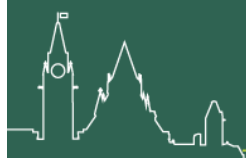




Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

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Serving
CANADIANS.

2015-708

Public Works and Government Services Canada

ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

Financial Report

For the Year ended March 31, 2015



www.pwgc-tpsgc.gc.ca

INDEPENDENT AUDITORS' REPORT

**To the Deputy Minister
Public Works and Government Services Canada**

We have audited the accompanying financial report of **Administrative Costs Charged to the Canada Pension Plan Account** by Public Works and Government Services Canada and accompanying notes for the year ended March 31, 2015. The financial report has been prepared by management based on the financial reporting provisions in Part C of the Memorandum of Understanding between Employment and Social Development Canada and the Canada Pension Plan and Public Works and Government Services Canada in effect from April 1, 2014 to March 31, 2019.

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.



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Opinion

In our opinion, the financial report for the **Administrative Costs Charged to the Canada Pension Plan Account** for the year ended March 31, 2015 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 restrictions 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 requirements 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 Employment and Social Development Canada and should not be used by parties other than Public Works and Government Services Canada and Employment and Social Development Canada.

Signed by Ernst & Young LPP

Ottawa, Canada
September 25, 2015

Chartered Professional Accountants
Licensed Public Accountants



Public Works and Government Services Canada

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

	2015	2014	Variance	%
<i>(Rounded to the nearest hundred dollars)</i>				
Direct costs				
Postage (Note 2)	3,605,400	4,137,000	(531,600)	(13)
Cheques and envelopes (Note 3)	211,400	279,700	(68,300)	(24)
Banking fees (Note 4)	1,830,600	1,977,800	(147,200)	(7)
Collateral (Note 5)	-	198,600	(198,600)	(100)
Information technology (IT) (Note 6)	821,900	1,203,500	(381,600)	(32)
Managed Secure File Transfer (Note 7)	76,600	-	76,600	100
Direct Deposit Initiative (Note 8)	202,700	-	202,700	100
Reconciliation (Note 9)	889,100	913,400	(24,300)	(3)
Government services (Note 10)	164,200	185,300	(21,100)	(11)
Courier services (Note 11)	70,600	128,900	(58,300)	(45)
Pay services (Note 12)	228,900	236,500	(7,600)	(3)
Total direct costs	8,101,400	9,260,700	(1,159,300)	(13)
Corporate support costs (Note 13)	91,200	109,900	(18,700)	(17)
Total administrative costs	8,192,600	9,370,600	(1,178,000)	(13)
Amount invoiced to the Canada Pension Plan (CPP) account	(8,225,900)	(9,262,300)		
Outstanding amount to be invoiced (reimbursed) to the CPP account	(33,300)	108,300		

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

Approved by _____
 Alex Lakroni
 Chief Financial Officer
 Public Works and Government Services Canada

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31

1. INTRODUCTION

A Memorandum of Understanding (MOU) between Human Resources and Skills Development Canada (now Employment and Social Development Canada [ESDC]), the Canada Pension Plan (CPP) and Public Works and Government Services Canada (PWGSC) was signed in February 2015. The MOU defines the provision of reciprocal services between PWGSC and ESDC in terms of level of services, recoverable costs and reporting requirements. The MOU is in effect from April 1, 2014, to March 31, 2019.

2. POSTAGE

Postage decreased by \$531,600 or 13%, compared to previous year. This is due to a decrease in the number of cheques mailed to both domestic and foreign destinations, reducing the costs by \$1,017,700. Domestic and foreign cheque volume decreased from 5,938,800 to 4,340,400 and from 584,400 to 536,700, respectively. This decrease was partially offset by an increase in the average domestic postage rate from \$0.61 to \$0.71 and in the average foreign postage rate from \$0.87 to \$1.00, which amounts to \$486,100.

Rounded to the nearest hundred dollars

	2015	2014	Variance	%
Domestic postage	3,070,200	3,626,800	(556,600)	(15)
Foreign postage	535,200	510,200	25,000	5
Total postage costs	3,605,400	4,137,000	(531,600)	(13)

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31

3. CHEQUES AND ENVELOPES

Cheques and envelopes decreased by \$68,300 or 24%, compared to previous year. This reduction is mainly due to a lower number of domestic and foreign cheques issued during the year, resulting in a decrease of \$67,400. A \$1,600 reduction is also due to the decrease of the rate for cheques given that a standard cheque size was adopted in the current year. The decrease was partially offset by a slight increase in shipping costs, included in the cost of cheques and envelopes. The recovery of shipping costs started previous year following changes made to the cost recovery practice.

Rounded to the nearest hundred dollars

	2015	2014	Variance	%
Domestic	176,500	243,300	(66,800)	(28)
Foreign	21,700	23,900	(2,200)	(9)
Shipping	13,200	12,500	700	6
Total cheque and envelope	211,400	279,700	(68,300)	(24)

4. BANKING FEES

Banking fees decreased by \$147,200 or 7%, compared to previous year. This reduction is mainly due to a decrease in the number of cheques issued during the year, which resulted in savings of \$183,600 and the rate for direct deposit transactions also decreased, which generated savings of \$42,100. A slight decrease of foreign traces and recalls of \$1,000 also contributed to the decrease. This reduction was offset by an increase of \$79,500 in direct deposit transactions.

PWGSC paid banking fees on behalf of ESDC for payments issued by cheque or direct deposit.

Rounded to the nearest hundred dollars

	2015	2014	Variance	%
Domestic direct deposit	1,331,600	1,290,500	41,100	3
Domestic cheques	495,000	682,300	(187,300)	(28)
Foreign banking fees	4,000	5,000	(1,000)	(20)
Total banking fees	1,830,600	1,977,800	(147,200)	(7)

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31

5. COLLATERAL

Collateral decreased by \$198,600 or 100% compared to previous year. Until October 2013, collateral charges were incurred for the transfer of funds between the PWGSC account set up for ESDC and the Consolidated Revenue Fund at the Bank of Canada using the Large Value Transfer System. These costs were paid to Scotiabank in accordance with a contract that came into effect in December 2008. A new contract was created, and ESDC is now billed directly for these costs.

6. INFORMATION TECHNOLOGY (IT)

Information technology (IT) decreased by \$381,600 or 32%, compared to previous year. This is due to the disaster recovery costs decreasing by \$157,600 due to a change in the methodology when calculating the applied rate. Also, the printing costs decreased by \$224,000 due to the fact that PWGSC's print centre printed fewer cheques in current year.

Rounded to the nearest hundred dollars

	2015	2014	Variance	%
Disaster recovery	536,500	694,100	(157,600)	(23)
Printing services	285,400	509,400	(224,000)	(44)
Total IT	821,900	1,203,500	(381,600)	(32)

7. MANAGED SECURE FILE TRANSFER

Managed Secure File Transfer (MSFT) increased by \$76,600 or 100% compared to previous year. PWGSC and Shared Services Canada (SSC) implemented the MSFT service for user departments to transfer files and data to and from PWGSC and the Government of Canada's treasury system. The MSFT protocol provides a secure data transfer service for electronic information up to the protected B level. The MSFT service is provided and supported by PWGSC and SSC. A fee of \$0.0012 per payment has been established to cover the expenses associated with this service.

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31

8. DIRECT DEPOSIT INITIATIVE

Costs related to Direct Deposit Initiative (DDI) increased by \$202,700 or 100% compared to previous year. DDI was introduced following the federal government's announcement that paper cheques will be phased out in favour of direct deposit. To facilitate the transition from cheques to electronic deposits, PWGSC has invested in communication, system development, information sharing and general operating expenses. A new rate of \$0.0467 per issued cheque has been introduced to cover the DDI.

9. RECONCILIATION

Reconciliation costs decreased by \$24,300 or 3%, compared to previous year. The decrease is due to a decrease in salary expenses of \$77,700 due to the reduction of cheques. This reduction was offset by an increase in operating expenditures of \$53,400.

Reconciliation costs represent service costs for payment redemptions that were directly attributable to CPP payments. PWGSC's Cheque Redemption Control Directorate provided payment reconciliation and redemption services for CPP payments (both cheques and direct deposits).

Rounded to the nearest hundred dollars

	2015	2014	Variance	%
Salaries	584,500	662,200	(77,700)	(12)
Operating and capital expenditures	304,600	251,200	53,400	21
Total reconciliation	889,100	913,400	(24,300)	(3)

10. GOVERNMENT SERVICES

Government services costs decreased by \$21,100 or 11% compared to previous year. Government services costs are the fees incurred to cover employee benefits. The Treasury Board rate of 20% was applied to salaries to determine this cost.

FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31

11. COURIER SERVICES

Courier costs decreased by \$58,300 or 45% compared to previous year. This decrease is due to a reduction in the number of cheques issued by PWGSC.

12. PAY SERVICES

Pay services costs decreased by \$7,600, or 3% compared to previous year. This is due to a reduction in the number of related pay accounts within ESDC/Service Canada.

Pay services costs are the costs incurred by PWGSC in providing pay-related services to employees who administer the CPP within ESDC/Service Canada. Pay services costs are calculated by multiplying the number of related pay accounts within ESDC/Service Canada by the average cost per pay account.

13. CORPORATE SUPPORT

Corporate support costs decreased by \$18,700 or 17% compared to previous year. Lower postage fees and printing needs contributed to lowering the administration fees, as did an overall reduction of costs associated with administering the CPP.

Corporate support costs represent the indirect cost of internal services provided by corporate branches, such as Finance, Human Resources and Corporate Services and Strategic Policy, and the cost of preparing this audited financial report.

Rounded to the nearest hundred dollars

	2015	2014	Variance	%
Internal services support	52,800	70,400	(17,600)	(25)
Preparation of the financial report	38,400	39,500	(1,100)	(3)
Total corporate support	91,200	109,900	(18,700)	(17)