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—
Chair

The Honourable Diane Marleau

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• (1530)

[English]

The Chair (Hon. Diane Marleau (Sudbury, Lib.)): Order.

Welcome, Auditor General Sheila Fraser, to our committee once again.

You know the drill. You can go ahead and introduce the people with you and go on and give us your opening remarks, and we'll start all over again.

Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada): Thank you, Madam Chair.

We are very pleased to be here today to present my fifth status report, which was tabled in the House of Commons on February 13. I'm also pleased that we are reporting satisfactory progress in five areas.

I'm accompanied today by Richard Flageole, who is responsible for the passport chapter; Ronnie Campbell, who is responsible for the chapter on advertising and public opinion research; John O'Brien, who is responsible for the audit on managing the coast guard; and Aline Vienneau, who is responsible for the audit on heritage properties.

I will just break for a second to express apologies to Mr. Wrzesnewskyj, who's going to hear this opening statement for the second time.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): You might get the same questions a second time as well.

Voices: Oh, oh!

Ms. Sheila Fraser: Status reports are particularly important because they show what departments and agencies have done to address recommendations from a selection of our past audits. In determining whether progress is satisfactory or unsatisfactory, we take into account the complexity of the issue and the amount of time that has passed since the original audit.

Madam Chair, I thought I would take a few minutes to present our committee with a brief overview of each chapter in the report. My colleagues and I would be glad to elaborate on any of the chapters that may be of particular interest to committee members.

Let me begin with the areas where progress has been satisfactory. I'll begin with the management of advertising and public opinion research.

Given the serious weaknesses that we identified in our 2003 audit of government advertising activities, this year's findings are good

news. We found that Public Works and Government Services Canada has made satisfactory progress in ensuring that advertising and public opinion research contracts are awarded in a fair and transparent manner. It used a competitive process to establish a pool of qualified firms that can provide advertising and public opinion research services. The process for choosing the agency of record was fair and transparent. Departments have made satisfactory progress in ensuring that they plan for advertising activities and manage suppliers in accordance with the communications policy of the Government of Canada.

I am pleased that the government did not create new rules and controls in response to our previous report. Instead, it focused on following the rules that were already in place.

[Translation]

There was also progress in the area of international taxation. The globalization of the economy and growth in international investment have a significant impact on the taxes owed to Canada. This affects Canadian residents doing business abroad as well as non-residents earning income in Canada.

The use of tax havens by Canadians and abuse of tax treaties with other countries could divert tax away from Canada, and the amounts at risk could be significant. For example, the Canada Revenue Agency estimates that in 2005, Canadian corporations conducted \$1.5 trillion in transactions with related parties in foreign countries. Non-residents paid over \$4.9 billion in taxes last year of income earned in Canada.

We found that the agency is now better able to identify potential non-compliance with the tax rules on international transactions. It has taken steps to detect aggressive international tax planning schemes and has directed more resources to auditing international tax avoidance.

However, in some of the tax offices handling the highest risk files, the agency still lacks sufficient expertise in international tax auditing. Taking into account the difficulty of retaining sufficient expertise, the agency needs to develop a consistent national approach to auditing taxpayers with international transactions.

•(1535)

[English]

Another area in which globalization has a significant impact is passport services. In 2005 we reported that the passport office, now Passport Canada, was struggling to meet higher expectations for security and growing demands for service. Since then, it has dealt with an unprecedented demand, issuing over three million passports in 2005-06. High demand pressures will continue, given the more stringent U.S. requirements for passports. The agency has clearly directed a major effort toward resolving the problems that we had identified in 2005. For example, examiners now have appropriate tools and training to determine whether identity documents provided with passport applications are authentic. Passport Canada has also significantly enlarged its watch list and has used the information to refuse applications or to investigate them further.

Passport Canada still has some major issues to resolve, particularly in the areas of security and identity verification. It will need the full cooperation of other government organizations at the federal, provincial, and territorial levels.

[Translation]

We also examined the progress made by the National Research Council Canada (NRC) in its management of leading-edge research. The NRC is the federal government's largest research organization. I am pleased with the progress it has made toward implementing the recommendations from our audit in 2004.

The government appointed council that governs the NRC's operations has strengthened its role, and the NRC's research institutes have taken steps to improve the way they manage research projects. We also noted satisfactory progress in several human resources management initiatives.

But action on some of our recommendations was delayed while the NRC laid the foundation for its new corporate strategy. It is important now that the organization meet its own milestones so it can fully address our recommendations.

[English]

Moving on to the conservation of federal built heritage—that is, historic buildings, battlegrounds, forts, and so on—I am pleased that Parks Canada has made satisfactory progress in addressing the concerns we raised in 2003 on the need for better protection of our built heritage. The agency has proposed a policy to strengthen the legal protection of federal built heritage and has improved its management tools.

Nevertheless, not all the problems have been resolved. The fate of heritage sites and buildings in the custody of federal organizations other than Parks Canada remains uncertain. The loss of heritage buildings and sites means that future generations will no longer have access to significant aspects of our history. It is therefore important that the federal government strengthen its conservation regime for built heritage. It also needs to set priorities to decide which heritage buildings and sites should be preserved.

[Translation]

Now, let me turn to the two areas where we found unsatisfactory progress in implementing recommendations from previous reports. In those two areas, the problems are long standing.

Let's start with the management of the social insurance number, which is used to issue billions of dollars in federal benefits to Canadians. Please note that Ms. Fraser refers to billions not millions. It is also used widely outside the federal government. Even though Human Resources and Social Development Canada has improved several aspects of its management of the social insurance number, two important issues, first reported nine years ago, remain unresolved.

First, the department cannot be sure of the quality of the information it retains in social insurance register, the data base of personal information provided by everyone who has been issued a social insurance number. The department does not have goals for the quality of the information and does not measure it systematically.

Second, the policies on how federal departments may use the social insurance number are still unclear. This has led to inconsistent interpretations of the rules, which makes it difficult for the departments to be sure they use it appropriately.

This is the fourth time since 1998 that we've reported these two problems. The government should have resolved them by now. Good management of the social insurance number—including clear guidance on its use in the federal government—is more important than ever, in light of security concerns and the growing incidents of identity theft and fraud.

•(1540)

[English]

The other unsatisfactory area is the management of the coast guard fleet and marine navigational services. I am concerned that the coast guard has not solved long-standing management problems. It has not responded adequately to recommendations made a number of years ago, and many of the problems cited in our report are similar to those raised in a 1983 audit.

The coast guard still operates largely as five regional coast guards, each with its own way of doing things. It has not become the strong national institution the government expects it to be.

Also, Canadian mariners, like others around the world, rely more and more on electronic navigation. While the coast guard is introducing new marine navigation services, it has been unable to develop strategies for traditional aids, such as buoys and light stations, that are costly to maintain and operate, and that no longer serve their original purpose.

The coast guard has a history of failing to complete initiatives, partly because it takes on too much at once. It needs to decide on a few of the most urgent priorities and then get the job done.

[Translation]

In conclusion, audit by nature focuses on areas in need of improvement. I am very pleased to see that our work made a difference. This Status Report shows that the government has taken satisfactory action in the majority of the areas we revisited this year.

[English]

Success can be attributed mostly to the setting of priorities, strong commitment from senior management to achieving them, clear action plans, and support in the form of adequate resources to achieve the goals. Credit is due to the many public servants who have worked hard on resolving these matters.

Now, Madam Chair, my colleagues and I would be pleased to answer any questions the committee members may have. Thank you.

The Chair: Thank you, Madam Fraser.

We'll start with Monsieur Simard.

Hon. Raymond Simard (Saint Boniface, Lib.): Thank you very much, Madam Chair.

Welcome to Madam Fraser and the other witnesses.

When I was going through some of these notes, I noticed references to 2002 and 2003 in certain cases. So as my first question, do you do a yearly audit of these things—for instance, the Treasury Board or the Privy Council Office? And how do you decide whether you do it every second year or third year? Is it based on the problems you've faced in the past?

Ms. Sheila Fraser: Thank you, Chair.

Most of the timing would be dependent upon the action plans the departments themselves put in place at the time of the original audit. They would determine what actions were needed and what time they felt was needed to address them. We would generally schedule our follow-up at work on that basis.

The only exception to that in this report was the Passport Office, where the public accounts committee asked us to go back within a year to make sure that progress was being made.

Hon. Raymond Simard: Okay.

I'm particularly interested in the SIN number. I was part of a study a couple of years ago when, I believe, 5 million SINs were outstanding at the time. It's now down to 2.9 million.

Ms. Sheila Fraser: That's right.

Hon. Raymond Simard: Could you explain to me the process that the department is using to identify these SIN numbers? It has to be complicated.

Second, on that, wouldn't it just be easier to reissue new SIN numbers? I mean, you still have 3 million outstanding out there. It's got to be difficult to track these down.

Ms. Sheila Fraser: There are 2.9 million, and of that number the department has indicated that 2.1 million are what they call dormant accounts on which there has been no activity; I'm not exactly sure for how long, but for an extended period of time.

The difficulty with those dormant accounts is that they are still valid numbers. They have not been cancelled, if you will, in the system. A flag will go up in the various departments that may be using that number to indicate that it was a dormant account. But not all the departments are treating those flags consistently, so there is still a risk.

The department is focusing, then, on the 800,000 others. There are processes they can do when people apply for various benefits. They will try to check the SIN number that way. They're trying to establish links as well with the vital statistics of the provinces.

I'm not sure that reissuing would solve the problem.

● (1545)

Hon. Raymond Simard: It might be complicated?

Ms. Sheila Fraser: It would be very complicated, I would think.

Hon. Raymond Simard: So do we think that people have been issued two SIN numbers?

Ms. Sheila Fraser: What we have to remember is that you never have to renew your SIN number. Back many years ago—I know this is true for colleagues in the office, and probably many people around the table—you got your social insurance number when you got your first summer job, and it was actually your employer who got it for you. Some people say they got a number every year.

So it could be duplicate numbers, it could be people who have left the country, it could be people who are deceased. Again, the links with the vital statistics would give the registry the information on people who are deceased and whose cards can be cancelled.

Hon. Raymond Simard: It seems to me that it would be an interesting topic to cover here at our committee. It is a very complex issue.

I wonder if I could move on to passports, although I know that my colleagues will deal with that a little bit later on.

When you were analyzing the whole passport issue, I wonder if you took into account the workload that's been passed on to MPs. You've probably heard us complain about that. Every one of us here is doing a huge amount of work on passports.

It may not be your mandate, but I think it is important for you to note that a lot of us are doing what we think is the department's work. And we've been doing it for quite a while.

Ms. Sheila Fraser: I have certainly heard that from members of Parliament, yes.

Hon. Raymond Simard: Have you analyzed the cost of that, or have you tried to bring in some corrective measures?

Ms. Sheila Fraser: No. Our audit was finished in August. The only section of our report that actually alludes to the present situation is where we looked at the forecasting model that the office had to forecast the sudden peaks in demand. We noticed at the corporate level that they had a reasonable forecasting model that was taking into account the new western hemisphere travel initiative. But when we went into the individual offices, and we asked for contingency plans, there were no contingency plans to deal with it.

Hon. Raymond Simard: With regard to the heritage sites that we have to maintain, one of the suggestions was that we should set up some kind of a structure like they have in France, a minister of cultural.... Or is that something you would recommend?

Ms. Sheila Fraser: We very much hesitate to recommend organizational change. We think it's really up to government to decide how it wants to organize itself.

The main issue we're raising here is that the regime within Parks Canada would appear to be appropriate because there is a law and there's a policy. For all of the heritage sites, they're managed or owned by departments other than Parks Canada—for example, national defence, public works, even fisheries and oceans. They are only subject to a Treasury Board policy, which only covers buildings. It doesn't cover other sites, archaeological sites, for example, or canals. As well, there is a really serious disconnect between the activities of designating a historic site and then the funding and the activities for conservation.

So you have operating departments. We have an example in here, in the Minister of National Defence, who will have to put several million dollars into restoring the Halifax armoury. Well, that may not be the highest priority for them. The same thing at fisheries and oceans, to be maintaining and conserving lighthouses when they are facing budget crunches.

So there's a real dilemma, I think, for those operating departments, and yet these sites are continuing to be designated.

Hon. Raymond Simard: Is there a hesitancy on the part of the government to designate these sites as historical if the funds aren't there? It seems to me that it would be a lot more difficult if the funding doesn't come along with that designation.

Ms. Sheila Fraser: There is no consideration of the funding when they do the designation.

Hon. Raymond Simard: Not at all? So that doesn't impact it.

Ms. Sheila Fraser: It's almost two separate activities. And that's why we're saying there needs much more of a priority setting. Then there has to be a regime to ensure that the conservation of the sites that it has been decided need to be preserved are in fact preserved.

Hon. Raymond Simard: I'm just going to jump over to the coast guard. I'm trying to get a lot of stuff covered because I may only get one round here.

I'm not sure, but it seems to me that when I was looking at this, the audit that we were comparing to was 1983. Does that make sense, that it would have been the last audit?

Ms. Sheila Fraser: There were audits in 2000 and 2002. What we're saying, though, is that some of the issues we are raising are similar to ones in 1983.

Hon. Raymond Simard: They were existing in 1983. Fair enough.

Thank you very much.

[Translation]

The Chair: Ms. Thibault.

Ms. Louise Thibault (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Thank you very much, Madam Chair.

Thank you for being here, Ms. Fraser and your officials.

I will do like my colleague and try to cover three or four points during my seven minutes.

I disagree with my colleague on the issue of passports. At my riding office, my role is to help people. I have no complaints to make about the work done regularly by staff at my riding office.

With regard to what you indicated, emergency planning is totally inadequate for crisis situations. Like many of my colleagues, I can attest to the fact that there is no planning for western hemisphere travel initiative—I do love those titles—and that is surprising.

Given your past audits, I am astounded to see that there was no planning. We knew that this was coming and it is not because we are now working 24 hours a day, 7 days a week that the problem will be resolved. People need to travel. The thing that is very serious is that we do not have access to members' offices, Forget that! Unfortunately, people employed there are quasi-incompetent, and I am being polite. You then contact Passport Canada.

At point 5.40, you refer to security by stating that some employees have access rights that allow them to produce passports, without being properly authorized or having the security clearance to do so.

Given the crisis we are facing, does that not add to your concern?

● (1550)

Ms. Sheila Fraser: They have made a lot of progress with regard to security. Employees have received all the required levels of security clearance. A problem remains, because some unauthorized people have access to the system. The agency has provided the examiners and the necessary tools. We expected that those things would be done within one year. It would be up to Passport Canada to explain, but in my view, if line-ups are so long, it is because they are continuing to enforce security guidelines.

Ms. Louise Thibault: I would like to talk about built heritage. If I have understood correctly, the Canada Parks Agency has addressed your 2003 recommendations in a satisfactory manner. There are, however, problems in other departments. I have just heard you say that there was no funds for the classification of buildings.

Why classify buildings if there is no plan or accountability?

Ms. Sheila Fraser: That is indeed a problem. We classify buildings and sites as having historic or heritage value, but there is a competition for funds allocated to the operations of such departments as Public Works and Government Services, National Defence or Fisheries and Oceans.

Ms. Louise Thibault: I have heard you say that because you do not get involved in operations, you could not say whether centralization would be a potential solution. In some departments, the Treasury Board policy is not implemented, either entirely or in part, or not considered useful or applicable.

Ms. Sheila Fraser: The policy applies to all departments, but it lacks teeth. It only covers buildings, but not other sites. Furthermore, Parks Canada has to comply with an act, whereas other departments only deal with a policy.

I will ask Aline Vienneau to explain a bit further.

Ms. Aline Vienneau (Principal Director, Office of the Auditor General of Canada): Parks Canada is mandated to protect the historic buildings and sites that we have talked about, including canals, etc. As for departments, they are governed by a Treasury Board policy that only applies to buildings.

For example, Public Works and Government Services might have a park that lies in between two buildings, but even though the park is part of the historic site, nothing governs its management. So the policy has shortcomings.

• (1555)

Ms. Louise Thibault: I have a question for either you or Ms. Fraser.

On page 14 of your report, at point 2.30, you cite three entities that use the factor of "the need to act quickly in order to use funds that have become available".

Concerning accrual accounting, which we have spoken a lot about, even though it could not solve everything, do you think it could help? That way, people could not argue that they have to use the funds immediately to carry out such and such activities. We could tell them that the funds can be applied over a number of years.

Ms. Sheila Fraser: I believe so, as long as you choose capital funding that is spread over a long period of time. Repair and renovation work would also have to be planned and provided with the necessary funds, and that those funds do not lapse at the end of a fiscal year, so that they can be carried forward from one year to another.

Ms. Louise Thibault: You are about to tell me that my time is up, Madam Chair. Might I have another 30 seconds?

The Chair: Thirty second, but no more.

Ms. Louise Thibault: My last question is concerning the Canada Revenue Agency. With regard to international taxation, have you reviewed the system's shortcomings that might increase the risks of money laundering?

Ms. Sheila Fraser: No, that was not really considered. What we did do, however, was examine the agency's audit activities.

Ms. Louise Thibault: Thank you.

The Chair: Thank you.

Mr. Kramp.

[English]

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Madam Chair.

Good day to all.

It's a little unusual that we can sit here in a situation like this and actually be facing really good news. I've taken a look at your comments regarding the different areas of evaluation, in particular.

As a matter of fact, when the member across the table, Mr. Wrzesnewskyj, and I sat on public accounts and went through the public opinion research, we saw the sad tale of woe that took place at that particular time. Of course, the committee made a number of recommendations based on your comments back then. I would like to comment briefly on that.

But before I get to that topic to discuss some of the areas and ask for your comments on some of the successes we have had in dealing with it, hopefully patterning other actions in other departments to parallel those kinds of successes, I have one area of concern I wish to touch on. It's on international taxation and the loopholes, and/or potential loopholes, or who knows what loopholes regarding a potential loss of revenue for the Canada Revenue Agency.

On these tax loopholes, be it Barbados, the Caymans, or whatever tax haven that is used, you've stated in your report, at page 5 of the status report, the agency has yet to deal with the low level of expertise in international tax audits, particularly ones that handle high-risk files. This lack of expertise could result in inconsistencies, and it could go on to problems also remaining in the matching of non-resident tax data.

Given the size and scope of this file, you mentioned as well that we're talking about over \$1.5 trillion in transactions and up to \$5 billion in revenue in taxation to the Canadian government at this particular time. If we have a discrepancy that's unknown, it's disturbing.

What I'd like to know is this. Do you think this is an issue that should require more scrutiny on our part? And if some additional action should be taken, what do suggest that should be?

Ms. Sheila Fraser: Thank you, Madam Chair.

The problem we're raising here is related to the greater Toronto area, where the agency has a great deal of trouble recruiting and maintaining expertise in its offices. People with international tax expertise are very highly sought after. We certainly didn't recommend to the agency that they try to go out and hire more people, because I don't think it would be realistic, quite frankly.

We note in the report that slightly more than 40% of the international tax auditors in the greater Toronto area have less than two years of experience. As one could imagine, the greater Toronto area is where you're going to find many of the large corporate taxpayers who have significant international transactions and what one may consider higher-risk files.

We have suggested to the agency that they need to develop an approach across the country. There are offices that have significant amounts of expertise, people with a lot of experience. They should think more nationally rather than regionally in dealing with these files and use the expertise that is available elsewhere to deal with the more complex transactions.

• (1600)

Mr. Daryl Kramp: Thank you.

I'll now go back to my initial comment on what I honestly consider to be a good news status report. We all have access to the report on advertising and opinion research back in 2003. And I'm not knocking the previous government; that was just the reality at that particular time.

We see that Public Works did not provide equitable access to all the suppliers. In some cases, there was no evidence that a selection process had even been carried out at all. Departments did not even follow or meet the requirements of the Financial Administration Act. In many departments, they didn't even indicate the need for undertaking particular research. They just went and did it. In other words, there was no justification or verification whatsoever.

In particular, it was noted the government paid for research that monitored, among other things, voting behaviour and political party image. They were items absolutely contrary to the guidelines that had been in place at that particular time.

This was really disturbing, but I'm encouraged that a lesson was taken and a lesson was heard. What I'm looking for from you at this particular time is this. When you fix a problem, do you reinvent the wheel or do you fix the wheel? In one statement in particular, you said that rather than simply creating new rules, the government in question, the government now, and of course the public service, focused on the rules and took action on those rules.

Can you give us some examples of that?

Ms. Sheila Fraser: Yes. And I too would like to say that we were very pleased to see the progress that had been made and to see the results of the audit.

I'd say one of the major issues was around the contracting, the open tendering, the process to select suppliers, which was not done in an equitable manner. Often we couldn't find the rationale for choosing certain suppliers. This time we found that the suppliers had been chosen following the government's contracting policy, that there was a good process that had been put in place, that proper evaluations had been done, and that people had been awarded contracts through a process that appeared fair and transparent.

So I guess that was one of the most significant improvements.

I don't know if Mr. Campbell wants to—

Mr. Daryl Kramp: Kudos to the public service and to the government for basically saying let's solve the issue, let's not just talk about the issue. By all appearances, your report has recognized that this department in particular took your comments seriously.

Ms. Sheila Fraser: Public Works, yes, was largely responsible for the procurement, but the departments as well, in their management of the contracts—there was also significant improvement in it.

I just remind committee members that the spending on advertising and public opinion research for the year we looked at was about \$75 million combined. So it is a significant sum of money.

Mr. Daryl Kramp: Do I understand we're down to about \$48 million, give or take, for now?

Ms. Sheila Fraser: For advertising we are, but there's about another \$25 million or \$26 million, I think, in public opinion research. So the two together—

Mr. Daryl Kramp: And that would be relatively consistent then with what has taken place in the past?

Ms. Sheila Fraser: It is lower. It has declined, probably in part because of elections, because there is no public opinion research or advertising that goes on during the time of an election campaign.

• (1605)

Mr. Daryl Kramp: Okay, thank you.

The Chair: That's it, Mr. Kramp. You've had more than your time.

Mrs. Nash, go ahead, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Madam Chair, and good afternoon.

Regarding the Canada Revenue Agency, I should say I find the Canada Revenue Agency very helpful in my constituency, especially for seniors with regard to the disability tax credit, workshops, that kind of thing. They're tremendously helpful.

I wanted to ask you a couple of questions about the international taxation issue in addition to what my colleagues have already asked. You have already said that the issue of getting the kind of expertise that's needed is particularly acute in the GTA, because so many companies would be headquartered there and the banking and finance and insurance industries would be headquartered there.

You said that the amounts that are potentially uncollected as tax revenue could be significant. Do you have any sense of what that could mean?

Ms. Sheila Fraser: No, we don't, but we know that the estimation of transactions is, as I mentioned, over \$1 trillion. Given globalization, one can only expect that they will be increasing, so the amounts of tax are significant.

We do mention in the report—in 7.52—that the agency had been quite aggressive in going after some trusts. In 2005 they identified 72 trusts with capital gains of over \$600 million that were created to avoid Canadian tax, and they reassessed them.

So we're easily talking about hundreds of millions of dollars.

Ms. Peggy Nash: In terms of measures to assist with this, obviously there is the matter of getting the professionals trained to deal with reviewing this. What factors would these auditors look for? Would this be all corporations doing business outside the country? What would draw one's attention to a particular situation?

Ms. Sheila Fraser: The agency would be better able to give you that information, but I would presume that most of the transactions would be through corporations.

As we mentioned here, though, there are the questions of the trusts that are established offshore. There can also be, of course, non-residents who are working and earning income in Canada and who are not paying their fair share of taxes here as well.

The tax auditors have to be well-versed not only in international taxation, but also in industry specifics. I know they are working quite closely, in fact, with other countries—the U.S. and some of the European countries as well—to identify some of these tax issues and some of the more aggressive tax planning measures that people may be putting in place.

Ms. Peggy Nash: I am not a tax expert by any means—I get help with my income tax—but obviously there are legitimate tax avoidance measures that corporations will take that are absolutely sound, and that's why they pay their accountants hefty salaries, to fund those measures.

Ms. Sheila Fraser: Absolutely.

Ms. Peggy Nash: But would it be fair to say that there is likely a fair number of corporations that may not be paying their full share, or is it a case of particular bad apples that need extra scrutiny?

Ms. Sheila Fraser: I can give you one example that is becoming increasingly complex. It's what we call transfer pricing. If you have a corporation that owns a company in Canada and owns a company in the U.S., and they do business between those two corporations, say, one sells part of the product to the other one, at what price do you establish that? What price do you charge? Corporations will try to ensure that the profits go to the jurisdiction that has the lowest tax rate. That is I think a given. Anybody will tell you that, and it's not because they're trying to do something illegal. It's good business to do that.

If the tax rates are lower in the U.S. jurisdiction, there could be an incentive to keep the price low from Canada to the U.S., so when it's ultimately sold in the U.S., the profits are larger in the U.S. The Canadian tax experts have to look at that and ask whether the price being charged is a fair one. Often there will not be market comparators to deal with, because if you're an interrelated company, if you're selling wood to a paper company or widgets or components of widgets to the ultimate distributor, you may not have a market comparator for that. They have to really know the industry. They have to know all the transfer pricing roles, and not only will they be arguing, if you will, with the corporation, but they will be arguing in that case with the U.S. tax authorities as well.

It becomes very complex and requires a lot of economists. That was an issue we raised previously, that we didn't think they had enough economic expertise. They've brought on more economists to help them do this type of work, but you really need a very high level of expertise to deal with these costs.

• (1610)

Ms. Peggy Nash: It's complicated work but it could be something that generates a fair bit of revenue ultimately for the government, so it's something for us to follow up on.

Do I have another minute or so?

The Chair: Yes, another minute.

Ms. Peggy Nash: On the heritage buildings, we had Minister Fortier before our committee last week. There has been a lot of publicity about some federal buildings that are being sold. He said that there were no heritage buildings amongst the 40 buildings that they are looking at selling. There is always the balancing act for the government between owning and leasing buildings and wanting to

protect heritage properties for the federal government and for all Canadians.

Minister Fortier said that in the past there had not been enough money devoted to maintenance, really a contingency fund to keep federal properties adequately maintained, and I know you've commented on this before.

Do you think the government is wise to begin looking at leasing back some properties rather than investing the money in the refurbishing of buildings?

Ms. Sheila Fraser: We haven't specifically studied that question. When we did the whole question of office accommodation, the point that we were making there was that they need to do a really good analysis of what the costs of leasing are as opposed to owning, purchasing, and obviously paying the related maintenance costs. If you recall from that audit, we found that they were not always picking the option that resulted in the least costs, mainly because of the funding issues.

There could be other issues and policies that government wants to adopt, but I think as Auditor General we would certainly encourage that they look at the option that is the least costly to the Government of Canada.

Ms. Peggy Nash: Thank you.

The Chair: I just want to make one little correction. There are some heritage buildings in the 40 that were listed on the website. There is a website with the 40 buildings, and I think there were four of the top level and then there were some of the second level.

Ms. Peggy Nash: My mistake, as I thought the minister said that none of the 40 were—

The Chair: There were some. I don't think he had the listing with him.

Ms. Peggy Nash: Okay.

The Chair: There were some.

Ms. Peggy Nash: So he was maybe mistaken.

Mr. James Moore (Port Moody—Westwood—Port Coquitlam, CPC): [*Inaudible—Editor*]—process would be helpful.

The Chair: : That's right.

I just wanted to make sure we said it correctly.

Mr. Wrzesnewskyj.

Mr. Borys Wrzesnewskyj: Thank you, Madam Chair.

As Mr. Kramp has noted, this particular audit is mostly—not completely, but mostly—a good news story. In fact, if we look at chapters 1 and 2, this audit follows from the audits that took place in 2003. As you said, kudos are due to the Liberal government who made sure there was action on a number of these reports and files. And we thank Mr. Kramp for having noted that for us.

Notwithstanding the good news, let's move on to a chapter of particular concern to me. It's the chapter dealing with social insurance numbers. There are approximately \$70 billion in federal payouts annually based on social insurance numbers.

Is that correct?

Ms. Sheila Fraser: That's correct.

Mr. Borys Wrzesnewskyj: Of the 2.9 million excess social insurance numbers, 800,000 are active. You said 2.1 million are inactive—and let's just slide that over to the side for now. This means that 800,000 are in fact active.

Is that correct?

•(1615)

Ms. Sheila Fraser: Let's just say that of the 2.9 million estimated to be excess, because of a comparison between the number of cards of a certain age group with the actual population in that age group—

Mr. Borys Wrzesnewskyj: These are round numbers.

Ms. Sheila Fraser: It's an estimation.

There are 2.9 million excess, and the department has flagged 2.1 million as being dormant. So from this calculation, there are 800,000 that would appear to be excess.

Mr. Borys Wrzesnewskyj: And not dormant?

Ms. Sheila Fraser: But they can't go in and say, here are the 800,000 cards. It's an estimate of how many more there are in the system.

Mr. Borys Wrzesnewskyj: Sure, I understand that.

Ms. Sheila Fraser: But you're right; those wouldn't be dormant cards, so they would have been used within a period of time.

Mr. Borys Wrzesnewskyj: So in Canada, conservatively speaking, we have potentially 800,000 active social insurance numbers that are fraudulent. If we take the percentage of 800,000 to the total number, we're looking at about 4% of social insurance numbers. If only 10% of those potentially fraudulent, active social insurance numbers, or only one in 10, are being used to access government programs, that translates into close to \$300 million per year. If there's 100% take-up of those, which I doubt, it's potentially \$3 billion. We're talking of hundreds of millions of dollars annually, and potentially running into the billions. I would say we're facing a situation that's a major problem for our treasury.

What is being done to seriously address this? I don't see anything that's seriously addressing this problem.

Ms. Sheila Fraser: I would agree with you that we are concerned about the quality of the information in the register. The government does not have a framework or a plan in place to ensure that quality systematically. It has been improving but it needs to be more rigorous than it is.

I guess the only comfort, if you will, is that access to those programs is not dependent solely on a social insurance number; the applicant has to provide other documentation or information, and there would be checks in those systems as well.

But I agree with you, this is a serious issue.

Mr. Borys Wrzesnewskyj: That's cold comfort. We're talking of hundreds of millions of dollars, but my understanding is that the government—and this is now flagged—has no plans to do a statistically valid sampling of their register to nail down what we're actually dealing with here; we're talking of round numbers here.

Are there any plans whatsoever?

Ms. Sheila Fraser: To my knowledge, I'm not aware of any plans. But that would be something, I think, to follow up with the department.

Mr. Borys Wrzesnewskyj: So one component part is the potential fraud on the taxpayers of Canada of hundreds of millions of dollars. The secondary issue is that social insurance numbers are base documents.

Am I correct in that?

Ms. Sheila Fraser: We would call them foundation documents, that's right, and they could be incorrectly used to create a false identity.

Mr. Borys Wrzesnewskyj: We know there are 800,000 potentially fraudulent social insurance numbers floating around in the country that can be used to establish fake identities. Now, the previous government has done a tremendous job, as you've noted, on the passport regimes. There are a few things that still need to be addressed. The previous government also spoke with the provincial governments on addressing birth certificates and some of the issues around that whole process. A lot of that has been addressed.

In terms of the new security regime we're in, post-9/11, are there any plans to establish a new security regime for these foundational documents, social insurance numbers? Not just the 900 series, but for all of them.

•(1620)

Ms. Sheila Fraser: In fact, the department has done a lot of work to improve the controls over the issuance of social insurance numbers. So that has strengthened that system. They are trying to establish the same links with vital statistics. They have one process, I believe, in place. I think it's New Brunswick where they are doing it. And they are planning to extend that to other provinces as well.

Mr. Borys Wrzesnewskyj: So if this government is serious about security concerns and fraud on the Canadian taxpayers, this would be an area that they should make a major investment in, to make sure that both of those concerns are addressed.

Ms. Sheila Fraser: I would just mention, actually, that they have signed agreements with Ontario and British Columbia. So they are working on establishing those links. I would recall that this is the fourth time we've issued these reports since 1998. It is a long-standing problem, and we would have expected it to be better by now.

The Chair: Thank you.

Mr. Moore.

Mr. James Moore: The ball's in our court, and as the Auditor General described, the problem didn't start overnight and it won't be fixed overnight. But we understand the problem, and we'll do our best.

Regarding the heritage buildings, this is obviously a concern for a lot of people, especially people in smaller communities, and even, for example, the Citadelle. The question was raised by the Bloc Québécois in the House last year with regard to the Citadelle and the status of that. Just remind this committee, if you could, which sites you looked at, and with particular attention to the Citadelle because I know that's of a particular cultural sensitivity in *Ville de Québec*.

Ms. Sheila Fraser: I recall three, but I'll ask Madame Vienneau to comment.

We looked at the Armoury in Halifax; the Redoubt in the Citadelle, which is one of the buildings in the Citadelle; and the Admiral's Residence in Victoria. I'm sure there are more.

Aline Vienneau: If you look on page 19, chapter 2, there's a list of all the sites we visited during the audit.

Mr. James Moore: I'm wondering if you could tell us a bit about these sites and about the problem that does exist.

For some, it seems the problem is just capitalization. And as part of the real estate study that the Minister of Public Works was talking about before the committee, the 40 sites that we've recommended to the two sources outside who are looking at the federal government's real estate portfolio and looking for opportunities to recapitalize and how we can diminish approximately \$4 billion in exposure that exists to taxpayers—And what you might recommend with regard to heritage sites in terms of the upkeep that needs to take place. The vast majority of heritage sites, you note, are well maintained and are moving forward. Of course some of them are in smaller, remote communities, so you can't charge people at gates in order to visit them, and raising money that way isn't the best way.

What would you recommend for the differing problems and the differing shortness of capital?

Ms. Sheila Fraser: I think the major problem facing the government is the increasing number of heritage sites. We indicate in one of the examples here that the numbers are increasing every single year.

The Department of National Defence has 8,000 buildings that are over 40 years old that should be evaluated under the policy. I don't think everybody is going to say that 8,000 buildings are going to be...but even just to evaluate them all.

The system has difficulty conserving the ones that are already designated. We give the example of Fort Henry. We give a whole bunch of examples of sites that I think most people would say are clearly national historic sites and are in significant need of major repairs.

We're saying that there needs to be a much better link between the whole aspect of designating the sites and the funding for the conservation, plus establishing priorities.

As shown in exhibit 2.4, about 400 to 500 sites are evaluated every year, and 30 to 50 are designated. It just keeps adding on to a situation that is already difficult.

So depending on the level of funding, I guess some could question whether there would ever be enough funding for all of it. Given the level of funding that exists, the government has to pick some priorities and decide what we have to keep.

• (1625)

Mr. James Moore: I know I can ask the Department of Public Works this question, but I'll ask you, because maybe you can help me with a shortcut here.

Ever since I was first elected, back in 2000, there has always been a private member's bill—or 10—before the House, where somebody is saying they're going to have their local post office or their local whatever declared a heritage site.

I guess this is a two-part question. One, is it your sense that it is too easy in Canada for sites to be recognized as heritage sites, and then, therefore, you have all the—?

I know, for example, in my riding, Terry Fox is buried in a very quaint, cute, small cemetery that's actually quite humbling for a real Canadian hero. It's actually a neat place. I looked at the idea of getting it declared a heritage site. I was shocked at just how easily that's done. And then, commensurate with that recognition comes all kinds of funding responsibilities, upkeep responsibilities, designation responsibilities, and notification responsibilities to the federal government. I was really surprised at how easily a heavy burden can be brought to the federal government by a quick act of Parliament through a private member's bill or motion. Do you think this process is too easy?

Two—and then I guess I'm out of time here—relative to other jurisdictions, do you know how many heritage sites we have? I don't know if you do it on a per capita basis or how it might be done. Are we way over our proportionate number of heritage sites compared to other countries? Would you know that number?

Ms. Sheila Fraser: Just on the first question, we didn't specifically look at the whole process for designation. We were really focusing on government's management of the sites of which it is the owner.

We have said in a previous audit on this whole question that government probably needs to look at different ways, too, of involving local communities in helping to manage this, to try to involve others, and at more innovative ways of maintaining some of these sites.

As for the number of national historic sites, I don't think we have that information. I would just guess that being a young country we probably have a lot fewer than some, but I don't know.

Mr. James Moore: Okay, sorry, that was a shot in the dark.

[Translation]

The Chair: Mr. Bonin.

[English]

Mr. Raymond Bonin (Nickel Belt, Lib.): *Merci, madame la présidente.*

I'd like to speak about passports. I guess I can say, on behalf of my staff, that they are very pleased with the performance of your employees at that department. In spite of everything, they do what they can. They have been very efficient.

At any one time in the last month and a half, we've been about 200,000 passports behind. As an auditor—I wonder why it's not brought to our attention that \$16 million is sitting in bags of mail on the floor, unopened, for months at a time.

Isn't that something that's serious?

Ms. Sheila Fraser: I guess all I can say in response is that the audit was finished in August of last year. That's why; it was before all of this happened.

Mr. Raymond Bonin: That explains it. Because at a quick calculation, over \$16 million is sitting in bags of mail.

[Translation]

My question is for Mr. Flageole. How come we were assured, in the past, that the mail would be opened on the day it arrived at your building? Why not open the mail, enter the data into the computer and send the documents back after they have been checked?

What is most embarrassing for us, in our offices, is to tell people that on February 8, for example, we are only going through mail from December 15. That cannot be justified. I fail to see why the mail is not opened every day and data are not immediately entered. If you wish, we can begin to enter them at our offices. People apply for passports, send their birth certificates and cannot even drive to the United States. It takes three months to receive a passport. When people are asked to pay \$85, they are entitled to receive some service. Why not open the mail every day?

Mr. Richard Flageole (Assistant Auditor General, Office of the Auditor General of Canada): Madam Chair, I believe that that would be a good question for the Passport Canada official.

Mr. Raymond Bonin: Oh, that is not you.

Mr. Richard Flageole: As Ms. Fraser indicated—

Mr. Raymond Bonin: He will appear here on Thursday, but I will not be here. I will therefore withdraw my question. I will not be here, but perhaps someone else can ask the question.

The Chair: We will make sure that your question is addressed.

Mr. Raymond Bonin: Okay, and maybe you can wrap their knuckles because of the \$16 million that are piled up in a corner and collecting dust over a month and a half. Therefore, I apologize.

Raymond, you may continue.

[English]

Hon. Raymond Simard: Thank you very much, and thank you to my colleague for his time.

I want to get back to the question that I asked on reissuing SINs. The more I think about it, the more it's not a crazy idea.

What I neglected to say was that with a more secure SIN, maybe with a picture ID, then you could take all the other ones out of circulation. It seems to me to make a lot of sense, instead of keeping on for the next three or four years trying to resolve this problem.

Is this something that you, as Auditor General, could or would recommend?

•(1630)

Ms. Sheila Fraser: That is clearly an issue of policy, because it comes into the whole question of the national identification card, which was studied and discussed at length a while ago.

One of the issues that we've brought up here is the whole policy around the social insurance number. When it was introduced, the government deemed it to be kind of a file identifier and nothing more than that, largely for income tax purposes. Today this is still kind of the attitude of government vis-à-vis the social insurance number.

Over the years, the use of the social insurance number has increased significantly, not only within the federal government, but also in the private sector. We've strongly recommended in our past audits that the government needed to look at the policy again, regarding its appropriate use within government.

They did their own study in 2003 and essentially came to the same conclusions. They started some work, but then people told us they moved to other priorities, and they're saying the policy won't be updated until 2008.

We think that it's an essential part of this whole question, because depending on the what the abuse is that could lead to a renewal process for cards, or some kind of—

Hon. Raymond Simard: We can also assume that our databanks today are a lot more precise than they were years ago. I think you could reissue them fairly easily.

I'm kind of stuck on this, and I think it's a good idea. Hopefully our colleagues will move on that.

Hopefully we'll be able to study this in this committee, because there's still 2.9 million out there. It's a huge issue; I agree with my colleague here.

Thank you.

The Chair: Thank you.

We go to Monsieur Nadeau.

[Translation]

Mr. Richard Nadeau (Gatineau, BQ): Thank you very much, madam Chair.

Ladies and gentlemen, good afternoon.

I am very interested in the issue of built heritage. I think of the horror stories that we experienced in the city of Gatineau, it was in the city of Hull at the time, when the Hammond House was destroyed. Historically speaking, the Outaouais is a young Quebec region. It was founded in 1800. The Hammond House was destroyed, and the mayor at the time said that it was better to destroy that historic house and make room for a car dealership, which would provide the city with tax revenue, than to preserve the house. It was a stone building. Imagine the outcry! Unfortunately, it came too late: the house was demolished. The incident, however, led to the establishment of the Société d'histoire de l'Outaouais. Something positive was born of that negative event. Built heritage is greatly appreciated, on that side of the river.

When M. Fortier appeared last week—M. Moore spoke about that earlier—he brought with him interesting data, which I did not have. Under former Minister Brison, a list had been drawn-up with 370 or 372 buildings for sale. Under the current government, there is talk of some 40 buildings for sale. We are also told that Treasury Board does not have any set rules, or specific indications on how historic buildings have to be administered before being sold. When a clause states that the department in question has to do all in its power to find a new vocation for a building, if there are no criteria, the whole thing can be done in half an hour, depending on the efforts required.

The Canada Parks Agency has criteria, so there is at least one such agency. Treasury Board does not have any. How could the former encourage the latter? That might not be part of your mandate, but isn't there something we could do in this regard? Do you have any comments you would like to make?

Ms. Sheila Fraser: At the very least, the policy would have to be improved so that it covers more than only buildings and that some terms be clarified. It would be relatively simple to do so. Of course, the ultimate answer would be to use the legislation, but at least the policy should be strengthened.

•(1635)

Mr. Richard Nadeau: Ms. Nash and Ms. Marleau spoke earlier about recognized historic buildings that are currently for sale in the region. To my great surprise, an article in the Ottawa citizen refers to a document prepared by our analysts. It mentions the East and West Memorial Buildings, which are right on Parliament Hill. There is also Ottawa's old City Hall, a short distance away on Sussex Street. The national printing bureau is in the Hull sector.

When we talk about selling buildings on Parliament Hill, that might not be funny, but it make me smile. I said to myself that at one point, they might sell Parliament for a lot of money and transform it into a museum. When my children were young, I would tell them that we were going to visit the pirates' castle. Guess who is now sitting in the pirates' castle? Anecdotal story aside, I wonder whether there are rules that prohibit consideration of certain properties, for example, the East and West Buildings, which are up for sale. I do not know if Disney World wants to purchase them, or what.

Ms. Sheila Fraser: Perhaps Ms. Vienneau could answer the question.

Ms. Aline Vienneau: Madam Chair, the Treasury Board policy allows for the disposal of heritage buildings. In the chapter, it—

Mr. Richard Nadeau: It allows for what?

Ms. Aline Vienneau: It allows for the sale and or the destruction of buildings. In the chapter, we do not object to that, in that when you have a building—Take for instance the hangers in Borden, on the military base, there are a number of them. It may happen that the Department of National Defence decides it no longer needs these hangers and does not want to invest in their upkeep. It is to be expected that in some cases we may not conserve all buildings. In that case, Treasury Board's policy allows for their destruction. What we are asking for is to specify under which conditions destruction is allowed and to determine what the government wants to keep.

Mr. Richard Nadeau: Is the journalist right in saying that the West Block and the East Block are among those buildings?

Ms. Sheila Fraser: If I'm not mistaken, it has to do with the memorial buildings?

Mr. Richard Nadeau: Yes the East and West blocks.

Ms. Sheila Fraser: Yes, but it is the building on Lyon Street, I believe. When we go underneath—

The Chair: Yes that's right.

Mr. Richard Nadeau: Oh! All right.

Ms. Sheila Fraser: It wouldn't be the building on—

Mr. Richard Nadeau: Not the buildings on Parliament Hill?

Ms. Sheila Fraser: No.

Mr. Richard Nadeau: All right, I won't have to move tomorrow morning.

The Chair: No, it's on the other side of the street from Parliament buildings.

Mr. Richard Nadeau: All right. I was considering buying them.

The Chair: In any event, that's good.

We'll continue. Mr. Albrecht.

[English]

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Thank you, Madam Chair.

I want to return for a moment to the passport question, although I need to preface my remarks by saying that, as in Madame Thibault's case, it's not a big issue in my riding, because I'm very fortunate to have a passport office in Kitchener.

In our instant society, there are increasing demands to have rapid turnaround, but I don't think any Canadians are willing to sacrifice the security aspect that obviously needs to be a big part of issuing passports. I think proper validation and guarantor checks are certainly necessary.

I want to briefly focus on the comment you made regarding local offices. All of us have heard stories of long lineups and the waiting in line. It's interesting to note the innovative approaches that some local offices took. I'm surprised that you were not able to find any evidence of a national directive from Passport Canada to local offices to give them some ideas about how they might mitigate the problem of the long wait lines.

You didn't find any evidence of that at all?

Ms. Sheila Fraser: No. As I mentioned, our audit was completed in August. We weren't auditing during the current peak.

Mr. Harold Albrecht: You found evidence of some of these local initiatives prior to the recent crunch.

Ms. Sheila Fraser: Yes, we did: cases where they were trying to level out the demand. I think obviously they'll have to do more of that, because I would suspect that five years from now we'll be faced with a lot of renewals.

Mr. Harold Albrecht: You said there are some plans in the works to simplify the renewal process. Could you comment on that briefly?

• (1640)

Ms. Sheila Fraser: Sure, I'll ask Mr. Flageole to comment on it.

Mr. Richard Flageole: Madam Chair, we talk about it at paragraph 5.66. They're looking now at a process to simplify it. There's a whole bunch of options: there's the ten years in the States that's been discussed; whether, if you already have one, you can renew quicker—They're really looking at a number of options to be more efficient and trying to accelerate the process to renew the passports.

Mr. Harold Albrecht: That would deal with a person who presently has a passport and is simply renewing it. Did you look at all into the question of the length of time that passports are valid for? Some jurisdictions have ten years. Is there any comment from the auditing department on the wisdom of moving to a ten-year or possibly an eight-year period of time?

Ms. Sheila Fraser: That is a policy decision. We simply indicated that the department is looking at that and considering it as one of the options. For that, I believe, the law might even have to be changed, to allow it.

Mr. Harold Albrecht: I want to follow up on a question that was raised regarding the social insurance numbers. It's just to clarify that, as far as you can tell, there's no commitment on the part of government to address the situation you identified in paragraph 24 of your remarks today.

Ms. Sheila Fraser: No, the department agreed with us and indicated it would continue to try to improve the quality of the register.

The question was around rigorous sampling and testing of the register, and we're not aware of any plan like that.

Mr. Harold Albrecht: I just wanted to clarify that.

Thank you very much.

The Chair: Mr. Wrzesnewskij.

Mr. Borys Wrzesnewskij: Thank you, Madam Chair.

Madam Fraser, you mentioned in our previous round that for the new social insurance numbers that are being issued there's a tighter regime.

I look at the numbers: 1.5 million were issued in 2005-06. Was that an unusually high number, or is it part of an existing trend?

Ms. Sheila Fraser: We looked back at an audit we had done previously—about three years ago, I believe—and at that point they were issuing about 1.2 million, so it would seem to be in that order of magnitude each year.

Mr. Borys Wrzesnewskij: So it was 1.2 million, which seems high, but there's a little bit of a spike there, by another 25%—another 300,000 on the 1.2 million, which is a 25% increase on the previous figure.

With a commerce background, I hate it when numbers don't add up. Can you help me with some of these numbers? There are youth entering the workforce. If we look at the population and do some

estimates, and if we're very generous with those estimates, there should be about 400,000, potentially, entering the workforce.

We have approximately 200,000 immigrants per year. We're at 600,000.

There were 1.5 million new social insurance numbers. Who did the other 900,000 go to?

Ms. Sheila Fraser: Again, I think that's something that has to be asked of the department, but there are people who need social insurance numbers for many reasons. For example, if you have a registered education savings program for a child, you need to have a social insurance number for that child. If there is a student who is getting a scholarship, they have to have a social insurance number for tax purposes. If someone is claiming some of the tax benefits, filing tax returns in order to get credits and things, they need a social insurance number.

So there can be a variety of needs. Honestly, we don't have that information.

Mr. Borys Wrzesnewskij: You just answered my next question. It appears we're guessing; we have no idea. Yet we're dealing with numbers not in the thousands, but potentially in the millions, with potential taxpayer consequences in the hundreds of millions or more. I'd certainly like us to sink our teeth into this particular chapter, because I think it's critical, not just in terms of budgetary consequences but also because of the whole security aspect of this. I look forward to potentially dealing with this.

• (1645)

Ms. Sheila Fraser: Perhaps I can add something, Madam Chair.

The Chair: Sure.

Ms. Sheila Fraser: Just because we don't have the information it doesn't mean that the department doesn't have it. You're right, I may be guessing at it, but I would presume they would have that information.

Mr. Borys Wrzesnewskij: I think that's a strong enough signal for us to perhaps consider bringing in department officials.

Coming back to transfer pricing, you gave us a very good explanation of that. Do we have any legislation specifically dealing with sanctions for the use of transfer pricing as a method of tax avoidance? We have legislation dealing with tax avoidance, etc., but do we have something that really zeroes in on transfer pricing?

Ms. Sheila Fraser: I presume the agency would use the general avoidance legislation. I know in income tax legislation that was introduced a good 15 years ago or so there were very specific requirements around transfer pricing, the documentation that companies have to keep, the kinds of explanations that they have to provide to the agency, and I'm not aware if there are any specific sanctions related to that. I would think they would probably use the more general ones, but again, that would be something to ask the agency.

Mr. Borys Wrzesnewskyj: The concern with transfer pricing is obvious, but in a lot of the developing countries these days—those I've visited—they've set up these tax-free ports, or so-called tax-free ports; often they're inland, not even ports. I've noted in a number of the Caribbean countries that a large number of Canadian manufacturers have shifted significant portions of their manufacturing processes there. It's not the full manufacturing process, but as you've stated, in textile they've shifted the portion that would still allow them not to face all the various high-tariff barriers that exist. It's worrying when you see Canadian manufacturing companies quite engaged in shifting operations to these tax-free ports. Products are being shipped back to Canada with just small component parts being finally assembled here in Canada.

Have there been any studies done in that particular area by the government?

Ms. Sheila Fraser: I'm not aware of that. The agency might have done something, but I'm not aware of it.

Mr. Borys Wrzesnewskyj: Thank you.

The Chair: Mr. Warkentin, go ahead, please.

Mr. Chris Warkentin (Peace River, CPC): Thank you, Madam Chair.

Thank you, Ms. Fraser, for your work. I know that this is only the public part of your work, and you spend hours and hours going through things. I think for the most part, a lot of the questions have been exhaustive, and we've talked a number of these things over. I'm wondering if you could give us some information as to where you're headed next and what areas you're currently investigating.

Could you give us a kind of brief outline of what the next reports will be about?

Ms. Sheila Fraser: We have a report scheduled for the beginning of May.

I'll ask some of my colleagues to help me on this. We have HR management in foreign affairs. We have the NORAD system in North Bay. We have the CAIS program in agriculture.

I see some smiles going up.

I'm trying to think what else, or if there are any more. I'm just trying to remember what else is coming.

There is support for education, which will obviously include the federal government and the millennium scholarship fund. We would be glad to provide that to the committee.

Mr. Chris Warkentin: That would be very interesting. When did you say the report on CAIS would be available?

Ms. Sheila Fraser: It will be on May 1.

Mr. Chris Warkentin: That would be fantastic.

If you need to interview anybody in terms of the validity—

Ms. Sheila Fraser: We've—

Mr. Chris Warkentin: —I have hundreds of farmers in the Peace country who would be happy to give testimony.

Ms. Sheila Fraser: I think a lot of them have been writing to us, actually.

Mr. Chris Warkentin: I'm certain of it. Are you willing to give us a preview as to what your findings are?

Ms. Sheila Fraser: No.

Mr. Chris Warkentin: The report will be up until this point, is that correct? What's the timeframe that we'll be seeing it?

• (1650)

Ms. Sheila Fraser: I think we're finishing off field work. It's pretty much finished off, and we're into discussing the drafts.

Mr. Chris Warkentin: Okay. That's fantastic. I really appreciate that.

I think I probably have just a little bit more time, but I did want to ask those questions before we let you go.

You've made some recommendations specifically on the issue of revamping the policy on social insurance numbers. Other than that, is there any really important specific advice you would give to the departmental officials? I recognize that a lot of this is going to be policy discussion directed by the ministry or the minister, but what other things would you like to see happen here?

Ms. Sheila Fraser: The two main issues are the policy and the quality of the information in the register. The department has to put in place a quality management program to establish targets on the quality they want in that, and then they have to systematically work on it and track it over time to make sure that the quality is improving.

Mr. Chris Warkentin: Okay.

In terms of quality, I'm just not sure as to what the problem is, specifically. You've seen shortcomings in the quality of the information. Is it people not giving the correct birthdays, or inconsistent information?

Ms. Sheila Fraser: They don't have targets established and they don't systematically measure the quality in the registry. The question of the excess numbers of cards indicates to us that the quality is not where it should be.

Mr. Chris Warkentin: Is it specifically about the existence of duplications?

Ms. Sheila Fraser: It is in part, yes; as well, they're establishing links with the vital statistics, and that will help to improve the quality as well, but they're not systematically checking if the quality is good or not.

Mr. Chris Warkentin: They're not checking if another person with this exact birthday and this exact spelling of the name is already in the system under a different part number.

Ms. Sheila Fraser: That's right, or it can be whether they update the information correctly when people are going through programs, and all this kind of stuff.

Mr. Chris Warkentin: Thank you very much.

The Chair: Madame Thibault is next.

[Translation]

Ms. Louise Thibault: Thank you, Madam Chair.

Respecting the taking of polls, we were told departments must keep that information in their records, which they have not always done. I don't care whether or not they've recorded them, the fact is that they did not provide justification for them, nor did they inform Public Works and Government Services Canada of them. I haven't read the entire report; I only focused on built heritage.

If, within a department, officials do things that are outside their jurisdiction, in other words they overstep their authority, they spend funds without justification or they do not proceed in compliance with the Financial Administration Act, is that a serious mistake, or is it minor?

Ms. Sheila Fraser: During the initial audit, we discovered that 20% of the time these people did not justify the need for a poll. When we went back, the percentage still stood at 20. So in 80% of cases there was some justification, but the situation had not improved.

Ms. Louise Thibault: All right.

Ms. Sheila Fraser: The most important thing is that under the policy, they should advise an expert panel on polling at Public Works of the nature of the poll, provide a rationale, etc. This expert panel could okay the poll, see whether other polls were done elsewhere and, if need be, take on a coordination function.

Ms. Louise Thibault: All of this to avoid duplication to prevent the taking of a second poll six months after the first, over which time there would probably have been no changes.

Ms. Sheila Fraser: That is correct.

Ms. Louise Thibault: Granted we, in political parties, are well aware of the number of polls being done and who commissions them. They are rather expensive. Some may wonder what the point is and whether the situation can change over such a short timeframe. At the end of the day, polls provide a snapshot of the situation at a given point in time. That is my personal opinion.

Thank you, Ms. Fraser.

[*English*]

The Chair: Madam Nash.

Ms. Peggy Nash: I'll pass, thanks.

The Chair: Okay.

I don't see any further questions.

I thank you very much for coming before the committee.

Ms. Sheila Fraser: Thank you for your interest in the report. We look forward to possibly future hearings.

The Chair: You know, in my past lives, I was told many times that things were done properly. I didn't believe it at the time, and I was proven right. I hope you have better means of proving that everything is done properly.

Thank you.

Meeting adjourned.

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