

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 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 Price WaterhouseCoopers, Chartered Accountants.

**Public Works and Government
Services Canada**

Financial Report of Administrative Costs
Chargeable to the Canada Pension Plan Account
March 31, 1998

December 17, 1998

Auditors' Report

**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, 1998. This financial report is the responsibility of Public Works and Government Services Canada. Our responsibility is to express an opinion on this financial report based on our audit.

We conducted our audit in accordance with 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, 1998 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.



Chartered Accountants

Public Works and Government Services Canada

Financial Report of Administrative Costs
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For the year ended March 31, 1998

	1998 \$	1997 \$	Year ended March 31 Increase (Decrease) \$	%
Direct costs	6,617,700	7,498,800	(881,100)	(11.7)
Indirect costs	1,786,300	1,351,000	435,300	32.2
Electronic Data Processing costs	5,817,500	5,324,300	493,200	9.3
Management costs	48,100	53,900	(5,800)	(10.8)
Cheque reconciliation costs	1,097,800	1,014,600	83,200	8.2
Accommodation costs	491,200	735,300	(244,100)	(33.2)
Government services	553,300	608,000	(54,700)	(9.0)
Total administrative costs	16,411,900	16,585,900	(174,000)	(1.0)
Amount invoiced to the Canada Pension Plan Account	16,699,100	14,569,000		
(Over) under charge	(287,200)	2,016,900		

Approved by _____
J. C. Stobbe
ADM, Government Operational Service

Public Works and Government Services Canada

Financial Report of Administrative Costs

Chargeable to the Canada Pension Plan Account

Schedule – Analysis of Variances

For the year ended March 31, 1998

1 Direct costs

	1998	1997	Year ended March 31 Increase (Decrease)	%
	\$	\$	\$	
Salaries	53,600	182,100	(128,500)	(70.6)
Postage	6,245,200	7,022,600	(777,400)	(11.1)
Cheques and envelopes	318,900	294,100	24,800	8.4
Total direct costs	6,617,700	7,498,800	(881,100)	(11.7)

Salaries

As a result of the standardization of the payment products processes, direct regional salaries can no longer be segregated by payment product. Consequently, the decrease of \$128,500 is attributable to a re-classification to indirect costs.

Postage

The overall decrease in postage costs is mainly due to increased use of Direct Deposit, thus reducing the number of cheques mailed and postage costs by \$1,170,600. As well, mailings of Presumptive Application Kits decreased by \$27,400. These decreases are partially offset by the following: mailings of Contributor Information Packages increased by \$374,400, T4s by \$29,100 and International Agreements by \$17,100.

Cheques and envelopes

Total expenditures for cheques and envelopes increased by \$24,800 from the previous year due to an increase in the price of the paper partially offset by a reduction in volume used. Cheques and envelopes costs increased from \$5.15 to \$7.49 and from \$13.20 to \$15.89 per 1,000 respectively. In counterpart, the increased use of Direct Deposit as explained above reduced usage and costs of both cheques and envelopes by \$51,100.

Public Works and Government Services Canada

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For the year ended March 31, 1998

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 cannot be segregated by payment product. Consequently, the methodology used to allocate indirect costs has been changed, from a product costing base to a process costing base, to better reflect the business processes and thus the actual use of resources by client.

The increase of \$435,300 is mainly due to the change in the allocation methodology as explained above. The retroactive application of the new methodology would have raised last year's indirect costs to \$2,224,800 representing a \$873,800 understatement compared to the 1997 actual costs of \$1,351,000.

3. Electronic Data Processing ("EDP") costs – Government Telecommunications and Informatics Services

	1998	1997	Year ended March 31 Increase (Decrease)	%
	\$	\$	\$	
Micrographics	26,200	26,300	(100)	(0.4)
Telecommunications	156,200	174,600	(18,400)	(10.5)
Computer operations	5,635,100	5,123,400	511,700	10.0
Total EDP costs	5,817,500	5,324,300	493,200	9.3

Micrographics

Costs have remained very stable versus the previous year.

Public Works and Government Services Canada

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Telecommunications

The decrease is attributable to the continuing rationalization of network facilities resulting in cost reductions in shared facilities.

Computer operations

Government Telecommunications and Informatic Services, including telecommunications and regional computer printing and operating costs, are reflected in these figures. The processing costs have increased by \$550,600 due to increased capacity. In counterpart, printing costs have decreased by \$38,900 due to increased use of Direct Deposit as mentioned previously.

4 Management Costs

The decrease in management costs of \$5,800 is explained by less time spent by the Financial Management Directorate on the planning, execution and audit phases of this report.

5 Cheque Reconciliation Costs

The increase in Cheque reconciliation costs is explained by: the number of CPP payments reconciled increased by 1,496,820 representing higher reconciliation cost of \$39,700; the remaining variance of \$43,500 is explained by a slight increase in salaries and other operating expenditures.

6 Accommodation Costs

The overall decrease of \$244,100 is explained by further savings resulting from consolidation of data centres and conducting a more efficient use of space available in the responsible sites across the country.

7 Government Services

The overall decrease of \$54,700 is explained by Electronic Data Processing being outsourced to industry thus reducing the costs of salaries and consequently the costs for employee benefits plan (EBP) and health care plan by \$208,900. This decrease is partially offset by an increase in indirect salaries due to the use of a new allocation methodology as explained in note 2 of this report and by a 2.5% rate increase for EBP.