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Public Works and Government Services Canada
ADMINISTRATIVE COSTS CHARGEABLE TO
THE CANADA PENSION PLAN ACCOUNT

Financial Report
For the Year ended March 31, 2008



October 27, 2008

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Auditors' Report

**To the Chief Audit Executive, Office of Audit and Evaluation
Public Works and Government Services Canada**

We have audited the financial report of **Administrative Costs Chargeable to the Canada Pension Plan Account** by Public Works and Government Services Canada for the year ended March 31, 2008 in accordance with the Agreement between Public Works and Government Services Canada and Human Resources and Social Development Canada, formerly Social Development Canada, for the Provision of the Canada Pension Plan and International Agreement, in effect from April 1, 2005 to March 31, 2010. This financial report is the responsibility of Public Works and Government Services Canada management. Our responsibility is to express an opinion on this financial report based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial report presentation.

In our opinion, this financial report presents fairly, in all material respects, the Administrative Costs Chargeable to the Canada Pension Plan Account by Public Works and Government Services Canada for the year ended March 31, 2008 in accordance with the Agreement referred to above, in effect from April 1, 2005 to March 31, 2010.

Signed by PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Public Works and Government Services Canada

FINANCIAL REPORT OF ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

(Rounded to the nearest hundred dollars)

Year ended March 31

	2008	2007	Increase (Decrease)	
	\$	\$	\$	%
Direct costs	5,471,600	5,513,300	(41,700)	(0.8)%
Electronic data processing costs	4,314,500	6,698,000	(2,383,500)	(35.6)%
Cheque reconciliation costs	1,535,100	1,409,400	125,700	8.9%
Government services	293,600	322,100	(28,500)	(8.8)%
Accommodation costs	202,800	229,100	(26,300)	(11.5)%
Management costs	42,100	29,000	13,100	45.2%
Total administrative costs	11,859,700	14,200,900	(2,341,200)	(16.5)%
Amount invoiced to the Canada Pension Plan (CPP) account	12,090,100	14,804,700		
Outstanding amounts to be reimbursed to the CPP account	(230,400)	(603,800)		

See accompanying notes to the financial report

Approved by _____
Renée Jolicoeur
Assistant Deputy Minister
Accounting, Banking and Compensation Branch

Approved by _____
Mike Hawkes
Chief Financial Officer
Finance Branch

Public Works and Government Services Canada

FINANCIAL REPORT OF ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

Notes to the Financial Report Analysis of Variances (Rounded to the nearest hundred dollars)

Year ended March 31

1. INTRODUCTION

On December 12, 2003, the former Human Resources Development Canada (HRDC) was split into two departments: Social Development Canada (SDC) and Human Resources and Skills Development Canada (HRSDC).

An agreement entitled *Agreement between Public Works and Government Services Canada and Social Development Canada for the Provision of Canada Pension Plan and International Agreement (the "Agreement")* was signed between Public Works and Government Services Canada (PWGSC) and SDC in February 2006. This Agreement is in effect from April 1, 2005 to March 31, 2010 and is comprised of two parts: part one is the Memorandum of Understanding which sets out the basic principles regarding the services to be provided by PWGSC; and part two is the annual schedules containing the details of the services to be provided during each fiscal year.

On February 6, 2006 the Prime Minister announced the merger of SDC and HRSDC into one department called Human Resources and Social Development Canada (HRSDC).

2. DIRECT COSTS

	2008	2007	Increase (Decrease)	
	\$	\$	\$	%
Postage	3,405,300	3,482,600	(77,300)	(2.2)%
Banking fees	1,674,700	1,682,000	(7,300)	(0.4)%
Cheques and envelopes	259,600	216,700	42,900	19.8 %
Collateral costs	132,000	132,000	-	-
Total direct costs	5,471,600	5,513,300	(41,700)	(0.8)%

Postage

The decrease in postage costs of \$77,300 was the result of a reduction in postage volumes of 181,900 units (from 7,150,400 units to 6,968,500 units) for a decrease of \$88,800, which was offset by an increase in the average rate for postage of \$11,500 (from \$0.487 to \$0.489 for domestic postage and from \$0.534 to \$0.545 for international postage).

Banking fees

The Receiver General paid banking fees on behalf of HRSDC for charges incurred in the support of customer and non-customer encashment and fees. The charges were based on a unit transaction banking fee for payments issued by cheque and by direct deposit.

Public Works and Government Services Canada

FINANCIAL REPORT OF ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

Notes to the Financial Report Analysis of Variances (Rounded to the nearest hundred dollars)

Year ended March 31

2. DIRECT COSTS (continued)

Banking fees have decreased by an amount of \$7,300 from the prior fiscal year. The volume for Canada Pension Plan (CPP) payments made by cheque decreased by 181,900 units (from 7,150,400 units to 6,968,500 units) and the average banking fee transaction costs for cheques decreased from \$0.1080 to \$0.1079 per transaction, resulting in a cost reduction of \$20,600. The average banking fee transaction costs for direct deposits also decreased from \$0.0223 to \$0.0217 per transaction which resulted in a further cost reduction of \$23,000. These cost reductions were offset by an increase of \$36,300 due to the increase in the number of direct deposit transactions of 1,672,800 units (from 40,804,400 units to 42,477,200 units).

Cheques and envelopes

The total increase in cheque and envelope costs of \$42,900 was the result of an increase in the price of cheques and envelopes of \$49,700 which was then offset by a reduction in the number of CPP payments made by cheque of 181,900 units for \$6,800.

Collateral costs

Collateral costs were incurred for the transfer of funds between the Receiver General concentrator account set up for HRSDC (formerly SDC) and the Consolidated Revenue Fund (CRF) at the Bank of Canada, using the Large Value Transfer System (LVTS). In 2006-2007 and 2007-2008, this fee was billed on a monthly basis at a rate of \$11,000, of which \$10,000 pertained to minimum collateral costs and \$1,000 to administrative fees.

3. ELECTRONIC DATA PROCESSING (EDP) COSTS – INFORMATION TECHNOLOGY SERVICES BRANCH (ITSB)

EDP costs consist of fees for computer operations, telecommunications and disaster recovery services for the Standard Payment System (SPS) provided by the ITSB.

Costs relating to the HRSDC/IT service agreements are included in the total fees for computer operations. Service Agreement SA2123 between PWGSC and HRSDC was extended and in effect for the first three months of the fiscal year (April 1, 2007 to June 30, 2007). The agreement provided capacity to HRSDC in support of the Social Benefits Program, which includes the CPP and Old Age Security (OAS).

The overall decrease in EDP costs in 2007-2008 of \$2,383,500 was mainly attributable to a decrease in storage costs for application hosting of \$1,375,000 and a decrease in data storage requirement costs of \$1,706,200 under Service Agreement SA2123. Data storage requirements were needed by HRSDC for three months in 2007-2008 instead of twelve months in 2006-2007. There were no micrographics costs in 2007-2008 compared to \$700 in 2006-2007.

These decreases were offset by an increase of \$698,400 as follows:

- processing costs for application hosting of \$479,300;
- printing costs of \$163,700; and
- operating costs of \$55,400 for the SPS disaster recovery site provided to the CPP [*]

Public Works and Government Services Canada

FINANCIAL REPORT OF ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

Notes to the Financial Report Analysis of Variances (Rounded to the nearest hundred dollars)

Year ended March 31

4. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs related to service costs for payment redemptions directly attributable to Canada Pension Plan payments. The Cheque Redemption Control Directorate (CRCD) provided payment reconciliation and redemption services for Canada Pension Plan payments on behalf of the Receiver General for Canada.

The cheque reconciliation costs increased by \$125,700 in 2007-2008 from the prior fiscal year. This net increase was due to an increase of \$202,600 in the CRCD operating and capital expenditures attributable to the CPP, which was offset by a decrease of \$76,900 in salary costs.

5. GOVERNMENT SERVICES

Government service costs related to expenditures to cover employee benefits and health and dental plans. The net decrease in government service costs of \$28,500 was the result of a decrease of \$11,500 in the employee benefits rate (from 19.0% to 18.5%) and the health and dental plans rate (from 7.5% to 7.0%) and a net decrease of \$17,000 due to a decrease in cheque reconciliation salary costs of \$76,900 offset by an increase in management salary costs of \$12,800.

6. ACCOMMODATION COSTS

Accommodation costs were incurred for the space occupied to provide CPP services. The decrease in accommodation costs by \$26,300 in 2007-2008 was mainly due to unused space in the ITSB office and the SPS laboratories for CPP services in the fiscal year.

7. MANAGEMENT COSTS

Management costs included costs relating to the compilation and preparation of this annual financial report. The net increase of \$13,100 in 2007-2008 was mainly attributed to an increase in the Finance Branch salary costs to complete these tasks.