

**2002-708 Administrative Costs for 2001-2002 Chargeable to the CPP Account**  
**ARC Briefing Note**

---

**Audit Objective**

The purpose of the audit is to express an opinion on whether Public Works and Government Services Canada (PWGSC) has fairly represented the administrative costs chargeable to the Canada Pension Plan (CPP) for the year ended March 31, 2002 based on the statement of costs provided by the Assistant Deputy Minister of Government Operational Service.

**Background**

The CPP is administered by the Department of Human Resources Development Canada (HRDC). 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 HRDC and PWGSC.

**Audit Results**

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

**Public Works and Government Services Canada**  
**ADMINISTRATIVE COSTS CHARGEABLE TO**  
**THE CANADA PENSION PLAN ACCOUNT**

Financial Report  
For the Year ended March 31, 2002

**Auditors' Report**

**To the Director General, Audit and Ethics 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, 2002 in accordance 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. 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 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, 2002 in accordance 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.

The financial report for the year ended March 31, 2001 was audited by other auditors who expressed an opinion without reservation on this financial report dated September 11, 2001.



Chartered Accountants  
September 6, 2002

---

## Public Works and Government Services Canada

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

---

Year ended March 31

	2002	2001	Increase (Decrease)	
	\$	\$	\$	%
Direct costs	4,029,400	3,674,900	354,500	9.6
Indirect costs	109,400	1,257,000	(1,147,600)	(91.3)
Electronic Data Processing costs	6,533,700	6,170,000	363,700	5.9
Management costs	17,200	19,500	(2,300)	(11.8)
Cheque reconciliation costs	1,237,200	1,221,800	15,400	1.3
Accommodation costs	195,700	321,700	(126,000)	(39.2)
Government services	306,000	506,100	(200,100)	(39.5)
Total administrative costs	12,428,600	13,171,000	(742,400)	(5.6)
Amount invoiced to the Canada Pension Plan Account	12,122,000	12,852,600		
Outstanding amounts to be invoiced to the Canada Pension Plan Account	306,600	318,400		

*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

---

Year ended March 31, 2002

#### 1. DIRECT COSTS

	2002	2001	Increase (Decrease)	%
	\$	\$	\$	
Postage	3,801,000	3,446,000	355,000	10.3
Cheques and envelopes	228,400	228,900	(500)	(0.2)
<b>Total direct costs</b>	<b>4,029,400</b>	<b>3,674,900</b>	<b>354,500</b>	<b>9.6</b>

#### Postage

The increase in postage cost is the result of an average rate increase (41 to 43 cents or \$197,400) and a volume increase (\$97,700); plus the application of a surcharge by Canada Post of \$59,900 for inaccurate addresses and postal codes.

#### Cheques and envelopes

Total cheque and envelope expenditures remained stable. The price per 1,000 cheques went down from \$13.42 to \$12.65 reducing the cost by \$6,500. This decrease was offset by \$6,000 due to the increase of volume of cheques issued. The envelope unit price remained stable.

---

# Public Works and Government Services Canada

Financial Report of Administrative Costs Chargeable to the Canada Pension Account

## SCHEDULE - ANALYSIS OF VARIANCES

---

Year ended March 31, 2002

### 2. INDIRECT COSTS

Indirect costs represent operating costs of the PWGSC Responsible Sites supporting Canada Pension Plan (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 is a process costing base and is consistent with the previous years.

The decrease of \$1,147,600 is explained by the closure of PWGSC's Responsible Sites, reducing the total operating costs for all payment products from \$5,917,200 to \$874,000 due to a full-time equivalent decrease from 51 to nil between April and June 2001. The indirect costs allocated for CPP activities decreased accordingly.

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

EDP costs consist of processing and regional computer printing and operating costs provided by GTIS.

The increase in EDP costs of \$363,700 is attributed to the following: the expansion to the current Human Resources Development Canada Income Securities processing environment by 100 million instructions per second for \$363,000; and by an increase of \$13,800 for printing costs. This increase is further offset by a decrease in micrographic costs of \$13,100 due to a significant decrease in the number of microfiches produced.

### 4. MANAGEMENT COSTS

The decrease in management costs of \$2,300 is due to a reduction in the external audit costs. The Finance Sector costs remained stable compared to previous year.

---

# Public Works and Government Services Canada

Financial Report of Administrative Costs Chargeable to the Canada Pension Account

## SCHEDULE - ANALYSIS OF VARIANCES

---

Year ended March 31, 2002

### 5. CHEQUE RECONCILIATION COSTS

Cheque reconciliation costs have marginally increased by \$15,400 or 1.3% compared to the previous year due to a combination of a slight increase to the total reconciled CPP payments and a collective agreement salary increase.

### 6. ACCOMMODATION COSTS

The overall \$126,000 reduction is a result of the PWGSC Responsible Site closures decreasing the costs by \$129,300 and by further savings of \$5,100 as a result of a re-assessment of space allocation for the Payment Products and Services Directorate resources supporting the CPP. The cost decrease is offset by \$8,400 associated with Cheque Redemption Control Directorate reconciling a higher volume of CPP payments in proportion to the total number of reconciled payments.

### 7. GOVERNMENT SERVICES

The overall decrease of \$200,100 is explained by a reduction in salary costs, consequently decreasing the Public Service Health Plan and Dental Plan costs.

The reduction is explained by: a decrease of \$258,900 as a result of the PWGSC Responsible Site closures; a cheque reconciliation cost increase of \$20,500 attributable to salary increase; and by an increase of the Public Service Health Plan and Dental Plan rate by 1.9% (5.6% to 7.5%) from the previous year for a variance of \$38,300.