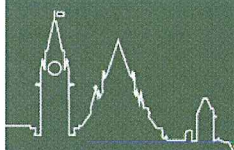




Public Works and
Government Services
Canada

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CANADIANS.

2013-708

Public Works and Government Services Canada

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

Financial Report

For the Year ending March 31, 2013



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, 2013. 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, 2012 to March 31, 2017.

Management's responsibility for the financial report

Management is responsible for the preparation 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 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 Account** for the year ended March 31, 2013 is prepared, in all material respects, in accordance with the financial reporting provisions in 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,
November 5th, 2013

Chartered Accountants
Licensed Public Accountants

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

(Rounded to the nearest hundred dollars)

	2013	2012	Variance	%
	\$	\$	\$	%
Direct Costs				
Postage (2)	4,196,000	4,096,900	99,100	2.4%
Cheques and envelopes (3)	272,400	279,500	(7,100)	(2.5%)
Banking fees (4)	1,825,700	1,866,900	(41,200)	(2.2%)
Collateral costs (5)	349,600	376,400	(26,800)	(7.1%)
Information technology services costs (6)	1,287,800	3,822,900	(2,535,100)	(66.3%)
Reconciliation costs (7)	847,100	949,900	(102,800)	(10.8%)
Government services costs (8)	171,300	145,600	25,700	17.7%
Courier services - cheques transportation (9)	123,500	-	123,500	-
Pay services costs (10)	250,100	-	250,100	-
Total Direct Costs	9,323,500	11,538,100	(2,214,600)	(19.2%)
Corporate support costs (11)	79,700	94,900	(15,200)	(16.0%)
Total Administrative Costs	9,403,200	11,633,000	(2,229,800)	(19.2%)
Amount invoiced to the Canada Pension Plan (CPP) account	9,482,400	11,538,600		
Outstanding amount to be invoiced (reimbursed) to the CPP account	(79,200)	94,400		

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

Approved by _____
 Brigitte Fortin
 Assistant Deputy Minister
 Accounting, Banking and Compensation Branch

Approved by _____
 Alex Lakroni
 Chief Financial Officer
 Finance Branch

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

(Rounded to the nearest hundred dollars)

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 February 2013 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, 2012 to March 31, 2017.

Costs related to courier services for cheque transportation and costs related to pay services are included in this financial report for the first time in 2012-13. Previously, cheque transportation costs were not incurred as these costs were absorbed by the Bank of Canada. As a charge is now levied for these services, this charge represents a new direct cost chargeable to the Canada Pension Plan (CPP) account. Pay services costs incurred by PWGSC which relate to employees of HRSDC who work directly on the CPP have also been determined to be a new direct cost chargeable to the CPP account. The MOU states that direct costs will be allocated to the CPP account only if the costs are directly identifiable and traceable. Requirements to recover these costs are included in the MOU signed in February 2013. These new costs are included in the 2012-13 amounts in this financial report but not in the 2011-12 comparative figures.

2. POSTAGE

Total postage costs increased by \$99,100, or 2.4% as compared to the previous fiscal year. The increase in postage costs was due to increases in both the average domestic postage rate from \$0.58 to \$0.60, and the average foreign postal rate from \$0.82 to \$0.85 as well as an increase of 26,600 in the volume of cheques posted to foreign destinations. These increases were partially offset by a decrease of 117,700 in the volume of cheques posted to domestic destinations.

Fiscal Years	2013	2012	Variance	
	\$	\$	\$	%
Foreign postage	536,100	494,200	41,900	8.5%
Domestic postage	3,659,900	3,602,700	57,200	1.6%
Total postage costs	4,196,000	4,096,900	99,100	2.4%

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

(Rounded to the nearest hundred dollars)

3. CHEQUES AND ENVELOPES

Total cheques and envelopes (C&E) costs decreased by \$7,100 or 2.5% compared to the previous year. The decrease was mainly due to the reduction in domestic C&E costs resulting from the volume decreases in both domestic cheques and domestic envelopes, as domestic C&E rates remained virtually unchanged compared to the previous year.

Fiscal Years	2013	2012	Variance	
	\$	\$	\$	%
Foreign C&E	25,400	25,000	400	1.6%
Domestic C&E	247,000	254,500	(7,500)	(2.9%)
Total C&E costs	272,400	279,500	(7,100)	(2.5%)

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.

Banking fees decreased by \$41,200 or 2.2% compared to the previous year, due to the reduction in the unit cost per direct deposit and in the domestic cheques business volume.

Fiscal Years	2013	2012	Variance	
	\$	\$	\$	%
Domestic direct deposit	1,106,600	1,118,500	(11,900)	(1.1%)
Foreign banking fees	14,700	15,000	(300)	(2.0%)
Domestic cheques	704,400	733,400	(29,000)	(4.0%)
Total banking fees	1,825,700	1,866,900	(41,200)	(2.2%)

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.

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

(Rounded to the nearest hundred dollars)

Collateral costs decreased by \$26,800 or 7.1% as compared to the previous fiscal year as a result of the smaller transferred funds costs.

6. INFORMATION TECHNOLOGY (IT) SERVICES COSTS

IT services costs consisted of fees for print services and disaster recovery. There was an overall decrease of \$2,535,100 in IT services costs as compared to 2011-12. This decrease is largely attributable to the terms and conditions of the new MOU signed in February 2013, which excluded mainframe application hosting services from the services provided by PWGSC. These services were provided by another government department starting in 2012-13. In the previous fiscal year (2011-12), PWGSC recovered costs for mainframe application hosting services of \$2,516,000.

In addition, compared to 2011-12, print services costs decreased by \$41,700 or 6.5%, and disaster recovery costs increased by \$22,600 or 3.4%. Print services costs decreased due to a reduced volume of domestic cheques printed by the PWGSC production center. Disaster recovery costs, which are charged based on the volume of transactions, are greater than the last fiscal year because of an increase in the number of transactions processed.

Fiscal Years	2013	2012	Variance	
	\$	\$	\$	%
Mainframe application hosting services	-	2,516,000	(2,516,000)	(100.0%)
Printing services	600,700	642,400	(41,700)	(6.5%)
Disaster recovery costs	687,100	664,500	22,600	3.4%
Total IT services costs	1,287,800	3,822,900	(2,535,100)	(66.3%)

7. RECONCILIATION COSTS

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

In 2012-13, reconciliation costs decreased by \$102,800 or 10.8% from the prior fiscal year. This was mainly due to the reductions in operating and capital expenditures and in salaries as follows:

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

(Rounded to the nearest hundred dollars)

Fiscal Years	2013	2012	Variance	
	\$	\$	\$	%
Operating and capital expenditures	234,100	300,600	(66,500)	(22.1%)
Salaries	613,000	649,300	(36,300)	(5.6%)
Total reconciliation costs	847,100	949,900	(102,800)	(10.8%)

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. COURIER SERVICES – CHEQUES TRANSPORTATION

The cost of courier services related to cheque transportation became a recoverable item in 2012-13 as per the MOU signed in February 2013. This cost, previously absorbed by the Bank of Canada, is now shared with the Receiver General (RG). The cost rate was determined by dividing the cost for cheque transportation by the total number of cheques issued by the RG. The portion of costs related to CPP cheques was then determined by multiplying the rate by the volume of CPP cheques issued.

10. PAY SERVICES COSTS

The direct cost for pay services became a recoverable item in 2012-13 as per the MOU signed in February 2013. A cost rate for pay services costs was determined based on the volume of “pay accounts”. The cost of pay services chargeable to the CPP account was determined by multiplying the determined rate by the number of CPP-related Full Time Equivalents within HRSDC/Service Canada as determined by the Chief Financial Officer Branch of HRSDC.

11. CORPORATE SUPPORT COSTS

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.

In 2012-13, the Corporate support costs decreased by \$15,200 or 16.0% from the prior fiscal year. This was mainly due to a decrease in the Internal services Support Costs.

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

(Rounded to the nearest hundred dollars)

Fiscal Years	2013	2012	Variance	
	\$	\$	\$	%
Internal services				
Support Costs	43,400	61,400	(18,000)	(29.3%)
Preparation of the financial Report	36,300	33,500	2,800	8.4%
Total corporate support costs	79,700	94,900	(15,200)	(16.0%)