



# Administrative Costs Charged to the Canada Pension Plan Account

Financial Report

For the fiscal year ended March 31, 2020



# Independent Auditor's Report

To the Deputy Minister, Public Services and Procurement Canada

## Qualified Opinion

We have audited the accompanying financial report on Administrative Costs charged to the Canada Pension Plan Account of Public Services and Procurement Canada ("PSPC") for the year ended March 31, 2020 and notes to the financial report including a summary of the accounting policies (collectively referred to as the "financial report").

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial report of PSPC for the year ended March 31, 2020 is prepared, in all material respects, in accordance with the financial reporting provisions included in Part C of the Memorandum of Understanding between Employment and Social Development Canada, the Canada Pension Plan and Public Services and Procurement Canada in effect from April 1, 2015 to March 31, 2021 (the "Memorandum of Understanding").

## Basis for Qualified Opinion

PSPC recorded as part of its banking fees an amount of \$1,887,000 in domestic direct deposit costs. This amount included in the calculation of the banking fees is based on an estimate made by management, since actual amounts could not be obtained. However, we were unable to obtain sufficient appropriate audit evidence to support the valuation of the amount for the year ended March 31, 2020. Therefore, we were unable to determine whether the domestic direct deposit costs included in banking fees for the year ended March 31, 2020 should have been adjusted.

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of PSPC in accordance with the ethical requirements that are relevant to our audit of the financial report in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

## Emphasis of Matter - Basis of Accounting

We draw attention to the fact that the financial report has been prepared in accordance with the financial reporting provisions included in Part C of the Memorandum of Understanding. The financial report has been prepared to assist PSPC to meet the requirements of the Memorandum of Understanding. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

## Responsibilities of Management and Those Charged with Governance for the Financial Report

Management is responsible for the preparation of the financial report in accordance with the financial reporting provisions of the Memorandum of Understanding, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing PSPC's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSPC's internal control.
- Evaluate the appropriateness of provisions used based on the Memorandum of Understanding and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
April 9, 2021

# FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

	2020	2019	Variance	%
<i>(Rounded to the nearest hundred dollars)</i>				
<b>Direct costs</b>				
Postage (Note 3)	1,601,600	1,664,700	(63,100)	(4)
Cheques and envelopes (Note 4)	70,600	72,600	(2,000)	(3)
Banking fees (Note 5)	2,146,000	1,989,900	156,100	8
Information technology (Note 6)	720,200	680,900	39,300	6
Managed Secure File Transfer (Note 7)	32,500	79,900	(47,400)	(59)
Direct Deposit Initiative (Note 8)	32,700	44,700	(12,000)	(27)
Reconciliation (Note 9)	640,000	602,000	38,000	6
Government services (Note 10)	197,200	180,100	17,100	10
Courier services (Note 11)	32,800	32,200	600	2
Pay services (Note 12)	210,700	229,100	(18,400)	(8)
<b>Total direct costs</b>	<b>5,684,300</b>	<b>5,576,100</b>	<b>108,200</b>	<b>2</b>
<b>Corporate support costs (Note 13)</b>	<b>74,400</b>	<b>74,400</b>	<b>-</b>	<b>-</b>
<b>Total administrative costs</b>	<b>5,758,700</b>	<b>5,650,500</b>	<b>108,200</b>	<b>2</b>
<b>Amount invoiced to the Canada Pension Plan (CPP) account</b>				
Receiver General and Pension Branch	(5,629,700)	(5,340,400)		
Pay Administration Branch	(216,300)	-		
<b>Outstanding amount to be invoiced (reimbursed) to the CPP account</b>				
Receiver General and Pension Branch	(81,700)	310,100		
Pay Administration Branch	(5,600)	-		
	<b>(87,300)</b>	<b>310,100</b>		

Approved by

Kirkland,  
Stephanie

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Stephanie Kirkland  
Assistant Deputy Minister  
Pay Administration Branch  
Public Services and Procurement Canada

Approved by

Blais,  
JeanPierre

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Jean-Pierre Blais  
Assistant Deputy Minister  
Receiver General and Pension Branch  
Public Services and Procurement Canada

Approved by

Zielonka,  
Wojciech

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Wojciech Zielonka, CPA, CA  
Assistant Deputy Minister and Chief Financial Officer  
Public Services and Procurement Canada

# FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

## NOTES TO THE FINANCIAL REPORT ON ADMINISTRATIVE COSTS

For the year ended March 31, 2020

### 1. INTRODUCTION

A Memorandum of Understanding (MOU) between Employment and Social Development Canada (ESDC), the Canada Pension Plan (CPP) and Public Works and Government Services Canada (PWGSC) was signed in February 2016. The MOU defines the provision of reciprocal services between PWGSC, which operates as Public Services and Procurement Canada (PSPC), and ESDC in terms of levels of service, recoverable costs and reporting requirements. The MOU is in effect from April 1, 2015 to March 31, 2020. An amendment to the MOU was signed in May 2020 to incorporate the transfer of responsibility for Pay Administration Services within PSPC. The Amended MOU is in effect from April 1, 2019 to March 31, 2021.

### 2. ACCOUNTING POLICY

Costs allocation methods used by PSPC for the purposes of charging the CPP are specified under the MOU, in accordance with the costing principles approved by Treasury Board.

### 3. POSTAGE

Postage costs decreased by \$63,100 or 4% compared with the previous year. The domestic postage volume decreased from 1,646,277 to 1,559,122 cheques and foreign postage volume decreased from 340,532 to 295,315 cheques. This reduction in volume is attributed mostly to the Direct Deposit Initiative (DDI) to switch from paper cheques to direct deposits. This decrease in volume resulted in saving of \$117,600. These savings were partially offset by an increase in the average domestic postage rate from \$0.79 to \$0.81 and in the average foreign postage rate from \$1.08 to \$1.12, which amounts to \$54,500.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Domestic postage	1,270,500	1,296,000	(25,500)	(2)
Foreign postage	331,100	368,700	(37,600)	(10)
<b>Total postage</b>	<b>1,601,600</b>	<b>1,664,700</b>	<b>(63,100)</b>	<b>(4)</b>

# FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

## 4. CHEQUES AND ENVELOPES

Cheque and envelope costs decreased by \$2,000 or 3% compared with the previous year. This reduction is mainly due to a lower number of domestic and foreign cheques issued during the year, resulting in a decrease of \$4,400. This decrease in volume was partially offset by a rise in the unit cost per cheque which resulted in an increase of \$3,300. Shipping costs also decreased by \$900 due to decreased volume and shipping rates.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Domestic	54,500	54,600	(100)	(0)
Foreign	10,300	11,300	(1,000)	(9)
Shipping	5,800	6,700	(900)	(13)
<b>Total cheques and envelopes</b>	<b>70,600</b>	<b>72,600</b>	<b>(2,000)</b>	<b>(3)</b>

## 5. BANKING FEES

Banking fees include charges incurred in the support of customer and non-customer encashment and those fees resulting from fraudulent endorsement. The charge is based on two unit costs, one for cheques (\$0.1661 each) and one for direct deposits (\$0.027 each). These rates are applied against the volume of CPP direct deposits and cheques issued.

Banking fees increased by \$156,100 or 8% compared with the previous year. This variance is mainly due to a higher volume of direct deposits which resulted in an increase of \$47,900 as well as an increase in the unit cost associated with direct deposit transactions, which resulted in an increase of \$42,400. The variance is also explained by an increase in the unit cost of cheques for a total of \$76,000, slightly offset by a decrease in the number of cheques issued. As the number of cheques issued continued to decrease, it generated savings of \$10,200.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Domestic direct deposits	1,887,000	1,796,700	90,300	5
Domestic cheques	259,000	193,200	65,800	34
<b>Total banking fees</b>	<b>2,146,000</b>	<b>1,989,900</b>	<b>156,100</b>	<b>8</b>

# FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

## 6. INFORMATION TECHNOLOGY

Information technology (IT) costs increased by \$39,300 or 6% compared with the previous year. Disaster recovery costs increased by \$17,700 due to an increase in the CPP payment volume and the applied rate. Disaster recovery is an expense shared by multiple programs.

Printing services costs increased by \$21,600 overall, mainly due to increased unit costs which resulted in an increase of \$29,000. The increase was partially offset by the fact that PSPC's print centre printed fewer cheques in the current year, which generated savings of \$7,400.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Disaster recovery	558,700	541,000	17,700	3
Printing services	161,500	139,900	21,600	15
<b>Total IT</b>	<b>720,200</b>	<b>680,900</b>	<b>39,300</b>	<b>6</b>

## 7. MANAGED SECURE FILE TRANSFER

The Managed Secure File Transfer (MSFT) protocol provides a secure data transfer service for electronic information up to protected B level. The MSFT service is provided and supported by PSPC and Shared Services Canada (SSC).

MSFT expenses decreased by \$47,400 or 59% compared with the previous year. This is mainly due to a reduction in the unit cost per payment which generated savings of \$49,400, slightly offset by a \$2,000 increase associated with the increase in volume of payment transactions made for the CPP.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Domestic payments	31,700	78,000	(46,300)	(59)
Foreign payments	800	1,900	(1,100)	(58)
<b>Total MSFT</b>	<b>32,500</b>	<b>79,900</b>	<b>(47,400)</b>	<b>(59)</b>

# FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

## 8. DIRECT DEPOSIT INITIATIVE

The DDI was introduced following the federal government's announcement to switch from paper cheques to direct deposits. PSPC has invested in communication, system development, information sharing and general operating expenses to promote the switch.

DDI costs decreased by \$12,000 or 27% compared with the previous year. The decrease is due to a reduction in the unit cost, which generated savings of \$9,600 as well as a decline in the volume of cheques issued, which resulted in additional savings of \$2,400.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Salaries	13,700	21,000	(7,300)	(35)
Operating and maintenance costs	19,000	23,700	(4,700)	(20)
<b>Total DDI</b>	<b>32,700</b>	<b>44,700</b>	<b>(12,000)</b>	<b>(27)</b>

## 9. RECONCILIATION

Reconciliation costs represent service costs for payment redemptions that were directly attributable to CPP payments. PSPC's Cheque Redemption Control Directorate (CRCD) provides payment reconciliation and redemption services for CPP payments (both cheques and direct deposits).

Reconciliation costs increased by \$38,000 or 6% compared with the previous year. This is mainly due to an increase in unit costs for both cheque and direct deposit reconciliations, which increased from \$0.2306 to \$0.2569 and from \$0.0033 to \$0.0034, respectively, which amounts to \$52,100. The increase in direct deposit payments also resulted in an increase of \$6,000. These increases were partially offset by a reduction in the number of domestic cheques requiring reconciliation (1,646,277 down to 1,559,122 cheques), which generated savings of \$20,100.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Salaries	448,900	440,000	8,900	2
Operating and maintenance costs	191,100	162,000	29,100	18
<b>Total reconciliation</b>	<b>640,000</b>	<b>602,000</b>	<b>38,000</b>	<b>6</b>



## FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

### 10. GOVERNMENT SERVICES (Excluding Pay Services)

Government services costs are costs associated with the workforce needed to administer the CPP account, excluding salaries. These services include the cost to cover the Employee Benefit Plan (EBP) and the employees' Public Service Insurance Plan (PSI), as well as the accommodation of the workforce.

Government services costs increased by \$17,100 or 10% compared with the previous year. The increase is mostly due to the introduction of a new EBP rate which includes the PSI rate and other centrally managed employee costs. Treasury Board increased the EBP comprehensive rate to 27% for exercises after April 1, 2019 while, in 2018-19, the rates used were 15.2% for EBP and 8.5% for PSI. In 2019-20, the Treasury Board accommodation rate remained stable at 13%. The increased comprehensive EBP rate amounts to \$16,200. The increased government services costs are also due to a slight increase in salary expenses charged to CPP, which resulted in a total increase of \$900 in EBP and accommodation costs.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
EBP	133,100	116,300	16,800	14
Accommodation	64,100	63,800	300	1
<b>Total government services (excluding pay services)</b>	<b>197,200</b>	<b>180,100</b>	<b>17,100</b>	<b>10</b>

### 11. COURIER SERVICES

Courier services are used once CPP cheques have been cashed. These cheques need to be transported from the financial institution where they were cashed to PSPC's CRCD for reconciliation.

Courier services costs increased by \$600 or 2% compared with the previous year. This increase is due to an increase of \$2,300 related to a higher per unit transportation cost, offset by a reduction in the number of cheques issued by PSPC, resulting in a decrease of \$1,700.

# FINANCIAL REPORT ON ADMINISTRATIVE COSTS CHARGED TO THE CANADA PENSION PLAN ACCOUNT

For the year ended March 31

## 12. PAY SERVICES

Pay service costs are the costs incurred by PSPC in providing pay-related services to employees who administer the CPP within ESDC/Service Canada. Pay service costs are calculated by multiplying the number of pay accounts within ESDC/Service Canada (one pay account per employee) by the average cost per pay account.

The pay service costs decreased by \$18,400 or 8% compared with the previous year. The decrease is mostly due to a decrease in the average cost per pay account as a result of a reduction in salary costs recoverable from the CPP. The decrease in salary costs also resulted in a decrease in the EBP and accommodation costs.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Salaries	137,300	153,600	(16,300)	(11)
Operating and maintenance costs	22,000	19,200	2,800	15
EBP	33,600	36,400	(2,800)	(8)
Accommodation	17,800	19,900	(2,100)	(11)
<b>Total pay services</b>	<b>210,700</b>	<b>229,100</b>	<b>(18,400)</b>	<b>(8)</b>

## 13. CORPORATE SUPPORT

Corporate support costs represent the indirect cost of internal services provided by corporate branches, such as finance, human resources, and the cost of preparing this audited financial report.

Corporate support costs remained stable compared with the previous year. The increase in costs to prepare the financial report is attributed to increased salary costs following the signing of collective agreements. This increase was offset by a decrease in internal services support costs.

*Rounded to the nearest hundred dollars*

	2020	2019	Variance	%
Internal services support	39,500	40,500	(1,000)	(3)
Preparation of the financial report	34,900	33,900	1,000	3
<b>Total corporate support</b>	<b>74,400</b>	<b>74,400</b>	<b>-</b>	<b>-</b>