

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 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, 1999

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, 1999. 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 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, 1999 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.

The Financial Report of the preceding year was audited by another firm of Chartered Accountants.

Ottawa, Canada,
December 17, 1999.

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

	1999	1998	Year ended March 31 Increase (decrease)	%
	\$	\$	\$	
Direct costs	4,464,800	6,617,700	(2,152,900)	-32.5
Indirect costs	2,265,400	1,786,300	479,100	26.8
Electronic Data Processing costs	6,437,500	5,817,500	620,000	10.7
Management costs	31,400	48,100	(16,700)	-34.7
Cheque reconciliation costs	1,194,100	1,097,800	96,300	8.8
Accommodation costs	470,500	491,200	(20,700)	-4.2
Government services	746,500	553,300	193,200	34.9
Total administration costs	15,610,200	16,411,900	(801,700)	-4.9
Amount invoiced to the Canada Pension Plan Account	15,459,600	16,699,100		
Under (over) charge	150,600	(287,200)		

See accompanying notes

Approved by _____
J.C. Stobbé
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, 1999

1. DIRECT COSTS

	1999	1998	Year ended March 31 Increase (decrease)	%
	\$	\$	\$	
Salaries	—	53,600	(53,600)	-100
Postage	4,269,100	6,245,200	(1,976,100)	-31.6
Cheques and envelopes	195,700	318,900	(123,200)	-38.6
Total direct costs	4,464,800	6,617,700	(2,152,900)	-32.5

Salaries

As a result of the standardization of the payment product process, direct salaries are no longer segregated by payment product.

Postage

The decrease in postage costs is due to the following: an increase in the use of Direct Deposit, which decreased postage costs by \$828,400; a decrease in mailings of Presumptive Application Kits, reducing costs by \$82,400; and a decrease in mailings of T4s, reducing costs by \$1,257,800. These decreases are partially offset by the following: an increase in mailings of Contributor Information Packages, increasing costs by \$92,100; and an increase in mailings of International Agreements, increasing costs by \$100,400.

Cheques and envelopes

The decrease in expenditures for cheques and envelopes can be attributed to the following: a decrease in the price of envelopes from \$15.89 to \$12.63 per 1000 envelopes which decreased costs by \$50,500; and decrease in the volume of cheques and envelopes used, due to an increase in the use of Direct Deposit, which decreased costs by \$75,700. This is partially offset by an increase in the price of cheques from \$7.49 to \$7.80 per 1000 cheques, which increased costs by \$3,000.



SCHEDULE - ANALYSIS OF VARIANCES

March 31, 1999

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 increase of \$479,000 is explained by the following:

Significant changes to the departmental chart of accounts were made in 1997-98 realigning the responsibility center codes. This had led to a misclassification of expenditures, between some responsibility centers, which resulted in the incorrect exclusion of some operating costs. As a result, indirect costs in 1997-98 were understated by \$460,000. The inclusion of these costs in 1997-98 would have raised indirect costs to \$2,246,300 an amount which is comparable to the 1998-99 actual expenditures.

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

	1999	1998	Year ended March 31 Increase (decrease)	%
	\$	\$	\$	
Micrographics	17,400	26,200	(8,800)	-33.6
Telecommunications	156,100	156,200	(100)	-0.1
Computer operations	6,264,000	5,635,100	628,900	11.2
Total EDP costs	6,437,500	5,817,500	620,000	10.7

Telecommunications

Costs have remained very stable from the previous year.

SCHEDULE - ANALYSIS OF VARIANCES

March 31, 1999

Computer operations

Computer operations consist of Government Telecommunications and Informatic Services, including processing and regional computer printing and operating costs. The increase in computer operations can be attributed to the following: an increase in processing and storage workloads increasing costs by \$729,000; and a special billing of \$180,000 for Y2K testing on income Security Program Applications. The increase is offset by a decrease in printing costs of \$280,100 due to the transfer of T4s printing to Canada Post Corporation.

4. MANAGEMENT COSTS

The decrease in management costs of \$16,700 is mainly due to a reduction in the cost for the external audit.

5. CHEQUE RECONCILIATION COSTS

The increase of \$96,300 in cheque reconciliation costs is explained by: an increase of 573,857 CPP payments being reconciled which increases costs by \$29,100; and an increase in salaries and other operating expenditures related to cheque reconciliation by \$67,200.

6. ACCOMMODATION COSTS

The decrease of \$20,700 is explained by 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 increase of \$193,200 can be explained by: an increase in salaries, causing the costs for the Employee Benefits Plan [EBP] and Health Insurance Plan [HCC] to increase by \$60,700; and a combined increase of 4.9% in the EBP and HCC rate causing an increase of \$132,500.