



2012-708

Public Works and Government Services Canada

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

Financial Report

For the Year ending March 31, 2012



INDEPENDENT AUDITORS' REPORT

To the Deputy Minister,
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, 2012. The financial report has been prepared by management based on the financial reporting provisions in Part 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 for the Administrative Costs Chargeable to the Canada Pension Plan for the year ended March 31, 2012 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 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 and Human Resources and Skills Development Canada.

Signed by Ernst & Young LLP

Ottawa, Canada
October 25, 2012.

Chartered Accountants
Licensed Public Accountants

Public Works and Government Services Canada

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT (1)

(Rounded to the nearest hundred dollars)

Year ended March 31

	2012	2011	Increase (Decrease)	
	\$	\$	\$	%
Direct Costs				
Postage (2)	4,096,900	3,714,200	382,700	10.3%
Cheques and envelopes (3)	279,500	267,100	12,400	4.6%
Banking fees (4)	1,866,900	1,844,100	22,800	1.2%
Collateral costs (5)	376,400	339,300	37,100	10.9%
Information technology services costs (6)	3,822,900	3,824,200	(1,300)	-
Cheque reconciliation costs (7)	949,900	924,300	25,600	2.8%
Government services costs (8)	145,600	145,500	100	-
Total Direct Costs	11,538,100	11,058,700	479,400	4.3%
Corporate Support Costs (9)	94,900	32,700	62,200	190.2%
Total Administrative Costs	11,633,000	11,091,400	541,600	4.9%
Amount invoiced to the Canada Pension Plan (CPP) account	11,538,600	10,963,700		
Outstanding amount to be invoiced (reimbursed) to the CPP account	94,400	127,700		

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

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

1. INTRODUCTION

An agreement entitled *Memorandum of Understanding (MOU) 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.

Costs related to foreign payments are included in this financial report for the first time in 2011-12. These costs were not recovered in the past because the supporting details were not available from our service provider for foreign payments, Bank of America. The MOU states that direct costs will be allocated to the CPP account only if the costs are directly identifiable and traceable. The requirement for these details was included in the foreign services contract signed in February 2010. With these additional details PWGSC can now trace the costs of postage, cheques, envelopes and banking fees related to foreign payments. In addition, the indirect costs for internal services provided by corporate branches became a recoverable item in 2011-12 as per the above mentioned MOU and, therefore, these are included in the 2011-12 amounts in this financial report. These amounts are not included in the comparative figures for 2010-11 in this financial report.

2. POSTAGE

Total postage costs increased by \$382,700, or 10.3% as compared to the previous fiscal year. The increase was mainly due to the inclusion of foreign postage costs offset by a decrease in domestic postage costs. The decrease in domestic postage costs was due to a volume reduction of 508,255 in the number of domestic cheques posted despite the slight increase in average domestic postage rate from \$0.55 to \$0.58.

	2012	2011	Increase (Decrease)	%
	(\$)	(\$)	(\$)	
Foreign postage	494,200	0	494,200	-%
Domestic postage	3,602,700	3,714,200	(111,500)	-3.0%
Total postage costs	4,096,900	3,714,200	382,700	10.3%

3. CHEQUES AND ENVELOPES

Compared to the previous fiscal year total cheque and envelope (C&E) costs increased by \$12,400 or 4.6%. The increase was mainly due to the inclusion of foreign C&E costs offset by a decrease in domestic C&E costs. The decrease in domestic C&E costs was due to volume decreases of 348,813 domestic cheques and 508,255 domestic envelopes.

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

	2012	2011	Increase (Decrease)	%
	(\$)	(\$)	(\$)	
Foreign C&E	25,000	0	25,000	-%
Domestic C&E	254,500	267,100	(12,600)	-4.7%
Total C&E costs	279,500	267,100	12,400	4.6%

4. BANKING FEES

The Receiver General paid banking fees on behalf of HRSDC for charges levied based on a transaction charge per unit for payments issued by cheque and by direct deposit.

Compared to the previous fiscal year banking fees increased by \$22,800 or 1.2%. The increase was due to a volume increase of 2,081,762 transactions related to domestic direct deposit and the inclusion of foreign banking fees, offset by a decrease in the cost of domestic cheques. The decrease in domestic cheques costs was due to a volume reduction of 348,813 domestic cheques processed.

	2012	2011	Increase (Decrease)	%
	(\$)	(\$)	(\$)	
Domestic direct deposit	1,118,500	1,053,700	64,800	6.2%
Foreign banking fees	15,000	0	15,000	- %
Domestic cheques	733,400	790,400	(57,000)	-7.2%
Total banking fees	1,866,900	1,844,100	22,800	1.2%

5. COLLATERAL COSTS

Collateral costs were incurred for the transfer of funds between the Receiver General Account set up for HRSDC and the Consolidated Revenue Fund at the Bank of Canada, using the Large Value Transfer System. These were paid to the Bank of Nova Scotia in accordance with a contract that came into effect in December 2008. Pursuant to the contract, collateral costs have both fixed and variable components. The fixed component was \$205 per month. The variable component was levied monthly and was based on the total dollar amount processed.

Collateral costs increased by \$37,100 or 10.9% as compared to the previous fiscal year as a result of larger value of transferred funds.

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Year ended March 31

6. INFORMATION TECHNOLOGY (IT) SERVICES COSTS

IT services costs consisted of fees for mainframe application hosting services, print services, and disaster recovery. There was an overall decrease of \$1,300 in IT services costs as compared to 2010-11. This can be attributed to an increase in mainframe application hosting services cost, offset by decreases in print services and disaster recovery costs.

Mainframe application hosting cost increased as a result of the increase in capacity requested by HRSDC. Print services cost decreased due to reduced volume of cheques printed by the PWGSC production center. Disaster recovery cost chargeable to CPP is calculated by applying the ratio of the CPP payment volume as percentage of overall payment volume processed by PWGSC to the total disaster recovery cost incurred. The reduction of this ratio in 2011-12 caused the disaster recovery cost to decrease by \$35,000.

	2012	2011	Increase (Decrease)	%
	(\$)	(\$)	(\$)	
Mainframe application hosting services	2,516,000	2,444,000	72,000	2.9%
Printing services	642,400	680,700	(38,300)	-5.6%
Disaster recovery	664,500	699,500	(35,000)	-5.0%
Total IT services costs	3,822,900	3,824,200	(1,300)	- %

7. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs related to service costs for payment redemptions that were directly attributable to CPP payments. The Cheque Redemption Control Directorate provided cheque reconciliation and redemption services for CPP payments on behalf of the Receiver General.

In 2011-12, the cheque reconciliation costs increased by \$25,600 or 2.8% from the prior fiscal year. This was mainly due to the increase in operating and capital expenditures, offset by a decrease in salaries as follows:

	2012	2011	Increase (Decrease)	%
	(\$)	(\$)	(\$)	
Operating and capital expenditures	300,600	216,800	83,800	38.7%
Salaries	649,300	707,500	(58,200)	-8.2%
Total cheque reconciliation costs	949,900	924,300	25,600	2.8%

Public Works and Government Services Canada

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Year ended March 31

8. GOVERNMENT SERVICES COSTS

Government services costs were incurred to cover the costs associated with the employee benefits plan. The Treasury Board rate of 20% was applied to salaries to determine this cost.

9. CORPORATE SUPPORT COSTS

Corporate support costs for 2010-11 and 2011-12 include the costs of preparing this audited financial report. In addition, beginning in 2011-12 corporate support costs include the indirect costs for the internal services provided by corporate branches, such as Finance, Human Resources and Corporate Services and Strategic Policy, and the costs of preparing this audited financial report.

The indirect costs for internal services became a recoverable item in 2011-12 as per the MOU signed in August 2011.

	2012	2011	Increase (Decrease)	%
	(\$)	(\$)	(\$)	
Internal Services	61,400	0	61,400	-%
Preparation of the Financial Report	33,500	32,700	800	2.4%
Total corporate support costs	94,900	32,700	62,200	190.2%