



Public Services and
Procurement Canada

Services publics et
Approvisionnement Canada

Canada



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GOVERNMENT,
serving
CANADIANS.

Final Report

Administrative costs charged to the Canada Pension Plan Account, financial report for fiscal year ended on March 31, 2019

Office of the Chief Audit Executive



Administrative costs charged to the Canada Pension Plan Account, financial report for fiscal year ended on March 31, 2019

October 22, 2019 – Departmental Audit Committee

Independent Auditor's Report

To the Deputy Minister, 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 (the “PSPC”) for the year ended March 31, 2019 and notes to the financial report (collectively referred to as the “financial report”).

In our opinion, the accompanying financial report of PSPC as at March 31, 2019 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, the Canada Pension Plan and Public Services and Procurement Canada in effect from April 1, 2015 to March 31, 2020 (the “Memorandum of Understanding”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). 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

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 meet the requirements of the Memorandum of Understanding. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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 the 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 GAAS 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 GAAS, 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 provisions used based on the Memorandum of Understanding and the reasonableness of accounting estimates, if any, 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.

Signed by Deloitte LLP
(Limited Liability Partnership)
Chartered Professional Accountants
Licensed Public Accountants
August 14, 2019

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 (i.e. the period between April 1, 20XX and March 31, 201X +1) (Rounded to the nearest hundred dollars)

	2019	2018	Variance	%
Direct costs	N/A	N/A	N/A	N/A
Postage (Note 2)	1,664,700	1,810,800	(146,100)	(8)
Cheques and envelopes (Note 3)	72,600	75,100	(2,500)	(3)
Banking fees (Note 4)	1,989,900	1,965,700	24,200	1
Information technology (IT) (Note 5)	680,900	684,100	(3,200)	(1)
Managed secure file transfer (Note 6)	79,900	78,900	1,000	1

Direct Deposit Initiative (Note 7)	44,700	59,100	(14,400)	(24)
Reconciliation (Note 8)	602,000	635,100	(33,100)	(5)
Government services (Note 9)	236,400	262,100	(25,700)	(10)
Courier services (Note 10)	32,200	37,700	(5,500)	(15)
Pay services (Note 11)	172,800	188,900	(16,100)	(9)
Total direct costs	5,576,100	5,797,500	(221,400)	(4)
Corporate support costs (Note 12)	74,400	76,400	(2,000)	(3)
Total administrative costs	5,650,500	5,873,900	(223,400)	(4)
Amount invoiced to the Canada Pension Plan (CPP) account	(5,340,400)	(6,071,800)	N/A	N/A
Outstanding amount to be invoiced (reimbursed) to the CPP account	310,100	(197,900)	N/A	N/A

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

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, 2019

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 \$146,100 or 8% compared with the previous year. The domestic postage volume decreased from 1,813,295 to 1,646,277 cheques and foreign postage volume decreased from 393,034 to 340,532. 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 \$184,300. These savings were partially offset by an increase in the average domestic postage rate from \$0.76 to \$0.79 and in the average foreign postage rate from \$1.08 to \$1.083, which amounts to \$38,200.

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

	2019	2018	Variance	%
Domestic postage	1,296,000	1,386,600	(90,600)	(7)
Foreign postage	368,700	424,200	(55,500)	(13)
Total postage	1,664,700	1,810,800	(146,100)	(8)

3. CHEQUES AND ENVELOPES

Cheque and envelope costs decreased by \$2,500 or 3% 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 \$6,800. The decrease in volume was partially offset by a rise of the unit cost per cheque and the shipping rate which resulted in an increase of \$3,600 and \$700 respectively.

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

	2019	2018	Variance	%
Domestic	54,600	56,800	(2,200)	(4)
Foreign	11,300	12,300	(1,000)	(8)
Shipping	6,700	6,000	700	12
Total cheques and envelopes	72,600	75,100	(2,500)	(3)

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 (\$0.1173 each) and one for direct deposits (\$0.0263 each). These rates are applied against the volume of CPP direct deposits and cheques issued.

Banking fees increased by \$24,200 or 1% compared with the previous year. This variance is mainly due to higher volume of direct deposit which resulted in an increase of \$52,000 partially offset by a decrease in the unit cost associated to direct deposit transactions, which resulted in a decrease of \$6,900. 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 \$19,500 slightly offset by an increase of the unit cost for cheques of \$600. Foreign banking fees also decreased by \$2,000 as those fees were eliminated with the implementation of a new contract.

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

	2019	2018	Variance	%
Domestic direct deposits	1,796,700	1,751,600	45,100	3
Domestic cheques	193,200	212,100	(18,900)	(9)
Foreign banking fees	0	2,000	(2,000)	(100)
Total banking fees	1,989,900	1,965,700	24,200	1

5. INFORMATION TECHNOLOGY

Information technology (IT) costs decreased by \$3,200 or 1% compared with the previous year. Disaster recovery costs increased by \$ 6,100 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 decreased by \$9,300 overall, mainly due to the fact that PSPC's print centre printed fewer cheques in the current year, which generated savings of \$13,700. This decrease was partially offset by increased costs of \$4,400 associated with increased unit costs.

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

	2019	2018	Variance	%
Disaster recovery	541,000	534,900	6,100	1
Printing services	139,900	149,200	(9,300)	(6)
Total Information technology	680,900	684,100	(3,200)	(1)

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 \$1,000 or 1% compared with the previous year. This is mainly due to a \$2,000 increase associated with the increase in payment transactions made for the CPP partially offset by a \$1,000 decrease related to the unit cost per payment.

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

	2019	2018	Variance	%
Domestic payments	78,000	77,000	1,000	1
Foreign payments	1,900	1,900	0	0
Total managed secure file transfer	79,900	78,900	1,000	1

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 decreased by \$14,400 or 24% compared with the previous year. The decrease is due to a reduction in the rate per unit, which generated savings of \$9,000, as well as a decline in the volume of cheques issued, which also resulted in savings of \$5,400.

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 \$33,100 or 5% compared with the previous year. This is mainly due to a reduction in the number of domestic cheques requiring reconciliation (1,813,295 to 1,646,277 cheques), as well as, a reduction of the salary unit cost for direct deposits reconciliations. However, this reduction was partially offset by an increase in the unit cost for cheque reconciliations (\$0.2228 to \$0.2306) as a result of a reduction in the number of cheques issued by PSPC for all programs.

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

	2019	2018	Variance	%
Salaries	440,000	481,700	(41,700)	(9)
Operating and maintenance costs	162,000	153,400	8,600	6
Total reconciliation	602,000	635,100	(33,100)	(5)

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 \$25,700 or 10% compared with the previous year. The decrease is due to a reduction from 15.7% to 15.2% to the rate applied to the Employee Benefit Plan, a reduction of the Public Service Insurance Plan rate (9.2% in 2018), and an overall slight decrease in salary expenses charged to CPP mainly from reconciliation costs.

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

	2019	2018	Variance	%
Employee Benefit Plan (15.2%)*Treasury Board rates	97,900	108,600	(10,700)	(10)
Accommodation (13%)*Treasury Board rates	83,700	89,900	(6,200)	(7)
Public Service Insurance Plan (8.5%)*Treasury Board rates	54,800	63,600	(8,800)	(14)

Total government services	236,400	262,100	(25,700)	(10)
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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 \$5,500 or 15% 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 \$3,500, as well as a \$2,000 decrease 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 service costs decreased by \$16,100 or 9%. This decrease is due to the reduction in the average cost per pay as a result of a reduction in salary costs and operating and maintenance costs recoverable from CPP.

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

	2019	2018	Variance	%
Salaries	153,600	154,600	(1,000)	(1)
Operating and maintenance costs	19,200	34,300	(15,100)	(44)
Total pay services	172,800	188,900	(16,100)	(9)

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 decreased by \$2,000 or 3% compared with the previous year. This is mainly attributable to the decrease in costs to prepare the financial report, which is attributed to reduced salary costs from internal audit to manage the independent third party annual audit.

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

	2019	2018	Variance	%
Internal services support	40,500	40,900	(400)	(1)
Preparation of the financial report	33,900	35,500	(1,600)	(5)
Total corporate support	74,400	76,400	(2,000)	(3)