

Administrative costs charged to the Canada Pension Plan Account, financial report for fiscal year ended on March 31, 2018

October 30, 2018 – Departmental Audit Committee

Independent auditor's report

To the Deputy Minister, Public Services and Procurement Canada

We have audited the accompanying financial report on Administrative Costs charged to the Canada Pension Plan Account by Public Services and Procurement Canada and accompanying notes for the year ended March 31, 2018 (the “financial report”). 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, the Canada Pension Plan and Public Services and Procurement Canada in effect from April 1, 2015 to March 31, 2020 (the “Memorandum of Understanding”).

Management's responsibility for the Financial Report

Management is responsible for the preparation of the financial report in accordance with financial reporting provisions included in Part C of 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.

Auditor's 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 auditor's 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 auditor considers 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 on the Administrative Costs charged to the Canada

Pension Plan Account for the year ended March 31, 2018, is prepared, in all material respects, in accordance with the financial reporting provisions included 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 financial reporting provisions included in Part C of the Memorandum of Understanding. The financial report has been prepared to assist Public Services and Procurement 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 Services and Procurement Canada and Employment and Social Development Canada and should not be used by parties other than Public Services and Procurement Canada and Employment and Social Development Canada.

Signed by Deloitte LLP
(Limited Liability Partnership)
Chartered Professional Accountants
Licensed Public Accountants

July 25, 2018

Public Services and Procurement Canada

Financial report on administrative costs charged to the Canada Pension Plan Account for the year ended March 31

Administrative costs - Fiscal years (the period between April 1, 20XX and March 31, 201X +1) (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|--|-------------|-------------|-----------------|----------|
| Direct costs | N/A | N/A | N/A | N/A |
| Postage (Note 2) | 1,810,800 | 1,941,700 | (130,900) | (7) |
| Cheques and envelopes (Note 3) | 75,100 | 91,300 | (16,200) | (18) |
| Banking fees (Note 4) | 1,965,700 | 2,004,200 | (38,500) | (2) |
| Information technology (Note 5) | 684,100 | 660,800 | 23,300 | 4 |
| Managed secure file transfer (Note 6) | 78,900 | 75,400 | 3,500 | 5 |
| Direct Deposit Initiative (Note 7) | 59,100 | 58,500 | 600 | 1 |
| Reconciliation (Note 8) | 635,100 | 590,400 | 44,700 | 8 |
| Government services (Note 9) | 262,100 | 274,300 | (12,200) | (4) |
| Courier services (Note 10) | 37,700 | 40,100 | (2,400) | (6) |
| Pay services (Note 11) | 188,900 | 220,200 | (31,300) | (14) |
| Total direct costs | 5,797,500 | 5,956,900 | (159,400) | (3) |

| | | | | |
|--|------------------|----------------|-----------|-----|
| Corporate support costs (Note 12) | 76,400 | 75,000 | 1,400 | 2 |
| Total administrative costs | 5,873,900 | 6,031,900 | (158,000) | (3) |
| Amount invoiced to the Canada Pension Plan (CPP) account | (6,071,800) | (5,922,700) | N/A | N/A |
| Outstanding amount to be invoiced (reimbursed) to the CPP account | (197,900) | 109,200 | N/A | N/A |

Approved by _____
Jean-Pierre Blais
Assistant Deputy Minister
Receiver General and Pension Branch
Public Services and Procurement Canada

Approved by _____
Marty Muldoon, CPA, CMA, MBA
Chief Financial Officer
Public Services and Procurement 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 Employment and Social Development Canada (ESDC), the Canada Pension Plan (CPP) and Public Works and Government Services Canada (PWGSC) was signed in February 2016. The MOU defines the provision of reciprocal services between PWGSC, which operates as Public Services and Procurement Canada (PSPC), and ESDC in terms of levels of service, recoverable costs and reporting requirements. The MOU is in effect from April 1, 2015 to March 31, 2020.

2. Postage

Postage costs decreased by \$130,900 or 7% compared with the previous year. The domestic postage volume decreased from 2,038,899 to 1,813,295 cheques and foreign postage volume decreased from 402,204 to 393,034. This reduction in volume is attributed mostly to the Direct Deposit Initiative (DDI) to switch from paper cheques to direct deposit. This decrease in volume resulted in savings of \$177,700. These savings were partially offset by an increase in the average domestic postage rate from \$0.74 to \$0.76 and in the average foreign postage rate from \$1.05 to \$1.08, which amounts to \$46,800.

Postage costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|-------------------------|-------------|-------------|-----------------|----------|
| Domestic postage | 1,386,600 | 1,518,300 | (131,700) | (9) |

| | | | | |
|------------------------|-----------|-----------|-----------|-----|
| Foreign postage | 424,200 | 423,400 | 800 | 0 |
| Total postage | 1,810,800 | 1,941,700 | (130,900) | (7) |

3. Cheques and envelopes

Cheque and envelope costs decreased by \$16,200 or 18% compared with the 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 \$8,200. In addition, a reduction of the unit cost per cheque resulted in a decrease of \$8,400. These reductions were offset by an increase of \$400 in shipping costs of cheques and envelopes due to a higher shipping rate.

Cheques and envelopes costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|------------------------------------|-------------|-------------|-----------------|----------|
| Domestic | 56,800 | 71,600 | (14,800) | (21) |
| Foreign | 12,300 | 14,100 | (1,800) | (13) |
| Shipping | 6,000 | 5,600 | 400 | 7 |
| Total cheques and envelopes | 75,100 | 91,300 | (16,200) | (18) |

4. Banking fees

Banking fees include charges incurred in the support of customer and non-customer encashment and those fees resulting from fraudulent endorsement. The charge is based on two unit costs, one for cheques (\$0.1170 each) and one for direct deposits (\$0.0265 each). These rates are applied against the volume of CPP direct deposits and cheques issued.

Banking fees decreased by \$38,500 or 2% compared with the previous year. This variance is mainly due to a decrease in the unit cost associated to direct deposit which resulted in a decrease of \$66,000 partially offset by an increase in the number of direct deposit transactions, which resulted in an increase of \$53,800. The variance is also explained by a decrease in the number of cheques issued. As the number of cheques issued continued to decrease, it generated savings of \$25,900 slightly offset by an increase of the unit cost for cheques of \$3,900. Foreign banking fees also decreased by \$4,300 as the volume of traces/recalls decreased.

Banking fees - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|---------------------------------|-------------|-------------|-----------------|----------|
| Domestic direct deposits | 1,751,600 | 1,763,800 | (12,200) | (1) |
| Domestic cheques | 212,100 | 234,100 | (22,000) | (9) |
| Foreign banking fees | 2,000 | 6,300 | (4,300) | (68) |
| Total banking fees | 1,965,700 | 2,004,200 | (38,500) | (2) |

5. Information technology

Information technology (IT) costs increased by \$23,300 or 4% compared with the previous year. Disaster recovery costs increased by \$9,900 due to the increase in the CPP payment volume which was partially offset by the reduction of the applied rate. Disaster recovery is

an expense shared by multiple programs.

Printing services costs increased by \$13,400 overall, mainly due to increased costs of \$28,400 associated with increased unit costs partially offset by the fact that PSPC's print centre printed fewer cheques in current year, which generated savings of \$15,000.

Information technology costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|-------------------------------------|-------------|-------------|-----------------|----------|
| Disaster recovery | 534,900 | 525,000 | 9,900 | 2 |
| Printing services | 149,200 | 135,800 | 13,400 | 10 |
| Total Information technology | 684,100 | 660,800 | 23,300 | 4 |

6. Managed Secure File Transfer

The Managed Secure File Transfer (MSFT) protocol provides a secure data transfer service for electronic information up to protected B level. The MSFT service is provided and supported by PSPC and Shared Services Canada (SSC).

MSFT expenses increased by \$3,500 or 5% compared with the previous year. This is mainly due to a \$1,500 increase related to the unit cost per payment and a \$2,000 increase associated with the increase in payment transactions made for the CPP.

Managed secure file transfer costs – Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|---|-------------|-------------|-----------------|----------|
| Domestic payments | 77,000 | 73,600 | 3,400 | 5 |
| Foreign payments | 1,900 | 1,800 | 100 | 6 |
| Total managed secure file transfer | 78,900 | 75,400 | 3,500 | 5 |

7. Direct Deposit Initiative

The Direct Deposit Initiative (DDI) was introduced following the federal government's announcement to switch from paper cheques to direct deposit. PSPC has invested in communication, system development, information sharing and general operating expenses to promote the switch.

DDI Costs increased by \$600 or 1% compared with the previous year. The increase is mainly due to further efforts to reduce paper cheques in favour of direct deposit (\$7,100). However, this increase was offset by a decline in the volume of issued cheques, which resulted in savings of \$6,500.

8. Reconciliation

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

Reconciliation costs increased by \$44,700 or 8% compared with the previous year. This is mainly due to an increase in the unit cost for cheque reconciliations (\$0.1833 to \$0.2228) as a result of increased salary expenditures attributable to the implementation of newly signed collective agreements. However, this increase was partially offset by the reduction in the number of domestic cheques requiring reconciliation (2,038,899 to 1,813,295 cheques).

Reconciliation costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|--|-------------|-------------|-----------------|----------|
| Salaries | 481,700 | 436,400 | 45,300 | 10 |
| Operating and maintenance costs | 153,400 | 154,000 | (600) | (0) |
| Total reconciliation | 635,100 | 590,400 | 44,700 | 8 |

9. Government services

Government services costs are costs associated with the workforce needed to administer the CPP account, excluding salaries. These services include the cost to cover the Employee Benefit Plan, accommodation of the workforce and the employees' Public Service Insurance Plan (PSI).

The Government Services costs decreased by \$12,200 or 4% compared with the previous year. The decrease is mainly due to a reduction from 20% to 15.7% to the rate applied to the Employee Benefit Plan partially offset by increased salary expenditures attributable to the implementation of newly signed collective agreements.

Government services costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|---|-------------|-------------|-----------------|----------|
| Employee Benefit Plan (15.7%)* Treasury Board rates | 108,600 | 129,700 | (21,100) | (16) |
| Accommodation (13%)* Treasury Board rates | 89,900 | 84,300 | 5,600 | 7 |
| Public Service Insurance Plan (9.2%)* Treasury Board rates | 63,600 | 60,300 | 3,300 | 5 |
| Total government services | 262,100 | 274,300 | (12,200) | (4) |

10. Courier services

Courier services are used once CPP cheques have been cashed. These cheques need to be transported from the financial institution where they were cashed to PSPC's Cheque Redemption Control Directorate for reconciliation.

Courier services costs decreased by \$2,400 or 6% compared with the previous year. This decrease is due to a reduction in the number of cheques issued by PSPC, resulting in a decrease of \$4,400. This decrease was offset by a \$2,000 increase related to the transportation unit cost.

11. Pay services

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

The pay services costs decreased by \$31,300 or 14%. This decrease is mainly due to the reduction in the average cost per pay account as government-wide employees increased by 8% while the number of pay accounts within ESDC/Service Canada decreased by 2%. In addition, the decrease is also due to a reduction in operating and maintenance costs recoverable from CPP.

Pay services costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|---------------------------------|---------|---------|----------|------|
| Salaries | 154,600 | 165,200 | (10,600) | (6) |
| Operating and maintenance costs | 34,300 | 55,000 | (20,700) | (38) |
| Total pay services | 188,900 | 220,200 | (31,300) | (14) |

12. Corporate support

Corporate support costs represent the indirect cost of internal services provided by corporate branches, such as finance, human resources, and the cost of preparing this audited financial report.

Corporate support costs increased by \$1,400 or 2% compared with the previous year. This is mainly attributable to increased internal services costs as a result of departmental business volume growth for both cheques and direct deposits and increased salary expenditures attributable to the implementation of newly signed collective agreements, which increased the costs recoverable from CPP. However, this increase was partially offset by the decrease in costs to prepare the financial report, which is attributed to reduced costs to perform the independent third party annual audit.

Corporate support costs - Fiscal years (Rounded to the nearest hundred dollars)

| | 2018 | 2017 | Variance | % |
|-------------------------------------|--------|--------|----------|------|
| Internal services support | 40,900 | 34,300 | 6,600 | 19 |
| Preparation of the financial report | 35,500 | 40,700 | (5,200) | (13) |
| Total corporate support | 76,400 | 75,000 | 1,400 | 2 |