



2009-708

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

Financial Report
For the Year ended March 31, 2009



October 23, 2009

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Auditors' Report

To the Chief Audit Executive, Office of Audit and Evaluation 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, 2009 in accordance with the Agreement between Public Works and Government Services Canada and Human Resources and Skills 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, 2009 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 ON ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

(Rounded to the nearest hundred dollars)

Year ended March 31

	2009	2008	Increase (Decrease)	
	\$	\$	\$	%
Direct costs	5,683,200	5,471,600	211,600	3.9%
Data centre services	4,424,800	4,314,500	110,300	2.6%
Cheque reconciliation costs	1,543,500	1,535,100	8,400	0.5%
Government services	311,000	293,600	17,400	5.9%
Accommodation costs	231,300	202,800	28,500	14.1%
Management costs	37,000	42,100	(5,100)	(12.1)%
Total administrative costs	12,230,800	11,859,700	371,100	3.1%
Amount invoiced to the Canada Pension Plan (CPP) account	12,075,500	12,090,100		
Outstanding amounts to be invoiced (reimbursed) to the CPP account	155,300	(230,400)		

See accompanying notes to the financial report

Approved by _____
Renée Jolicoeur
Assistant Deputy Minister
Accounting, Banking and Compensation Branch

Approved by _____
Alex Lakroni
Acting Chief Financial Officer
Finance Branch

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

1. INTRODUCTION

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 in February 2006 between Public Works and Government Services Canada (PWGSC) and Social Development Canada (SDC), a department which is now part of Human Resources and Skills Development Canada (HRSDC). 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.

2. DIRECT COSTS

	2009	2008	Increase (Decrease)	
	\$	\$	\$	%
Postage	3,412,700	3,405,300	7,400	0.2%
Banking fees	1,843,100	1,674,700	168,400	10.1%
Cheques and envelopes	258,200	259,600	(1,400)	(0.5)%
Collateral costs	169,200	132,000	37,200	28.2%
Total direct costs	5,683,200	5,471,600	211,600	3.9%

Postage

The net increase in postage costs of \$7,400 was the result of an increase in the average rates for postage of \$48,800 (from \$0.489 to \$0.496 for domestic postage and from \$0.545 to \$0.550 for international postage), which was offset by a reduction in postage volumes of 83,500 units (from 6,968,500 units to 6,885,000 units) for a decrease of \$41,400.

Banking fees

The Receiver General (RG) 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 increased by an amount of \$168,400 from the prior fiscal year. The volume for Canada Pension Plan (CPP) payments made by cheque decreased by 83,500 units (from 6,968,500 units to 6,885,000 units), and the average banking fee transaction costs for cheques increased from \$0.1079 to \$0.1120 per transaction, resulting in a cost increase of \$19,600. The average banking fee transaction costs for direct deposits increased from \$0.0217 to \$0.0243 per transaction that resulted in a cost increase of \$109,900. There was an additional increase of \$38,900 due to the increase in the number of direct deposit transactions of 1,601,500 units (from 42,477,200 units to 44,078,700 units).

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

2. DIRECT COSTS (continued)

Cheques and envelopes

The total decrease of \$1,400 in cheque and envelope costs was the result of a decrease in the number of CPP payments made by cheque of 83,500 units for \$2,600 which was then offset by an increase in the price of cheques and envelopes of \$1,200.

Collateral costs

Collateral costs were incurred for the transfer of funds between the RG concentrator account set up for HRSDC and the Consolidated Revenue Fund (CRF) at the Bank of Canada, using the Large Value Transfer System (LVTS). In 2007-2008 and from April to November 2008, this fee was billed on a fixed monthly basis at a rate of \$11,000, of which \$10,000 pertained to minimum collateral costs and \$1,000 to administrative fees. Effective December 2008, the service provider was changed from the Royal Bank of Canada to the Bank of Nova Scotia. Accordingly, the administrative fee from December 2008 to March 2009 changed to \$205 per month, plus an additional variable collateral cost based on the number of transactions completed. This change in the calculation of the administrative fee effective December 2008 resulted in an overall increase of \$37,200 for collateral costs in 2008-2009.

3. DATA CENTRE SERVICES (DCS) COSTS - INFORMATION TECHNOLOGY SERVICES BRANCH (ITSB)

DCS costs consist of fees for mainframe application hosting services, print and distribution services and disaster recovery services.

Cost appropriated to the CPP for mainframe application hosting services are derived from a Service Level Agreement between ITSB and HRSDC. PWGSC's Accounting Banking and Compensation Branch (ABCB) determines the amount of disaster recovery service costs incurred and attributable to the CPP in support of the Standard Payment System (SPS). Costs appropriated to the CPP for print and distribution services are based upon actual print and distribution volumes.

The overall increase in DCS costs for 2008-2009 of \$110,300 was mainly attributable to an increase in disaster recovery service costs of \$272,700. This increase was offset by a decrease of \$162,400 in DCS costs as follows:

- decrease in mainframe expenditures of \$236,800; and,
- an increase in printing costs of \$74,400.

4. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs related to service costs for payment redemptions are directly attributable to CPP payments. The Cheque Redemption Control Directorate (CRCD) provided payment reconciliation and redemption services for CPP payments on behalf of the RG.

The cheque reconciliation costs increased by \$8,400 in 2008-2009 from the prior fiscal year. This net increase was due to an increase of \$71,800 in the CRCD salary cost attributable to the CPP, which was offset by a decrease of \$63,400 in operating and capital expenditures.

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

5. GOVERNMENT SERVICES

Government service costs are expenditures to cover employee benefit plans and health care plans. The net increase in government service costs of \$17,400 was the result of an increase in cheque reconciliation salary costs of \$71,800 offset by a decrease in management salary costs of \$3,900. The decrease in the employee benefits rate by 1% (from 18.5% to 17.5%) and an equivalent percentage increase in the health plans rate (from 7.0% to 8.0%) did not create a variance in government service costs for the 2008-2009 fiscal year.

6. ACCOMMODATION COSTS

Accommodation costs were incurred for the space occupied to provide CPP services. The increase in accommodation costs by \$28,500 in 2008-2009 was a result of additional space required for PWGSC ITSB staff.

7. MANAGEMENT COSTS

Management costs included costs relating to the compilation and preparation of this annual financial report. Management costs comprise of work completed by PWGSC's Cost Based Management Directorate (CBMD) and the Office of Audit and Evaluation (OAE), and external audit costs incurred on behalf of the OAE. The net decrease of \$5,100 in 2008-2009 was mainly attributed to a decrease in the OAE and the CBMD salary costs to complete their assigned tasks.