



Public Works and  
Government Services  
Canada

Travaux publics et  
Services gouvernementaux  
Canada

Canada



Serving  
**GOVERNMENT,**  
Serving  
**CANADIANS.**

**2011-708**

**Public Works and Government Services Canada**

## **ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT**

**Financial Report**

**For the Year ending March 31, 2011**

[www.pwgsc-tpsgc.gc.ca](http://www.pwgsc-tpsgc.gc.ca)

# INDEPENDENT AUDITORS' REPORT

To the Deputy Chief Oversight Officer, Office of Audit and Evaluation  
Public Works and Government Services Canada

We have audited the accompanying financial report of **Administrative Costs Chargeable to the Canada Pension Plan Account** by Public Works and Government Services Canada and accompanying notes for the year ended March 31, 2011. The schedule has been prepared by management based on the financial reporting provisions in Section C of the Memorandum of Understanding between Human Resources and Skills Development Canada and the Canada Pension Plan and Public Works and Government Services Canada in effect from April 1, 2010 to March 31, 2015.

## Management's responsibility for the financial report

Management is responsible for the preparation and fair presentation of the financial report in accordance with the Memorandum of Understanding, and for such internal control as management determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial report of **Administrative Costs Chargeable to the Canada Pension Plan Account** for the year ended March 31, 2011 is prepared, in all material respects, in accordance with the financial reporting provisions of Part C of the Memorandum of Understanding.

## **Basis of accounting and restriction on use**

Without modifying our opinion, we draw attention to the fact that the financial report has been prepared in accordance with the provisions of the above noted Memorandum of Understanding. The financial report has been prepared to assist Public Works and Government Services Canada to meet the reporting requirements of Part A of the Memorandum of Understanding. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Public Works and Government Services Canada and Human Resources and Skills Development Canada and should not be used by parties other than Public Works and Government Services Canada or Human Resources and Skills Development Canada.

Signed by Ernst & Young LPP

Ottawa, Canada,  
October 19, 2011.

Chartered Accountants  
Licensed Public Accountants

# Public Works and Government Services Canada

## FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

(Rounded to the nearest hundred dollars)

Year ended March 31

	2011	2010	Increase (Decrease)	
	\$	\$	\$	%
<b>Direct Costs</b>				
Postage	3,714,200	3,587,700	126,500	3.5%
Cheques and envelopes	267,100	266,600	500	0.2%
Banking fees	1,844,100	1,681,100	163,000	9.7%
Collateral costs	339,300	321,400	17,900	5.6%
Information technology services costs	3,824,200	4,167,000	(342,800)	-8.2%
Cheque reconciliation costs	924,300	1,512,300	(588,000)	-38.9%
Government services costs	145,500	299,900	(154,400)	-51.5%
<b>Total Direct Costs</b>	<b>11,058,700</b>	11,836,000	(777,300)	-6.6%
<b>Corporate support costs</b>	<b>32,700</b>	36,100	(3,400)	-9.4%
<b>Accommodation costs</b>	<b>0</b>	235,700	(235,700)	100%
<b>Total Administrative Costs</b>	<b>11,091,400</b>	12,107,800	(1,016,400)	-8.4%
Amount invoiced to the Canada Pension Plan (CPP) account	10,963,700	12,408,900		
Outstanding amounts to be invoiced (reimbursed) to the CPP account	127,700	(301,100)		

Totals may differ between and within tables due to rounding of figures

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

Approved by \_\_\_\_\_  
Alex Lakroni  
Chief Financial Officer  
Finance Branch

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# Public Works and Government Services Canada

## FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

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

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Year ended March 31

#### 1. INTRODUCTION

An agreement entitled *Memorandum of Understanding Between Human Resources and Skills Development Canada and the Canada Pension Plan and Public Works and Government Services Canada* was signed in August 2011 between Public Works and Government Services Canada (PWGSC) and Human Resources and Skills Development Canada (HRSDC). This Memorandum of Understanding (MOU) is in effect from April 1, 2010 to March 31, 2015.

#### 2. POSTAGE

The net increase in postage costs of \$126,500 was the result of an increase in the average rates for postage of \$185,400 (from \$0.522 to \$0.549 for domestic rates and from \$0.571 to \$0.618 for international rates), which was offset by a reduction in postage volumes of 107,300 units (from 6,870,900 units to 6,763,600) for a decrease of \$58,900.

#### 3. CHEQUES AND ENVELOPES

The total increase of \$500 in cheque and envelope costs was the result of a decrease in the number of CPP payments made by cheque of 107,300 units for a cost decrease of \$4,200, which was then offset by an increase in the price of envelopes from \$17.35/1000 units to \$18.04/1000 units, for a cost increase of \$4,700.

#### 4. BANKING FEES

The Receiver General (RG) 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. Banking fees have increased by an amount of \$163,000 from the prior fiscal year. The volume for Canada Pension Plan (CPP) payments made by cheque decreased by 107,300 units (from 6,870,900 units to 6,763,600 units), while the average banking fee transaction costs for cheques increased from \$0.1085 to \$0.1169 per transaction, resulting in a cost increase of \$44,800. The average banking fee transaction costs for direct deposits also increased from \$0.0204 to \$0.0221 per transaction which resulted in a cost increase of \$79,300. In addition to the increase in price, the number of direct deposit transactions increased by 1,758,300 units (from 45,836,400 units to 47,594,800 units) which resulted in a further cost increase of \$38,900, for a total increase of \$118,200.

#### 5. COLLATERAL COSTS

Collateral costs were incurred for the transfer of funds between the RG concentrator account set up for HRSDC and the Consolidated Revenue Fund (CRF) at the Bank of Canada, using the Large Value Transfer System (LVTS). Under the contract with the Bank of Nova Scotia, which came into effect in December, 2008, collateral costs were made up of two components: a set cost of \$205 per month, plus an additional variable cost based on the total dollar amount processed using LVTS. There was an overall increase of \$17,900 due to an increase in the variable costs in 2010-2011.

# Public Works and Government Services Canada

## FINANCIAL REPORT ON 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

#### 6. INFORMATION TECHNOLOGY (IT) SERVICES COSTS

IT services costs consisted of fees for mainframe application hosting services, print services, disaster recovery, and change management costs.

	2011	2010	Increase (Decrease)	
	\$	\$	\$	%
Mainframe application hosting services	2,444,000	2,539,100	(95,100)	-3.7%
Print services	680,700	769,500	(88,800)	-11.5%
Disaster recovery	699,500	858,400	(158,900)	-18.5%
Change management	0	0	0	0%
Total IT services costs	3,824,200	4,167,000	(342,800)	-8.2%

There was an overall decrease of \$342,800 in IT services costs for 2010-2011. This can be attributed to a decrease in mainframe application hosting services costs of \$95,100, along with a decrease in print services costs of \$88,800, and a \$158,900 decrease in disaster recovery costs.

#### 7. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs related to service costs for payment redemptions are directly attributable to CPP payments. The Cheque Redemption Control Directorate (CRCD) provided payment reconciliation and redemption services for CPP payments on behalf of the RG.

In 2010-2011, the costing methodology changed. The new methodology established a standard unit cost for issuing cheques and a separate one for direct deposits, as opposed to the old methodology which applied a standard cost to both cheques and direct deposits. This new approach allowed the cost to be allocated according to work effort with cheque production being more labour intensive than direct deposit. As a result of the new calculation method, cheque reconciliation costs showed a decrease of \$588,000.

#### 8. GOVERNMENT SERVICES COSTS

Government services costs were expenditures incurred to cover the employee benefits. A rate of 20% was applied to salaries to cover employee benefits. Health care costs are centrally funded and therefore excluded as per the current MOU. The net decrease in government services costs of \$154,400 was the result of the decrease in the employee benefits (\$54,400) and the exclusion of health care costs (\$100,000).

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# **Public Works and Government Services Canada**

## **FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT**

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

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Year ended March 31

#### **9. CORPORATE SUPPORT COSTS**

Corporate support costs were incurred for the compilation and preparation of this annual financial report. Corporate Support costs comprise of work completed by PWGSC's Cost-Based Management Directorate (CBMD) in the Finance Branch, the Office of Audit and Evaluation (OAE), and external audit costs incurred on behalf of the OAE. The net decrease of \$3,400 in 2010-2011 was attributed to a decrease in OAE costs of \$2,900 along with a decrease in CBMD salary cost of \$500.

#### **10. ACCOMMODATION COSTS**

According to the current MOU, accommodation costs are not recovered from the CPP account, therefore accommodations costs decreased from \$235,700 in 2009-2010 to \$0 in 2010-2011.

#### **11. INDIRECT COST FOR INTERNAL SERVICES**

As per the MOU, Indirect cost for Internal Services was only implemented in 2011-12, and as new cost element, will be included in the 2011-12 financial report and for the future.