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

Financial Report  
For the Year ended March 31, 2006



March 27, 2007

**PricewaterhouseCoopers LLP**  
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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, 2006 in accordance with the Agreement between Public Works and Government Services Canada and 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, 2006 in accordance with the Agreement referred to above, in effect from April 1, 2005 to March 31, 2010.

Signed by PricewaterhouseCoopers LLP

**Chartered Accountants**

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# Public Works and Government Services Canada

## FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

(Rounded to the nearest hundred dollars)

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Year ended March 31

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	2006	2005	Increase (Decrease)	
	\$	\$	\$	%
Electronic data processing costs	7,459,200	8,206,700	(747,500)	(9.1)%
Direct costs	5,579,500	5,684,400	(104,900)	(1.8)%
Cheque reconciliation costs	1,407,400	1,422,700	(15,300)	(1.1)%
Government services	319,300	339,600	(20,300)	(6.0)%
Accommodation costs	229,700	232,700	(3,000)	(1.3)%
Management costs	26,600	22,200	4,400	19.8%
<b>TOTAL ADMINISTRATIVE COSTS</b>	<b>15,021,700</b>	15,908,300	<b>(886,600)</b>	<b>(5.6)%</b>
Amount invoiced to the Canada Pension Plan account	16,196,500	15,658,600		
Outstanding amounts to be invoiced (reimbursed) to the Canada Pension Plan account	(1,174,800)	249,700		

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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

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# Public Works and Government Services Canada

## FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

### Notes to the Financial Report Analysis of Variances (Rounded to the nearest hundred dollars)

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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.

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 level agreements are included in the total fees for computer operations. These agreements provide capacity to SDC 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 2005-2006 of \$747,500 was mainly attributable to a change in the reporting methodology of computer operation costs relating to SDC which decreased costs by \$1,299,700. This decrease of \$1,299,700 was offset by a net increase of \$552,200 due to the following:

- Two additional IT service level agreements for \$711,300 effective April 1, 2005 between PWGSC and SDC which increased SDC's mainframe database and storage capacities;
- A decrease in printing costs of \$209,100;
- An increase in operating costs of \$49,600 for the SPS disaster recovery site provided to the CPP [ \* ]; and,
- An increase in micrographics costs of \$400.

# Public Works and Government Services Canada

## FINANCIAL REPORT ON 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

	2006	2005	Increase (Decrease)	%
	\$	\$	\$	
Postage	3,554,700	3,706,900	(152,200)	(4.1)%
Banking fees	1,690,000	1,684,500	5,500	0.3%
Cheques and envelopes	202,800	216,000	(13,200)	(6.1)%
Collateral costs	132,000	77,000	55,000	71.4%
<b>Total direct costs</b>	<b>5,579,500</b>	<b>5,684,400</b>	<b>(104,900)</b>	<b>(1.8)%</b>

#### Postage

The decrease in postage costs of \$152,200 was the result of a reduction in postage volumes of \$231,000 or 490,700 units which was offset by an increase in the average rate for postage of \$78,800 (i.e. \$0.46 to \$0.47 for domestic postage and from \$0.50 to \$0.52 for international postage).

#### Banking fees

The Receiver General paid banking fees on behalf of SDC for charges incurred in the support of customer and non-customer encashment and fees resulting from fraudulent endorsement. The charges were based on a unit transaction banking fee for payments issued by cheque and by direct deposit.

Banking fees have increased by an amount of \$5,500 from the prior fiscal year. This net increase was due to an increase in direct deposit transaction costs of \$41,900 (i.e. \$0.0212 to \$0.0223 per transaction), a decrease in the average banking fee transaction costs for cheques of \$21,300 (i.e. \$0.1117 to \$0.1090 per transaction) and a decrease of \$15,100 due to the change in the volume of CPP payments.

#### Cheques and envelopes

The decrease in cheque and envelope costs by \$13,200 was the result of a volume reduction in the number of CPP payments made by cheque of 490,700 units.

#### 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 SDC and the Consolidated Revenue Fund (CRF) at the Bank of Canada, using the Large Value Transfer System (LVTS). 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.

The collateral costs in 2005-06 as compared to 2004-05 increased by \$55,000 which was mainly due to the costs being charged for seven months in 2004-2005 and twelve months in 2005-2006.

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# Public Works and Government Services Canada

## FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

### Notes to the Financial Report Analysis of Variances (Rounded to the nearest hundred dollars)

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Year ended March 31

#### 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 Program and Administrative Services (PA) collective agreement signed in 2004-05 and organizational restructuring within the CRCD resulted in a \$46,300 increase in CRCD personnel expenses for the 2005-06 fiscal year. This increase was offset by a decrease in the CRCD operating and capital expenditures attributable to the CPP of \$61,600, which resulted in the net decrease of \$15,300 in cheque reconciliation costs for 2005-06.

#### 5. GOVERNMENT SERVICES

Government service costs related to expenditures to cover employee benefits and health and dental plans. The net decrease in government services costs of \$20,300 was the result of a decrease of \$36,200 in the employee benefits rate (from 21.5% to 18.5%) as compared to the previous year, which was offset by an increase in the cheque reconciliation salary costs of \$15,900.

#### 6. ACCOMMODATION COSTS

Accommodation costs were incurred for the space occupied to provide Canada Pension Plan (CPP) services. The decrease in accommodation costs by \$3,000 in 2005-06 was due to a decrease in the volume of CPP transactions compared to 2004-05. The volume of CPP transactions directly impacted the level of accommodation costs attributable to the CPP.

#### 7. MANAGEMENT COSTS

Management costs included costs relating to the compilation and preparation of the financial statements. The net increase of \$4,400 was attributed to an increase in external audit costs of \$3,900 and an increase in the Finance Sector costs of \$500.