



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

Financial Report
For the Year ended March 31, 2007



January 14, 2008

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Auditors' Report

**To the Director General, Audit and Evaluation Branch
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, 2007 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, 2007 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

	2007	2006	Increase (Decrease)	
	\$	\$	\$	%
Electronic data processing costs	6,698,000	7,459,200	(761,200)	(10.2)%
Direct costs	5,513,300	5,579,500	(66,200)	(1.2)%
Cheque reconciliation costs	1,409,400	1,407,400	2,000	0.1%
Government services	322,100	319,300	2,800	0.9%
Accommodation costs	229,100	229,700	(600)	(0.3)%
Management costs	29,000	26,600	2,400	9.0%
 TOTAL ADMINISTRATIVE COSTS	14,200,900	15,021,700	<u>(820,800)</u>	<u>(5.5)%</u>
 Amount invoiced to the Canada Pension Plan account	14,804,700	16,196,500		
 Outstanding amounts to be reimbursed to the Canada Pension Plan account	(603,800)	(1,174,800)		

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. 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 SDC/IT service agreements are included in the total fees for computer operations. Three SDC/IT service agreements between PWGSC and HRSDC (formerly SDC and HRDC) were combined into one service agreement in 2006-07 between these two departments. The resulting agreement provides capacity to HRSDC in support of the transformation of the Social Benefits Program, which includes the Canada Pension Plan (CPP) and Old Age Security (OAS).

The overall decrease in EDP costs in 2006-07 of \$761,200 was mainly attributable to a decrease in the processing costs of \$718,400 and a decrease in the storage costs of \$107,400. These decreases were offset by an increase of \$64,600 as follows:

- printing costs of \$56,500;
- operating costs of \$7,800 for the SPS disaster recovery site provided to the CPP [*] ;
- and,
- micrographics costs of \$300.

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

3. DIRECT COSTS

	2007	2006	Increase (Decrease)	
	\$	\$	\$	%
Postage	3,482,600	3,554,700	(72,100)	(2.0)%
Banking fees	1,682,000	1,690,000	(8,000)	(0.5)%
Cheques and envelopes	216,700	202,800	13,900	6.9 %
Collateral costs	132,000	132,000	-	-
Total direct costs	5,513,300	5,579,500	(66,200)	(1.2)%

Postage

The decrease in postage costs of \$72,100 was the result of a reduction in postage volumes of 395,600 units (from 7,546,000 to 7,150,400 units) for a decrease of \$192,700, which was offset by an increase in the average rate for postage of \$120,600 (\$0.47 to \$0.49 for domestic postage and from \$0.52 to \$0.53 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.

Banking fees have decreased by an amount of \$8,000 from the prior fiscal year. The volume for CPP payments made by cheque decreased by 348,100 units (from 7,546,000 units less 47,500 duplicates covered by the fees for the original cheques, to 7,150,400 units) and the average banking fee transaction costs for cheques decreased from \$0.1090 to \$0.1080 per transaction, resulting in a cost reduction of \$45,100. This cost reduction was offset by an increase of \$37,100 due to the increase in the number of direct deposit transactions of 1,719,300 units (from 39,085,100 units to 40,804,400 units).

Cheques and envelopes

The increase in cheque and envelope costs of \$13,900 was the result of an increase in the price of cheques and envelopes of \$26,100, which was offset by a reduction in the number of CPP payments made by cheque of 395,600 units for \$12,200.

Collateral costs

Collateral costs were implemented effective September 2004 for the cost of posting additional credit security for the transfer of funds in excess of \$25 million between the Receiver General concentrator account set up for HRSDC (formerly SDC) and the Consolidated Revenue Fund (CRF) at the Bank of

Public Works and Government Services Canada

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Year ended March 31

Canada, using the Large Value Transfer System (LVTS). In 2005-06 and 2006-07, 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.

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 \$2,000 from the prior fiscal year. This net increase was due to an increase of \$9,700 in salary costs, which was offset by a decrease in the CRCD operating and capital expenditures attributable to the CPP of \$7,700.

5. GOVERNMENT SERVICES

Government service costs related to expenditures to cover employee benefits and health and dental plans. The rates for these plans stayed unchanged in 2006-07. The net increase in government service costs of \$2,800 was the result of an increase in cheque reconciliation salary costs of \$9,700 and of \$1,000 in management salary costs.

6. ACCOMMODATION COSTS

Accommodation costs were incurred for the space occupied to provide Canada Pension Plan (CPP) services and remained stable during 2005-06 and 2006-07.

7. MANAGEMENT COSTS

Management costs included costs relating to the compilation and preparation of this annual financial report. The net increase of \$2,400 was mainly attributed to an increase in the Finance Branch salary costs to complete these tasks.