

ARC Briefing Note

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### **Audit Objective**

The purpose of the audit is to express an opinion on whether PWGSC has fairly represented the administrative costs chargeable to the CPP for the year ended March 31, 2000 based on the statement of costs provided by the Assistant Deputy Minister of Government Operational Service.

### **Background**

The Canada Pension Plan (CPP) is administered by the Department of Human Resources Development (HRD). PWGSC provides assistance to the CPP through the development, maintenance and operation of computer systems, the payment of benefits and the production of management information statistics. The charges for these services are collectively referred to as "administrative costs", and are recovered from the CPP on a quarterly basis. Therefore, these charges are not absorbed through the appropriation, and are not subject to vote by Parliament.

An annual audit is required in accordance with the provisions of the Memorandum of Understanding between HRD and PWGSC.

### **Audit Results**

The audit resulted in the provision of the attached auditors' report (opinion) by Ernst & Young, Chartered Accountants.

Financial Statements

**Public Works and Government Services Canada**

Financial Report of Administrative Costs Chargeable to the  
Canada Pension Plan Account

March 31, 2000



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## AUDITORS' REPORT

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To the Director General, Audit and Review 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, 2000. This financial report is the responsibility of Public Works and Government Services. 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, 2000 in agreement with the Memorandum of Understanding between Human Resources Development Canada, formerly National Health and Welfare, and Public Works and Government Services Canada, formerly Supply and Services Canada, dated September 1990.

Ottawa, Canada,  
February 8, 2001.

*Ernst & Young LLP*

Chartered Accountants

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Public Works and Government Services Canada

**FINANCIAL REPORT OF ADMINISTRATIVE COSTS  
CHARGEABLE TO THE CANADA PENSION PLAN  
ACCOUNT**

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Year ended March 31

	2000	1999	Year ended March 31 Increase (decrease)	
	\$	\$	\$	%
Direct costs	3,609,100	4,464,800	(855,700)	(19.2)
Indirect costs	1,872,300	2,265,400	(393,100)	(17.4)
Electronic Data Processing costs	6,303,700	6,437,500	(133,800)	(2.1)
Management costs	19,400	31,400	(12,000)	(38.2)
Cheque reconciliation costs	1,185,700	1,194,100	(8,400)	(0.7)
Accommodation costs	433,300	470,500	(37,200)	(7.9)
Government services	633,300	746,500	(113,200)	(15.2)
Total administration costs	14,056,800	15,610,200	(1,553,400)	(10.0)
Amount invoiced to the Canada Pension Plan Account	14,099,300	15,459,600		
Under (over) charge	(42,500)	150,600		

*See accompanying notes*

Approved by \_\_\_\_\_  
J.C. Stobbe  
ADM. Government Operational Services

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**Public Works and Government Services Canada**  
Financial Report of Administrative Costs  
Chargeable to the Canada Pension Plan Account

**SCHEDULE - ANALYSIS OF VARIANCES**

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March 31, 2000

**I. DIRECT COSTS**

	2000	1999	Year ended March 31 Increase (decrease)	%
	\$	\$	\$	
Postage	3,415,500	4,269,100	(853,600)	(20.0)
Cheques and envelopes	193,600	195,700	(2,100)	(1.1)
Total direct costs	3,609,100	4,464,800	(855,700)	(19.2)

**Postage**

The decrease in postage costs is due to the following: CPP has started to contract directly with Canada Post Corporation ["CPC"] the printing and mailing of Tax Information Statements and Presumptive Application Kits. This reduced net postage costs chargeable to CPP by (\$638,700). In addition, the number of International Agreements mailed out decreased, reducing the costs by another (\$118,800). Postage mix accounts for the remainder of the costs decrease [\$96,100].

**Cheques and envelopes**

The decrease in expenditures for cheques and envelopes can be attributed to lower volumes of mail [\$28,600] and higher cheque and envelope costs of \$26,500. Cheque costs went from \$7.80 to \$9.54 for 1,000 cheques in 1999-2000 and envelope costs went from \$12.63 to \$13.83 in 1999-2000.

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**Public Works and Government Services Canada**  
Financial Report of Administrative Costs  
Chargeable to the Canada Pension Plan Account

**SCHEDULE - ANALYSIS OF VARIANCES**

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March 31, 2000

**2. INDIRECT COSTS**

Indirect costs represent operating costs of the responsible sites carrying out CPP activities. Since processes for a certain number of payment applications have been standardized, costs are no longer segregated by payment product. Consequently, the methodology used to allocate indirect costs is a process costing base and is consistent with the prior year.

The decrease of \$393,100 is explained by the following:

CPP payments represent approximately the same volume of payments issued in 1999-2000 [21.64%] compared to 1998-1999 [21.27%]. However, the total costs incurred to process these payments went from \$9,189,000 to \$7,976,000, due to the fact that the number of FTEs went from 188 in April 1999 to 148 in March 2000. Consequently, the proportion of the total indirect costs attributable to CPP decreased by \$393,100.

**3. ELECTRONIC DATA PROCESSING ["EDP"] COSTS -  
GOVERNMENT TELECOMMUNICATIONS AND INFORMATICS  
SERVICES**

	2000	1999	Year Ended March 31 Increase (Decrease)	%
	\$	\$	\$	
Micrographics	26,400	17,400	9,000	51.7
Telecommunications	156,100	156,100	—	—
Computer operations	6,121,200	6,264,000	(142,800)	(2.3)
Total EDP costs	6,303,700	6,437,500	(133,800)	(2.1)

**Telecommunications**

Costs have remained very stable from the previous year.

## SCHEDULE - ANALYSIS OF VARIANCES

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March 31, 2000

### Computer operations

Computer operations consist of Government Telecommunications and Informatic Services, including processing and regional computer printing and operating costs. The decrease in computer operations can be attributed to the following: printing costs have decreased by \$66,300 due to the transfer of T4 printing to CPC. As well, the Y2K project charge that was incurred in 1998-1999 explains a part of the variance [\$180,000]. A charge of \$103,500 for storage space and memory was invoiced in 1999-2000 for memory space and explains the balance of the variance.

### 4. MANAGEMENT COSTS

The decrease in management costs of \$12,000 is mainly due to the fact that government Operational Services are not allocated to CPP anymore as they are not clearly identifiable.

### 5. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs have remained very stable compared to the previous year.

### 6. ACCOMMODATION COSTS

The decrease of \$37,200 is explained by a reduction of full-time employees dedicated to CPP, further savings resulting from consolidation of data centres, and conducting a more efficient use of space in the responsible sites across the country.

### 7. GOVERNMENT SERVICES

The decrease of \$113,200 can be explained by: a decrease in costs of salaries, consequently decreasing the costs for the Employee Benefits Plan [EBP] and the Health Insurance Plan by \$56,400. As well, the rate for EBP decreased by 2.1% from the previous year [27.6% to 25.5%], representing a variance of \$56,800.