



HOUSE OF COMMONS
CANADA

**CHAPTER 5, PASSPORTS SERVICES – PASSPORT
CANADA OF FEBRUARY 2007 REPORT OF THE AUDITOR
GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, M.P.
Chair**

March 2008



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

NINETH REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Chapter 5, Passports Services – Passport Canada of February 2007 Report of the Auditor General of Canada. The Committee as agreed to table this Report as follows:

INTRODUCTION

Each year, millions of Canadians cross international borders for the purposes of travel, business or visiting friends and relatives. Their ease of crossing borders is dependent upon having travel documents that are well regarded internationally. The complex task of issuing travel documents, notably the passport, to eligible Canadians is the responsibility of Passport Canada. As Canadians pay for the service to receive a passport, Passport Canada must provide Canadians efficient service while at the same time ensuring that it has the systems in place to protect the integrity of passports.

Passport Canada has seen a significant increase in demand by Canadians for passports: from 1.8 million travel documents issued in 2000-2001 to 3.1 million applications in 2005-2006, and 3.8 million applications in 2006-2007. Passport Canada, however, has struggled to keep up with the increase in demand, resulting in significant service delays and intense frustration for Canadians wanting to receive or renew their passports. At the same time, Passport Canada must address heightened expectations for security and develop new systems and processes to minimize the possibility of fraud and abuse.

The Office of the Auditor General (OAG) audited Passport Canada in 2005 and found that it was struggling to meet heightened expectations for security and growing demands for service. The OAG conducted a follow-up audit quite soon after at the request of the Public Accounts Committee and reported the results to the House of Commons in February 2007. As the Committee was quite interested in the results of the follow-up audit from the 2007 Status Report, *Passport Services: Passport Canada*, it held a hearing on June 20, 2007 with the Auditor General of Canada, Sheila Fraser, and other representatives from her office: Richard Flageole, Assistant Auditor General; and Paul Morse, Principal. In addition, the Committee met with the Deputy Minister of the Department of Foreign Affairs and International Trade, Leonard J. Edwards; and officials from Passport Canada: Gérald Cossette, Chief Executive Officer; Jody Thomas, Chief Operating Officer; and Gary K. McDonald, Director General, Policy and Planning.

BACKGROUND

In 2005, the Office of the Auditor General's audit of Passport Canada found weaknesses in:

- monitoring the quality of examiner decisions on who was entitled to a passport,
- risk assessment,
- security clearances for examiners,
- review and documentation of the information supplied by guarantors,
- control of access to the passport issuing system,
- the completeness and accuracy of Passport Canada's watch list,
- performance reporting on certain service standards and security issues,
- human resources planning, and
- the way investigations were managed.

The Public Accounts Committee considered this audit in October 2005 and presented its report to the House in November 2005.¹ The Committee made six recommendations in its report. It asked for a progress report on the implementation of the Office of the Auditor General's recommendations and a discussion of actions taken in Passport Canada's performance report. The Committee had concerns about Passport Canada's financial situation and recommended the creation of a financial contingency fund. The Committee also made recommendations for improving Passport Canada's action plan.

The follow-up audit examined measures that Passport Canada has taken to address the recommendations from the 2005 audit. Overall, the audit concluded that Passport Canada has made satisfactory progress toward addressing the recommendations in a relatively short time. Of the 19 recommendations made in 2005, the OAG concluded that Passport Canada had made satisfactory progress on 15 of the recommendations and unsatisfactory

¹ House of Commons Standing Committee on Public Accounts, 22nd Report, *Chapter 3, Passport Office - Passport Services of the April 2005 Report of the Auditor General of Canada*, 38th Parliament, November 2005. As the 38th Parliament was dissolved before the government could table its response, the Committee re-tabled this report in May 2006.

progress on 4. More specifically, Passport Canada had not yet completed a comprehensive risk assessment of its security functions; the quality assurance system does not address the key issue of entitlement decisions; problems persist in controlling access to the automated passport issuance system; and Passport Canada had not yet developed an integrated human resources plan. In addition, the Auditor General raised concerns that Passport Canada had not yet established electronic links with all provinces and Citizenship and Immigration Canada regarding the integrity of basic identification data. It has also faced problems in effectively utilizing information from the Canadian Police Information Centre (CPIC).

In his opening remarks to the Committee, Leonard Edwards, deputy minister and accounting officer of the Department of Foreign Affairs and International Trade, provided an update on progress in four weak areas identified by the Auditor General. He told the Committee that a series of draft papers are being completed as part of its comprehensive security risk assessment, and Passport Canada will develop a comprehensive strategy to address any deficiencies. Passport Canada is planning to implement a quality control program for its entitlement decisions during the current fiscal year. Tighter controls and better access practices have been put in place to safeguard the automated passport issuance system. Finally, Passport Canada is developing an integrated human resources planning process, which will be implemented by fall 2007.

REPORTING ON PROGRESS

In its 2005 report on the first audit of Passport Canada, the Public Accounts Committee recommended that Passport Canada include in its performance report a detailed discussion of the problems raised by the Auditor General and the status of actions taken in response. In its 2005-2006 Annual Report, Passport Canada outlined a number of initiatives it was taking to address the Office of the Auditor General's observations. However, in its follow-up audit, the OAG included a very useful appendix in which the OAG comments on the progress Passport Canada

made in meeting the Committee's recommendations. With respect to the recommendation on reporting on progress, the OAG commented, "The draft Annual Report describes what has been done but does not fully describe what is outstanding; nor does it always indicate target timelines for those outstanding items."² The follow-up audit made one recommendation:

In its annual report, Passport Canada should detail the progress it is making in carrying out the recommendations made by the Office of the Auditor General and the House of Commons Standing Committee on Public Accounts. It should describe its action plans and include target dates for completion and explanations for any variance with previous plans.³

The Public Accounts Committee fully supports this recommendation and is pleased to note that Passport Canada's 2006-2007 Annual Report contains a 50 page appendix that details what actions have been taken to address the OAG's 2005 findings and what remains to be done. In many instances, timelines are included and brief explanations are provided when progress has been delayed. The appendix does not limit itself to OAG recommendations, but references each finding of weakness.

Passport Canada is to be commended for the thoroughness of the latest progress report. It indicates the seriousness with which Passport Canada takes the observations of the OAG, as well as a commitment to improve its practices. The progress report provides clear transparency to the public and Parliamentarians, and enhances Passport Canada's accountability by making clear commitments whose progress can be assessed. The Committee appreciates Passport Canada's efforts and would like to see more departments and agencies do likewise. While it may not always be possible include such a lengthy progress report in the departmental performance report, departments and agencies should prepare and make public detailed action plans and progress reports in response to audits by the Office of the Auditor General and subsequent reports by the Public Accounts Committee.

² Office of the Auditor General, February 2007 Status Report, "Chapter 5: Passport Services—Passport Canada," Appendix A.

³ *Ibid.*, paragraph 5.81.

While this progress report is a step in the right direction, it is just a snapshot in time. The progress report indicates that a number of actions have yet to be completed, and some, such as the development of a business plan, have been delayed. While the follow-up audit by the OAG found overall satisfactory progress, there remain four areas where progress was not satisfactory. At the time of the Committee's hearing, Passport Canada had not yet completed its comprehensive security risk assessment, its quality control program for entitlement decisions, or its integrated human resources planning process. The Committee is particularly concerned about the slow progress on human resources because this area is critical to the operations of Passport Canada and its ability to respond to the increased demand for Passports. Lastly, the sampling procedure used to confirm the validity and necessity of employee access to the system that issues passports was deemed ineffective by the OAG because it did not enable the identification of fake user IDs.⁴

The Committee believes that it is vital that Passport Canada continues to address the weaknesses identified by the OAG, particularly with respect to security. Additionally, the changing nature of the environment in which Passport Canada is operating means that progress towards meeting its goals could readily be thrown off track, especially if it should experience another surge in passport applications. Given the number of items that are still to be completed, the Committee believes that Passport Canada should continue to report on its progress in its Annual Report. Consequently, the Committee recommends that:

RECOMMENDATION 1

Passport Canada continue to provide detailed information in its Annual Report on progress in rectifying the weaknesses identified by the Office of the Auditor General in its initial audit in 2005 and the follow-up audit in 2007.

⁴ *Ibid.*, paragraph 5.41.

SECURITY

Security of the passport system is vital because the credibility of Canadian passports depends upon other countries having confidence that only legitimate applicants receive passports. Should other countries lose confidence in Canadian passports, Canadians will have more difficulty traveling and crossing borders. Passport Canada recognizes this and is undertaking a number of projects to improve the security of Canadian passports, such as the development of e-passports, which would have an electronic chip embedded in them.

In light of this, the Committee expected that Passport Canada would have ensured that it made good progress on addressing security issues. However, while the follow-up audit noted satisfactory progress in a number of areas, the weaknesses remained in the critical areas of security and the verification of identity. The Auditor General noted the importance of security in her opening statement to the Committee when she said, “This committee may want to monitor progress and ensure that outstanding issues are being satisfactorily addressed—in particular surrounding security.” It concerns the Committee that security would be an area of weakness.

One of the areas of poor progress reported to the Committee was conducting a detailed security risk assessment of passport examination and security functions. The Committee is pleased that the government appears to have addressed this concern. As the Committee is particularly interested in Passport Canada’s progress with respect to security, the Committee recommends that:

RECOMMENDATION 2

Passport Canada provide the Public Accounts Committee with evidence that it has conducted a detailed risk assessment of passport examination and security functions by 31 October 2008.

SERVICE TO CLIENTS

During 2006-2007, Passport Canada experienced a significant surge in demand for passports, which resulted in a significant delay in Passport Canada's ability to process applications. Passport Canada's service standard for processing passport applications made in person to a Passport Canada office is 10 working days. According to its 2006-2007 Annual Report, Passport Canada has been able to meet this standard for more than 90% of applications during the past two years. However, during the surge of applications from December 2006 to March 2007, only 37% of applications were processed within the service standard. The service standard for mail-in applications is 20 working days. During much of 2006, this standard was met for over 90% of applications. During the surge, this fell to 17%. Also, waiting times at Passport Offices increased significantly, as did the time it took for the call centre to answer phone calls.

The surge in applications was primarily due to the United States' Western Hemisphere Travel Initiative (WHTI) which imposed a requirement for travelers to the United States by air to have passports. Passport Canada had been expecting an increase of 6.6% in passport applications, but instead experienced a 22% increase.

While it may have been difficult to foresee the exact extent of the increase of applications, Passport Canada should have had appropriate plans in place to deal with the surge. While the audit was completed before the implementation of the new WHTI requirements, it found that, "Although Passport Canada's corporate forecasting model takes into account the potential impact of WHTI on a national and local basis, most local offices did not have formal contingency plans. It was not clear whether they would be able to deal satisfactorily with a sudden, significant rise in the number of applicants."⁵ It is now clear that Passport Canada was not able to deal with a sudden, significant rise in the number of applicants.

The inability of Passport Canada to cope with the surge in applications led to a great deal of inconvenience, frustration, heartache, and loss of money for

⁵ *Ibid.*, paragraph 5.64.

many Canadians as travel and vacation plans were sometimes delayed or even cancelled. Line-ups at Passport Offices snaked outside buildings and onto sidewalks, and the telephone queue to get through to Passport Canada's call centre was similarly long. While many found Passport Canada's employees to be cooperative and helpful, the employees were overwhelmed and overworked. Some have compared it to watching a train wreck occur in slow motion. Many Canadians appealed to their local Member of Parliament, who provided what assistance they could. The Committee is deeply disappointed that Passport Canada was not better prepared. What proved to be a nightmare for many should not have happened. Canadians depend on Passport Canada to provide reliable services, and when those services break down, Canadians face hardships that are beyond their control. This causes them to lose confidence in the public service.

Passport Canada did not help the situation by posting misleading information on its website. Passport Canada listed its service standards of 10 working days for in person applications and 20 days for mail-in applications, rather than the actual processing time. This led many Canadians to underestimate the time it would take to receive their passports. Despite the confusion caused by posting the service standards rather than the processing times, it took months for Passport Canada to post clearer information on its website. It is vital that Passport Canada provides relevant and accurate information to Canadians because it allows them to plan properly and hopefully avoid having to cancel travel plans. The Committee is pleased to note that Passport Canada now posts the processing times on its website and the time for in person applications is two weeks, and thus meets the service standard, and the time for mail-in applications is six weeks, which is two weeks longer than the service standard.

If this were a one-time event, it could be considered an unfortunate learning experience for Passport Canada and Canadians. However, the requirement for land and sea based travelers to the United States to have passports has not yet come into effect. This will affect a great deal more

Canadians, who will also want to have passports. This requirement was expected to come into effect in 2008 but has been delayed until June 2009. It is imperative that Passport Canada adequately plans for the possible surge in passport applications associated with this requirement because not only could this affect many travel plans, but it could also negatively impact the flow of people and goods across the border with the United States. Passport Canada should not just wait for the next surge in passport applications to happen but should be proactive by ensuring that Canadians are properly informed through advertising. This would help to raise awareness of the new requirements and would encourage people to apply for their passports early rather than all rushing at once. Given Passport Canada's poor planning for the most recent surge in passport applications, the Committee recommends that:

RECOMMENDATION 3

Passport Canada provide the Public Accounts Committee by 30 September 2008 a strategic plan, which includes sufficient advertising, of how it, including its local offices, will manage the anticipated surge in passport applications associated with the land and sea based requirements of the United States' Western Hemisphere Travel Initiative.

In response to the increased demand for passports, Passport Canada has increased its capacity to process passport applications. In addition to more staff, Passport Canada opened several more offices and now has 33 across the country. It has also developed arrangements for Service Canada and Canada Post to receive applications.

While Passport Canada has made efforts to improve client service, the service provided is not equitable for all Canadians. Passport applications are processed quickest when they are presented in person at a Passport Office; indeed, the service standard for in person applications is now being met, while mail-in applications or those processed through a receiving agent are still two

weeks over the service standard. When the surge occurred, it was the processing times for mail-in applications that slipped the most.

Many Canadians live hundreds of kilometers away from a Passport Office and presenting an application in person is either highly inconvenient—requiring costly travel and time off work to get to an office—or is just not possible. While Passport Canada is trying to improve service through receiving agents at Canada Post and Service Canada, this is hardly an adequate response since Canada Post adds an additional charge and the service at Service Canada has been found wanting. More importantly, this does not reduce the processing time, which is the same as mail-in applications. At best, receiving agents can help to reduce the rejection rate of mail-in applications, which can be as high as 25 percent.

Canadian citizens have a right to equitable service for what is increasingly becoming an essential identity document. As visiting a Passport Office is not a viable option for many Canadians, they have a right to receive timely service through other means. However, processing times for mail-in applications are considerably longer than for in person applications, and during the surge in applications this led to considerable hardship. These delays are unacceptable. Clearly, those who are able to go to a Passport Office receive better service than those who are not. In order to restore the equity of the passport service, Passport Canada must have a plan for improving the processing time for mail-in applications and for preventing unnecessary delays in mail-in applications during another surge. Consequently, the Committee recommends that:

RECOMMENDATION 4

Passport Canada provide the Public Accounts Committee a plan by 30 September 2008 of how it intends to improve the processing time for mail-in passport applications.

VITAL STATISTICS

In order to establish whether an applicant is a Canadian citizen, it is crucial that Passport Canada be able to confirm basic identification data, such as birth information or a citizenship certificate. Implementing direct electronic links to

provincial registries and Citizenship and Immigration Canada would allow passport examiners to confirm data immediately and automatically, as well as to check fraudulent documents against reported deaths.

The follow-up audit found that Passport Canada has not yet been able to establish these links. According to the progress report outlined in Passport Canada's 2006-2007 Annual Report, an interdepartmental and interprovincial project, the National Routing System, has been started in order to establish these links. A pilot phase for this project involved electronic links between Passport Canada, Statistics Canada, Canada Revenue Agency, Alberta, and British Columbia. However, this pilot phase ended in April 2006, and it did not include Citizenship and Immigration Canada or other provinces. The Government's response to the Committee's previous report on Passport Canada indicates that this project has not yet received final policy or funding approval.

The confirmation of vital statistics is important to a wide variety of federal programs, from taxation to passports. This is a complex initiative that has numerous technological, governance and legal issues that must be worked out. Each federal department must define its requirements in order to develop a single point of contact for all federal departments to access provincial vital statistics. According to the progress report, Treasury Board Secretariat has taken the lead for the development of a comprehensive business case and governance structure. As this initiative will likely take several years to complete and as Treasury Board Secretariat has taken a lead role, the Committee recommends that:

RECOMMENDATION 5

Treasury Board Secretariat report on the progress of the National Routing Initiative in its departmental performance report, beginning with the 2007-2008 report.

RESOURCES

Passport Canada operates on a cost-recovery basis; that is, its operations are funded exclusively on the basis of user fees. Passport Canada utilizes a revolving fund to manage these fees and is permitted to accumulate an annual surplus or draw down the revolving fund up to \$4 million. Surpluses or deficits may occur from year to year, but they are expected to balance out over a business cycle.

As Passport Canada's fiscal capacity is limited by its collection of user fees, it needs to have a contingency fund in place to deal with unanticipated costs. In its 2005 report, the Committee recommended that Passport Canada design such a contingency fund. The Government's response indicates that a financial contingency fund of 2.5 percent of forecasted revenue was created. Additionally, a contingency strategy was developed to identify both potential cost containment measures and alternative sources of funding that could be employed in the event of cost overruns or to cope with emerging cost pressures.

While in most situations a contingency fund and strategy should suffice, Passport Canada has been experiencing significant fluctuations in its revenues and overall financial situation. In 2005-2006, Passport Canada collected \$195 million in fees and reported an operating deficit of \$3.4 million. Passport Canada said that the operating deficit was due to costs rising faster than revenues. However, in 2006-2007, Passport Canada collected \$231 million in fees and reported an operating surplus of \$14.9 million. According to the 2006-2007 Annual Report, the surplus occurred due to the significant increase in volume and Passport Canada's inability to maintain its service standards. Passport Canada expects the cost to produce a passport will exceed the revenues received in the next fiscal year.⁶ However, the progress report says that no fee increase is being contemplated at this time.

The financial stability of Passport Canada affects both its ability to provide an efficient and effective service, as well as its ability to undertake long-term, costly projects, such as the e-Passport, which will enhance the security of passports. There is a danger that Passport Canada will be forced to focus its

⁶ Passport Canada, 2006-2007 Annual Report, page 14.

limited financial capacity on service issues and thereby neglect major investments in security initiatives. In its previous report, the Committee recommended that Passport Canada conduct a comprehensive study of its funding issues. The Government agreed with the recommendation and anticipated the results from the study by the fall of 2006. As it appears that funding continues to be an issue for Passport Canada, the Committee believes that greater accountability and transparency of this study is vital. Consequently, the Committee recommends that:

RECOMMENDATION 6

Passport Canada provide the Public Accounts Committee with the results of its study of the adequacy of its current funding arrangement by 30 September 2008, including examining any efficiencies that can be obtained.

CONCLUSION

Passports are an important identity document and are becoming essential for travel to and from the United States. Their increased importance has led more Canadians than ever to apply for passports. Unfortunately, this resulted in a surge in passport applications, which Passport Canada was ill-equipped to handle. Many Canadians experienced significant hardship as the processing time for applications slipped many weeks beyond Passport Canada's service standards. Canadians had to delay or even cancel their travel plans. The Committee acknowledges and commends the individual employees of Passport Canada that have made considerable efforts to deal with the surge; however, Passport Canada should have been better prepared. As another, larger surge is likely to occur when the land and sea elements of the Western Hemisphere Travel Initiative come into effect, it is imperative that Passport Canada put into place effective plans for processing these temporary surges in passport applications.

As the same time, Passport Canada must maintain a careful balance between efficient service and a focus on security concerns. The audits by the

Office of the Auditor General identified a number of weaknesses in the operations of Passport Canada that require close monitoring. While Passport Canada is to be congratulated for making satisfactory progress on the majority of these issues, continued effort is required because emerging issues could readily derail progress on a number of projects. The Committee appreciates Passport Canada's commitment to accountability by providing a detailed progress report in its Annual Report and will monitor Passport Canada's adherence to its plans.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Foreign Affairs and International Trade Leonard Edwards, Deputy Minister	2007/06/20	70
Office of the Auditor General of Canada Richard Flageole, Assistant Auditor General Sheila Fraser, Auditor General of Canada Paul Morse, Principal		
Passport Canada Gérald Cossette, Chief Executive Officer Gary McDonald, Director General, Policy and Planning Judy Thomas, Chief Operating Officer		

REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 16 and 18 including this report is tabled](#)).

Respectfully submitted,

Hon. Shawn Murphy, M.P.
Chair