



Administrative Costs Charged to the Canada Pension Plan Account

Financial Report

For the fiscal year ended March 31, 2021

Independent auditor's report

To the Deputy Minister of
Public Services and Procurement Canada

Opinion

We have audited the accompanying financial report on Administrative Costs charged to the Canada Pension Plan account of **Public Services and Procurement Canada** ["PSPC"] for the year ended March 31, 2021, and notes to the financial report, including a summary of significant accounting policies [together, the "Financial Report"].

In our opinion, the accompanying Financial Report by PSPC for the year ended March 31, 2021 is prepared, in all material respects, in accordance with the financial reporting provisions included in Part C of the Memorandum of Understanding between Employment and Social Development Canada ["ESDC"], the Canada Pension Plan and PSPC and its amendment in effect from April 1, 2015 to March 31, 2021 [the "Memorandum of Understanding"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of PSPC in accordance with the ethical requirements that are relevant to our audit of the Financial Report in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting and restriction on distribution

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 PSPC to comply with the financial reporting provisions of the Memorandum of Understanding. As a result, the Financial Report may not be suitable for another purpose. Our report is intended solely for the management of PSPC and the management of ESDC and should not be distributed to or used by parties other than the management of PSPC and the management of ESDC. Our opinion is not modified in respect of this matter.

Other matter – Comparative information

The Financial Report of PSPC for the year ended March 31, 2020 was audited by another auditor who expressed a qualified opinion on the Financial Report on April 9, 2021. The basis for the qualified opinion was that PSPC recorded as part of its banking fees an amount of \$1,887,000 in domestic direct deposit costs. This amount included in the calculation of the banking fees is based on an estimate made by management, since actual amounts could not be obtained. However, the predecessor auditor was unable to obtain sufficient appropriate audit evidence to support the valuation of the amount for the year ended March 31, 2020. Therefore, the predecessor auditor was unable to determine whether the domestic direct deposit costs included in banking fees for the year ended March 31, 2020 should have been adjusted.

Responsibilities of management and those charged with governance for the Financial Report

Management is responsible for the preparation of the Financial Report in accordance with the financial reporting provisions of the Memorandum of Understanding, and for such internal control as management determines is necessary to enable the preparation of the Financial Report that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing PSPC's financial reporting process.



Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 PSPC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ottawa, Canada
November 26, 2021

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

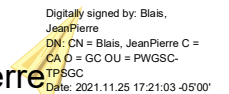
FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

<i>Rounded to the nearest hundred dollars</i>	2021	2020	Variance	%
Direct costs				
Postage (Note 2)	1,623,400	1,601,600	21,800	1
Cheques and envelopes (Note 3)	70,900	70,600	300	-
Banking fees (Note 4)	2,637,300	2,146,000	491,300	23
Information technology (Note 5)	466,100	720,200	(254,100)	(35)
Managed Secure File Transfer (Note 6)	64,200	32,500	31,700	98
Direct Deposit Initiative (Note 7)	24,200	32,700	(8,500)	(26)
Reconciliation (Note 8)	509,500	640,000	(130,500)	(20)
Government services (Note 9)	176,700	197,200	(20,500)	(10)
Courier services (Note 10)	32,200	32,800	(600)	(2)
Pay services (Note 11)	210,800	210,700	100	-
Total direct costs	5,815,300	5,684,300	131,000	2
Corporate support costs (Note 12)	56,400	74,400	(18,000)	(24)
Total administrative costs	5,871,700	5,758,700	113,000	2
Amount invoiced to the Canada Pension Plan (CPP) account				
Receiver General and Pension Branch	(5,390,500)	(5,629,700)		
Pay Administration Branch	(162,600)	(216,300)		
	(5,553,100)	(5,846,000)		
Outstanding amount to be invoiced (reimbursed) to the CPP account				
Receiver General and Pension Branch	270,400	(81,700)		
Pay Administration Branch	48,200	(5,600)		
	318,600	(87,300)		

Approved by  **Kirkland,
Stephanie**

Stephanie Kirkland
Assistant Deputy Minister
Pay Administration Branch
Public Services and Procurement Canada

Approved by  **Blais,
JeanPierre**

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

Approved by  **Zielonka,
Wojciech**

Wojo Zielonka, CPA, CA
Assistant Deputy Minister and Chief Financial Officer
Finance Branch
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, 2021

1. INTRODUCTION AND ACCOUNTING POLICY

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. An amendment to the MOU was signed in May 2020 to reflect the transfer of responsibility for Pay Administration Services within PSPC. The amended MOU is in effect from April 1, 2019 to March 31, 2021.

Costs allocation methods used by PSPC for the purposes of charging the CPP are specified in the MOU, in accordance with the costing principles approved by Treasury Board.

2. POSTAGE

Postage costs increased by \$21,800 or 1% when compared to the previous fiscal year. The variation is mainly due to an increase in the average domestic postage rate from \$0.81 to \$0.84, and in the average foreign postage rate from \$1.12 to \$1.14, which amounts to \$36,800, partially offset by an overall decrease in volume resulting in savings of \$15,000. The domestic postage volume increased from 1,559,122 to 1,578,066 cheques offset by the decrease in foreign postage volume from 295,315 to 268,179 cheques. Overall, the reduction in volume of 8,192 cheques is mostly attributed to the Direct Deposit Initiative (DDI) switching payments from cheques to direct deposits.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Domestic postage	1,318,400	1,270,500	47,900	4
Foreign postage	305,000	331,100	(26,100)	(8)
Total postage	1,623,400	1,601,600	21,800	1

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

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3. CHEQUES AND ENVELOPES

Cheque and envelope costs remained relatively stable with an increase of \$300 or 0.4% when compared to the previous fiscal year. This is mainly due to a lower number of foreign cheques offset by a small increase in domestic cheques issued during the year. The variance is also due to a minimal rise in the unit rate for cheques, envelopes and shipping costs.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Domestic	55,400	54,500	900	2
Foreign	9,400	10,300	(900)	(9)
Shipping	6,100	5,800	300	5
Total cheques and envelopes	70,900	70,600	300	-

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 (\$0.1287 each) and one for direct deposits (\$0.0335 each). These rates are applied against the volume of CPP direct deposits and cheques issued.

Banking fees increased by \$491,300 or 23% when compared to the previous fiscal year. This variance is mainly due to an increase of \$547,300 in direct deposits caused by several factors. Firstly, an increase of \$465,700 in the unit cost associated with direct deposit transactions (from \$0.027 to \$0.0335) related to the payments to both individuals and businesses as part of the Government of Canada's response to the economic hardships caused by the COVID-19 pandemic. Secondly, an increase of \$44,300 due to a higher volume of CPP direct deposits. Lastly, an amount of \$37,300 included in the 2021 direct deposits results following the finalization of actual costs incurred in 2020. This overall increase of \$547,300 in direct deposits is partially offset by a reduction of \$56,000 in cheque fees, which is caused by a decrease in the unit cost of cheques (\$59,100) offset by an increase in the number of cheques issued (\$3,100).

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Domestic direct deposits	2,434,300	1,887,000	547,300	29
Domestic cheques	203,000	259,000	(56,000)	(22)
Total banking fees	2,637,300	2,146,000	491,300	23

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For the year ended March 31, 2021

5. INFORMATION TECHNOLOGY

Information technology (IT) costs decreased by \$254,100 or 35% when compared to the previous fiscal year. Disaster recovery is an expense shared by multiple programs. The applied rate per unit was significantly reduced in 2021 as the recoverable portion of the disaster recovery cost was distributed between more programs, resulting in a decrease of \$248,200 to the portion charged to the CPP. This was offset by an increase of 2.3% in CPP domestic payment volume totaling \$12,900.

In addition, printing services charges decreased by \$18,800 following a reduction in the unit costs, totaling \$20,800, offset by the fact that more domestic cheques were printed in 2021 (increase of \$2,000).

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Disaster recovery	323,400	558,700	(235,300)	(42)
Printing services	142,700	161,500	(18,800)	(12)
Total IT	466,100	720,200	(254,100)	(35)

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 \$31,700 or 98% when compared to the previous fiscal year. The costs associated with the MSFT protocol are reassessed and approved on an annual basis, and charges invoiced are adjusted accordingly. The increase is mainly due to a one-time reduction in prior year costs that have now returned to normal levels following a review of the costs charged by SSC (\$31,000). The variance is also due to a \$700 increase associated with a higher volume of payment transactions made for the CPP in 2021.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Domestic payments	62,700	31,700	31,000	98
Foreign payments	1,500	800	700	88
Total MSFT	64,200	32,500	31,700	98

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

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

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7. DIRECT DEPOSIT INITIATIVE

The DDI was introduced following the federal government's intention to move toward direct deposits as opposed to issuing paper cheques. PSPC has invested in communication, system development, information sharing and general operating expenses to promote the switch.

DDI costs decreased by \$8,500 or 26% when compared to the previous fiscal year. The applied rate per unit was significantly reduced in 2021 as the recoverable portion of DDI cost was distributed between more programs, resulting in a decrease of \$8,800 to the portion charged to the CPP. The decrease was partially offset by an increase in CPP domestic cheques issued, which resulted in an additional cost of \$300.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Salaries	10,600	13,700	(3,100)	(23)
Operating and maintenance costs	13,600	19,000	(5,400)	(28)
Total DDI	24,200	32,700	(8,500)	(26)

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 decreased by \$130,500 or 20% when compared to the previous fiscal year. This is mainly due to a decrease in unit costs for both cheque and direct deposit reconciliations decreasing from \$0.2569 to \$0.2236 and from \$0.0034 to \$0.0022, respectively, for a total saving of \$141,000. Unit costs were reduced in 2021 as the recoverable portion of reconciliation costs was distributed between more programs. The decrease was partially offset by a slight increase in the number of domestic cheques and direct deposits requiring reconciliation, which resulted in an additional cost of \$10,500.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Salaries	401,500	448,900	(47,400)	(11)
Operating and maintenance costs	108,000	191,100	(83,100)	(44)
Total reconciliation	509,500	640,000	(130,500)	(20)

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9. GOVERNMENT SERVICES (excluding pay 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 (EBP) and the employees' Public Service Insurance Plan (PSI), as well as the accommodation of the workforce. Since April 1, 2019, the Treasury Board prescribed EBP comprehensive rate (including the PSI rate) is used. The EBP comprehensive and accommodation rates remained stable at 27% and 13%, respectively, in 2021.

Government services costs decreased by \$20,500 or 10% when compared to the previous fiscal year. The decrease is mostly due to the comprehensive EBP and accommodation rates applied against lower salary expenditures charged from PSPC's CRCD, which is in line with the reduction in reconciliation costs in Note 8.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
EBP	119,300	133,100	(13,800)	(10)
Accommodation	57,400	64,100	(6,700)	(11)
Total government services (excluding pay services)	176,700	197,200	(20,500)	(10)

10. COURIER SERVICES

Courier services are used once CPP cheques have been cashed. These cheques need to be transported from the financial institutions where they were cashed to PSPC's CRCD for reconciliation.

Courier services costs decreased by \$600 or 2% when compared to the previous fiscal year. This decrease is due to a reduction in per unit transportation cost generating savings of \$1,000, offset by a slight increase in the number of CPP's cheques issued by PSPC, resulting in an increase of \$400.

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

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For the year ended March 31, 2021

11. PAY SERVICES

Pay services 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 service charges remained stable when compared to the previous fiscal year. The increase in salary expenditures was offset by the decrease in operating and maintenance costs. The increased salary costs also explain the higher costs for EBP and accommodation.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Salaries	143,800	137,300	6,500	5
Operating and maintenance costs	14,500	22,000	(7,500)	(34)
EBP	33,800	33,600	200	1
Accommodation	18,700	17,800	900	5
Total pay services	210,800	210,700	100	-

12. CORPORATE SUPPORT

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

Corporate support costs decreased by \$18,000 or 24% when compared to the previous fiscal year. The decrease is mainly due to a reduction of the internal services support costs distributed among additional programs in 2021; therefore, reducing the costs attributed to the CPP. This is offset by an increase in the costs for the annual audit of this financial report performed by an independent auditor.

Rounded to the nearest hundred dollars

	2021	2020	Variance	%
Internal services support	16,500	39,500	(23,000)	(58)
Preparation of the audited financial report	39,900	34,900	5,000	14
Total corporate support	56,400	74,400	(18,000)	(24)