrees that a formal oversight and approval process will be documented and approved by management by December 31, 2010. This oversight process will address formal communications between Finance and Operations.</td>
<td>December 31, 2010</td>
</tr>
<tr>
<td>DRIMPM ROCD</td>
<td>Formally document and communicate the OPRT change process within Operation Branches, including improved recording of change agreements between the responsible Directors.</td>
<td>December 31, 2010</td>
</tr>
</tbody>
</table>
4.3.1 Recommendation: To further promote time recording accuracy and overall accountability for time charged to direct and indirect activities, the CNSC should further develop the time recording process such as requiring timesheets to be task oriented and submitted on a more frequent basis.

<table>
<thead>
<tr>
<th>Unit Responsible</th>
<th>Management Action Plan (MAP)</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAD FRMD</td>
<td>A review of the timesheet information is currently being assessed and will be presented to management in September 2010. The outcome of this project may further refine the direction to the level of detail activities tracked.</td>
<td>September 30, 2010</td>
</tr>
<tr>
<td>DRIMPM-ROCD</td>
<td>Develop Standard Planning Format to simplify and improve efficiency of planning and time reporting where appropriate.</td>
<td>August 31, 2010</td>
</tr>
</tbody>
</table>
**4.4.1 Recommendations:** The CNSC should document the end-to-end process for the calculation of initial RAP fees including the calculation of adjustment to fees based on revised regulatory plans and actual/known cost recovery information. The documented process should capture all inputs and assumptions, billing protocols, identify key stakeholders in the process, and provide step-by-step instructions for calculating and invoicing RAP fees to licensees. Procedures should be communicated to staff and updated as required. As part of the process documentation, the CNSC should consider formalizing the billing of permanent changes to RAP fees as part of the quarterly billing process.

<table>
<thead>
<tr>
<th>Unit Responsible</th>
<th>Management Action Plan (MAP)</th>
<th>Timeline</th>
</tr>
</thead>
</table>
| FAD FRMD         | An updated RAP-based fee calculation process document will be prepared to incorporate the changes with the New Costing Methodology (December 31, 2010) and to include all elements of the billing cycle.  
                   
                   The New costing methodology will include documenting the process to capture inputs, identify stakeholders, clarify roles and responsibilities and provide an instruction manual for users. | December 31, 2010   |
Appendix B – Audit Criteria

The five audit criteria and 15 sub-audit criteria for the Audit of Revenue Management were developed to address the highest risks identified in the preliminary risk assessment. The audit criteria for the audit are as follows:

**Finance/Operations revenue integration**

*“Effective integration exists between operating and revenue management activities”*

- Changes to RAP fee are effectively translated to revenue management activities
- Time codes in the ITAS are consistent with time codes in the OPRT

**Governance and oversight**

*“A governance framework for revenue management exists including a clear delineation of roles and responsibilities”*

- Accountability framework exists supported by proper authorization levels and defined roles and responsibilities regarding the revenue process
- Key performance indicators exists for revenue management including performance of planned regulatory activities, timeliness, and accuracy of time recording
- Monitoring activities are formalized and performed in a timely manner for revenue management regarding planned regulatory activities and time coding (e.g. plan to actual, licensee tracking, project tracking, etc.)

**Time coding**

*“An effective control framework exists for time management to support accurate and timely coding”*

- Monitoring and process controls regarding time management are designed appropriately to mitigate the risks of late and inaccurate timesheets
- Policies, procedures, guidelines, and training documentation exists and is available to staff regarding time coding

**RAP fee calculation and adjustments**

*“RAP fee calculation and adjustments are supported by documented procedures, inputs, rationale, and assumptions”*

- Policies and procedures exist regarding RAP fee determination and adjustments
- Cross-mapping between the ITAS and direct/indirect costs is well documented with supporting rationale
- Inputs (e.g. direct/indirect), rationale, and assumptions used for RAP fee determination are well documented
- Review and approval controls are designed appropriately to verify that fee adjustments are accurate
Accounts receivable, cost recovery and financial systems

“Cost recovery and accounts receivable information is reliable and supported by high-quality data integrity”

- Internal controls are designed appropriately to support the integrity of data transferred between IT systems
- Revenue reporting used for decision making is supported by accurate data derived from the financial system
- Process controls are designed appropriately over the accounts receivable sub ledger
- Controls are designed so licensees revenues are complete and recorded in the accounts receivable sub ledger
Appendix C – Findings Legend

Findings raised in the report have been classified in terms of priority in accordance with risk criteria as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH Impact</td>
<td>• Must be addressed in the short term (e.g. within the fiscal year)</td>
</tr>
<tr>
<td></td>
<td>• Findings could result in significant risk exposure (e.g. material financial impact to revenue)</td>
</tr>
<tr>
<td>MEDIUM Impact</td>
<td>• Should be addressed in the medium term (e.g. one year)</td>
</tr>
<tr>
<td></td>
<td>• Findings could result in risk exposure or financial impact</td>
</tr>
<tr>
<td>LOW Impact</td>
<td>• Changes are desirable</td>
</tr>
<tr>
<td></td>
<td>• Findings identify areas of improvement</td>
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</tbody>
</table>