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Report of the
**Auditor General
of Canada**
to the House of Commons

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Chapter 3
Passport Office—Passport Services



Office of the Auditor General of Canada

The April 2005 Report of the Auditor General of Canada comprises six chapters, and a Message From the Auditor General of Canada and Main Points. The main table of contents is found at the end of this publication.

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Chapter

3

Passport Office
Passport Services

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Passport Office

Passport Services

Main Points

3.1 The Passport Office is struggling to meet increasing security expectations and demands for service. Significant improvements are necessary in the processes for determining passport entitlement. The Office is currently unable to fulfill all of its responsibilities under the Canadian Passport Order. Its watch list is deficient and often not updated in a timely fashion because the Office has not found ways to automatically obtain data from other government sources. Management does not sufficiently monitor some key security functions to ensure that they are properly carried out.

3.2 The Passport Office has established and achieved its published service standards for clients. However, costs are increasing and are not tied to service standards. Although it has reported on the performance of certain major service standards, there is limited performance information about security measures. At the time of the audit, the Passport Office did not have the management systems and practices that would prepare it to meet future challenges effectively.

3.3 The Passport Office and Foreign Affairs Canada did not meet the requirements for ongoing consultation on service standards and how they relate to passport and consular fees. The Passport Office also lacks reliable cost information related to published service standards.

Background and other observations

3.4 The Passport Office is a Special Operating Agency reporting to Foreign Affairs Canada. It finances its operations from the user fees it collects. The Office issued about 2.5 million passports in 2003–04. It collected revenues of \$158 million that it used to finance its operations and had a net income of \$9 million. It also collected \$54 million in consular fees for deposit to the Consolidated Revenue Fund. The Passport Office is responsible for enforcing the Canadian Passport Order in issuing various travel documents. Issuing the 24-page blue passport, which in 2005 rose in cost from \$85 to \$87, makes up about 98 percent of Passport Office business.

The Passport Office has responded. In its response to each recommendation throughout the chapter, the Passport Office indicates the action it has taken, is taking, or plans to take to address the recommendation.

Introduction

3.5 The Canadian economy depends on trade. But globalization—of production, commerce, crime, terrorism, and travel—is evolving rapidly and creating new opportunities, risks, and requirements for travellers. Still, Canadians need and expect an official travel document that is secure and universally respected to ease their way across borders and around the globe. The Canadian Passport Order defines a passport as an official Canadian document that shows the identity and nationality of a person for the purpose of facilitating travel by that person outside Canada.

3.6 Rising demand and the security challenges due to the events of September 11, 2001, also contribute to an environment where the pace, scope, and direction of change is increasingly unpredictable. The Passport Office must balance three essential factors—cost, service, and security—while investing in the technology and human resources required to meet the needs of coming years.

3.7 The Passport Office is responsible for issuing, revoking, and withholding or recovering Canadian passports issued to Canadian citizens and other travel documents to Canadian permanent residents. Issuing the 24-page blue passport makes up over 98 percent of its business.

3.8 The Passport Office is a **special operating agency** reporting to Foreign Affairs Canada and, as such, is expected to

- encourage innovation in administration and service delivery while respecting control requirements and managing risk,
- provide greater freedom from departmental and government-wide administrative rules in return for clear performance levels, and
- improve cost-effectiveness and service delivery by applying private sector techniques while tightly managing performance targets.

3.9 The Passport Office operates on a **revolving fund** basis and is self-financing through user fees charged for various travel documents. Unlike government departments, it has no annual parliamentary appropriation for operations and must generate sufficient revenues to meet its expenses. It has a significant degree of autonomy in administering its operations.

The Passport Office faces new demands

3.10 The Passport Office experienced steady growth in the mid-1990s. The tragic events of September 11, 2001, brought security matters to the fore. The Passport Office now faces some serious challenges in a period of increased demand for passports: rising costs of production; pressures to adopt new technologies that heighten security features of the travel document; and identity authentication issues.

3.11 In May 2004, Foreign Affairs appointed a new chief executive officer. In the fall of 2004, the Passport Office was considering a new strategic direction that would focus on two types of clients: those who are applying for their first passport, and those who have previously sought and obtained a passport.

Special operating agency—An agency within a government department that has greater management flexibility in return for certain levels of performance and results.

Revolving fund—A fund provided for a particular purpose that is periodically replenished by transfers from other funds or, as in this case, by user fees.

3.12 Since September 11, 2001, Canadians are more likely to carry their passports when traveling to the U.S. That, along with the implementation of the “one person, one passport policy,” where children can no longer be included on a parent’s passport, have given rise to higher demand for passports. At the same time, there has been a worldwide move to greater tightening of security.

- In 2002–03, 2.2 million passports were issued, a 13 percent increase over the previous year.
- In 2003–04 over 2.5 million passports were issued, a 15 percent increase over the previous year.
- The Passport Office estimates that 2.8 million passports will be issued in 2004–05, up from 1.0 million in as recently as 1999–2000.

3.13 Points of service. In 2004, more points of service were opened in response to increased volumes. Most Canadians obtain their passports by applying at one of the 30 domestic offices that offer front-counter service to applicants. The offices are administered through four regional directorates. In the last few years, the Passport Office has entered into arrangements with Canada Post Corporation to help passport applicants: postal staff in 49 selected locations review applications and forward complete ones to the Office. Canada Post charges an additional \$15 fee for this optional service.

3.14 The public can also mail completed applications to Passport headquarters directly. The Passport Office also accepts applications through members of Parliament who forwarded about 65,700 applications to the Office in 2003–04. In addition to its network of offices, the Office is using other receiving agents such as the staff of Human Resources and Skills Development Canada. Foreign Affairs Canada consular staff provide passport services abroad at over 100 missions.

Focus of the audit

3.15 The objectives of this performance audit were to determine whether the Passport Office has designed, implemented, and monitored effective controls over the issuance of passports; whether it has established and achieved reasonable levels of service; and whether it has achieved both objectives at a reasonable cost.

3.16 We examined four areas in this audit:

- security and identity verification,
- service to the public,
- management of improvement initiatives, and
- fee increases.

3.17 We undertook fieldwork at headquarters and in 15 offices. We examined relevant business, information technology, and management processes and practices, and we assessed compliance with applicable rules and authorities.

3.18 More information on the audit is found in **About the Audit** at the end of the chapter.

Observations and Recommendations

Security and identity verification

3.19 The production process and examiner's role. The Canadian Passport Order, approved by the Governor-in-Council, specifies who is entitled to a Canadian Passport and the conditions that must be met. The Passport Office may refuse to grant a passport to Canadian citizens with certain Criminal Code violations or charges pending. Passport Office staff are responsible for applying the rules and procedures of entitlement, which are listed in the Canadian Passport Order (Exhibit 3.1). Applicants must be Canadian citizens and applicants for passports for children must have guardianship rights.

Exhibit 3.1 Excerpt from the Canadian Passport Order

Under section 9 of the Canadian Passport Order, the Passport Office may refuse to issue a passport to an applicant who:

- a) fails to provide the Passport Office with a duly completed application for a passport or with the information and material that is required or requested ...
- b) stands charged in Canada with the commission of an indictable offence;
- c) stands charged outside Canada with the commission of any offence that would, if committed in Canada, constitute an indictable offence;
- d) is serving a term of imprisonment or is forbidden to leave Canada by
 - i) the terms and conditions of any parole or mandatory supervision imposed under or by virtue of Part II of the Corrections and Conditional Release Act,
 - ii) the conditions of a probation order made under the Criminal Code, or
 - iii) the conditions of the grant of temporary absence without escort from a prison or penitentiary;
- e) has been convicted of an offence under section 57 of the Criminal Code;
- f) is indebted to the Crown for expenses related to repatriation to Canada or for other consular financial assistance provided abroad at his request by the Government of Canada; or
- g) has been issued a passport that has not expired and has not been revoked.

Under section 10 of the Canadian Passport Order, the Passport Office may revoke a passport for any of the abovementioned grounds and to an applicant who:

- a) being outside Canada, stands charged in a foreign country or state with the commission of any offence that would constitute an indictable offence if committed in Canada;
- b) uses the passport to assist him in committing an indictable offence in Canada or any offence in a foreign country or state that would constitute an indictable offence if committed in Canada;
- c) permits another person to use the passport;
- d) has obtained the passport by means of false or misleading information; or
- e) has ceased to be a Canadian citizen.

Finally, the Minister of Foreign Affairs may refuse or revoke a passport if the Minister is of the opinion that such action is necessary for the national security of Canada or another country.

3.20 The granting of a passport goes through three phases: application data entry and authentication of the identity and citizenship of the applicant; certain security checks that could prevent the granting of the passport; and printing and mailing (Exhibit 3.2). Examiners take, on average, 8 to 12 minutes to process a routine application.

3.21 The Canadian Passport is valid for five years. While many other western nations use a ten-year period, some of those countries are considering a five-year validity period. A shorter validity period allows the Passport Office to more rapidly introduce technological enhancements that improve the security of the passport document, thus reducing the risk of counterfeit or fraudulent passports in circulation. However, a shorter validity period has significant cost and service implications for its operations.

3.22 The passport application package includes information that is intended to help examiners assess that applicants are not only Canadian citizens, but that they are also the individuals they purport to be. In addition to proof of citizenship by either birth or naturalization, applicants must include other proofs of identity, guarantor information (including a guarantor-signed photograph), and two references. The original proof of citizenship, birth certificate, and proof of identity, in most cases, are compared to the application information and returned immediately to the applicant at the counter (or with the passport, for mailed applications).

Examiners are well trained

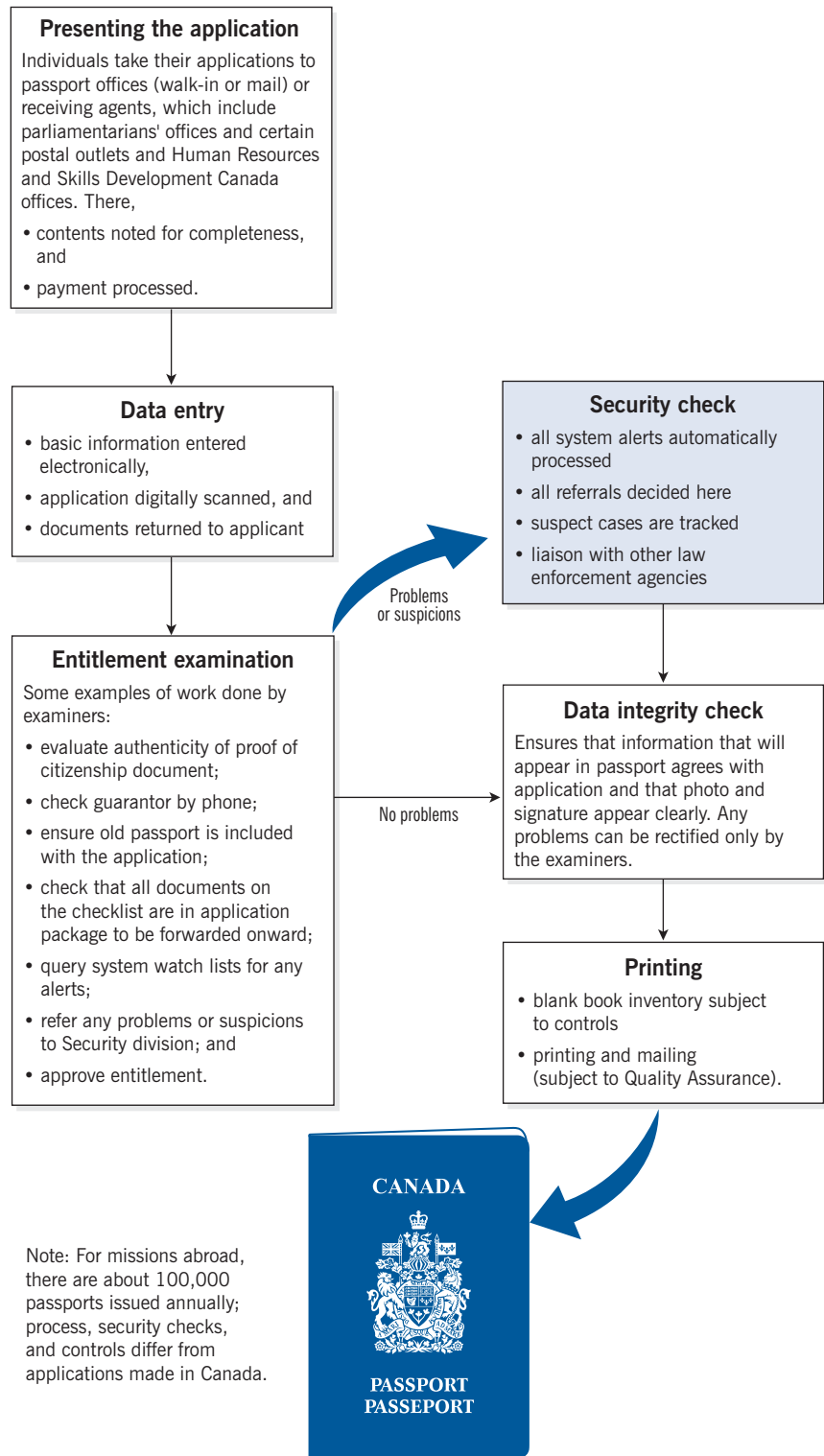
3.23 Examiners are the key officers in the passport entitlement process. Their role is to examine each application and assess whether applicants are who they say they are and, if so, whether they are eligible for a passport under the Canadian Passport Order. A national standard of performance for quality and efficiency governing this process only exists for examiners in training.

3.24 We found that the initial training provided to examiners in Canada is comprehensive. Training for domestic examiners consists of 4 weeks of in-class instruction followed by a 12-week period of qualification working with a mentor. (Training of consular officers abroad is discussed in paragraph 3.57).

3.25 We sent an interview questionnaire to 50 examiners and interviewed some additional examiners in the field. Most respondents expressed overall satisfaction with the initial training. The examiners felt that more frequent refresher training is required to keep up with changes in policies and procedures. Examiners also appreciated training on how to detect fraudulent documents when this was made available.

3.26 The extensive training program requires considerable investment. New staff must complete training before they can handle many of their duties. Management plans to change the structure of the initial training to increase the focus on security matters.

Exhibit 3.2 Process and controls for issuing a passport in 2004



Security clearance levels need to be reviewed and updated as required

3.27 The governing authority for security clearance is the Treasury Board of Canada's Government Security Policy and the Personnel Security Standard. Examiners must clear the appropriate security level to be hired. The Passport Office determines the security level required for each examiner according to the type of assets or information that the examiner will need to access. In general, most examiners are cleared for "enhanced reliability." Each level higher requires a more thorough background check of the employee.

3.28 We reviewed employee personnel records to determine whether employees had the appropriate levels of security clearance according to the Government Security Policy. We also visited local offices and observed employee access to critical materials and equipment such as blank passports and printers. We found that 565 indeterminate and term examiners in the human resources system were cleared for enhanced reliability and 179 had the next higher clearance, "secret." Of these 565 examiners, 45 had "full job concept" in their job description, which means they had access to critical material and equipment. We also observed in our visits that certain examiners without a secret clearance had access to critical assets in some offices. We are concerned that contrary to government policy, individuals with inadequate security clearance potentially had access to some critical assets. The Passport Office has informed us that this identified vulnerability has been addressed.

Identity authentication and entitlement decisions

Quality assurance of the examiner function is lacking

3.29 The quality of security features on identity documents accepted by the Passport Office to determine entitlement varies greatly. Some older birth and citizenship certificates have few, if any, security features; the latest citizenship card, which includes several embedded security features, is more difficult to alter.

3.30 The Passport Office lacks a formal quality assurance system for the examiner entitlement functions. Therefore, there is no assurance that examiners have followed the required procedures to determine that an applicant is eligible for a passport. In our view, the Passport Office needs a formal quality assurance system that checks whether an examiner is making the proper decisions about the identity documents presented by an applicant. That system should also provide an independent check over other entitlement functions such as verifying information provided by guarantors. A proper quality assurance system would ensure that any examiner making a systematic error in judgment would be rapidly identified and corrective action or training undertaken.

Examiners do not have all the proper tools readily available

3.31 During our visits to passport offices, we observed the type and availability of some key tools for examiners. Examiners at all offices had reference manuals and these were reasonably accessible. However, we found the following:

- A black light is needed to see the security features on the latest Canadian citizenship card. We observed one or two black lights available in some of the offices we visited, but they were not in the examiner area. This means that examiners have to leave their stations to verify the authenticity of modern citizenship cards. Examiners informed us that service requirements kept them from using this tool routinely, because doing so would cause delays. As a result, they rarely use them.
- Magnifying glasses for document examination were generally not part of examiners' standard equipment. According to their training on document fraud, this tool is useful in detecting some forms of document fraud.

The Passport Office informed us that it will purchase black lights and magnifying glasses for all examiners to keep at their workstations. The Office also informed us that managers have been advised that they will be responsible for providing refresher training to examiners once the equipment has been delivered, and that training guides will be completed for distribution by 31 March 2005.

Checks on guarantor information are not performed as required

3.32 Guarantors are either members of certain professional associations or individuals with certain accreditations who confirm the identity of the applicant by signing a declaration and one photograph of the applicant. Each guarantor must have known the individual for at least two years. Applicants who do not know an eligible guarantor must have their applications notarized. The signature of a guarantor is one of the main controls to ensure the authenticity of an applicant's identity.

3.33 The examiner's training manual includes a comprehensive list of criteria to validate the guarantor's credentials or the information provided; this procedure is called a guarantor check. The list provides instructions on what should be documented about the verification performed. Generally, to perform a guarantor check, the examiner verifies the guarantor's status and contacts the guarantor by phone to confirm the information provided.

3.34 Passport Office procedures require that examiners conduct guarantor checks on a significant percentage of applications. However, there is no national reporting on this activity, and the Passport Office could not demonstrate that this objective was achieved. We examined a sample of 50 applications where a guarantor check was mandatory, for compliance with the requirement. In 37 cases, we found no evidence of a guarantor check. Part of the reason for this non-compliance appeared to be poor communication of corporate requirements on one of the categories. We then examined a second sample of 50 applications for another category where the requirements were clearly communicated. We found no evidence of a guarantor check in 2 of those cases. For both categories, the results of the checks performed were poorly documented. As a result of our audit, the Passport Office has informed us that it has sent policy clarification to its regional offices and will ensure that the policy is adhered to.

Confirming vital statistics is difficult for examiners

3.35 At their discretion, examiners confirm the data on a birth or citizenship certificate by asking regional co-ordinators to contact Citizenship and Immigration Canada or the relevant provincial registry and seek confirmation that the presented identity document was issued with identical data. This is time consuming and non-routine. The Passport Office conducted a pilot project in one office where the data were automatically checked against the provincial registry through an electronic link. The pilot proved successful, and participants told us that this type of electronic link is ideal to ensure the validity of birth or citizenship certificate information.

3.36 Currently, there are no direct electronic links to provincial bureaus of vital statistics. Such links would provide immediate confirmation of data and allow examiners to check for reported deaths. No similar link exists between the Passport Office and Citizenship and Immigration Canada. Such a link would even permit photo verification of some naturalized citizens. Together with other federal and provincial/territorial partners, the Passport Office is looking into the development of a national routing system to create such electronic links.

Foreign Affairs Canada and the Passport Office have provided leadership on addressing identity documentation issues

3.37 The Passport Office and Foreign Affairs Canada have provided leadership on addressing identity documentation issues in Canada. As a result of such issues and growing security concerns after the events of September 11, 2001, the federal government spearheaded the formation of the Council of Identity. Its objectives were to develop a policy framework on identity in Canada, facilitate implementation of the policy, and monitor its effectiveness. The Council is chaired by the assistant deputy minister of Foreign Affairs and is composed of representatives from various federal agencies and provincial and territorial vital statistics personnel. The Passport Office is a leading participant in the Council as part of its efforts to improve its ability to rely on foundation documents (for example, birth, death, marriage, and citizenship certificates) presented by applicants, regardless of the level of government in Canada that produces them.

3.38 Since April 2002, the Council has held six meetings. By the spring of 2004 it had met its main objective: the completed development of a framework for a comprehensive and consistent approach to establishing and verifying identity across federal and provincial/territorial jurisdictions. It submitted the framework to the government for approval. The framework provides the policy parameters for authentication, secure registration, and verification of identities in Canada, based on the concept of foundation documents. At the time of our audit, Council members were awaiting the framework's approval. Such a framework is considered necessary for the creation of a national routing system, which would allow electronic authentication of foundation documents.

Challenges to the Security, Policy and Entitlement Division

3.39 The Security, Policy and Entitlement Division of the Passport Office has 62 staff and is responsible for all security matters related to personnel and the production and physical security elements of passports. Within the division, the Security Operations unit is responsible for the functions that assist in making and supporting entitlement and passport issuance decisions.

3.40 In order to assess the adequacy of the Security Operations' activities, we asked the Passport Office to provide us with management reports. We also sought to identify any systematic quality assurance controls over security activities. The Passport Office advised us that they do not yet have aggregated management reports on all the activities of the unit. They have problems with extracting management information from the main information systems. Management advised us that supervisors could assess some activities. However, the tracked data is not integrated and analyzed in a way that would assist them in monitoring the performance of the division, in making resource allocation decisions, or in making decisions on program priorities.

3.41 Access to the passport issuing system needs to be restricted. We found very poor control over the granting of access rights to users. Data administrators, system administrators, case management officers, entitlement review analysts, and operational and non-operational office managers all have user access profiles that allow them to issue a passport. We also found duplicate, system, or generic user profiles. Of 71 unsuccessful examiner candidates sampled, 19 still had active user access rights that would allow them to approve an application.

3.42 In cases where there is no automatic alert in the system, examiners can authorize the printing of a passport without further checks on their decision. We expected that access to the passport production and information system would be adequately safeguarded by assigning the appropriate profile to each user name. We expected that only qualified examiners currently dedicated to examiner functions would be able to access the system to produce passports. We found that there were a significant number of users who are not examiners and who have access to the system. They can approve entitlement and, in some cases, effectively trigger the issuance of a passport. This puts the issuance process at risk. The Passport Office informed us that this is, in part, a result of new workflows developed for high volume offices where data entry staff—who are not examiners—have access to printing due to the system design.

3.43 The Passport Office cannot effectively enforce certain provisions of sections 9 and 10 of the Canadian Passport Order. Prior to approving the issuance of a passport, examiners automatically check all applicants against the watch list from the Passport Office's information system to detect potential reasons for refusing a passport. This automatic check is the main security control in the process; there is no information related to criminal charges or probation orders required on the application form. If applicants do not have alerts against their names on the automated watch list, examiners have no way of knowing whether decisions need to be made under section 9.

Similarly, security personnel cannot know if they should consider revoking a person's passport under section 10. In addition, we could not find any documented criteria for making discretionary decisions to refuse or revoke a passport.

3.44 With its current information, the Passport Office cannot properly enforce certain provisions of sections 9 and 10 of the Canadian Passport Order, which address individuals with criminal charges or convictions (Exhibit 3.1). The Passport Office has three components to the watch list in its system: lookouts for persons, alerts for documentary evidence of citizenship, and alerts for guarantors. As of August 2004, the persons watch list had about 73,000 entries while the documentary evidence of citizenship and guarantor alerts had about 2,800 and 290 entries respectively. The largest category within the watch list is for parents (22,800) who are in arrears for child support payments.

3.45 Security officers advised us that the list is developed from information provided by a variety of sources, including migration integrity officers from missions abroad, law enforcement officers, courts, airline staff, and examiners. The majority of the information is provided voluntarily, on an informal basis. There are no automated data-sharing processes.

3.46 There are several databases maintained by government departments and agencies that the Passport Office could try and access to make its watch list more complete. For example, the Canadian Police Information Centre (CPIC) lists persons wanted or on probation. We are not suggesting that the Passport Office must refuse or revoke passports for all of these people; many are likely not of interest to the Office in terms of enforcing the Canadian Passport Order. However, the Passport Office's watch list includes fewer than 2,000 of those individuals who are wanted or are on probation. The current watch list appears to be of limited value in enforcing sections 9 and 10 of the Passport Order. The Office has not found a way to gain automated access to these important data. The Passport Office staff may manually access the CPIC database through a terminal at its headquarters to examine any individual application. However, it does not electronically link the CPIC data to its own watch list. Since its system lacks an electronic link to this key data, the automatic checks would not flag pertinent applications for review. We have been informed that other agencies have established such links for their own specific needs. We recognize that the Passport Office needs the co-operation of other government departments to obtain much of the data it needs. Nevertheless, without reasonable automated links to other government data systems that deal with criminal offences, its watch list will likely remain deficient.

3.47 We also found several weaknesses in the management of the watch list. The updating of the list was neither complete nor timely, in part due to problems co-ordinating with other government departments and agencies. For example, in 45 investigations we examined that were performed by the Security Operations unit, an average of 18 days elapsed between notification and creation of alerts.

3.48 Under section 10 of the Passport Order, the Passport Office may revoke the passport of anyone charged with an indictable offence, sentenced to jail, or released on parole. The Passport Office has revoked less than 25 passports, on average, each year for the last three years.

3.49 For examiners and security staff, the automated watch list is a key control. When the watch list is deficient, as is currently the case, they cannot properly fulfil their responsibilities and enforce important sections of the Canadian Passport Order that deal with persons who are charged with crimes, serving sentences, or are on parole.

3.50 Weaknesses in the investigations of sensitive cases. The Security Operations unit collects information and conducts investigations on any suspicious activity. Files are created when information such as the following is received:

- a Canadian has been identified as a smuggler or has committed passport fraud and there is sufficient evidence to pursue an investigation,
- an individual obtained a passport fraudulently,
- an applicant forged guarantor information and charges will be pursued, or
- an applicant forged the other parent's signature and charges will be pursued.

3.51 In the absence of an effective case management system, the unit has only some manual records of its investigative activity. Such records do not allow the Passport Office to assess the outstanding workload, the rate of effective resolutions of investigations, or resource requirements.

3.52 We examined a sample of 50 sensitive case files and observed several problems. For example,

- in our view, the Passport Office did not fully investigate 12 cases. According to the Office, 3 of the 12 investigations were incomplete due to resource limitations, and 6 resulted in the Office granting or extending a limited validity period.
- in our view, the Office should have referred at least 6 cases to the Royal Canadian Mounted Police (RCMP).
- for 10 cases that the Office did refer to the RCMP, there was no documentation on any follow-up activity to determine the status or the outcome of the RCMP's investigations.

3.53 Follow-up with the RCMP to determine the outcome of their investigations could provide useful lessons learned for the Passport Office in disposing of other outstanding cases. It would be in a better position to refer only those cases worthy of further investigation by the RCMP. The Passport Office and the RCMP could then better utilize their respective resources.

3.54 The Passport Office has improved its recording and sharing of information on lost and stolen passports. We followed up on the progress made as a result of observations on lost and stolen passports in our

March 2004 Report, National Security in Canada—The 2001 Anti-Terrorism Initiative. The Passport Office has made significant progress.

3.55 In February 2004, the Passport Office assumed responsibility for entering its data into the Canadian Police Information Centre database. For those files we examined, it still took an average of 35 days after a passport was reported lost or stolen (down from 70 days noted in our March 2004 Report) to give that information to CPIC. The Passport Office has recently automated several procedures that should eliminate the delays. Furthermore, there is currently no backlog of files in the Passport Office for entry to the CPIC database, compared to over 4,000 observed in our March 2004 Report.

3.56 To be effective, information on lost and stolen passports needs to be recorded and shared in a timely fashion. As a result of our March 2004 audit, the Passport Office is now sharing information with the Canada Border Services Agency. If a border services officer scans or queries a passport that the Office has recorded as lost or stolen, it will trigger an alert. The Passport Office has also begun to share the information with the International Criminal Police Organization (INTERPOL).

Control over issuance of passports by missions abroad presents several risks

3.57 The Passport Office relies on Foreign Affairs Canada consular staff to issue over 100,000 passports each year to applicants abroad. Consular staff perform examination, approval, and printing procedures. There are several key differences between mission and domestic passport services that result in increased risk:

- Consular staff do not consistently receive the same formal training and qualification as domestic examiners. Their passport training typically amounts to two days, compared with the four weeks of classroom training and twelve-week mentoring period provided domestically.
- In 2004, the upload of mission information into the Passport Office's system began on a daily basis. Previously, this was done every four to six weeks.
- Missions still print passports using the older passport booklet, which does not have the higher security features offered by the new booklet and new printing technology. The Passport Office is now planning to repatriate the printing of booklets, while providing only emergency travel documents at missions.

3.58 Recommendation. Foreign Affairs Canada and the Passport Office should do the following:

- Conduct a detailed security risk assessment of the passport examination and security functions, identify important gaps in the fulfilment of its mandate under the Passport Order, and take appropriate action. Such an assessment should address Passport Office examiners' security clearances, the conduct and recording of guarantor checks, system profiles, the completeness and accuracy of its watch list and methods

used to share data with other federal and provincial agencies, its lessons learned process, and its management of investigations.

- Introduce quality assurance and control measures over its key entitlement operations to ensure that the Office conducts proper internal checks on initial decisions and properly controls access to critical assets.
- Work toward establishing electronic links with Citizenship and Immigration Canada and the provinces that could automatically validate the identity data on an application.
- Provide examiners with the proper tools to discharge their responsibilities.
- Provide more thorough examiner training for consular officers.
- Work with Citizenship and Immigration Canada, the RCMP, and the Canadian Border Services Agency to develop memoranda of understanding for the sharing of information vital to the enforcement of the Canadian Passport Order.

Passport Office's response. As a result of increased international and domestic attention to security, there has been a significant shift in the policy framework in which the Passport Office operates. In the past, this framework primarily emphasized the delivery of service. Now it is rooted in domestic and global security, guided by the Canada National Security Policy of April 2004.

The Passport Office has put in place a series of key initiatives to address this recommendation. Specifically, working with Foreign Affairs Canada, it has launched a risk assessment to address strategic risk, including in the area of security. Once these results are received, a more focussed security risk assessment will be conducted. This will be accomplished in fiscal year 2005–06.

In fiscal year 2004–05, the Passport Office initiated a review of its Security Bureau and its functions to further enhance passport integrity, and it has allocated additional resources in support of this critical function. In fiscal year 2004–05 the budget of the Security Bureau was augmented by 25 percent over fiscal year 2003–04. The Bureau has added the positions of manager of intelligence and manager of compliance.

The Passport Office is redefining the mandate of the Security Bureau to identify core functions and processes. From this review, a three-year strategic plan and restructuring recommendation will be developed to narrow the focus of several divisions while introducing experienced senior managers and professionalizing staff development and training. The plan will be in place in fiscal year 2005–06.

The creation of new Regional Security units reporting to both regional and Passport Office headquarters will further ensure that the security continuum, from identity verification to passport printing, is strengthened. In fiscal year 2005–06, eight new regional security officers will be hired for this purpose. The units will be located in regional headquarters across the country and will

be used to support the compliance program, conduct on-site interviews of applicants with complex cases, and investigate fraudulent applicants or applications.

As of 4 February 2005, the Passport Office has purged all inactive and duplicate access to its system. A profile compliance monitoring system of each non-examiner's access is currently under development.

An expanded trial to establish electronic links for verification of identity data, involving several federal government departments and two provinces, is scheduled for launch in April 2005. This system will be further developed as funds become available.

The Passport Office is researching case management software with the intent of having a security and intelligence case management system in place by September 2005. This important tool, along with facial recognition technology, will enable management to strengthen the process of verifying identity before the issuance of a Canadian passport.

Nevertheless, the fundamental challenge faced by the Passport Office will always lie in correctly confirming an individual's identity. Canada does not have an explicit identity program. None of the documents commonly accepted in Canada as proof of identity was originally intended for that purpose. A second challenge is the ability to share information among federal departments and agencies, because of issues of technical interoperability and legislative frameworks. The Passport Office and Correctional Service Canada are now close to concluding a Memorandum of Understanding for the sharing of critical information.

Service to the public

3.59 The Treasury Board's *Results for Canadians: A Management Framework for the Government of Canada* sets out the key principles of public services delivery. The framework states:

As citizens, Canadians have a right to fair, equitable and reasonable treatment from federal government institutions. As clients, Canadians have a right to accessible service that meets their priorities for improvement. . . .

Citizens want the government to respond to their needs and provide choice: one-stop, integrated access via Internet, telephone or mail, or in person.

3.60 The Treasury Board's policy on external charging required the Passport Office, in delivering its service, to conduct open, transparent, and informative consultations with stakeholders. It must consult its stakeholders on costing, service delivery methods, and on establishing standards.

Key service standards exists but gaps remain

3.61 The Passport Office manages its operations using some meaningful key standards, including public wait times for walk-in service, phone calls, and turnaround times for receiving a passport. These standards serve as good indicators of performance and as useful tools for service improvement by the agency.

3.62 However, the service standards were lowered in December 2001 without the required consultation with stakeholders. For instance, turnaround target times increased in 2001 from 5 to 10 days for over-the-counter applications and from 10 to 20 days for mailed applications.

3.63 Standards for such examiner functions as identity verification and citizenship determination do not exist. There is also no national standard on examiner output and error rate—the number of applications examiners are expected to process each day and the number of errors that could be expected.

3.64 The Passport Office has reported on its performance in some relevant and meaningful ways:

- using some key performance standards (such as wait times and turnaround times);
- discussing and explaining how expected performance was being met or was not; and
- including negative information in their reporting.

3.65 When the Passport Office was established as a Special Operating Agency in 1990, the Treasury Board approved a document outlining its performance accountability. The business plans of the Passport Office further elaborate on three major areas of performance: service to the public, security, and stability of its operations. It has included extensive information in its annual reports about its service to the public. However, there is limited performance information to Parliament about security and the stability of its operations.

3.66 The Passport Office follows the good practice of publishing some client satisfaction survey results. Improvements could be made to the presentation of survey information; for example, it could comment on any data limitations so that readers can interpret the survey results more accurately. Nevertheless, performance information found in the Office's Annual Report does not adequately reflect the three focuses of its business plan: reduce passport fraud (security); provide reliable and convenient service; and put in place the conditions necessary for improvement (stability). Reporting on security and stability activities is missing or insufficient. We also found that it does not report consistently on phone service standards and performance.

Costs have risen significantly

3.67 The number of passports processed by each employee has been dropping consistently over the past five years. A decrease in productivity can have a direct impact on service to clients. Lower outputs by employees can mean longer waiting times for the applicants.

3.68 The Passport Office tracks the productivity of its offices, which varies significantly. Generally speaking, productivity in medium offices is similar, but productivity varies greatly among small and large offices. The Passport Office has not identified the reasons for those variations. Doing so would permit it to adopt corrective measures to control costs. At the time of our audit, the

Passport Office was developing a cost information system to better control its costs. The Treasury Board policy on fees charged to the public requires that departments and agencies consult clients on establishing service standards and the cost of those services. Currently, the Passport Office does not have adequate cost information on meeting service standards and, consequently, it cannot consult stakeholders about costs of regular or expedited services.

There is little contingency planning for crises

3.69 The Passport Office has experienced significant volume increases over the past few years. The increases of 2002–03 and 2003–04 were unusual, and the Greater Toronto Area experienced unprecedented demand. Although this was not anticipated, it was not entirely a surprise. At that time, the Passport Office had only long-term plans to address the general issue of rising volumes and their impact on customer service.

3.70 The field offices did have some measures or techniques that they used or developed in response to their volume crisis, but they were ultimately on their own. Regional managers and staff informed us that they worked longer hours or implemented innovative measures to try to cope with extreme volumes, but there was limited assistance offered by headquarters. There was no contingency plan, emergency fund, or temporary service locations to deal with an unprecedented demand. The Passport Office did not have an integrated risk management approach to ensure that it would be able to react to emergencies and cope with service demands before those emergencies became service failures.

Inability to forecast and influence demand places an undue burden on service

3.71 Year after year, demand for passports reaches a peak between November and March. As well, during this time there may be busier peak days of the week. The Passport Office does not have complete control over this phenomenon. However, it can influence demand to some degree. As early as its 2000–02 business plan, it discussed the concept of “flattening the demand cycle.” The Passport Office’s ability to influence demand is central to some of its key plans such as passport on-line and its renewals project, which times renewals for favourable periods of the year. At the time of our audit, phase I of passport on-line was being offered to the public as of the end of January 2005, and the renewal project had not been implemented.

3.72 In 2002–03, about 2.2 million passports were issued in Canada, a 13 percent increase over the previous year. The demand for passports normally varies according to the strength of the international economy, the season, and the occurrence of conflict abroad. But the 2003–04 volume significantly exceeded the Passport Office’s forecasts. Forecasting is an important activity that is used to set budgets for each regional office. Acknowledging that their model required updating, the Passport Office developed and approved a new model in 2004.

3.73 Services are provided through members of Parliament. For over 30 years, the Passport Office has been accepting passport applications from members of Parliament (MPs) who forward them on behalf of their

constituents. There is no formal agreement governing the process and the Office has not analyzed the security issues presented by this method of delivery. In 2003–04, the Passport Office processed 65,700 such applications. The service standard is 20 days, which is the same as for a regular application received by mail. MPs can enquire about the status of their applications by e-mail or a special telephone line. The passports are delivered to the MPs' offices by messenger service or can be mailed back to the applicants. The Passport Office estimates the cost per passport for this centralized service is less than the mail-in service, because there are fewer errors on the applications sent through an MP's office.

3.74 The Passport Office has not analyzed which of its different delivery methods are more desirable. It needs to balance the issues of access, security, cost, and impact on service delivery. Certain methods of issuing passports may be more cost-effective than others. The Passport Office needs to involve clients in setting reasonable standards that it can meet at reasonable cost without compromising passport integrity.

3.75 Recommendation. The Passport Office should

- develop and report on additional service standards, including information services such as e-mail, other correspondence, and telephone and track and control related costs;
- develop risk management practices and short-term plans to deal with extreme fluctuations in demand for service; and
- examine its service delivery methods with a view to influencing demand while improving cost-effectiveness and enhancing security measures.

Passport Office's response. The Passport Office agrees with the recommendation. New performance standards were introduced after September 11, 2001, as a result of the sudden increase in application volume and the introduction of new security requirements. It will develop and report on additional service standards.

It will introduce additional measures in 2005–06 to improve service in the areas of correspondence (including e-mail) and telephone inquiries. It will also introduce risk management practices and short-term plans to deal with fluctuations in volumes from both financial and operational perspectives.

Management of improvement initiatives

3.76 Although the Passport Office has documented its strategic planning process, weaknesses noted in the security and identity authentication activities, together with maintaining an adequate service level at a reasonable cost, impose considerable challenges. We examined its readiness to face those challenges.

3.77 We found nine strategic initiatives under way to either improve security or service, plus another five important projects that were not listed in the corporate planning document. For example, one project underway that would enhance security was a facial recognition capacity using submitted photos. Another project would streamline the passport renewal process and improve service. Many of these projects have been ongoing for several years

and are not yet completed. The Passport Office's management has not prioritized those projects and weighed their relative importance. We found that the Office used no formal criteria to separate priority from non-priority projects, for ranking projects according to greater or lesser importance, or for sequencing projects in the order they must take place. Only budget criteria were consistently applied in assessing projects—to ensure that a project was not too costly.

3.78 We observed that management had not fully analyzed the impact of concurrent improvement projects on each other. For example, the Passport Office decided to open several new offices in recent years. At the same time, it has had projects in development for applying for a passport on-line and to allow people to renew their passports without presenting their source documents at passport offices. The Office opened two new offices in the Greater Toronto Area assuming they could downsize again if volume dropped as a result of those other strategic initiatives. We found that the quality of analysis for setting up new offices was poor and did not address many of the key requirements of a business case: cost benefit analysis; key assumptions and constraints; or implications on future operational costs.

3.79 Project management and policy change initiatives have a direct impact on the jobs of Passport Office staff. For example, the projects on renewals and passports on-line may result in a reduction of front-counter staff in local offices. On the other hand, the planned requirement for first-time applicants to make an appearance, instead of mailing their applications, could increase the demand on front-counter staff. We found no long-term, consolidated human resources plan to address the impact of such initiatives.

3.80 In 2002, the Passport Office adopted a framework for human resources planning and approved the Human Resources Strategic Plan and Action Plan in 2003. Responsibility and timing for several key actions still remain to be determined after two years. The Passport Office has yet to address the gap between future passport demand and its current human resources capacity.

3.81 Many technological and quality assurance improvements will need to be made to increase the security around the issuing of passports. As well, the Passport Office plans to make several changes to service delivery. In our view, even considering the improvements to service that have been made, its current management systems and practices are not adequate to meet those challenges.

3.82 Recommendation. The Passport Office should review, complete, and implement integrated human resource plans without delay and improve its management systems to enable it to

- prioritize its many improvement initiatives by ranking them according to approved criteria, and
- integrate the planning of new offices into its strategic framework and consider the mid- to long-term impact of all improvement initiatives on each other.

Passport Office's response. The Passport Office agrees to review, complete, and implement an integrated human resource plan in light of the *Public Service Modernization Act*. The reorganization and restructuring of the Passport Office and the establishment of a Major Projects Bureau in February 2005 will allow it to prioritize its improvement initiatives and rank them according to approved project management criteria. Improved project management processes will have a positive impact in supporting the long-term strategic vision of the Passport Office as a whole. The Office will ensure that the opening of any new offices will be integrated into the planning framework and reflect the strategic direction of the organization.

Fee increases

3.83 Charging for services differs from taxation in that the charge is for a product or service received by an individual, over and above what the general taxpayer receives. The Passport Office charged \$158 million in fees in 2003–04 and collected another \$54 million in consular fees that were deposited to the Consolidated Revenue Fund. Neither the Department of Foreign Affairs Canada nor the Passport Office has authority to re-spend the \$54 million in consular fees. The Passport Office ended the 2003–04 fiscal year with a net income for the year of about \$9 million and an accumulated surplus of \$37 million.

3.84 The passport fee was set at \$35 in 1992. In 1995, a consular fee of \$25 was introduced to be charged on issuance of a passport, bringing the total fee to \$60 charged to the applicant. In December 2001, the government raised the passport fee by \$25 to a total of \$85 for an adult regular passport. Of this, \$60 funds the operations of the Passport Office through its revolving fund, and the \$25 consular fee recovers consular services costs. The Passport Office does not manage or control consular activities in missions abroad.

3.85 **The setting of passport fees is controlled by regulation.** Passport fees are established by regulation under the *Financial Administration Act* and can only be changed by a regulation. The Act forbids user fee recovery in excess of costs. The Federal Regulatory Policy governs the development of regulations.

3.86 Key provisions of the regulatory process require a regulatory impact analysis as well as pre-publication in the Canada Gazette of the decision to impose a new fee. Prior to changing a fee, the proposal must include an analysis of the proposed regulation, the alternatives considered, a benefit-cost analysis, the results of consultations with stakeholders, the department or agency's response to any concerns raised, and the means of monitoring and enforcing the proposed fee or fee increase. The results of this analysis are summarized in a regulatory impact analysis statement.

3.87 Under the Treasury Board's Cost Recovery and Charging Policy and the subsequent External Charging Policy in effect until November 2004, departments had to ensure that there was a process for managing fee disputes. Although the Passport Office had an ombudsman function for passport issuance, it did not have a fee dispute management process as required by the policy.

3.88 The 2001 fee increase did not fully comply with authorities The Treasury Board's Guide to the Costing of Outputs in the Government of Canada defines full cost as the sum of all incurred costs, direct and indirect. The Guide provides examples of incurred costs, which are expenses that have been paid for. The Guide is silent about how to set fees based on projected future costs.

3.89 The Treasury Board's Guide to Costing of Service Delivery for Service Standards also states that costs recovered through fees are incurred costs. It does not consider using future cost projections as the basis for current fees. Passport Office and Treasury Board of Canada Secretariat officials told us that cost projections may be valid for the Passport Office as a basis for fee determination; they referred to a principle that applies to revolving funds of breaking even over a three- to five-year business cycle. We accept as reasonable that fees may be set based on projections within such a cycle, to the extent they are set to recover only expected incurred costs. This implies that, according to the *Financial Administration Act*, fees would need to be lowered if expected costs did not materialize over the cycle.

3.90 The Treasury Board, on the advice of the Secretariat, recommended the approval of the passport fee increase of December 2001 based on its projections over a five-year cycle. The projections included the full price of future capital project outlays. They also included building an accrual accounting surplus of \$84 million and a cash surplus of \$34 million by 2006–07.

3.91 We could find no Treasury Board policies or guidance that would allow for setting user fees to include an expected surplus above the projected cost.

3.92 In 2001, as part of its regular client satisfaction survey, the Passport Office asked whether respondents would support a potential \$10 or \$20 fee increase to offset the costs of new services and security features. There was low to moderate support. About the same time the fee was increased, service standards were lowered significantly. The Office also ran a focus group with travel agents and associations where a proposed fee increase of \$25 was discussed. But there has been little discussion with clients about the increasing costs of providing passport services. The Treasury Board policies dealing with cost recovery required that departments and agencies identify and explain clearly to clients why the services are being delivered in the manner they are, how charges are determined, and how costs are being controlled. In our view, the Passport Office did not meet this on-going requirement.

3.93 Treasury Board conditions with respect to consular fees were not followed. When the Treasury Board approved the introduction of the consular fee in 1995, it required the Department of Foreign Affairs and International Trade, as it was then called, to absorb future costs and fully disclose the costs of consular services in its Main Estimates. However, there has been little cost information about consular services in the departmental annual reports to Parliament. Foreign Affairs Canada informed us that every year it had prepared an analysis of its consular costs. However, we could not

audit these analyses for four of the years since 1995–96 because the Department could not locate the relevant files. Although the passport application showed the consular fee was \$25 of the \$85, there was no detailed information in reports to Parliament about what kind of costs justified the \$25 fee. Passport applicants were not consulted as required and are not in a position to know what they are paying for or how the funds collected relate to the operations of consular activity. Consular fees collected increased from \$34 million in 1996–97 to \$54 million in 2003–04. Foreign Affairs Canada also directly charged \$3 million for miscellaneous consular services in 2003–04.

3.94 New user fee legislation imposes additional requirements. As explained above, the Passport Office was not fully meeting the requirements under the Treasury Board policy on external charging. Parliament passed new legislation governing user fees in the spring of 2004. This legislation imposes additional requirements for transparency on how costs justify fees and on expected service levels. The Passport Office is not ready to comply with the new legislation because it lacks reliable cost information related to service standards.

3.95 Recommendation. In consultation with the Treasury Board of Canada Secretariat, the Department of Foreign Affairs and the Passport Office should review the process for setting the passport fee and client consultation on service levels to ensure compliance with the *Financial Administration Act*, user-fee legislation, and Treasury Board policies and guidelines.

3.96 Recommendation. The Passport Office should

- develop reliable cost information tied to service standards to justify current user fees and any future increases to user fees, and
- improve its method of client consultation to comply with new user fee legislation and ensure it has an appropriate mechanism for resolving fee disputes.

Passport Office's response. The Passport Office is currently establishing a Balanced Scorecard with a series of cost, performance, and security indicators. It will be introduced in 2005–06 and fully operational by 2007–08. With this approach, the Passport Office will be better able to determine the impact of new initiatives on its cost structures and in a position to take the appropriate action.

Activity-based costing will be introduced in 2005–06 and fully operational by 2007–08. It will allow the Passport Office to align costs with business lines and service standards.

In light of the events of September 11, 2001, the Passport Office did not have the opportunity to consult the public on the revised fee increase as security measures required immediate implementation. The Passport Office is committed to meeting all requirements for consultation in the future.

Conclusion

3.97 The Passport Office is struggling to balance and meet increasing security expectations and demands for service. It has not designed and implemented quality assurance for the examiner function and for effective security controls over the issuing of passports.

3.98 The Passport Office cannot effectively authenticate an applicant's identity and determine eligibility in all cases. Its watch list is deficient and not up-to-date. It has not found ways to automatically obtain necessary data from other government sources, or ways to effectively validate identity data with the provinces. Management's monitoring of security controls is poor. The Passport Office urgently needs to enter into co-operative arrangements with the provinces and other government departments to validate identity data and to obtain the data it needs to keep its watch list current and complete.

3.99 The Passport Office has so far established and achieved transparent levels of service, but it has not consistently consulted stakeholders on service standards and has had difficulty in controlling its costs.

3.100 Our audit has highlighted several areas that need urgent attention. The Passport Office needs to perform a comprehensive risk assessment of all its operations and prepare an action plan. The implementation of this plan should be closely monitored.

About the Audit

Objectives

Our audit objectives were to determine whether the Passport Office achieved the following at a reasonable cost:

- design, implementation, and monitoring of effective controls over the issuing of passports; and
- establishment and achievement of reasonable levels of service.

Scope and approach

The main focus of our audit was the security measures and identity verification undertaken by Passport Office examiners and support staff. We also assessed quality of service to the public, which the Passport Office considers integral to its operations. Finally, we assessed whether the Office complied with authorities for setting user fees.

We examined Foreign Affairs Canada's financial information about consular activities. We reviewed the Department's internal audit reports to assess security and service issues at missions abroad.

We reviewed regional and headquarters' documents, interviewed management and staff, interviewed Treasury Board of Canada analysts, sampled databases, performed quantitative and qualitative analyses, observed operations and conducted interviews at headquarters and 15 offices, and sent an e-mail questionnaire to a sample of examiners. We examined a risk-based sample of case files to determine the adequacy of the Passport Office's operating procedures.

For our e-mail questionnaire to examiners and our tests of guarantor checks, we selected samples from the populations provided to us by the Passport Office. All our samples were taken from the most complete data that were available at the time of our audit. We sent an interview questionnaire to 50 randomly selected examiners and received 36 responses. For guarantor checks we examined 100 passport applications that required mandatory guarantor checks.

For our examination of the lost and stolen passport reports, we randomly selected 115 reports from daily reports beginning in February 2004 when the Passport Office assumed responsibility for entering its data into Canadian Police Information Centre database.

Criteria

The criteria for this audit were based on the Canadian Passport Order, Passport Services Fees Regulations, the *Financial Administration Act*, Treasury Board policies and guides, and the Passport Office's manuals and guides.

We expected the Passport Office to have

- adequate procedures and processes in place to ensure that passports are only issued to eligible Canadian citizens;
- adequate procedures and processes in place to ensure that reasonable levels of service are established, achieved, and reported on;
- followed a formal project management process to improve service delivery; and
- complied with authorities for setting user fees.

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