



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on Public Accounts**

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PACP • NUMBER 072 • 1st SESSION • 42nd PARLIAMENT

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**EVIDENCE**

**Thursday, October 19, 2017**

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**Chair**

**The Honourable Kevin Sorenson**



## Standing Committee on Public Accounts

Thursday, October 19, 2017

• (0845)

[English]

**The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)):** Good morning, everyone. This is meeting number 72 of the Standing Committee on Public Accounts on Thursday, October 19, 2017. I would remind everyone that we are televised today.

In our first hour we will study the Auditor General's special examination report of the Freshwater Fish Marketing Corporation, of the Spring 2017 Reports of the Auditor General of Canada. We have as witnesses before us today, from the Office of the Auditor General, Clyde MacLellan, assistant auditor general; also Heather McManaman, principal. From the Freshwater Fish Marketing Corporation, we have David Bevan, chairperson, board of directors; Stan Lazar, interim president; and Wendy Matheson, vice-president, human resources and government services.

We have an opening statement from the Auditor General's office and also from Mr. Bevan of the Freshwater Fish Marketing Corporation. Then we'll have time for questions. We may conclude about five minutes before the time is up as we have some committee business we want to do before we move into the next hour of presentations.

With that I'll turn to Mr. MacLellan. Welcome to the public accounts committee.

**Mr. Clyde MacLellan (Assistant Auditor General, Office of the Auditor General):** Mr. Chair, thank you for this opportunity to present the results of our special examination of the Freshwater Fish Marketing Corporation. As you mentioned, joining me at the table is Heather McManaman, the principal who was responsible for the audit.

A special examination of a crown corporation is a type of performance audit. Specifically, a special examination determines whether a crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources were managed economically and efficiently, and its operations are carried out effectively.

The Freshwater Fish Marketing Corporation was established in 1969 to market and trade both inside and outside Canada freshwater fish caught in western and northern Canada, as well as the by-products of that fish. Our examination of the corporation covered the period from October 2015 to June 2016.

The corporation has faced many external challenges in recent years. These challenges included considerable risks associated with a complex and changing business environment. For example, the supply of whitefish increased at the same time that Canadian sanctions on Russia reduced the number of buyers for this fish. Also, the Province of Manitoba gave notice that it intended to withdraw from its agreement under the Freshwater Fish Marketing Act and therefore eliminate the corporation's exclusive right to purchase fish caught in that province.

• (0850)

[Translation]

Our special examination identified many serious deficiencies in the corporation. As a result of the pervasiveness of these significant deficiencies, we concluded that the corporation had not maintained its systems and practices in a manner that provided reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively.

We refer to this type of conclusion as an adverse opinion, which is the strongest negative assessment that we give in a special examination.

In several ways, we found that the board of directors and management failed to meet their responsibilities for oversight and management of the corporation. Specifically, we found that the board did not ensure that the corporation's strategic plan was up to date and provided clear strategic direction to management.

Furthermore, management had not provided and the board had not reviewed updated risks and risk mitigation measures since 2014. Consequently, management did not have strategies in place to mitigate the significant events that affected the corporation. This greatly limited the corporation's ability to meet its objectives, make long-term commitments, and make timely decisions about its future.

We found that management disregarded key controls. For example, management created positions without job descriptions and filled them without competitive or merit-based processes. Also, management disregarded the corporation's procurement and purchasing policy when it purchased certain pieces of capital equipment without a proper business case analysis. Some of this equipment was never used in the corporation's plant because it did not meet its needs.

[English]

We also found that some plant workers had not taken compulsory health and safety training and that a hazard prevention program was not finalized. If these health and safety issues are not addressed, they could lead to employee safety incidents and expose the corporation to significant losses.

Finally, we found that despite the recommendations we made in our 2005 and 2010 special examinations, the corporation's targets and standards for yield, capacity, and labour efficiency still had not been reviewed. This finding matters because yield is a key measurement of efficiency and production performance.

The corporation agreed with all of our recommendations and indicated that it would act to address our concerns. However, because our work was completed in June 2016, I cannot comment on any measures that have been taken since then. The committee may wish to ask the corporation's officials to clarify what measures have been taken in response to our recommendations.

[Translation]

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer any questions the committee may have.

Thank you.

[English]

**The Chair:** Thank you very much, Mr. MacLellan.

We'll now turn to Mr. Bevan, please.

**Mr. David Bevan (Chairperson, Board of Directors, Freshwater Fish Marketing Corporation):** Thank you for the opportunity to appear here today, and thank you to the Office of the Auditor General for their observations and recommendations.

I'm going to speak briefly to the slides that are in the deck we sent to you.

The Freshwater Fish Marketing Corporation was established in 1969 to connect geographically dispersed communities to world markets. The conditions that led to its establishment generally persist to this day. We buy, process, and market 15 million kilograms of fish coming from Manitoba, Saskatchewan, and the Northwest Territories. We purchase fish from about 1,600 fishers. They are predominantly from dispersed, isolated, and predominantly indigenous communities. We have the infrastructure and the supply chains to move products into those communities to help support the fishery and the fish back out. Our average sales over the last three years have been \$73.5 million, and we employ 250 full-time employees and 150 seasonal employees.

On the next slide, there's more information about how much money we spend in each jurisdiction to obtain our supplies of fish, and where we sell the fish.

Key performance indicators, on the following slide, for the year following the special examination indicate that our profits prior to final payments and income tax are up. Our retained earnings have increased to almost \$15 million, which is in excess of our long-term debt, and we have improved our yields and improved our operational

costs per kilogram. This year, in the first quarter, our performance continues to be quite positive. We have in the first quarter a profit after tax of \$4.3 million, as compared to \$2 million in the previous year. We have increased sales volumes. We have strong revenues, a competitive market pricing, and we've controlled our expenses. We are on track to meet the corporate plan.

The next slide gives a graphic presentation of our retained earnings since we changed our policies in 2010. At the bottom is the profit after taxes and after final payment to fishers.

The real risk that we face at this point is the withdrawal of Manitoba from the Freshwater Fish Marketing Act. Manitoba is going to create logistical, operational, and governance challenges for the corporation. They supply 80% of our fish. The Government of Canada has consulted with stakeholders and will be coming forward with a decision as to how they will respond to the changes with respect to Manitoba. In the meantime, the board and the management of the Freshwater Fish Marketing Corporation are acting to secure supply, to use the infrastructure for processing, to maintain our revenue, and to meet commitments to customers in the world.

The following slide is on special exam status. I think we'll skip that, as there will be questions, and I'd like to spend a few seconds on the summary.

The special exam took place at a very difficult time for the corporation, between October 2015 and June 2016. Board members had observed many of the problems that were noted in the Auditor General's report and had been raising those concerns with the Government of Canada. In December 2015, the then chairperson of the board resigned halfway through his term. As a result of that, the president took on both the duties of the president and the chairperson of the board. That led to further concerns which the board members raised with the Government of Canada.

The Government of Canada took action in late February 2016. They appointed new board members, myself, and also John Wood, who took on the duties as interim president as a result of the removal of Donald Salkeld as president at that time pending the results of an investigation. That investigation resulted in his dismissal with cause.

We are acting upon the recommendations of the Auditor General, for which we have the authority to do so. Many of the recommendations are going to require Government of Canada action, and we're co-operating with the Government of Canada in that regard.

● (0855)

Just to wrap up, I note the performance that we recently posted is positive regarding profitability, growth of retained earnings, and support for isolated communities.

We would be happy to answer any questions you may have. Thank you.

**The Chair:** Thank you very much, Mr. Bevan.

We will now move into the first round of questioning. It's a seven-minute round and we will go to Mr. Lefebvre.

**Mr. Paul Lefebvre (Sudbury, Lib.):** Thank you, Mr. Chair.

Thank you for being here this morning.

Mr. Bevan, when did you start your role with this organization?

• (0900)

**Mr. David Bevan:** I started in late February 2016.

**Mr. Paul Lefebvre:** I realize this audit was done concurrently and you took over after that.

I must say this is the worst performance audit I've seen since I've been a member of Parliament. The conclusions reached by the Auditor General are extremely concerning, and you just mentioned to us that for a period of time, the chair of the board was the executive director. Am I correct in saying this?

**Mr. David Bevan:** That's correct.

**Mr. Paul Lefebvre:** I have to say, in my community organizations in Sudbury we don't even do that. I apologize. I know you weren't there. However, as a taxpayer, as a member of Parliament, this is extremely absurd and concerning, I must say. I will try to keep my comments productive, but as you can see, I'm completely aghast with this audit. It's seriously concerning.

I'm sure my colleagues across the aisle will ask a lot of questions, but you said that you are in a very precarious position now that Manitoba wants to pull out. I'll get to the governance issues, but right now, I think there's an existential crisis ongoing in your organization. This is a crown agency. Is that correct?

**Mr. David Bevan:** That's correct.

**Mr. Paul Lefebvre:** We all agree on that. Wow.

From what I've read, confirm to me or tell me I'm wrong that this crown agency currently has an existential crisis, given where this is going. Tell me if I'm correct or wrong.

**Mr. David Bevan:** I would just respond to your first observation about the inappropriate situation of having a president be the chairperson of the board at the same time. That is actually prescribed by the Freshwater Fish Marketing Act. It's in the law.

**Mr. Paul Lefebvre:** Incredible.

**Mr. David Bevan:** Therefore, there was no alternative but that.

Yes, we are facing a situation where the continuation of the corporation as a crown corporation is certainly in question. We have taken steps to secure supplies by entering into contracts with fishers by ensuring that the corporation can continue while the Government of Canada determines what it wants to do with the corporation.

I certainly support the observations that were being made by the Auditor General at the time of the audit, because many of those observations were being conveyed to the government, which took action to remove the previous president and to replace that president. You can certainly look at the performance since that time. Things are going reasonably well.

**Mr. Paul Lefebvre:** They're getting better.

I have to say, however, where my concern lies is not with this audit, but the fact that there was one in 2005, and there was one in 2010—

**Mr. David Bevan:** That's correct.

**Mr. Paul Lefebvre:** —and we're still back here in 2017. For us we see this repetition. Basically, you come here and say, yes, you're

going to do all these recommendations, you're going to follow them, and then after that, you're back here five years later saying you haven't done it.

The comments from the observations, “the corporation's targets and standards for yield, capacity, and labour efficiency still had not been reviewed”—just not acted upon, “reviewed”. This is from 2005, 2010, and we're back in 2015.

What can you say about that?

**Mr. David Bevan:** Well, they have been reviewed and there are targets set at this point in time.

I would point out that some of the observations in 2005 and 2010 were acted upon, but they fell by the wayside. A lot of our practices on human resource hiring and dealing with that were not followed. Our practices on procurement of equipment were not followed. They did continue with the retained earnings, obviously, from the information that I presented to you.

Some of the things were followed through on, but others were in place, but not followed.

**Mr. Paul Lefebvre:** Okay, so where are you right now? You said it's been reviewed, so what is the plan? The Auditor General's office wanted us to ask you what you have put in place now, and certainly that was a question we were going to ask in any event. Where are you guys as of now?

**Mr. David Bevan:** We have re-established the human resources policies regarding hiring people. We have done the risk evaluation and put in place mitigation for those risks. I might turn to Mr. Lazar on some of the issues around yield, etc., but action has been taken to do that, and the results demonstrate that. The results from last year were audited by the Auditor General. They are—

• (0905)

**Mr. Paul Lefebvre:** The financial results are one thing, but the governance issue is pervasive. It's a complete separation for me. Basically, when you have a crown agency that is governed this way, like I said at the outset, community organizations look as if they're governed to a better extent.

Mr. Lazar, please comment on where you guys are now in terms of putting the recommendations in place and addressing the major governance issues that you have currently.

**Mr. Stan Lazar (Interim President, Freshwater Fish Marketing Corporation):** I don't know that it's my place to talk about the governance issues. I am the interim president from an operating perspective, so I'll address your question about the yield, the measurements, and how we manage that.

As identified in the report by the Auditor General, the corporation was not effectively measuring the yields in 2010. Since then, the corporation recognized that the standards we use for yield are a significant operating issue that affects our profitability. Since that time, we have a system and a process in place, and the response by the corporation details that we review those metrics. As regards yields, and by specific species, we have yields that are measured. Our operation staff, management and all the key people in the plant operations have that as part of their performance management currently.

**Mr. Paul Lefebvre:** Okay.

How much time do I have, Mr. Chair?

**The Chair:** You have three seconds. We'll come back to you, Mr. Lefebvre.

Mr. Sopuck, welcome to our committee. I know you are from Manitoba, and this is not a new entity to you. You are very knowledgeable on freshwater fishing.

**Mr. Robert Sopuck (Dauphin—Swan River—Neepawa, CPC):** As we all know, Mr. Chair, a little knowledge is a dangerous thing.

Yes, I have a number of commercial fishing operations in my constituency who sell to the Freshwater Fish Marketing Corporation, and in a previous life as a fisheries biologist for Manitoba, I dealt directly with the FFMC.

One of the things I found a bit surprising about the discussion was the use of the generic word “fish”. It's quite clear you're basically a walleye marketing organization, right? What proportion of the income of the Freshwater Fish Marketing Corporation comes from the walleye, or what are called pickerel?

**Mr. David Bevan:** That is the biggest source of our profitability. However, I would point out that we've made progress with respect to whitefish. We've had a significant problem—

**Mr. Robert Sopuck:** I understand that, but right now, in dollars and cents terms, the walleye are about 75% of your gross sales, right?

**Mr. Stan Lazar:** As regards profitability, walleye is the most profitable species. However, volume-wise, whitefish is the most volume the corporation sells.

**Mr. Robert Sopuck:** Right. But again, you have a range, from high-value species like walleye, going down to whitefish, then pike, then your mullet and carp, and so on, and then the various products from each of these species, such as roe, and each with a different value, right?

**Mr. Stan Lazar:** Correct.

**Mr. Robert Sopuck:** Is it safe to say you have an overreliance on walleye?

**Mr. Stan Lazar:** Walleye accounts for a large portion of our profitability.

**Mr. Robert Sopuck:** Yes. I know it's the biggest. It's well over half, if not more.

The Manitoba government has chosen to withdraw from the Freshwater Fish Marketing Corporation, instituting—quote, unquote—marketing choice. It's quite clear once there's marketing choice

and private buyers in the market, that they will target the high-value walleye primarily for purchase. Would you say that's a fair assessment?

**Mr. Stan Lazar:** Honestly, it's not my role to comment on what the Manitoba government believes.

**Mr. Robert Sopuck:** No. This is what I believe, that the buyers will target walleye. I mean, that's only common sense. They're the highest-value fish.

**Mr. Stan Lazar:** I'm sure that's possible.

**Mr. Robert Sopuck:** I can guarantee it.

The thing is, once you have competitors for high-value walleye from road-accessible fisheries, like Cedar Lake, Lake Winnipegosis, and Lake Winnipeg, that will take a very large bite out of the corporation's profits, potentially. That is a risk you have to think about. Is that correct?

**Mr. David Bevan:** Yes, that is a risk we have to worry about. That's why the corporation, in evaluating that risk, has developed the strategy of entering into contracts with fish suppliers. If you're a fisherman, you need to make a decision if you're going to work with the corporation and sell all your fish, or if you are going to move outside that and try to live off walleye and worry about the other species on your own. That's a decision they have to make, and we've been entering into contracts to try to mitigate the risk that you raised.

• (0910)

**Mr. Robert Sopuck:** Don't mistake me; I'm not trying to be pejorative here. That's a tough environment you're facing, and as I said, I'm sure the private buyers will target the fish that you want and they'll offer prices that will be very attractive to the fishermen.

One thing also I didn't hear anybody talk about, either the auditors or you, was the issue of fishery sustainability. The Lake Winnipeg fishery right now, which the FFMC depends on, is in a very fragile state. Basically FFMC has relied on Lake Winnipeg for a significant portion of its income. Is that correct?

**Mr. Stan Lazar:** That's correct.

**Mr. Robert Sopuck:** Okay, it stands to reason. It's close to Winnipeg, is road accessible, and so on.

Do you pay a premium for the fishermen to target large female walleye?

**Mr. Stan Lazar:** We do not for male or female, but we do have different prices for the sizing of all our species.

**Mr. Robert Sopuck:** Large fish are given a higher price. Is that fair?

**Mr. Stan Lazar:** It depends on the species.

**Mr. Robert Sopuck:** I'm talking about walleye now.

**Mr. Stan Lazar:** We did increase walleye prices recently.

**Mr. Robert Sopuck:** For the large fish.

**Mr. Stan Lazar:** For larger fish.

**Mr. Robert Sopuck:** Yes, that's devastating from a sustainability standpoint, and I'm shocked that you don't consider that a risk. Targeting the most valuable individuals in a fish population is tantamount to raping that population. I know fish management is not your concern necessarily, but if and when that Lake Winnipeg walleye fishery collapses, what are you going to do then?

**Mr. Stan Lazar:** We work closely with the Government of Manitoba and the water stewardship branch there to understand the fish stocks, and the business plan that we have before the Government of Canada right now recognizes that the fish are sustainable for the foreseeable future. We really don't have anything in place over the long term—

**Mr. Robert Sopuck:** The recent science disputes that, and I've read it. Lake Winnipeg has collapsed before and it will collapse again. I think that is a risk that you need to really assess.

The other risk is the allocation of fish stocks. What's developed on Lake Winnipeg, for example, is a very high-value recreational fishery that is far more important to the Manitoba economy from a dollar and cents standpoint than the commercial fishery, and public bodies allocate public resources based on the highest and best use.

Have you factored any reallocation of the walleye fish stocks into your risk analysis?

**Mr. Stan Lazar:** No, we haven't.

**Mr. Robert Sopuck:** In terms of the non-quota species, the off-quota species such as mullet and carp, what are your plans for marketing them, and will you be able to pick up the slack financially if and when your access to walleye stocks have declined?

**Mr. Stan Lazar:** We have aggressive marketing plans for a number of those species. I'll use carp as an example. We have a very lucrative market for carp roe. We've done a lot of good work and are earning high margins on that species. Although whitefish isn't in that same category, we sell whitefish roe and tullibee roe, which are very profitable and provide high margins to support the profitability of the corporation.

**Mr. Robert Sopuck:** I must compliment you on the carp marketing you have done. Just going back to the notion of fishery sustainability, anything we can do to reduce the carp populations in Manitoba is a very good conservation move, so I congratulate you on the carp.

What are your plans for mullet? I understand that you have some really good markets in New York. Are you going to be able to expand that for the mullet cakes you make and that kind of thing?

**The Chair:** Thank you, Mr. Sopuck.

Go ahead, Mr. Lazar. You can finish.

**Mr. Stan Lazar:** Yes, New York is a large market for us, and when it comes to mullet, again we have various marketing plans in place to ensure that species is profitable for the corporation.

**The Chair:** We'll now move to Mr. Christopherson, please.

**Mr. David Christopherson (Hamilton Centre, NDP):** Thank you, Chair.

Thank you all for your attendance.

I don't know an awful lot about fish, but I know a lot about auditing, and I'm with Mr. Lefebvre. This audit is a jaw-dropping evisceration of this entire operation. It's the worst that Mr. Lefebvre has seen. He's been here for two years. It's in my top three, and I've been here 14 years. This is among the top three worst audits I have ever seen in terms of how a crown corporation is being operated in this country. What an absolute mess.

I understand that you can only take so much responsibility because you have only been there so long, but you're the face of the organization. You have to wear this.

The first thing I would like to know is how many of the board members and staff from before 2016 are still around?

• (0915)

**Mr. David Bevan:** There are two board members still around. Actually, that's an interesting question, because what happened leading up to the audit was that a number of staff who were there in the past were removed and replaced, following a system that was not acceptable.

We had to correct that. Starting in 2016, the new interim president—John Wood at the time—had to correct a number of deficiencies with respect to the staff and replace the capacity within the organization following a proper procedure. That was done. We had to correct issues related to improperly purchased equipment. We had to deal with a badly managed whitefish inventory. All that took a little bit of time to correct, but we got it back on its feet. I think you can see from the results in terms of profitability, earnings, and getting our costs under control that we have made progress.

**Mr. David Christopherson:** Are there still board members who were around from before and are still on the board?

**Mr. David Bevan:** There are two, yes.

**Mr. David Christopherson:** Really. I find that very surprising.

**Mr. David Bevan:** I would point out, however, that they were among the people who were raising issues with the Government of Canada that led to the appointment of new board members, the replacement of the president who was responsible at the time, and so on. Those are the people who were acting to inform the government that they had a problem, and the government acted in response to that. That was before the audit.

**Mr. David Christopherson:** So are you suggesting you kept the good ones?

**Mr. David Bevan:** We kept the ones who were in it for the long haul.

**Mr. David Christopherson:** Okay.

I have one question and then more of a comment.

I'm with Mr. Lefebvre. Where do you begin? It would almost be easier for us to talk about the things that were done right, because it's a much shorter list.

I want to ask a question of the Auditor General's office.

Turn to the profitability slide that the agency has presented. I'm looking at page 8, exhibit 1 at the top of that page. If I understand correctly, you were factoring in some of the value differences of the currency, which you suggested—my words—kind of skewed the result.

This is beyond my academic competency level by a long shot, but I'm looking at that chart, and then I'm looking at theirs. I'm asking you to help me do apples to apples. Are they saying the same thing?

**Mr. Clyde MacLellan:** Let me respond. Quite simply, I think they do cover slightly different periods of time. The purpose of the corporation's chart is to reflect the current trend in where they are going and the rising profitability.

We looked at the chart that we had. It starts when we did the audit and goes back.

**Mr. David Christopherson:** Right.

**Mr. Clyde MacLellan:** The principal message we were trying to accomplish is what you indicated. One of the drivers of the profitability that the corporation experiences is in relation to the exchange rate. All we wanted to raise was the fact that exchange rates go through cycles, and if the exchange rates become unfavourable to the corporation, it will make it more difficult to generate profitability if the responses are not done to the types of operational issues we identified.

**Mr. David Christopherson:** Very good. Thank you. That's what I thought. It's not quite as solid as it might seem, but really, that's getting into the details here.

When I stand back, colleagues, and I look at this thing with a kind of oversight, I'm looking at this, Chair, and I'm thinking 80%—is there really a possibility that you can exist going forward after you lose 80% of your business? Is that viable?

**Mr. David Bevan:** That's assuming that we lose the 80%. We are signing contracts with suppliers in order to secure a supply of fish to keep the infrastructure—

**Mr. David Christopherson:** I don't want to be rude, and I'm sorry for interrupting, but I'm going to run out of time. I'm down to one minute.

What I wanted to say, Chair, is that it seems to me that going through the details of all the things that are wrong is like an exercise in futility. We know it's a mess.

I don't know that they're going to survive. We hope they do, if they're doing good work on behalf of the Canadian people. However, I'm almost inclined, Chair, to say that we almost need to give them a period of time to go back to find out whether we've even got an entity here that we're operating on. If they do have a plan going forward, then it makes sense to get into the details of the numerous issues that are raised here.

I'm just thinking that to go through it all now, they're either not going to be here in a short period of time or they're going to exist in a

very different shape or come up with a different business plan. What I'm saying is that we will no longer be auditing apples, but we're going to be auditing oranges.

I'll just leave it with you, Chair, and colleagues, that maybe we need to leave a period of time to let them get their act together and come back to us with the entity that they think they can sustain, going forward. Then we'll talk to them about auditing that and commitments and recommendations, rather than doing it now, because they're in such flux.

I leave that with you, Chair. Thanks so much.

● (0920)

**The Chair:** Our responsibility is to take a look at the Auditor General's report and to make certain that the strategy the entity has is a strategy that's going to satisfy Canadians and satisfy the committee, but more importantly maybe, even satisfy the Auditor General.

**Mr. David Christopherson:** I appreciate that, Chair. I would only respond, sir, that the business plan may suggest that it's not sustainable going forward, in which case, it's moot. If they do come back with a different kind of organization, then we're going to be getting commitments from them based on what we're hearing at that time, vis-à-vis the existing structure they have, rather than what we think it might look like.

I leave that with you, sir.

**The Chair:** Thank you, Mr. Christopherson.

We'll now move to Ms. Shanahan, please. Ms. Shanahan, you have seven minutes.

**Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.):** Thank you, Chair.

Thank you very much to all the parties for being here this morning.

Respectfully, I agree with you, David, on one side, that for this organization here, for the people who are in front of us, we don't need to badger them with things that were out of their control. However, I think there are lessons to be learned here about dealing with crown corporations. That's where I would like to dig a little bit further.

I realize there could be some confidentiality involved here, but we need to get to the systemic problems that allowed this debacle to happen. It's only lucky that foreign exchange—the difference in the U.S. and Canadian dollars—allowed the corporation to come out with nominal profitability at the end. Business risk will happen. Suppliers come and go, and clients come and go, but you need to have the management in place to effectively deal with that.

What concerns me is that there were not only vacancies on the board for extended periods of time, but there were also problems with the staffing, and there is the potential for conflict of interest.

I would like the Auditor General's office initially to give us their comments on what could have been done to avoid what looks like—and I'm sorry to use the pun—some fishy business going on here.



**Mr. Clyde MacLellan:** When you asked what could have been done, my first reaction is that we audit at a point in time and look at the status of systems and processes to determine whether they're in place. We don't necessarily go through a hindsight exercise of what could have been or would have been to produce a different result.

I think we're finding that the governance and appointments issue is a pretty important and systemic question that needs to be properly addressed and resolved, in order to ensure that there are competent, sufficient board members in place and a process to ensure continuity.

I would draw to the committee's attention that this isn't the first special examination in which we've reported on problems with appointments and problems with governance challenges. As Mr. Bevan rightly indicated, this report does allude to some of the challenges in the act and the actual governance structure that one of your colleagues had noted. That would be the first lesson that we're beginning to amalgamate in totality that is important to learn. You need to get that right to set the tone that can allow the rest of the operations to be effective.

**Mrs. Brenda Shanahan:** What would you suggest for us as a government? It's an arm's-length operation. In fact, it's only fortunate that we have three audits in front of us. Well, it's fortunate because they kept coming back and you needed to re-examine them. How can we be sure that board positions are being properly filled and people don't have their hand in the till?

• (0925)

**Mr. Clyde MacLellan:** In terms of the question of appointments processes, you have an opportunity. A number of recommendations have been made by us in relation to gaps that exist in the appointments process. You'll have a series of those that I think you can follow up on in terms of the recommendations and what actions have been taken in relation to those.

**Mrs. Brenda Shanahan:** I have another question. The OGGO committee is looking at the whistle-blower protection legislation. I think there will be a report coming out fairly soon. Can you make any comments about that? In the course of your audit, people are telling you things. That's what I'm sensing. People were saying things. People were aware of deficiencies, problems, conflicts of interest. Does that come into your audit? Are you able to use that information?

**Mr. Clyde MacLellan:** I don't have anything to comment on in relation to that.

**Mrs. Brenda Shanahan:** Okay. Thank you.

For the management in front of us, can you talk to us about whether there are still vacancies on the board or have they been filled? What does it look like now?

**Mr. David Bevan:** We still have vacancies on the board. I would prefer more board members, to say the least. I've been asking for appointments to take place. I've been asking for a broader array of experience and skill sets. We're still on a skeleton crew at this point in time. There's some reason for that, I suppose. The Government of Canada has to make a decision as to what they're going to do with this crown corporation in light of the removal of Manitoba fishermen from the Freshwater Fish Marketing Act. As long as we are responsible for continuing to manage it and giving them time by

maintaining the value and the profitability, I would really prefer to have more board members.

**Mrs. Brenda Shanahan:** Thank you.

Chair, how much time do I have?

**The Chair:** You have a minute and a half.

**Mrs. Brenda Shanahan:** Okay, I'll give it to my colleague.

**The Chair:** Mr. Chen, please.

**Mr. Shaun Chen (Scarborough North, Lib.):** Thank you.

In terms of not having board positions filled and perhaps not having a strategic plan that is updated, these are issues we do come across, unfortunately, every so often. However, when it comes to the creation of staff positions with no job descriptions, and then filling them through a process that is not merit-based and not competitive, that is very concerning. It's also very concerning that equipment is being purchased, some of which has never been used. To me, these are serious issues that need to be addressed.

You noted, Mr. Bevan, that the special examination took place at a particularly difficult time. I'm not sure how we would describe this upcoming time, when you are going to lose Manitoba, which contributes 80% of your fish. You have 250 full-time staff, up to 150 seasonal workers. What is the plan? How are you going to deal with such a huge impact on the business you do?

**Mr. David Bevan:** The plan that we have implemented is to secure supplies of fish by entering into long-term contracts with fishermen for all of their fish. We don't enter into contracts for people to sell us part of their catch. What they sell us has to be something we can profitably use. That's what we're doing as an interim measure, and that's what it is because the Government of Canada—

**Mr. Shaun Chen:** Are you going to be competitive enough to secure those contracts?

**Mr. David Bevan:** I think so. We are securing contracts. Therefore, I guess that answers itself.

**The Chair:** Thank you very much. Hopefully, we'll get back to you.

We'll now move the second round, and Mr. Nuttall, please, for five minutes.

**Mr. Alexander Nuttall (Barrie—Springwater—Oro-Medonte, CPC):** Thank you, Mr. Chair.

Mr. Bevan and Mr. Lazar, thank you for joining us today.

I'd like to pick up where Mr. Chen was, but first, can you tell me in 15 to 30 seconds the mission statement of your organization?

**Mr. David Bevan:** It is to maximize the returns to the fishermen.

**Mr. Alexander Nuttall:** Okay. When I look at the competition that's coming into the marketplace, I see the withdrawal of Manitoba and the potential of the private sector to increase its ability to secure supply and eventually get that to the market. Does the business plan that you've provided to the Government of Canada include an option that refers to closure of the crown corporation?

• (0930)

**Mr. David Bevan:** That's not something I could possibly do in my current position. I have a fiduciary obligation to the crown corporation, and closing it is not exactly fulfilling that. It's a decision for government whether to sell, close, or do some other kind of governance around the corporation. We will take whatever direction we get from the government. If it's still to be a crown corporation, we will endeavour to implement that recommendation, but questions about those decisions are best put to the government.

**Mr. Alexander Nuttall:** The issues that were outlined in the audit are twofold: first the governance of the entire structure, and second the management of either assets or risk, meaning those potential liabilities coming down the road, including production.... Essentially, issues were found throughout the entire organization. I will give it to you that the first step is to secure a strong governance structure to be able to set the rest of the organization on its feet again.

With the changing landscape, do you feel there's value in your organization's continuing in light of what we're looking at, namely, the government's competing with the private sector?

**Mr. David Bevan:** I understand what you're asking. Again, I think that's a question that should be put to the government. We will keep the wheels on it and keep safeguarding the assets for the Canadian public, pending a decision by the Government of Canada.

I would note, though, that Air Canada was a crown corporation that competed in the private sector for a period of time, and it did that to maintain routes into isolated communities. We're in the same kind of situation.

**Mr. Alexander Nuttall:** The question and the conflict in the position you're in right now is who are you actually working for? Are you working for the Government of Canada, or for the citizens of Canada, or for the fishermen in the area?

I would say that with the competition coming down the road, you have a decision to make. One of the decisions you need to make is to decide who you work for. If you work for the Government of Canada, it's easy to say that the corporation should continue as long as it's profitable. If you're working for the interests of the citizens or the interests of the fishermen, I think you need to look at yourself in the mirror as an organization and make a recommendation to the government that includes an option for closing the crown corporation. That would deal with all of the audit items that have been outlined.

**The Chair:** You have two minutes left.

**Mr. Alexander Nuttall:** To me, this is pretty cut and dried, so I'll pass it back to Mr. Sopuck.

**Mr. Robert Sopuck:** What's the current debt of the FFMC?

**Mr. David Bevan:** It's in two phases. We have operating debt. It's something that we incur every year, allowing us to pay fishermen without having to—

**Mr. Robert Sopuck:** What's your long-term debt, though?

**Mr. David Bevan:** The long-term debt is \$12.5 million, and our retained earnings are almost \$15 million.

**Mr. Robert Sopuck:** If there were any debt and the corporation were wound down, the Government of Canada would guarantee it, right?

**Mr. David Bevan:** That's correct.

**Mr. Robert Sopuck:** That's what I thought.

Regarding final payments to the fishermen, some have said that the final payments were actually too high, so there wasn't enough capital reinvested in the plant. I've toured the Transcona plant, and I've seen the deficiencies there. Does that plant need major refurbishing, and has that refurbishing not been done because final payments were too high for the last number of years?

**Mr. David Bevan:** In 2010, the policy around final payments and retained earnings changed. As you can see, retained earnings have gone up in that period of time. Since that policy change, there's been significant investment in the plant. I don't know when you were last there, but we've upgraded the freezers, etc.

**Mr. Robert Sopuck:** Do the contracts that you're writing with the fishermen say that they have to sell all of their catch of all species to you, so that you're precluding them from accessing the private market as a result? Is that correct?

**Mr. David Bevan:** That is correct in one sense. If you are selling a mix of species, it's one thing to say, "I'll high-grade my pickerel, but then I won't have a market for anything else."

You have to make a decision whether it's better to sell it all to the corporation or not.

**The Chair:** Thank you, Mr. Sopuck.

We're going to go to Mr. Arya, and then we'll come right back here, so you'll be able to finish that perhaps.

Mr. Arya, please, you have five minutes.

**Mr. Chandra Arya (Nepean, Lib.):** Thank you, Mr. Chair.

Mr. Bevan, I have to say that I partially agree with my colleague on the other side, Mr. Nuttall. Maybe it was relevant to set up a corporation like this in 1969, but in these times, I don't know why the federal government has to be involved in this business.

You mentioned that it was beyond your scope to decide this, but a question for the government to decide. However, before becoming the chair of the corporation's board, you were the associate deputy minister at the Department of Fisheries, so you were aware of this organization's issues. Is that correct?

• (0935)

**Mr. David Bevan:** That's correct.

**Mr. Chandra Arya:** What did you do before you became the chair of this board?

**Mr. David Bevan:** I was retired before I became the chair of this board.

**Mr. Chandra Arya:** So, during your time at the Department of Fisheries....

**Mr. David Bevan:** I retired in 2014 and I took on this responsibility in 2016.

**Mr. Chandra Arya:** Yes, and in 2010 the Auditor General identified issues. Between 2010 and before you retired in 2014, what actions did you take?

**Mr. David Bevan:** The board members changed. We moved away from a representative board where each jurisdiction had a representative on the board and we moved to skills-based for the federal appointees. That did take place. We changed the policy regarding—

**Mr. Chandra Arya:** During the time that you did your change you had a new president who created the positions without any official descriptions and appointed people, and that all took place, I guess, by the person who was there during that time.

**Mr. David Bevan:** That's correct. That was done, and that was raised by members of the board with the Government of Canada. The Government of Canada did take action in 2016 to remove that person and to place new board members in the corporation and to have an interim president.

**Mr. Chandra Arya:** Who is the person, other than the president, who is responsible for purchasing capital equipment which was never used?

**Mr. David Bevan:** Capital equipment is supposed to be purchased with the approval of the board. That was not the case, as I understand it. The equipment was purchased with a focus on yield, but without thinking about the end product and whether it would be acceptable to the buyers. It wasn't acceptable to the buyers. Therefore, the product that was being produced was unsaleable and the equipment wasn't used. It eventually had to be sold and replaced.

**Mr. Chandra Arya:** Did you incur a loss on that?

**Mr. David Bevan:** The equipment was purchased outside the normal process.

**Mr. Chandra Arya:** No, but you said that the equipment was sold back.

**Mr. David Bevan:** After I came on, we had to find a way to sell the equipment and replace it with equipment that produced a profit.

**Mr. Chandra Arya:** Was there any loss of profit from the sale made?

**Mr. Stan Lazar:** There was a loss. The corporation has a policy that anything over \$75,000 in capital needs to be approved by the board of directors. The particular equipment that you're referencing was purchased without acknowledging or respecting that policy. The then president hadn't bought that.

**Mr. Chandra Arya:** In addition to the president getting fired, was there any other action initiated for violating the norms?

**Mr. Stan Lazar:** I can't answer that question.

**Mr. David Bevan:** I should point out that we operate under the FFMA and the Financial Accountability Act. We don't have the authority to hire or to fire the president. We don't have the ability to appoint to the board. The board at the time was raising issues with the Government of Canada about these actions that were taking place, unfortunately during the time of the special investigation—

**Mr. Chandra Arya:** In fact, your answers I think lead me to the same thing, whether the existence of this corporation is relevant in

today's times, where you're allowed to come back to the federal government for the approval of every small thing. This includes, I understand, the final returns to the fishermen, which are determined after the annual audit by the Office of the Auditor General.

**Mr. David Bevan:** No. The final payment to the fishermen has to be consistent with the plan and it has to be consistent—

**Mr. Chandra Arya:** I'm sorry. I'm reading from your financial report. It says, in reference to returns to the fisher, "Freshwater uses a payment structure that determines initial and final payments". It goes on to say, "After the annual audit by the Office of the Auditor General of Canada, Freshwater determines final payments from the pooled receipts."

**Mr. David Bevan:** That is correct, because we need to have the books audited so that we have a very clear understanding of our financial position before we send the fishermen the money.

**The Chair:** Thank you very much.

We're going to go back to Mr. Nuttall or Mr. Sopuck for a couple of minutes and then we're going to have to suspend this part of the meeting before we go into the next part.

Mr. Sopuck.

• (0940)

**Mr. Robert Sopuck:** Thank you very much, Mr. Chair.

So that I'm clear on these contracts, Mr. Bevan, the contracts that you sign with the fishermen, they have to market all of their catch with you of all species. Is that correct? If a private buyer says, "I'd like to buy a few tubs of fish from you for the restaurant trade", that fisherman cannot sell to that buyer. Is that correct?

**Mr. David Bevan:** If you sign a contract with the Freshwater Fish Marketing Corporation, you get services. You get ice. You get totes. You get EI and administration. You get all of that, and in exchange for those services and for us taking the fish, you sell to us.

We won't turn down fish from somebody who sells a little to a private group, but that would be outside of contracts and outside a situation where they'd be eligible for final payment, etc. There's going to be some nimbleness in terms of purchasing fish, but if you want to sell fish to us and get all those services and final payment, you need a contract.

**Mr. Robert Sopuck:** Again, I find that a little difficult to take.

In terms of the math of a pullout from the FFMC, we have a mini-experiment going on with the Saskatchewan pullout from a couple of years ago.

Right now, what proportion of Saskatchewan's commercial fish catch is marketed by the FFMC?

**Mr. David Bevan:** Over 95%.

**Mr. Robert Sopuck:** Okay, so the fishermen themselves made a choice to market through you, which is fine.

**Mr. David Bevan:** They didn't have a choice, in one sense. That's what is of some concern. The people in the northern isolated indigenous communities.... No one's on the wharf, trying to out-compete us.

**Mr. Robert Sopuck:** Right. I'm well aware of that, and the fact that you market fish from remote areas within an area almost the size of Europe is an incredible logistical challenge. That was one of the reasons the corporation was set up in the first place.

Some of the anti-FFMC fishermen are also saying "once we get rid of the FFMC", new fish plants will emerge, built by private investors. To the best of your knowledge, did that ever happen in Saskatchewan after they pulled out?

**Mr. Stan Lazar:** No, not that we're aware of.

**Mr. Robert Sopuck:** Okay, so that didn't work.

How many countries does the FFMC market to?

**Mr. Stan Lazar:** A dozen, 12 to 15 different countries throughout the world.

**Mr. Robert Sopuck:** What proportion of the market is in the United States?

**Mr. Stan Lazar:** At least two-thirds.

**Mr. Robert Sopuck:** Are there any issues with the NAFTA negotiations that are going on now? Is that a risk to FFMC sales to the U.S.?

**Mr. Stan Lazar:** Based on our initial analysis, we don't believe it's a significant concern for the corporation.

**Mr. Robert Sopuck:** Is that because the volumes are so small relative to other fish marketing in the U.S., from marine sources?

**Mr. Stan Lazar:** Freshwater fish is not in the scope of a lot of the NAFTA negotiations.

**Mr. Robert Sopuck:** How much research and development are you doing in terms of increasing your markets for off-quota species?

**Mr. Stan Lazar:** I referenced before that we're looking at things like carp. We're looking at numerous marketing and new product development opportunities as we go forward.

**Mr. Robert Sopuck:** Okay, great. Thank you very much.

**The Chair:** Thank you for coming today.

We understand the challenges that you face. We thank you for your service. You've come in, in a very difficult spot. Probably this hasn't been your best day ever, appearing here in Ottawa. You're in a tough position. We thank you for the work you're doing trying to make a bad situation better. Thank you, sir. Thank you for coming out of retirement to try to make it better.

We are going to suspend to go in camera for a moment. We would ask you to exit fairly quickly, because we have some committee business that we have to discuss before our next guests come in.

● (0940) \_\_\_\_\_ (Pause) \_\_\_\_\_

● (1000)

**The Chair:** I want to welcome you back to meeting number 72 of the Standing Committee on Public Accounts on Thursday, October 19, 2017.

In our second hour today, we will again be considering "Report 2, Detecting and Preventing Fraud in the Citizenship Program", from the spring 2016 reports of the Auditor General of Canada. We have called this meeting to review the responses we received from the department following our previous report on chapter 2 of the 2016 report of the Auditor General.

As our witnesses, we have Marta Morgan, deputy minister, Department of Citizenship and Immigration; Lu Fernandes, director general, citizenship and passport program guidance; Heather Primeau, director general, case management branch; and Mary-Ann Hubers, director, citizenship and passport program guidance.

We will have an opening statement from the deputy minister before we proceed to questions from the members of Parliament.

Ms. Morgan, welcome again to our committee.

**Ms. Marta Morgan (Deputy Minister, Department of Citizenship and Immigration):** Thank you very much, Mr. Chair.

[Translation]

Thank you for the opportunity to appear once again before your committee in order to further discuss the Auditor General's spring 2016 findings regarding citizenship fraud.

[English]

My colleagues and I will be very happy to answer any of your questions following my brief opening remarks.

Mr. Chair, as you know, in May 2016 the Office of the Auditor General presented a number of findings regarding the detection and prevention of fraud in our citizenship system, and made seven recommendations for improvements in the areas it examined.

Along with the Canada Border Services Agency and the Royal Canadian Mounted Police, IRCC agreed with the Auditor General's recommendations, and last year we shared our management action plan with this committee.

Stemming from the Auditor General's recommendations, this committee provided eight recommendations of its own, to which responses were provided earlier in the year.

Our management action plan established 23 actions to be taken to improve fraud management, including some activities that were scheduled to be completed by the end of March of this year.

Mr. Chair, I am very pleased to report that all actions in the IRCC management action plan have been completed, and ongoing activities continue to receive appropriate attention and resources.

For example, in the spring of 2016 we updated the instructions on creating, updating, and maintaining problematic addresses in the global case management system and centralized the responsibility for the maintenance of such addresses within a single division of our department.

[Translation]

To mitigate the risks identified by the Auditor General, the instructions in the standard operating procedures to systematically enter and update problematic addresses are very detailed. Quality control exercises have subsequently demonstrated areas where staff are adhering to the standard operating procedures and areas for improvement, which have led to further refinements in processes.

We have made improvements on managing fraud risk through internal controls and information sharing, and we are committed to continuously monitoring and improving fraud controls.

[English]

We have improved information sharing with the RCMP and CBSA by formalizing practices, by issuing operational bulletins and instructions, and by updating memorandums of understanding.

Although the Office of the Auditor General did not find a significant amount of fraud in the citizenship program, it did find that IRCC was unable to demonstrate the effectiveness of its fraud controls. Since the release of the OAG's report, we have made significant progress in assessing the effectiveness of these fraud controls. All of the risk indicators have been reviewed using a statistically valid sample of files to verify if they were consistently applied and effective at detecting fraud. We found that risk triaging was consistently applied in 85% of the cases. We have eliminated the risk indicators that were not effective. We have adjusted the remaining indicators to further improve their efficiency, and we have ensured that they are being consistently used. Also, quality assurance exercises have shown that our officers' decisions are typically sound, and that they demonstrate good compliance with fraud detection procedures.

The ongoing implementation of some provisions of Bill C-6 will help us to better detect and prevent citizenship fraud in ways recommended by both the OAG and this committee. For example, the bill's introduction of a document seizure authority, which is expected to be brought into force by the Governor in Council next spring when required regulatory amendments are expected to be in place, responds to the Auditor General's finding of inconsistent practices for dealing with suspicious documents. These provisions will be supported by regulations that provide officers with the process and terms that must be followed once a decision is made to seize suspected fraudulent documents, and with the authority to share the seized documents, as required, with the CBSA.

Immigration, Refugees and Citizenship Canada takes citizenship fraud and program integrity in general very seriously. The Office of the Auditor General has noted that IRCC has implemented a number of measures aimed at better detecting and preventing fraud in its programs, including the citizenship program, and has continued to conduct various program integrity activities.

In accordance with our citizenship program integrity framework, IRCC has established baselines to monitor refusals and fraud controls. As I mentioned earlier, we have reviewed and assessed risk indicators to verify if they are being consistently applied and if they are effective at detecting fraud.

● (1005)

We have also established a new random selection process to continuously monitor existing fraud controls and identify emerging fraud.

[Translation]

In addition to the fraud controls examined by the Auditor General, IRCC has access to CBSA's border passage history checks to view applicants' entries to Canada, and we have established expertise in each region to deal with exceptional cases and to better detect patterns of fraud.

Mr. Chair, my intention with these brief opening remarks has been to offer committee members a broad overview of this topic.

My colleagues and I will now be pleased to respond to questions from the committee, and to go into greater detail on any topic that members would like to further explore.

Thank you.

[English]

**The Chair:** Thank you very much, Ms. Morgan.

Before we go into the first round of questioning, and since we are being televised, I want to make it very clear for Canadians, for other members of Parliament, and for the guests that are here that the Auditor General has given a report in relation to immigration fraud. Our committee did a study and invited you to appear as witnesses before that study. In our study and in our report, we listed a number of recommendations. Those recommendations went to you. You've been called back again today, more specifically, because our committee could not clearly determine if three of the recommendations that we issued in that report were being addressed at all, or were being addressed to the satisfaction of our committee.

Our committee is a vital arm of accountability and transparency in making certain that the Auditor General's recommendations are addressed and that our recommendations are also addressed. For that reason, we have called you back today.

Now we'll move into our first round of questioning.

Ms. Shanahan.

**Mrs. Brenda Shanahan:** Thank you very much, Mr. Chair.

Thank you very much for being here with us again this morning.

This is something our committee is adamant about, that not only do we do our best to meet all departments that are being audited by the Auditor General, but when we present a report and we have recommendations, we want to see an action plan and responses to our recommendations that are indeed satisfactory.

Let me get to the heart of the matter, which is recommendation 6:

That, by 31 March 2017, the Department of Immigration, Refugees and Citizenship Canada provide the House of Commons Standing Committee on Public Accounts with a report outlining how the Citizenship Program Integrity Framework and its associated baseline were established, and how the Department will monitor the refusal rates of files.

In your response of February 2, 2017, you gave an explanation as to why the department feels that a detailed report cannot be provided to the committee. I would like to hear more on this.

• (1010)

**Ms. Marta Morgan:** Mr. Chair, first of all, let me just say that I regret the fact that the committee did not find our responses sufficiently detailed, and I hope that our presence today will allow us to provide the additional information you require. I would like to assure you that we have taken the report of the Auditor General and the committee very seriously, and we have implemented all of the items outlined in our management action plan.

Specifically, on recommendation 6, let me provide an update on how the citizenship program integrity framework was established. It was established in accordance with existing departmental frameworks related to fraud, program integrity, and risk management. It was validated by an independent third party familiar with risk frameworks.

We reviewed the citizenship grant program from the perspective of program risks and identified the following four key risks: first, entitlement fraud; second, identity fraud; third, procedural error; and fourth, decision-making error. For each of these factors, we considered the impact and the probability, and how to mitigate each of those risks.

We have also put in place a governance structure as part of the development of the framework, whereby there is oversight by the deputy minister and a three-year work plan, which is approved annually in order to ensure the implementation of the framework that has been developed.

**Mrs. Brenda Shanahan:** I'm sorry, Ms. Morgan. Please let me understand. You are giving us an update now, but what was it that prevented you from providing us with a detailed report?

**Ms. Marta Morgan:** Mr. Chair, it was our intent in our report to provide you with the information that the update had been developed, and that it had been developed according to the recommendations of the Auditor General. My intent today is to provide you with more information. I am hoping that this will be satisfactory, Mr. Chair, and will really answer your questions in more detail.

**Mrs. Brenda Shanahan:** Okay. Please continue.

**The Chair:** Go ahead. She is inviting you to continue and make clearer the actions taken.

**Ms. Marta Morgan:** There were two other questions that were asked, Mr. Chair.

One was about how the baselines were established. We established the baselines using the overall refusal rate for citizenship applications, and also for cases associated with risk indicators. We monitor these refusal rates by looking at monthly data to see whether there are any deviations from the norm based on those indicators.

**Mrs. Brenda Shanahan:** Mr. Chair, how much time do I have?

**The Chair:** You have two minutes.

**Mrs. Brenda Shanahan:** It's time to pass it over to my colleague.

**Mr. Chandra Arya:** Thank you, Mr. Chair.

Ms. Morgan, let me start with the good piece of news that during the last two years, the efficiency of your department has increased considerably. From when I started as a member of Parliament, about two years back, until today, things have been going better and better. However, I should say that this past summer, from three visa offices, there was a spike in rejection rates of visitor visas without any reason as to why that should be.

Coming back to this particular audit, I am concerned about recommendation 4. You mentioned that you have an agreement with the RCMP and CBSA on information sharing that will prevent people who have committed fraud from obtaining citizenship. However, the RCMP has noted that there is a problem in the implementation of the notification process, because information regarding criminal charges is gathered by non-RCMP policing partners at municipal and provincial levels, and all these services have the discretion not to share information with IRCC due to operational requirements.

What are you doing to address those things?

**Ms. Marta Morgan:** Mr. Chair, as we noted, we have significantly improved our processes regarding the sharing of information, and criminal charges against permanent residents and foreign nationals, and working together with the RCMP.

The issue that has been asked about is really related to the RCMP, and the RCMP's collection of information. What I would say on that is that the RCMP has taken important steps to promote the sharing of information with respect to permanent residents and foreign nationals charged with a crime. However, there are some limits to their ability to require that information, particularly because it is gathered by non-RCMP policing partners, and there is discretion that police services have regarding sharing information with the IRCC.

• (1015)

**The Chair:** Thank you, your time is up.

We're going to Mr. Christopherson now, please.

**Mr. David Christopherson:** Thank you very much, Chair.

Thank you very much for your attendance today.

I appreciate the answers now. I still haven't heard why we couldn't have heard some of that detail in the response the first time.

Make no mistake that part of our messaging here today is also to let all the bureaucracy know that we read these things. As a result of the Gomery inquest following the sponsorship scandal, the recommendation was to double our analytical ability, and we've done that. We get a massive amount of responses from departments. We read them, and when we're not given answers in their completed fashion, people can expect to come back here.

I think questions 4 and 5, at least so far, have been dealt with. My greatest concern is your response on recommendation 6, in the last sentence. I don't know whether you ran this by your legal department, but I can assure you this is not acceptable. To make a statement, "As such, a detailed report cannot be provided to the Committee", is not acceptable, period, full stop.

I'm a former solicitor general of Ontario. I understand security. I understand confidentiality. The previous paragraph to the sentence I just read says:

The Citizenship Program Integrity Framework is an internal document that contains information about investigative techniques used by the department to detect fraud and therefore cannot be disclosed or shared in the public domain.

Fair game, I'm with you on that. It's the next sentence. You, as a department, do not have the power to say no to a committee that asks for information. Parliament is supreme. Parliament has the power to summon persons, papers, and records. I've been around here long enough to have this tested, and I've been here long enough to have the parliamentary law clerk at the end of the table, in camera, with the top legal person in a department, berating them because they had the audacity to tell the department because something was captured by one of our confidentiality laws they couldn't give this committee the information they wanted, and the law clerk was there to tell that lawyer that they were giving wrong information to their deputy and department.

Parliament is supreme. We are a committee of Parliament. We asked for an answer. To tell us we can't have it is not on, and it is not on ever. What do we do? We find a way that you could give it to us in a way that protects what needs to be protected. The simple answer to this is that you would offer to us an opportunity for an in camera briefing on these matters if we wish. That is the correct and acceptable answer.

Number one, and, Deputy, think clearly. I need to hear what your opinion is of my interpretation of the powers of this committee as they relate to information we want from you, and number two, in detail, I would like to know whether you are offering us such a briefing in camera.

**The Chair:** Ms. Morgan.

**Ms. Marta Morgan:** Mr. Chair, I would like to reiterate that I regret very much that the committee did not find our responses to members' questions to be sufficiently detailed. The questions by the committee really related to how we developed and are monitoring our improved processes and frameworks for the detection and prevention of fraud in the citizenship program. I'd be happy to provide more information on how they were developed and are being monitored today.

With respect to the reports mentioned in our response to the committee, they were intended to illustrate the mechanisms by which the department is following up on the Auditor General's report. However, release of this information could identify investigative techniques and priorities. It could increase the vulnerability of the program to fraud and could expose our investigative techniques and those of external partner agencies. It is those internal reports to which we referred that could jeopardize our investigative techniques and increase the potential for fraud in the program that was referred to in the response.

Nonetheless, in terms of the process for how we're developing and monitoring these frameworks, and how we're tracking them and the processes that we put in place, we'd be very happy to provide additional information as the committee requests.

• (1020)

**Mr. David Christopherson:** I'm sorry. It's disappointing that you read most of that response. I still did not hear, Deputy, whether or not you accept the fact that Parliament has the right to summon whatever persons, papers, and records we choose. I asked if you would give us that information, and I, for one, am more than willing to go in camera, because I understand what you're saying. However, the bureaucracy cannot say to Parliament, "You can't have this information."

Look, I was the defence critic for a period of time, and we ran into issues with security matters all the time. We deal with them. You go in camera and on some supersensitive things you put together all-party agreements on how we're going to handle them. I remember one process—I won't get into it—in which we selected some of our most respected members of each caucus to be on that committee to take the information. We had to find a way.

It was never acceptable for the bureaucracy to say to Parliament, "You can't have something."

Now, colleagues, if necessary, I will move that we adjourn this meeting so that we can call the parliamentary law clerk in here and go through the whole process. Maybe we need to do that at this committee. We haven't done that yet, but I assure my colleagues that the rights I am mentioning are supreme and will hold.

I'm still not hearing the deputy say, "Yes, I will give you that information", but we just need to work out a process to keep the matters contained therein confidential. I need to hear that, or this will not get resolved, at least for me.

**The Chair:** Let me just say this to the deputy. On a couple of occasions, we've dealt with reports by the Auditor General, followed by the departments coming before this committee and saying that they recognize the Auditor General's report, that they've accepted all of the recommendations, and then three years later, we find that nothing has happened. They may have an action plan but the same problems come up in audit after audit after audit.

Now we have a case, just as Mr. Christopherson has said, where we've issued the report with recommendations, and it is problematic to the committee that the answer from you is that the department can't disclose parts of the process dealing with fraud. If you had said that, that might have been acceptable, but as Mr. Christopherson indicated, there has never been an opportunity for you to disclose the information in camera or in a place where.... So I would just straight out ask you, do you still believe that you cannot disclose that information?

**Ms. Marta Morgan:** Mr. Chair, there is considerable information that we can disclose relating to how we've developed these frameworks, what our monitoring systems are, and what our governance is around those frameworks. There is also information that we cannot disclose because it would provide information about our investigative techniques or those of our partner agencies, and potentially increase the risk of fraud in the program. That is the information we referred to in our report to the committee. We wanted the committee to understand the kind of information that we were collecting and using for investigative purposes, but there will be some information that simply cannot be disclosed.

**Mr. David Christopherson:** That's not acceptable, Chair. I'm sorry, but at the end of the day this is not going to fly. I've been here before. This is not going to stand.

My advice to colleagues is that we suspend this meeting, call in the parliamentary law clerk, and have the law clerk tell this committee what our powers are. I guarantee that we're going to be right back here after the parliamentary law clerk talks to the departmental senior law person who gives the proper advice to this deputy about information that they do not have the right to keep from Parliament. This is big.

•(1025)

**The Chair:** Thank you, Mr. Christopherson. We may come back to that.

Mr. Nuttall has a comment, just so that all parties have had an opportunity.

**Mr. Alexander Nuttall:** I just want to clear up what Mr. Christopherson is saying. I think that the message that comes across, Ms. Morgan, is this. You don't trust parliamentarians in this room to hold the confidence of the information, the confidence that we are actually required by law to hold.

Is it the case that you don't trust members of Parliament, whom the public trusts?

**Ms. Marta Morgan:** Mr. Chair, we are hoping to provide more information today on the questions that the committee put to us, which were questions about the process under which we develop these frameworks, whether they exist, how we monitor them, and how we track them.

There is some information in the internal reports that were mentioned in our report back to the committee that really does relate to investigative matters, techniques used by our partner agencies, and data and information that could be used and result in increased fraud in the system. That is the kind of information that is generally not released under any circumstances because of the potential to increase fraud.

The general nature of our frameworks, what's in there, how we track it, how we monitor it, how we adjust as we find new information and get new information from investigations that are ongoing, all of that is information that we would be happy to discuss with the committee.

**Mr. Alexander Nuttall:** So your position is that there is information that you cannot share with members of this committee because it could lead to an increase in fraud in your system, meaning that there is information you're not willing to share with the Parliament of Canada because you're scared that we will be part of some sort of fraudulent loop, whether through the dissemination of information that should not be disseminated or by actually participating in the process. That's what I'm understanding from what you're saying.

**The Chair:** I would just ask a question. It comes from the table. Then, we'll go back to Ms. Shanahan.

You say there are some things that you would disclose, and there are some things that you can tell us. Can you explain, for example, how refusal rates are monitored? Are there controls on this process?

**Ms. Marta Morgan:** Yes, Mr. Chair. We have a monthly monitoring of refusal rates of files. We have monthly extracts of data, and we monitor the refusal rates every month. That allows us to see whether there are any deviations from the norm. We also look at the risk indicators, and refusal rates in cases that have certain risk indicators, to see whether the refusal rates on those are showing any difference.

Lu, would you like to add anything to that in terms of the monitoring?

**The Chair:** Then we'll go to Ms. Shanahan, or Mr. Arya, whomever.

Go ahead, Mr. Fernandes.

**Mr. Lu Fernandes (Director General, Citizenship and Passport Program Guidance, Department of Citizenship and Immigration):** Thank you, Mr. Chair.

With regard to the refusal rates and the baselines that we have established through our processes, there are two pieces. One is around general refusal, so we're not necessarily talking about fraudulent issues in those general refusal rates. It can be anything from not passing the knowledge test to language requirements or residency requirements.

Refusal rates are a way of establishing the overall baseline around refusals. The more specific indicator that we've established as a baseline is regarding the particular fraud indicators that we are using and how many refusals are based on those indicators.

What we've managed to do over the course of the last number of months is to establish a baseline of overall refusal, and then to look at our risk indicators and say, this is our baseline refusal rate based on what we believe is fraud. We're looking at those on a monthly basis to see what the kinds of results are in order to take action, mitigate risk, change indicators as needed, and make adjustments as we go.

Thank you.

**The Chair:** Ms. Shanahan



**Mrs. Brenda Shanahan:** Thank you, Chair.

Let's just get back to why we're here, why we've called you back. It's certainly not uncommon for us to look for clarification from entities when we're not satisfied with their responses, and so on. We do not mean in any way to cast any aspersions on your work. The principle that is really at work here is that when we ask for a response, we cannot have an answer like the one that was provided to number six.

I would like to move a motion like the one suggested by Mr. Christopherson earlier, to have the law clerk address this committee about what its rights are. It's the IRCC today, but it could be another entity at another time, another place, in another set of circumstances.

Can I put that on the floor?

• (1030)

**The Chair:** I think we can deal with that motion right now. I'm not ready to adjourn this meeting. I think there are still questions that we can ask of the deputy minister. I don't think we need to shut down the meeting early.

Are you moving the motion then, Mrs. Shanahan, that we—

**Mrs. Brenda Shanahan:** Just to be clear, we're not here to focus only on your group, but this issue has come up because of the answer you provided to us.

On that note, with regard to the investigative techniques, I am concerned when I see abnormally high or abnormally low refusal rates. What is going on there? For that, we do need to understand what the investigative techniques are. As my colleagues have said, we are certainly able as parliamentarians, and have the tools at our disposal, to receive that information.

You may not be able to share it with us now, but I would like to know more about the refusal rates, what your baseline is, and how you monitor that.

**The Chair:** Mr. Fernandes.

**Mr. Lu Fernandes:** Thank you, Mr. Chair.

Once again, when we're speaking about the general refusal rates and the baselines that we've established, we've had the latter since fiscal year 2015-16. They are relatively consistent in terms of the total and as a percentage of refusals.

As I mentioned previously, the types of issues that would have come up include knowledge, language, residence, and prohibitions. The refusal rates are in that range of about 2%. Of the total new citizen applicants, 2% of the new citizens have been refused for a variety of reasons. In some cases there can be more than one reason for refusal. That's a fairly innocuous general statistic with regard to our refusal rates.

**Mrs. Brenda Shanahan:** Okay.

Mr. Arya.

**Mr. Chandra Arya:** Mr. Chair, I think we need to suspend the meeting now, because the question that has arisen is what the power of the committee is, what can be disclosed to the committee, or if there is anything the department can withhold from the committee.

I think the questioning of the current witnesses will not be complete until we have this resolved.

**The Chair:** May I ask one question first?

**Mr. David Christopherson:** Yes, please, of course.

**The Chair:** Then we will entertain the motion to adjourn, or to suspend.

Ms. Morgan—and again, this question arises because we have to build a report—would you say that due to the new practices that you have implemented, information sharing with partner agencies has improved? I ask because in the Auditor General's report and our report there were recommendations made and you've said that you've had some new practices, that you're monitoring closely and your monitoring has changed. If the answer is yes—I see nodding heads—how has it improved?

**Ms. Marta Morgan:** Mr. Chair, I would like to say that we are very appreciative of the reports of the Auditor General and the committee in this area. We have made very significant improvements in our program integrity overall, as a result of the Auditor General's report and this committee's report. I do want to leave the committee with that message. In all of the areas that the Auditor General and the committee looked at, we have made significant progress, including with information sharing.

On the issue of information sharing, we have a much better system in place with our partners at the Canada Border Services Agency and at the RCMP. The CBSA routinely shares information with us on ongoing investigations. We have better processes in place for that. We've significantly improved our security check process with the RCMP, as well as our information sharing with them.

Across all of the issues that were raised in the Auditor General's report, whether they be problematic addresses, having the right risk indicators and really being able to test whether we have the right ones, and being able to share information with our partners, we have made significant progress. I feel that the Auditor General's report and the work of this committee has really pushed us to set a much higher bar in terms of program integrity, which we are very appreciative of.

• (1035)

**The Chair:** Thank you.

You are telling me, then—the way I understand it—because of new practices that have come out of the Auditor General's report, you have without question seen an improvement in information sharing amongst the agencies.

**Ms. Marta Morgan:** Absolutely.

**The Chair:** Thank you.

Does Ms. Shanahan move a motion to suspend or adjourn?

**Mrs. Brenda Shanahan:** I think it was to suspend.

**Mr. Chandra Arya:** Yes, to suspend.

**The Chair:** We really have two motions. We have a motion that we bring in the law clerk on the issue, but we also have a motion to suspend or to adjourn.

I'm going to ask about Ms. Shanahan's motion asking for the law clerk to appear before our committee at the earliest convenience.

(Motion agreed to [See *Minutes of Proceedings*])

**The Chair:** We also have a motion from Mr. Christopherson, I believe.

**Mr. David Christopherson:** Rather than adjourn this, I would suspend it pending the information that we'll get from the parliamentary law clerk.

I move that we suspend this hearing.

**The Chair:** All right, we have a motion to suspend.

(Motion agreed to [See *Minutes of Proceedings*])

**The Chair:** I want to thank the department for attending and for being here. Callbacks are not pleasant. We take the job of the committee seriously. Canadians expect that there are going to be Auditor General reports and follow-ups to them, and change.

Thank you for indicating that there is positive change.

We will ask you then to leave, and thank you for your attendance.

Committee, I'll ask you to stay. We will perhaps go back in camera for a moment.

[*Proceedings continue in camera*]

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