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2014-708

Public Works and Government Services Canada

ADMINISTRATIVE COSTS CHARGEABLE TO THE CANADA PENSION PLAN ACCOUNT

Financial Report

For the Year ended March 31, 2014



INDEPENDENT AUDITORS' REPORT

To the Deputy Minister,
Public Works and Government Services Canada

We have audited the accompanying financial report of **Administrative Costs Chargeable to the Canada Pension Plan Account** by Public Works and Government Services Canada and accompanying notes for the year ended March 31, 2014. 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 and the Canada Pension Plan and Public Works and Government Services Canada in effect from April 1, 2012 to March 31, 2017.

Management's responsibility for the financial report

Management is responsible for the preparation of the financial report in accordance with 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.

Auditors' 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 auditors' 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 auditors consider 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 for the **Administrative Costs Chargeable to the Canada Pension Plan Account** for the year ended March 31, 2014 is prepared, in all material respects, in accordance with the financial reporting provisions 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 provisions of the above noted Memorandum of Understanding. The report has been prepared to assist Public Works and Government Services Canada to meet the reporting requirements of Part A 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 Works and Government Services Canada and Employment and Social Development Canada and should not be used by parties other than Public Works and Government Services Canada and Employment and Social Development Canada.

Signed by Ernst & Young LPP

Ottawa, Canada,
September 19th, 2014

Chartered Professional Accountants
Licensed Public Accountants



Public Works and Government Services Canada

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

	2014	2013	Variance	%
	\$	\$	\$	
<i>(Rounded to the nearest hundred dollars)</i>				
Direct Costs				
Postage (note 2)	4,137,000	4,196,000	(59,000)	(1.40)
Cheques and envelopes (note 3)	279,700	272,400	7,300	2.70
Banking fees (note 4)	1,977,800	1,825,700	152,100	8.30
Collateral costs (note 5)	198,600	349,600	(151,000)	(43.20)
Information technology services costs (note 6)	1,203,500	1,287,800	(84,300)	(6.50)
Reconciliation costs (note 7)	913,400	847,100	66,300	7.80
Government services costs (note 8)	185,300	171,300	14,000	8.20
Courier services - cheques transportation (note 9)	128,900	123,500	5,400	4.40
Pay services costs (note 10)	236,500	250,100	(13,600)	(5.40)
Total Direct Costs	9,260,700	9,323,500	(62,800)	(0.70)
Corporate support costs (note 11)	109,900	79,700	30,200	37.90
Total Administrative Costs	9,370,600	9,403,200	(32,600)	(0.30)
Amount invoiced to the Canada Pension Plan (CPP) account	(9,262,300)	(9,482,400)		
Outstanding amount to be invoiced (reimbursed) to the CPP account	108,300	(79,200)		

Approved by _____
 Brigitte Fortin
 Assistant Deputy Minister
 Accounting, Banking and Compensation Branch

Approved by _____
 Alex Lakroni
 Chief Financial Officer
 Finance and Administration Branch



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

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31, 2014

1. INTRODUCTION

An agreement entitled *Memorandum of Understanding between Human Resources and Skills Development Canada (now, Employment and Social Development Canada), the Canada Pension Plan and Public Works and Government Services Canada* was signed in February 2013 between Public Works and Government Services Canada (PWGSC) and Employment and Social Development Canada (ESDC). This Memorandum of Understanding (MOU) defines the provision of reciprocal services between PWGSC and ESDC in terms of level of services, recoverable costs and reporting requirements. The MOU is in effect from April 1, 2012 to March 31, 2017.

2. POSTAGE

Total postage costs decreased by \$59,000, or 1.40% as compared to the previous fiscal year. This is due to the decrease in volumes of cheques posted to both domestic and foreign destinations creating a decrease in cost of \$163,700. Domestic and foreign postage volume of cheques decreased from 6,137,591 to 5,938,762 and 632,659 to 584,383 respectively. This decrease was partially offset by an increase in both the average domestic postage rate from \$0.60 to \$0.61, and the average foreign postal rate from \$0.85 to \$0.87 which amount to an increase of \$104,700.

Rounded to the nearest hundred dollars

	2014	2013	Variance	%
Foreign postage	510,200	536,100	(25,900)	(4.80)
Domestic postage	3,626,800	3,659,900	(33,100)	(0.90)
Total postage costs	4,137,000	4,196,000	(59,000)	(1.40)



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

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31, 2014

3. CHEQUES AND ENVELOPES

Total cheques and envelopes costs increased by \$7,300 or 2.70% compared to the previous year. Even though the volume decreased in both domestic cheques and domestic envelopes, and domestic cheques and envelopes rates remained virtually unchanged compared to the previous year, cheques and envelopes costs increased mainly due to the shipping costs embedded in the domestic cheques and envelopes costs. In 2013-14 cheques and envelopes shipping costs is a component of cheques and envelopes costs and recovery of this cost started in 2013-14 as a result of an improvement of cost recovering practice.

Rounded to the nearest hundred dollars

	2014	2013	Variance	%
Foreign C&E	23,900	25,400	(1,500)	(5.90)
Domestic C&E	255,800	247,000	8,800	3.60
Total C&E costs	279,700	272,400	7,300	2.70

4. BANKING FEES

The Receiver General paid banking fees on behalf of ESDC for charges levied based on a transaction charge per unit for payments issued by cheque and by direct deposit.

Banking fees increased by \$152,100 or 8.30% compared to the previous year. The increase of \$183,900 was due to an increase in the volume of direct deposit transactions and in the unit cost per direct deposit. This increase was partially offset by a small reduction in the domestic cheques business volume, and a reduction in the foreign banking fees, which combined were equal to \$31,800.

Rounded to the nearest hundred dollars

	2014	2013	Variance	%
Domestic direct deposit	1,290,500	1,106,600	183,900	16.60
Foreign banking fees	5,000	14,700	(9,700)	(66.00)
Domestic cheques	682,300	704,400	(22,100)	(3.10)
Total banking fees	1,977,800	1,825,700	152,100	8.30



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

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For the year ended March 31, 2014

5. COLLATERAL COSTS

Until October 2013, collateral costs were incurred for the transfer of funds between the Receiver General Account set up for ESDC and the Consolidated Revenue Fund at the Bank of Canada, using the Large Value Transfer System. These costs were paid to the Bank of Nova Scotia in accordance with a contract that came into effect in December 2008. A new contract was created and the Canada Pension Plan is now billed directly for the costs. The old contract expired in September 2013 and will not be reported in future financial reports.

Collateral costs reported in this financial report cover a period from April to September 2013. As a result, collateral costs decreased by \$151,000 or 43.20% as compared to the previous fiscal year.

6. INFORMATION TECHNOLOGY (IT) SERVICES COSTS

IT services costs consisted of fees for print services and disaster recovery. There was an overall decrease of \$84,300 or 6.50% in IT services costs as compared to 2012-13.

Print services costs decreased by \$91,300 or 15.20%, due to a reduced volume of domestic cheques printed by the PWGSC production center. This decrease was offset by a slight increase in disaster recovery costs of \$7,000 or 1%.

Rounded to the nearest hundred dollars

	2014	2013	Variance	%
Printing services	509,400	600,700	(91,300)	(15.20)
Disaster recovery costs	694,100	687,100	7,000	1.00
Total IT services costs	1,203,500	1,287,800	(84,300)	(6.50)



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

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For the year ended March 31, 2014

7. RECONCILIATION COSTS

Reconciliation costs relate to service costs for payment redemptions that were directly attributable to CPP payments. The Cheque Redemption Control Directorate provided payment reconciliation and redemption services for CPP payments (both cheques and direct deposits) on behalf of the Receiver General.

Reconciliation costs increased by \$66,300 or 7.80% from the prior fiscal year due to an increase in salaries of \$49,200 or 8.00% as well as an increase in operating and capital expenditures of \$17,100 or 7.30%. The increase in salaries was due to an increase in the number of personnel needed for the promotion of direct deposit initiatives. The increase in operating and capital expenditures is a result of a reduction in the number of cheques issued by the RG which led to an increase in the reconciliation cost per cheque.

Rounded to the nearest hundred dollars

	2014	2013	Variance	%
Operating and capital expenditures	251,200	234,100	17,100	7.30
Salaries	662,200	613,000	49,200	8.00
Total reconciliation costs	913,400	847,100	66,300	7.80

8. GOVERNMENT SERVICES COSTS

Government services costs were incurred to cover the costs associated with the employee benefits plan. The Treasury Board rate of 20% was applied to salaries to determine this cost.



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

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9. COURIER SERVICES – CHEQUES TRANSPORTATION

The costs of courier services related to cheque transportation were shared between the Receiver General and the Bank of Canada. An agreement was signed that placed a cap on the Receiver General's share of the expense. This agreement expired on March 31st, 2014. The rate will increase in future years once the Receiver General absorbs the whole cost for cheque transportation. For the fiscal year 2012-13 and 2013-14 the rate was determined by dividing the Receiver General's share of costs for cheque transportation by the total number of cheques issued by the Receiver General. The portion of costs related to CPP cheques was then determined by multiplying the rate by the volume of CPP cheques issued.

The costs of courier services increased by \$5,400 or 4.40% compared to the previous year due to an increase in the costs of transportation per cheque offset by a reduction in the volume of cheques.

10. PAY SERVICES COSTS

Pay services costs are the costs incurred by PWGSC in providing pay related services to employees that administered the CPP within ESDC/Service Canada. Pay services costs were calculated by multiplying the number of related pay accounts within ESDC/Service Canada, by an average cost per pay account. Pay Services Costs decreased by \$13,600 or 5.40% compared to the previous year. This is due to the reduction in the number of related pay accounts within ESDC/Service Canada.



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

NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

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11. CORPORATE SUPPORT COSTS

Corporate support costs include the indirect costs for the internal services provided by corporate branches, such as Finance, Human Resources, and Corporate Services and Strategic Policy, and the costs of preparing this audited financial report.

Corporate support costs increased by \$30,200 or 37.90% from the prior fiscal year mainly due to a change in a cost recovery methodology.

Rounded to the nearest hundred dollars

	2014	2013	Variance	%
Internal services Support Costs	70,400	43,400	27,000	62.20
Preparation of the financial Report	39,500	36,300	3,200	8.80
Total corporate support costs	109,900	79,700	30,200	37.90

