



**HOUSE OF COMMONS
CANADA**

**CHAPTER 5, PASSPORT SERVICES - PASSPORT
CANADA OF THE 2009 STATUS REPORT OF THE
AUDITOR GENERAL OF CANADA**

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

**Hon. Shawn Murphy, MP
Chair**

**NOVEMBER 2009
40th PARLIAMENT, 2nd SESSION**



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

NINETEENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 5, Passport Services - Passport Canada of the 2009 Status Report of the Auditor General of Canada and has agreed to report the following:

INTRODUCTION

Passport Canada is a special operating agency that reports to the Minister of Foreign Affairs. It is responsible for issuing travel documents, most notably the passport, to Canadians to allow them to travel across international borders. In the past few years, Passport Canada has experienced a significant increase in the demand for passports. The number of passports issued in 2007-2008 was more than twice the number issued five years earlier. Passport Canada has struggled to keep up with this demand, and a surge of passport applications due to new travel rules under the United States' Western Hemisphere Travel Initiative (WHTI) overwhelmed Passport Canada in 2007, leaving many Canadians frustrated with delays in receiving their passports.

In March 2009, The Office of the Auditor General (OAG) presented to Parliament a follow-up audit on Passport Canada's passport services.¹ This audit assessed Passport Canada's progress in implementing actions and developing contingency plans to address the anticipated surge in passport applications associated with the WHTI phase II, which came into effect on 1 June 2009.

As Passport Canada had significant difficulties in dealing with the previous surge of passport applications, the Public Accounts Committee wanted to ensure that Passport Canada had taken appropriate steps to deal with the WHTI phase II. The Committee held a meeting on this audit on 9 June 2009.² From the Office of the Auditor General of Canada, the Committee met with Sheila Fraser, Auditor General of Canada; Wendy Loschiuk, Assistant Auditor General; and John Reed, Principal. The Department of Foreign Affairs and International Trade was represented by Leonard J. Edwards, Deputy Minister. From Passport Canada, the Committee heard from Christine Desloges, Chief Executive Officer; Jody Thomas, Chief Operating Officer, Operations Bureau; and Gary K. McDonald, Director General, Policy and Planning Bureau.

¹ Auditor General of Canada, March 2009 Status Report, Chapter 5, *Passport Services—Passport Canada*.

² House of Commons Standing Committee on Public Accounts, 40th Parliament, 2nd Session, Meeting 26.

INCREASED DEMAND FOR PASSPORTS

The number of travel documents issued to Canadians by Passport Canada has been steadily increasing over the past number of years, from just over 2 million travel documents in 2001-2002 to 3.7 million in 2006-2007. The demand for travel documents, however, significantly increased to \$4.8 million in 2007-2008 due to the United States' Western Hemisphere Travel Initiative (WHTI).³

Under the WHTI phase I, Canadians arriving in the United States by air required a valid passport or approved travel document as of 23 January 2007. This led to sudden surge in passport applications by Canadians wishing to travel to, or through, the United States by air. Passport Canada had been expecting an increase of 6.6% in passport applications due to WHTI, but instead experienced a 22% increase. Passport Canada was ill-prepared for this surge in applications. In its 2007 audit of Passport Canada, the Office of the Auditor General found that most of Passport Canada's local offices did not have formal contingency plans to deal with a sudden, significant rise in the number of applicants.⁴

As a result, in early 2007, Passport Canada's phone lines were overwhelmed with calls, mail-in applications could not be processed in a timely manner, and the service standards were not met. Canadians experienced increased waiting times at passport offices and a significant delay in receiving their passports. As Christine Desloges, the current Chief Executive Officer of Passport Canada told the Committee, "You'll recall the long lineups, the disgruntled applicants, the long processing times, and the general frustration that resulted as Canadians applied for passports in record numbers."⁵ In its report of 2008, the Public Accounts Committee stated that, "The Committee is deeply disappointed that Passport Canada was not better prepared. What

³ Chapter 5, exhibit 5.1.

⁴ Auditor General of Canada, February 2007 Status Report, Chapter 5, *Passport Services—Passport Canada*.

⁵ Meeting 26, 15:45.

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.”⁶

According to the 2009 audit of Passport Canada by the Office of the Auditor General, Passport Canada has taken a number of steps to identify what went wrong in 2007 and to implement measures to ensure that Passport Canada was better prepared to deal with WHTI phase II. Through two “lessons learned” exercises, Passport Canada identified several causes to the crisis in 2007 related to the WHTI phase I, including:

- insufficient processing capacity,
- a need for better production processes,
- long lead times to hire new employees,
- an imprecise model for forecasting demand,
- lack of communication with Canadians, and
- lack of contingency plans.⁷

In response, Passport Canada has taken a number of actions to increase its operational capacity. Passport Canada has:

- built a new mail-in processing centre,
- upgraded and expanded many local offices,
- added 76 receiving agents,
- developed and refined its internal monitoring and reporting system of passport applications,
- implemented an electronic tracking system,
- improved the process for issuing passports,
- adopted a new and simplified process for the renewal of existing passports, and

⁶ House of Commons Standing Committee on Public Accounts, 9th Report, Chapter 5, Passport Services - Passport Canada of the February 2007 Report of the Auditor General of Canada, 39th Parliament, 2nd Session, March 2008.

⁷ Chapter 5, paragraph 5.14.

- increased staffing levels.⁸

In addition, Passport Canada has developed a new model for forecasting future demand for passports, launched a major communications campaign, held passport clinics, and revamped its website.

Passport Canada has also developed a high-level contingency plan to deal with a potential surge in passport applications. At the time of the 2009 audit, detailed planning and communications for the potential actions outlined in the contingency plan were still underway. In the opinion of the OAG, Passport Canada needed to determine how much each individual action would increase its operational capacity, determine what level of demand would trigger actions, and specify who has the authority to launch the actions. The OAG made recommendations to address each of these issues.⁹

At the hearing, Leonard Edwards, the Deputy Minister of Foreign Affairs, told the Committee that Passport Canada has taken actions to address each of the OAG's recommendations. Passport Canada has developed rolling action plans and has defined the objective of each contingency action on operational capacity and their expected benefits. As well, it has identified triggers for each contingency action and roles and responsibilities for launching them.¹⁰

The Auditor General noted that she was pleased with the progress Passport Canada has made. She said, "I think we have to give credit to the passport office. They did analyze what went wrong and what needed to be done, and they resolved it in a relatively short period of time."¹¹

The Committee agrees. As the audit demonstrates, Passport Canada has taken significant actions in order to ensure that it has the ability to meet the increased demand

⁸ Ibid., paragraphs 5.15 – 5.25.

⁹ Ibid., paragraphs 5.36 – 5.38.

¹⁰ Meeting 26, 15:35.

¹¹ Meeting 26, 16:10.

for passports, including a possible surge in demand. The management and staff of Passport Canada should be congratulated for their clear commitment to ensuring that Canadians receive a passport in a timely manner. The most recent phase of the WHTI came into effect on 1 June 2009 without any noticeable decline or disruption in Passport Canada's services.

Passport Canada's experiences could be used as an example for other government organizations. After Passport Canada's inability to cope with demand in early 2007, the management of Passport Canada sought to learn lessons from the experience and make needed changes, including reworking policies and processes, acquiring additional resources to expand capacity, and developing contingency plans to respond to changing circumstances. It is unfortunate that many Canadians were frustrated or experienced hardship due to the surge of passport applications in 2007. However, the Committee is pleased to find an example of a government organization that has learned lessons from its experiences and has responded with appropriate changes in a timely manner.

FUNDING

While Passport Canada has taken actions to deal with an increased demand for passports, the organization still faces challenges with respect to its business and financial planning.

Passport Canada operates on a cost-recovery basis; that is, its operations are funded on the basis of user fees it charges clients for the provision of services, such as obtaining a passport. Passport Canada utilizes a revolving fund to manage these fees and is permitted to accumulate an annual surplus or to draw down from the revolving fund in a given year. Surpluses or deficits may occur from year to year, but they are expected to balance out over a business cycle.

Passport Canada also may receive a periodic injection of funds for special purposes. In 2007, Passport Canada received a one-time investment of \$55 million from

the government. Passport Canada has used this funding to increase its operational capacity, notably building and equipping a new mail-in processing and printing centre.

Passport Canada provided the Committee with more detailed financial information after the hearing. In the fiscal year 2007-2008, Passport Canada had an operating deficit for each of its business lines, for a total deficit of \$40.5 million. Passport Canada attributes this deficit to investment in infrastructure and building capacity. The Agency manages its deficit by drawing down funds accumulated in its revolving fund.

At the hearing, the Committee learned that each passport costs Passport Canada \$7 more than they charge, and the fees for passports have not changed since 2001. Additionally, the 10-year ePassport will require significant investments in technology and stretch the Agency's finances considerably.

The Committee is concerned that Passport Canada's financial situation may not be sustainable. While some of the deficit can be attributed to investments needed to cope with the increased demand for passports, if each passport costs more to produce than Passport Canada recovers in fees, then this deficit situation will continue into the future and the accumulated surplus in the revolving fund will be quickly drained. Officials from Passport Canada told the Committee that they are redesigning the Agency's business and financial models, as the move to a 10-year renewal period for passports will significantly change passport processing and the revenues Passport Canada collects.

The Committee expressed concern with Passport Canada's financial situation in previous reports.¹² In 2008, the Committee recommended that, "Passport Canada provide the Public Accounts Committee with the results of its study of the adequacy of

¹² 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; and 9th Report, Chapter 5, Passport Services - Passport Canada of the February 2007 Report of the Auditor General of Canada, 39th Parliament, 2nd Session, March 2008.

its current funding arrangement by 30 September 2008, including examining any efficiencies that can be obtained.” The Government Response indicated that the decision to move to a ten-year passport has led to a complete review of Passport Canada’s governance structure, service model, and legislative and funding authorities.¹³ The Response states, “The outcome of the Operational Review will be shared with the Committee after it has been reviewed and approved by ministers.”

Given Passport Canada’s current operating deficit, the Committee remains concerned with Passport Canada’s financial situation and expects that Passport Canada will indeed share the Operational Review with the Committee when it has been approved by ministers.

CONCLUSION

When the WHTI phase I came into effect on 23 January 2007, Passport Canada was not adequately prepared to deal with a surge in passport applications and thus could not handle all the passport applications it received. This led to frustration and even hardship for many Canadians who wanted to travel but were unable to do so. The most recent audit by the Office of the Auditor General indicates that Passport Canada has taken significant action to ensure that the same backlog in processing passport applications would not occur with WHTI phase II. The Committee notes the significant progress made by Passport Canada and acknowledges the considerable efforts of Passport Canada management and staff to learn from past experiences and to take the necessary actions. The ability to obtain a passport in a timely and equitable manner is an important issue for Canadians and their parliamentarians, and the Committee trusts that Passport Canada will continue its efforts to provide a reliable and efficient service to Canadians.

¹³ Government of Canada, *Government Response to the Ninth Report of the Standing Committee on Public Accounts, Passport Services—Passport Canada*, June 2008.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Foreign Affairs and International Trade Leonard J. Edwards, Deputy Minister of Foreign Affairs	2009/06/09	26
Office of the Auditor General of Canada Sheila Fraser, Auditor General of Canada Wendy Loschiuk, Assistant Auditor General John Reed, Principal		
Passport Canada Christine Desloges, Chief Executive Officer Gary K. McDonald, Director General, Policy and Planning Bureau Jody Thomas, Chief Operating Officer, Operations Bureau		

MINUTES OF PROCEEDINGS

A copy of the relevant Minutes of Proceedings ([Meetings Nos. 26 and 34](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, MP
Chair