

2001-708 Administrative Costs for 2000-2001 Chargeable to the CPP Account
ARC Briefing Note

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, 2001 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, 2001

AUDITORS' REPORT

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, 2001. 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, 2001 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,
September 11, 2001.

Ernst & Young LLP

Chartered Accountants

Public Works and Government Services Canada

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

Year ended March 31

	2001 \$	2000 \$	Year Ended March 31 Increase (Decrease) \$	%
Direct costs	3,674,900	3,609,100	65,800	1.8
Indirect costs	1,257,000	1,872,300	(615,300)	(32.9)
Electronic Data Processing costs	6,170,000	6,303,700	(133,700)	(2.1)
Management costs	19,500	19,400	100	0.5
Cheque reconciliation costs	1,221,800	1,185,700	36,100	3.0
Accommodation costs	321,700	433,300	(111,600)	(25.8)
Government services	506,100	633,300	(127,200)	(20.1)
Total administration costs	13,171,000	14,056,800	(885,800)	(6.3)
Amount invoiced to the Canada Pension Plan Account	12,852,600	14,099,300		
Under (over) charge	318,400	(42,500)		

See accompanying notes

Approved by _____
Rod Monette
ADM, Government Operational Services

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

SCHEDULE - ANALYSIS OF VARIANCES

March 31, 2001

1. DIRECT COSTS

	2001 \$	2000 \$	Year Ended March 31 Increase (Decrease) \$	%
Postage	3,446,000	3,415,500	30,500	0.9
Cheques and envelopes	228,900	193,600	35,300	18.2
Total direct costs	3,674,900	3,609,100	65,800	1.8

Postage

The increase in postage cost is due to the following: [1] The postage rates went up from 39 cents to 41 cents for national delivery and from 52 cents to 55 cents for international delivery, increasing postage costs by \$161,000; [2] A slight increase in the volumes of cheques account for another \$75,400 of the total increased cost. These increases were partially offset by the fact that PWGSC no longer handles the mailing of a certain number of items such as: the Contributory Information Program, presumptive applications and T-4s which, in total, account for a decrease in postage cost of \$205,900.

Cheques and envelopes

Total expenditures for cheques and envelopes increased by \$35,300 mainly because of higher price for cheques which went up from \$9.54 to \$13.42 per 1,000 cheques. In addition, there was a slight increase in the volume of envelopes used in accordance with the increased volume in cheques issued. Envelopes price remained stable.

SCHEDULE - ANALYSIS OF VARIANCES

March 31, 2001

2. INDIRECT COSTS

Indirect costs represent operating costs of 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 \$615,300 is explained by the following:

Although the CPP volumes increased by approximately one million payments compared to the 1999-2000 period, the CPP payments have slightly decreased as a proportion of the total payments issued by the Receiver General [20.45% in 2000-2001 vs. 21.64% in 1999-2000]. As a result of the closure of the regional offices, the total operating cost of the Receiver General's offices went from \$7,976,000 to \$5,917,196 due to the fact that the number of FTEs went from 149 in April 2000 to 51 in March 2001.

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

The processing and storage workloads have remained stable. On the other hand, infrastructure costs decreased by \$122,000 due to the implementation of newer and more efficient technology. Micrographics costs decreased by \$11,700 in 2000-2001.

4. MANAGEMENT COSTS

Management costs have remained stable compared to prior years.

5. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs have increased by \$36,100 because of a higher volume of CPP payments [increase of over 1,000,000 payments]. Also, there was an increase in CRCD expenditures of \$552,700.

SCHEDULE - ANALYSIS OF VARIANCES

March 31, 2001

6. ACCOMMODATION COSTS

The overall decrease of \$111,600 is explained by a reduction of FTEs [12.43 FTE] dedicated to CPP, further savings resulting from consolidation of data centres, and conducting a more efficient use of space available in the responsible sites across the country. As well, the accommodation cost for Matane facilities went down from \$1,170,000 in 1999-2000 to \$935,000 in 2000-2001.

7. GOVERNMENT SERVICES

The overall decrease of \$127,200 can be explained by a decrease in the costs of salaries, consequently decreasing the costs for the Employee Benefits Plan [EBP] and Health Insurance Plan by \$119,200. As well, the rate for EBP decreased by .4% from the previous year [25.5% to 25.1%], representing a variance of \$8,000.