

**REDACTED VERSION**



**Canadian Air Transport  
Security Authority**

**Presented to the  
Board of Directors**

15 December 2006

**Special Examination Report**



**Office of the Auditor General of Canada  
Bureau du vérificateur général du Canada**



Information classified as “secret” has been removed from this report, where indicated by \* \* \* in the text. The Office of the Auditor General has reviewed the redactions and finds them to be reasonable.



# Table of Contents

<b>Special Examination Opinion</b>	<b>1</b>
<b>Overview of the Canadian Air Transport Security Authority</b>	<b>7</b>
Background	7
Mandate	7
Transport Canada’s role in aviation security as it relates to CATSA	9
Canadian Air Transport Security Authority’s operations	9
Funding	11
Challenges facing the Canadian Air Transport Security Authority	11
<b>Findings and Recommendations</b>	<b>12</b>
Corporate governance	12
Strategic planning	18
Risk management	21
Screening operations	23
Performance Measurement and Reporting	35
Canadian Air Carrier Protective Program	38
The Airport Policing Contribution Program	40
Equipment management	41
Management of administrative systems	42
<b>Appendix</b>	
Systems and practices examined in the Special Examination and criteria used	56





# Canadian Air Transport Security Authority

## Special Examination Report—2006

---

### Special Examination Opinion

To: The Board of Directors of the Canadian Air Transport Security Authority

Under Part X of the *Financial Administration Act* (FAA), the Canadian Air Transport Security Authority (CATSA) is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

The FAA also requires the Corporation to have a Special Examination of these systems and practices carried out at least once every five years.

Our responsibility is to express an opinion on whether there is reasonable assurance that, during the period covered by the examination from November 2005 to June 2006, there were no significant deficiencies in the systems and practices we examined. The examination did not assess CATSA's response to the events that occurred in Britain on 10 August 2006.

We based our examination plan on a survey of the Corporation's systems and practices, which included a risk analysis. We submitted the plan to the Audit Committee of the Board of Directors on 24 March 2006. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination. This is a Special Examination of CATSA, and as such, it did not include Transport Canada's responsibilities for the aviation security system.

The plan included the criteria that we selected specifically for this Special Examination in consultation with the Corporation. The criteria were based on our experience with performance auditing. Our choice of criteria was also influenced by legislative and regulatory

requirements, professional literature and standards, and practices followed by the Corporation and other organizations. The systems and practices we examined and the criteria we used are listed in the Appendix to this report.

We conducted our examination in accordance with our plan and with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. Because Treasury Board Secretariat (TBS) officials declined to answer any questions that related specifically to CATSA, we were unable to obtain information on the TBS' perspective on CATSA's corporate plan. We relied on two special reviews commissioned by CATSA internal audit, entitled "Review of the Finance Function" and "Restricted Access Identification Card Contract Review."

Since CATSA was created on 1 April 2002, this is the first Special Examination carried out by the Auditor General. CATSA is a young organization. In 2002, it took over contracts with 15 private sector firms to provide passenger and carry-on baggage screening services at 89 airports across the country. CATSA developed its own National Training and Certification Program for thousands of screening officers. It created a new standard uniform to demonstrate a consistent appearance, and it significantly increased the minimum hourly rate for screening officers. CATSA deployed a network of airport cameras that are linked to its Security Communications Centre. It has implemented random non-passenger screening for flight staff and personnel working in restricted areas in the 29 class I and class II airports. In 2005, CATSA senior executives visited 12 airports across the country as part of a "Sharing the Vision" initiative to build understanding of CATSA's mission and to instill pride in the work of screening officers.

As of 1 January 2006, CATSA achieved 100 percent screening of checked luggage for explosives in all 89 designated airports across Canada. As indicated in CATSA's 2006 Annual Report, the state-of-the-art explosives detection systems "represented a half billion dollar investment by the government." These systems were delivered ahead of the original schedule to meet international requirements. As we observed in the Auditor General's April 2005 Report, Chapter 2, National Security in Canada, the airports were responsible for project construction and for installing the systems, and CATSA reimbursed them for their approved costs. We observed that project objectives were clearly defined and that there was an information system to track whether projects were on schedule and to track the costs.



We found two significant deficiencies in the systems and practices we examined.

### **Roles and responsibilities**

Transport Canada is responsible for the security of the Canadian transportation system. Through policy development and rulemaking efforts, the department establishes and implements legislation, regulations, performance standards, and policies. It is also responsible for monitoring compliance as well as for security programs such as analyzing transportation-related intelligence and sharing that information with elements of the aviation security system, such as CATSA.

CATSA is responsible for implementing specific parts of the aviation security system in accordance with Canadian aviation security regulations. However, CATSA does not wish to be constrained by its limited mandate. CATSA would like to have more control over the way screening operations are conducted, the allocation of screening staff, and the selection of screening equipment; and it would like direct access to intelligence information. This has negatively impacted the relationship between CATSA and Transport Canada. The effort and attention spent addressing these differences would be better directed to screening operations. As well, Transport Canada has indicated that CATSA's attempts to include these initiatives in its corporate plans, without obtaining prior proper authority or substantiating the security risks in a business case, were one of several contributing factors that led to delays in the approval of those plans. This has left CATSA management without an important tool for extensive periods. In our view, it is essential that the ongoing issues between Transport Canada and CATSA be resolved.

### **Screening operations**

CATSA's core business is screening—screening of passengers and their carry-on baggage, of non-passengers who work at airport sites and the items they carry with them, and of checked baggage. In our view, the impact of the observations summarized below, taken together, is that CATSA does not have reasonable assurance that screening operations are conducted economically, efficiently, effectively, and in the public interest, in accordance with its mandate.

While some degree of supervision is provided by the screening service providers (screening providers), CATSA's oversight of screening operations is limited. There are 29 CATSA managers to perform

oversight at 89 airports. These CATSA managers do not have up-to-date procedures, appropriate tools, and training to ensure effective oversight. As well, CATSA's Performance Payment Program, which rewards good performance and management by screening providers, needs to be more objective, timely, and complete, to ensure that the desired performance is attained.

Difficulties in hiring and retaining screening officers affect operations. Although the overall turnover rate for class I airports in the last fiscal year was 12 percent, it increased in the last quarter to 16.4 percent. Four class I airports had screening officer attrition ranging from 26.4 percent to 34.6 percent for the year; three of those were due to the competitive hiring market in the west. This has significant consequences for the screening providers, which have had to resort to practices that may increase risk. Delays in obtaining security clearances result in potential screening officers often finding other employment. Screening providers at affected airports need to constantly over-hire and submit security clearance forms for significantly more employees than are actually required for the screening operation. This places pressure on a training system that is already under stress. Screening officers who are retained receive little refresher training.

In addition to screening-officer turnover, a number of screening providers had to be replaced for a variety of reasons, which is disruptive to screening operations. CATSA has recognized that it needs to strengthen its analysis of the capability of potential screening providers. When CATSA was created, it took over service-provider contracts from the air carriers. CATSA may wish to revisit its analysis of the options for providing screening services.

Non-passenger screening is another area of concern. Security measures require CATSA to screen non-passengers randomly at any restricted area access point. CATSA has not conducted screening at restricted area access points outside the air terminal building. The limited number of fixed non-passenger screening check points where random screening occurs and the random nature of the "mobile" non-passenger check points enable the non-passengers to avoid screening.

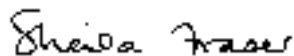
CATSA is now implementing a biometric restricted area pass for non-passengers, called the Restricted Area Identification Card (RAIC). Delays in implementing this pass increase risk. Since Transport Canada's regulations for RAIC have not yet been finalized, CATSA, for that and other reasons, is experiencing difficulties in obtaining airport authorities' agreement for RAIC implementation.

Infiltration test results \* \* \*. These tests, conducted by Transport Canada inspectors, measure the rate at which screening officers fail to detect threat objects. For failed infiltration tests, in most cases neither Transport Canada, nor CATSA Headquarters, was informed by CATSA's regional management as to whether action plans to improve screening-officer performance were carried out, as required by the standard operating procedures in effect during our examination.

While CATSA has established various performance measures and some targets, it is not clear how these relate to its mandate of effective, efficient, and consistent screening that is in the public interest. Nor has CATSA articulated how it deals with the trade-offs inherent in its mandate. Measuring performance against targets and reporting the results is particularly important in a security environment, where falling short of a target in performance could have serious consequences for the public.

In our opinion, given the significance of the deficiencies mentioned above, and based on the criteria established for the examination, CATSA does not yet have the reasonable assurance required under Part X of the *Financial Administration Act*.

The rest of this report provides an overview of the Corporation and more detailed information on our findings, recommendations, and conclusions.



Sheila Fraser, FCA  
Auditor General of Canada

Ottawa Canada  
31 August 2006



## Overview of the Canadian Air Transport Security Authority

### Background

In the early 1970s, in response to a series of hijackings, member countries of the International Civil Aviation Organization adopted a provision requiring each country to designate an authority for the safeguard of international civil aviation against acts of unlawful interference. The Government of Canada designated Transport Canada as its authority. In 1972, the *Criminal Code of Canada* was amended to include offences for the taking on board of offensive weapons and explosive substances. Aviation security provisions were added to the *Aeronautics Act* in 1973, and regulations were developed requiring air carriers to establish security programs.

The *Aeronautics Act* underwent major revisions after the terrorist bombing of Air India Flight 182 in 1985. More rigorous screening of passengers and carry-on baggage, physical inspection of checked baggage, and the deployment of additional X-ray units for carry-on luggage, hand-held metal detectors, and walk-through metal detectors were some of the measures adopted.

In response to the events of September 11, 2001, the Federal Budget of December 2001 allocated \$2.2 billion over five years to strengthening aviation security, including the creation of the Canadian Air Transport Security Authority (CATSA), to be responsible for passenger and baggage screening and contributions towards policing at airports. Creating and operating CATSA accounted for \$1.942 billion of the \$2.2 billion allocated for aviation security. The remaining amount was to fund all other air security improvements.

### Mandate

CATSA is a Crown corporation created on 1 April 2002. CATSA is responsible for key aviation security services at 89 designated airports across Canada. CATSA reports to Parliament through the Minister of Transport, Infrastructure and Communities. CATSA has defined its mission as one of “protecting the public by securing critical elements of the air transportation system as assigned by the government.” CATSA’s legislative authority is the *Canadian Air Transport Security Authority Act* (CATSA Act).

According to the CATSA Act, the mandate of the Corporation is to “take actions, either directly or through a screening contractor, for the effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their

possession or control, and the belongings or baggage that they give to an air carrier for transport.” Restricted areas are those established under the *Aeronautics Act* at an airport designated by the regulations or any other place that the Minister of Transport, Infrastructure and Communities may designate. The CATSA Act also states that the Corporation is responsible for ensuring consistency in the delivery of screening across Canada and for carrying out its responsibilities in the public interest, having due regard for the interest of the travelling public.

The security elements entrusted to CATSA in accordance with the CATSA Act were the following:

- screening of passengers and their carry-on baggage;
- screening of checked baggage;
- the option to enter into agreements with the Minister of Public Safety and Emergency Preparedness or the RCMP for the provision of services on aircraft, and to make payment for those services; and
- the option to enter into agreements with airports to contribute to the costs of policing.

In addition, subsequent to the passing of the CATSA Act, the Minister of Transport, Infrastructure and Communities assigned responsibilities for the screening of non-passengers (for example, airport workers and flight crews who enter the restricted area) and for the implementation of a restricted area biometric identification card for non-passengers to CATSA in November 2002.

Under the terms of the CATSA Act, CATSA makes payments to the RCMP to provide Aircraft Protective Officers on board commercial aircraft to reduce the possibility of an unauthorized person seizing control of a Canadian commercial aircraft. This is referred to as the Canadian Air Carrier Protective Program. CATSA also currently has agreements with Airport Authorities (referred to as Airport Policing Contribution Agreements) to contribute to aviation-security related policing costs in the airports.

To carry out screening, CATSA has chosen to contract with third-party screening service providers (screening providers) who specialize in the delivery of security and screening services. CATSA is responsible for establishing criteria for the qualifications, training, and performance of screening officers that are as stringent as the regulations. CATSA is also responsible for certifying that screening

officers employed by the screening providers meet performance standards.

**Transport Canada’s role in aviation security as it relates to CATSA**

Transport Canada is responsible for the security of the Canadian transportation system and plays a lead role in the security of the travelling public. Transport Canada collaborates with other federal departments whose programs and services affect transportation activities

The Department establishes and implements legislation, regulations, performance standards, and policies. For example, in aviation, this includes:

- Establishing security rules and standards for air carriers and for transportation facilities such as airport operators, and for CATSA with respect to the screening of air travellers and their baggage;
- Establishing where security must be maintained by the designation of airports, through the Aerodrome Designation Regulations;
- Establishing the list of prohibited items to be prevented from entering restricted areas at airports;
- Establishing equipment performance standards, and establishing and maintaining a list of systems and equipment that have demonstrated a capability to meet performance standards for screening to ensure harmonization to international standards;
- Representing the Government of Canada abroad in international transportation security matters and cooperating with international partners to ensure harmonization and coordination of Canadian transportation security regulations with those of other jurisdictions;
- Analyzing transportation-related intelligence and sharing that information with elements of the aviation security system, such as CATSA.

This Special Examination did not question CATSA’s mandate; rather it assessed CATSA’s systems and practices within its mandate and the regulations that govern the aviation security system.

**Canadian Air Transport Security Authority’s operations**

CATSA is a young Crown corporation, created in 2002. CATSA took over contracts with 15 private-sector firms to provide passenger and carry-on baggage screening services at 89 airports across the country. It has implemented explosive detection systems for “hold bag screening” (HBS) for checked luggage in all 89 designated airports,

using a payment refund mechanism to reimburse airport authorities. CATSA has implemented non-passenger screening (NPS) on a random basis for flight crews, maintenance personnel, baggage handlers, and food service personnel in the 29 class I and class II airports. CATSA screens 37 million passengers, approximately 800,000 non-passengers, and 60 million pieces of checked luggage annually.

The Restricted Area Identification Card (RAIC), a biometric airport pass system for all non-passengers who need access to restricted areas, has been deployed and is operational in seven class II airports and one class I airport, although not all non-passengers are enrolled. Deployment to the remaining twenty-one class I and class II airports is ongoing. At the end of June 2006, 34 percent of the target population was enrolled. CATSA has set a target of December 2006 to complete RAIC implementation within the affected terminal buildings. Subsequent to this, work will commence on RAIC access control for the external perimeter of the terminal buildings.

Since assuming responsibility for screening operations, CATSA has created a new standard uniform for screening officers, to provide a consistent appearance in airports, and it has significantly increased their minimum hourly rate (average wages, negotiated by the screening providers, are now about \$15 per hour). It has also developed a national Training and Certification Program for all screening officers. Each screening officer must take two courses called Foundations I and Foundations II, which are each one week long. There are also additional training courses for hold bag screening, non-passenger screening, and point leaders (first line supervisors).

In August and September of 2005, CATSA embarked on the “Sharing the Vision” initiative to build understanding of CATSA’s mission and to instill pride in the work of screening officers. CATSA senior executives visited 12 airports across the country, made presentations, and held question and answer sessions with screening officers to hear their concerns and suggestions for improving the system. Feedback from this initiative resulted in the creation of bulletin boards depicting various improvised explosive devices, to be placed in the screening officers’ lounges, and signs indicating that rude behaviour from passengers would not be tolerated, to be placed near the pre-board screening point. Other changes included the creation of a screening officers’ website and changes to uniforms.



**Funding**

At 31 March 2006, CATSA had assets of approximately \$632 million and liabilities of about \$615 million. Screening equipment represented about \$500 million or 79 percent of the corporate assets. Deferred capital funding was the largest line item under liabilities. Liabilities also included \$12 million owing to airport authorities.

CATSA is funded entirely by appropriations from the federal Consolidated Revenue Fund. In 2005–06, its total appropriations used for operating and capital expenditures were \$425 million. In the 2001 Budget, the Government introduced the Air Travellers Security Charge (ATSC). All passengers must pay the ATSC. The amounts raised by the ATSC (\$422 million for 2003–04) are deposited to the Consolidated Revenue Fund. There is a separate financial statement for the ATSC that is audited by the Auditor General at the request of the Minister of Finance. The last completed audit was for the year ended 31 March 2004.

The 2006 Federal Budget provided an additional \$133 million over two years to help CATSA address pressures caused by increasing passenger flows and related operating pressures, discussed below.

**Challenges facing the Canadian Air Transport Security Authority**

CATSA is a new Crown corporation with high visibility. CATSA has indicated that it faces pressures from the public, the Canadian government, and Canada’s international partners, including the U.S. Transportation Safety Administration, to ensure effective screening. CATSA describes its challenges as the following:

**Screening in a high-risk environment.** The London bombings in July 2005 demonstrated that terrorists continue to target transportation systems. CATSA’s mandate is to screen passengers, their baggage, and non-passengers to prevent any threat items from being carried onto aircraft at designated airports. Only one such item needs to be brought on board for potential disaster to occur. While the vast majority of passengers pose no threat, screening staff need to be vigilant at all times.

**Management of screening providers.** CATSA provides screening through the use of 13 different screening providers who are contracted to provide screening services in the 89 designated airports. CATSA must make financial commitments to the screening providers that reflect market-driven increases in screening officers’ wages and benefits. Challenges are also inherent in providing oversight to ensure high quality and consistent screening.

**Increasing passenger volumes.** According to Transport Canada forecasts, the average annual growth rate of passengers for the period from 2002 to 2017 at class I airports will vary from three to four percent per year. CATSA's funding is not directly tied to passenger volumes. Airport authorities and the airlines continually pressure CATSA to process passengers quickly. However, CATSA must still meet the minimum security requirements defined in the regulations.

**Other budget pressures.** Hold bag screening, including the purchase and integration of explosive detection equipment, was implemented at all airports by 31 December 2005. The airport authorities funded this initiative and were then reimbursed by CATSA. With the deployment of the new equipment, CATSA faces increased training and maintenance costs. Additional budget pressure has been created because several large airports are undergoing expansions, which will result in a demand for more screening officers.

## Findings and Recommendations

### Corporate governance

Corporate governance refers to the framework of systems, practices, and structures for overseeing the direction and management of an organization, so it can carry out its mandate and achieve its objectives. We expected that CATSA would have a corporate governance framework that performs well and meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public.

CATSA has a governance regime that comprises the Board of Directors; the Minister of Transport, Infrastructure and Communities; Transport Canada; and the Treasury Board. Transport Canada is responsible for designing the aviation security system and related policies and regulations. CATSA reports to Parliament through the Minister of Transport, Infrastructure and Communities, and must operate within the Canadian aviation security regulations. As well, the Treasury Board has an oversight role in approving CATSA's corporate plan and annual funding levels.

The Board has eleven director positions, including the Chairperson. There are four positions for industry representatives—two nominated by members of the Air Transport Association of Canada and two nominated by members of the Canadian Airports Council. The Board of Directors represents the Corporation and is accountable to

Parliament through the Minister of Transport, Infrastructure and Communities for the fulfillment of its corporate duties.

### **Relationship between the Canadian Air Transport Security Authority and its regulator**

The security screening provided by CATSA is governed by regulations developed by Transport Canada and approved by the Governor in Council. However, CATSA does not wish to be constrained by its limited mandate. CATSA believes it does not have sufficient flexibility over its operations, equipment selection, or deployment of screening staff. The following are some examples of areas where CATSA believes this is the case.

CATSA considers greater access to intelligence information to be one of its corporate priorities. Canada's security and intelligence community is comprised of Transport Canada and several other departments such as the RCMP and CSIS, but does not include CATSA. Transport Canada passes on intelligence information to CATSA. However, CATSA has stated that it needs direct access to intelligence information and that this is imperative for it to effectively carry out its work. It has engaged two employees to collate and assess intelligence information. These employees prepare daily intelligence briefs and weekly intelligence reports for CATSA's senior management.

The Canadian aviation security regulations developed by Transport Canada include explicit instructions to be followed (for example, a screening line must have a minimum of three screening officers if it has a walk-through metal detector), rather than being results-based and focused on the ultimate expected outcome. CATSA believes it needs greater operational flexibility in order to fulfill its mandate. For example, it would like to use dogs that can detect explosives in the airports. However, the legal authority for CATSA to search people and their belongings using dogs has not been provided in the current regulatory framework. CATSA would also like to reduce the number of screening officers in a screening line to fewer than three in smaller airports. The regulations do not allow this.

Within CATSA's current mandate, the screening officers are to carry out a specific set of screening techniques to detect prohibited items and to prevent them from being introduced into airport "restricted" areas. Currently, the screening officers' focus is on objects, and all passengers are treated the same way. However, CATSA wants to introduce behaviour observation techniques, so screening officers

could identify passengers who may need to be scrutinized more closely. The legal authority for CATSA to use these techniques is not provided in the current regulatory framework.

CATSA's view is that counterterrorism is a key aspect of its work. This is evident in CATSA documents. Transport Canada has stated that CATSA's current mandated responsibilities do not specifically include counterterrorism.

Transport Canada is responsible for establishing the list of equipment that has been demonstrated to meet or exceed the designated performance standards. CATSA can only select equipment on that list. CATSA believes it should be able to research, test, evaluate, and select its own screening equipment and that it should have the financial resources to do so.

Transport Canada is mandated to determine if the baseline standard, to detect prohibited items and to prevent them from being introduced into airport sterile areas, is being met. It does so in part by conducting infiltration tests. Transport Canada inspectors try to bring simulated or deactivated threat objects, such as knives, guns, and explosives through passenger screening lines. Major differences have arisen between Transport Canada and CATSA as to what constitutes a "failed" or a "passed" infiltration test. These differences include who should have identified the threat object and whether the screening officer followed proper procedures in doing so.

In May 2006, Transport Canada informed CATSA that it is permitted to conduct infiltration testing, for quality assurance purposes, using certain items, provided they do not enter the restricted areas. However, under the *Aeronautics Act*, only Transport Canada inspectors can bring prohibited items through the screening line in restricted areas. CATSA believes that it needs to conduct all types of infiltration testing to ensure that its systems are functioning at optimal levels.

CATSA's unwillingness to accept its limited mandate and the regulated environment of security operations has negatively affected the relationship between CATSA and Transport Canada. It has also affected timely approval of CATSA's corporate plan, as described in the Strategic Planning section which follows. The effort and attention spent addressing these differences would be better directed to screening operations.

Transport Canada is moving towards a more results-based regulatory regime over time and has indicated that a precursor to this would be CATSA's preparation of sound business cases to demonstrate the

security value of alternative approaches, as well as performance expectations and associated measures that are well defined and agreed upon. Certain policy decisions may need to be reviewed by the Minister and the Cabinet.

In our view, it is essential that the ongoing issues between CATSA and Transport Canada be resolved. The Minister of Transport, Infrastructure and Communities will have the opportunity to use the results of the upcoming report from the CATSA Act Review Panel to determine whether the current governance arrangement should continue.

### **Strengthening Board governance practices**

The Board of Directors, with its industry representation, has provided an important oversight role and has guided the Corporation. However, there are several areas where the governance practices of the CATSA Board need to be strengthened in order to bring them in line with current best practices—practices already adopted by most other large Crown corporation boards. Among the areas that need strengthening are the following:

**Separation of governance and management.** During the period from 1 January 2005 to 7 April 2006, the Board and its committees were involved in a total of 54 meetings. CATSA was a relatively new Crown corporation in a highly active environment, and the Board had to act in a management capacity to address specific issues. However, in the future, as CATSA becomes a more mature Crown corporation, the Board should review the demarcation between Board oversight and management's responsibilities.

**Improving the existing values and ethics guidelines and process.** Events in the private and public sectors have highlighted the need to establish and maintain a culture of sound values and ethics. CATSA has a *Conflict of Interest Code* for the members of its Board of Directors. In 2005, only two directors signed a conflict of interest declaration. Directors only signed the 2006 declaration after we asked to see the signed declarations. Normally, such declarations are signed annually. In line with best practices, the expectations for Board members could be strengthened by developing a code of conduct that could include other elements such as relations with CATSA's regulator and dealing with confidential information.

**Better oversight of the internal audit function.** The Audit Committee's responsibilities include ensuring oversight of corporate

books, records, financial and management control, and information systems and practices. In addition, the Audit Committee has a key role relating to the internal audit function. However, few planned internal audits have been carried out. The Audit Committee has not approved the internal audit plan. Internal audit reports directly to the President, which is in line with best practices.

**Assessment of Board effectiveness.** Treasury Board guidelines relating to governance indicate that “The Board should develop processes to evaluate annually the effectiveness of the Board, its committees and the directors individually.” To date, this has not taken place; however, CATSA has indicated that work is underway to begin this process.

**Updating the Board competency profile.** The Board competency profile is a matrix that compares desirable skills, attributes, and experience for Board members against actual Board member competencies. We noted that the Board competency profile is out of date and does not reflect all current Board members.

**Proactive action to ensure director positions are filled.** CATSA sent a letter to the Minister in May 2006 informing him of two vacant posts (one being an industry representative). In addition, one position expired in September 2005 and three positions were due to expire in July 2006. A full complement of the Board is essential to ensure its effectiveness. While the Governor in Council, on the recommendation of the Minister, makes Board appointments, more proactive action could be taken by CATSA’s Board, to ensure Board vacancies are filled on a timely basis with qualified candidates. This is not a problem that is unique to CATSA.

### **Recommendations**

The tensions between CATSA and Transport Canada need to be resolved, perhaps as part of the mandate review.

*CATSA’s response.* Management recognizes that with the evolution of the corporation, CATSA must continue to work with the Minister of Transport, Infrastructure and Communities and Transport Canada to ensure roles and responsibilities are refined and communicated to the front line. For instance, the flexibility CATSA is seeking to deliver its mandate could be resolved by better clarification of our respective roles and responsibilities. However, as a key player of the Government security community and as accountable executives, the management of CATSA has an obligation to signal improvements or gaps within the aviation security system to its regulator. Management is of the opinion that the relationship with Transport Canada

has never jeopardized the security of the travelling public but in fact, has led to operational improvements.

The Board should make the following changes to maintain CATSA's corporate governance practices in line with best practices:

- Review Board oversight to ensure that it does not encroach on management's responsibilities.

**CATSA's response.** *While the Board concurs with suggestions made by the OAG, the minutes of Board and Committee meetings during the applicable period support the Board's position that it has governed in accordance with its role and that there has not been an encroachment on management's responsibilities. The start-up of the organization called for a higher level of Board involvement, which will evolve as the organization matures. This is also evidenced by the existence of a defined set of Roles and Responsibilities of the Board of Directors of CATSA, which is provided to each new Board member as part of the new member orientation package.*

- Update the Board competency profile.

**CATSA's response.** *The Board agrees. The Corporation has a competency profile of the Board members that is updated, with the exception of the latest appointed members.*

- Ensure that all Board members sign a conflict of interest declaration annually.

**CATSA's response.** *The Board agrees. Although the Board's Conflict of Interest Code does not "expressly" require a conflict of interest form to be completed by each Board Member every year, CATSA will adopt a practice to receive a declaration on an annual basis going forward. As of June 2006, all Board members had signed a conflict of interest declaration.*

- Develop a Board code of conduct to be signed by all directors.

**CATSA's response.** *The Board agrees; however, it is important to note that the Board adopted and signed a Conflict of Interest Code, which addresses compliance with Board duties, conflict of interests, post-employment requirements and how conflicts should be addressed. The Board discussed the difference between a "Code of Conduct" and this Conflict of Interest Code. The Board believes the existing Code reflected best practices at the time of adoption and will undertake an annual review of current best practices to see if improvements might be needed.*

- The Board’s Audit Committee should approve the Internal Audit Plan.

*CATSA’s response.* The Board agrees and has already taken action in this regard. The Internal Audit Plan was approved at the September 12 Audit Committee.

- Complete annual Board assessments.

*CATSA’s response.* In the minutes of March 2006, the Board agreed to conduct a Board evaluation. Plans are underway to complete the first evaluation into 2006–07 fiscal year. Given the considerable changes in the membership of the Board over the past two years, appropriate time had to be granted to allow for an informed assessment.

- Increase its efforts related to filling vacant positions.

*CATSA’s response.* The Board agrees and has been taking action in this regard. The Board has reviewed the matter of outstanding Board appointments, and recommendations have regularly been made to the Minister in writing during the applicable period. As for the industry appointments, the associations who nominate Board members have been diligent in making their recommendation to the Minister in a timely fashion.

**Strategic planning**

Strategic planning guides what an organization is, what it does, and why it does it—all with a focus on the future. We expected CATSA to have defined directions, specific and measurable goals, and objectives to achieve its legislative mandate. Its strategic direction and goals should take into account identified risks and the need to control and protect its assets and to manage its resources economically and efficiently.

**Focus of the corporate plan**

The corporate plan is meant to be focused at the strategic level, and is meant to be the “centrepiece of the accountability regime adopted by Parliament for Crown corporations,” according to the Treasury Board Guidelines for the Preparation of Corporate Plans. The corporate plan ultimately guides the establishment of corporate priority objectives and the allocation of resources to achieve them.

We found that the corporate plan is not yet the strategically focused document that it could be. There is considerable operational detail in the Plan, as well as plans for activities that CATSA considered to be “minor.” CATSA has indicated that some of this detail was required by



Transport Canada and Treasury Board Secretariat, as they wanted to understand how CATSA was implementing its new programs.

Last year's and this year's corporate plans provide little discussion of CATSA's specific strategies in relation to screening. The draft corporate plan for 2006–07 to 2010–11 contains \* \* \*. Aside from this, there is little discussion of strategy in the plan.

### **Delays in corporate plan approval**

CATSA reports to Parliament through the Minister of Transport, Infrastructure and Communities, and therefore the Minister recommends the corporate plan to the Governor in Council for approval. The Security and Emergency Preparedness Directorate of Transport Canada reviews the corporate plan after it is provided to the Minister. This Directorate is also responsible for the policies and regulations governing security screening, although under different directors.

Transport Canada has indicated that CATSA's attempts to include initiatives relating to greater operational flexibility and financial flexibility and greater access to intelligence information in its corporate planning documents (2004–05 to 2008–09, 2005–06 to 2009–10, and 2006–07 to 2010–11) prior to having obtained the necessary approvals, have been one of several factors that has led to delays in approval of its corporate plans over the past three years. Although CATSA submitted its last three corporate plans on a timely basis, it has taken approximately nine months in each of the last two years for CATSA to obtain final approval. As of June 2006, the current corporate plan (2006–07 to 2010–11) had not yet been approved. Another cause of the delays, according to CATSA, has been the amount of detail requested by the central agencies. These significant delays have contributed to uncertainties and left management without an important management tool for extensive periods.

As part of our audit of the governance of CATSA and its strategic planning, we arranged a meeting with representatives from the Treasury Board of Canada Secretariat (TBS). We tried to discuss the results of the TBS' review and challenge of CATSA's corporate plans. Our questions related to the corporate plan for 2005–06 to 2009–10, and to the draft corporate plan for 2006–07 to 2010–11. TBS officials declined to answer any of our questions that were specific to CATSA. They indicated that in their view, any TBS documents pertaining to the development of TB submissions are confidences of the Queen's Privy Council, to which the Office of the Auditor General does not

have access. They also took the same position in relation to corporate plans.

Under the *Auditor General Act* and the *Financial Administration Act*, the auditors of the Office of the Auditor General have a right of access to information, documents, and individuals to fulfill their audit responsibilities. However, as a result of limitations imposed by the TBS on our right of access, we were unable to obtain information on the TBS' perspective on CATSA's corporate plans.

CATSA management is not implicated in any way with the limitations on our right of access imposed by the TBS.

### **Performance measures and targets in the corporate plan**

Treasury Board guidelines related to the preparation of the corporate plan indicate that specific performance measures and targets should be established for the identified objectives. CATSA recognizes that it needs to make further progress in this area. We also found that while there is considerable information in the corporate plan about the previous year's accomplishments, there is generally no comparison of actual results to planned performance.

### **Capital budget and employee projections**

Treasury Board guidelines relating to the preparation of corporate plans indicate that they should include pro forma statements for each of the next five years, including a description of planned major capital expenditures and the number of employees over the planning period. CATSA's most recent draft corporate plan provides the number of employees for the current year only and major capital expenditures for two years.

### **Recommendations**

- CATSA's corporate plan needs to outline its strategy for the effective, efficient, and consistent implementation of screening operations that are in the public interest while complying with Canadian aviation security regulations.

*CATSA's response.* Management agrees. CATSA is always striving for a more strategically focused corporate plan. CATSA has developed a Balanced Scorecard and strategies appropriate to a start-up organization and for ensuring delivery of screening operations that are efficient, effective, and in the public interest while complying with Transport Canada's regulations. Much of the details contained in the

corporate plans were provided in order to explain to central agencies details of the programs.

Going forward, the corporate plan will put more in evidence CATSA's strategy for achieving its legislated mandate (effectiveness, efficiency, consistency, in the public interest); make greater use of existing performance measures and targets to compare results achieved against planned performance; and articulate expected performance for the strategic objectives and initiatives included in the five-year planning horizon of the plan.

- CATSA needs to increase its efforts to ensure timely approval of the corporate plan.

**CATSA's response.** Management disagrees as CATSA has met all statutory timelines for submitting its corporate plan and was never presented any evidence that mandate-related discussions delayed the corporate plan. The considerable consultation that occurred with TC as well as central agencies (well in advance of the corporate plan statutory deadlines) allowed CATSA to fulfill its obligations under Part X of the FAA and the TBS Guidelines for the Preparation of Corporate Plans with all due diligence required.

In accordance with section II. 5 of TBS, CATSA used its corporate plans as “an early warning system to alert government to future developments.” In particular, CATSA “described and assessed” the “anticipated major events and decisions likely to be required from the government over the planning period.”

- CATSA also needs to focus on the longer term in its corporate plan, as soon as the Ministerial review of CATSA's mandate and related policy document is complete.

**CATSA's response.** Management agrees. CATSA had developed a five-year plan for Cabinet consideration, but was advised by TC and the central agencies to only put forward a two-year plan (reflected in the federal Budget 2006). The reason for the two-year plan was the timing of the CATSA Act review and the possibility that the Minister's response could change CATSA's mandate. As the TBS guidelines call for only submitting budgets that are funded through a budget statement, CATSA will continue to work closely with TC and central agencies on developing a long-term, sustainable funding framework, which will then be reflected in future corporate plans.

## Risk management

An effective risk management process identifies, communicates, measures, and appropriately addresses the significant risks to the achievement of key corporate and operational objectives. We expected

CATSA to have an integrated risk management framework to identify, assess (against an acceptable risk tolerance level), and manage all the important risks the Corporation faces. We expected CATSA's action plan to be in line with its risk tolerance level, effectively communicated, and consistently implemented across the organization.

**Risk management is improving**

CATSA's approach to risk management is consistent with the approach recommended by Treasury Board Secretariat under the Integrated Risk Management Framework. We found that risk management has improved since the initial risk management framework presented to the Audit Committee in 2003. CATSA has identified its key risks and vetted them with its Board of Directors.

The 2006–07 CATSA Risk Profile has three elements:

1. an environmental scan to identify major threats that CATSA faces;
2. a discussion of business risks associated with CATSA's screening-system failures; and
3. a discussion of organizational risks such as strategic and financial risks.

CATSA's business risks include mandate issues, for example, its "inability to adjust security above regulatory policy," the "requirement to screen all passengers equally," and "no cargo screening" (commercial cargo).

The document identifies the likelihood of occurrence as high, medium, and low risk. For each organizational risk (ordered from "low" to "catastrophic"), the document outlines potential impacts. However, a potential impact analysis has not been done for risks associated with the failure of the screening system.

For each risk, the 2006–07 risk profile indicates a progressive order of management response of avoid, transfer, prevent, mitigate, or accept. These categories of response identify CATSA's risk tolerance for the identified risks.

CATSA has a master list of management initiatives including initiatives that address areas identified in the CATSA risk profile. CATSA conducted a gap analysis that concluded that four high-risk areas and nine medium-risk areas did not appear to have a corresponding initiative in the master list. CATSA's corporate system

for tracking risk mitigation actions and outcomes is still under development.

CATSA has undertaken a number of discrete risk assessments that address specific functions of the organization. This approach was considered part of building CATSA's overall risk management regime over time. The risk function is working toward educating CATSA managers on how to integrate risk mitigation strategies into their business planning process, to address identified risks.

**Recommendation**

- CATSA needs to better operationalize its risk management strategies by ensuring clear accountability for results, by ensuring all high- and medium-risk areas are addressed, and by providing more training to managers.

*CATSA's response. Management agrees and has already taken action in this regard. CATSA has an integrated risk management action plan in place for 2006–07 which was provided to the OAG during the examination, and which included planned training for managers in 2006–07. A corporate process for tracking risk management is in development. All risk management plans have been provided to and reviewed by the Audit Committee.*

**Screening operations**

Screening operations are CATSA's core responsibility. CATSA took over responsibility for pre-board screening of passengers and their carry-on bags from the air carriers in 2002.

We expected to see that the Corporation has defined and effectively communicated screening procedures and that it ensures that these procedures are consistently followed during the screening process. We also expected to see that the Corporation ensures that there are a sufficient number of skilled screening officers and that timely and appropriate action is taken to address any deficiencies identified by Transport Canada or the Corporation itself.

CATSA's Standard Operating Procedures dictate the roles of each officer for different screening line configurations. On a five-person line, the five prescribed roles of the screening officers are the following:

1. inspection of boarding passes,
2. operation of the X-ray,
3. search of carry-on bags,
4. operation of Explosive Detection Trace (EDT) equipment, and

5. use of walk-through metal detector and/or hand-held metal detector.

When there are fewer than five officers on a line, some of these roles are combined.

All carry-on bags must be X-rayed at pre-board screening, and all passengers must pass through the walk-through metal detector. Additional searches are conducted where required. In addition, random searches are conducted on X-rayed bags and on passengers who pass through the walk-through metal detector, so that the screening officers in these positions are “continuously busy.”<sup>1</sup> The screening officer who performs the EDT must also be “continuously busy” collecting samples on bags and items, even when the X-ray operator does not identify an item to be traced.

As of 1 January 2006, CATSA achieved 100 percent screening of checked luggage (hold bag screening) for explosives in all 89 designated airports across Canada. As indicated in CATSA’s 2006 Annual Report, the state-of-the-art explosives detection systems “represented a half billion dollar investment by the government.” These systems were delivered ahead of the original schedule to meet international requirements. As we observed in the Auditor General’s April 2005 Report, Chapter 2, National Security in Canada, the airports were responsible for project construction and for installing the systems, and CATSA reimbursed them for their approved costs. We observed that project objectives were clearly defined, and that there was an information system to track whether projects were on schedule and to track the costs.

CATSA’s Standard Operating Procedures also dictate how hold bag screening (HBS) must be carried out. Different configurations for hold bag screening exist at present. In some airports, the HBS check point is in public view, either before or after the check-in counter, while in other airports it is out of public view. HBS screening officers monitor and screen X-ray images from the HBS equipment at the check point or in a control room.

Non-passenger screening (NPS) is conducted at certain access points to the restricted area to screen airport workers and flight crews and their belongings. NPS check points can be either fixed or mobile. Fixed NPS check points are equipped with walk-through metal detectors,

1. “Continuously busy” is defined as carrying out the necessary screening of a passenger or bag as per the Standard Operating Procedures, then moving on to the next randomly selected passenger.

X-ray machines, hand-held metal detectors, and EDT equipment. At this point, there are six fixed NPS check points in class I airports. At the other access points leading into the restricted area in class I airports and in Class II airports, the check point is mobile (a cart that is moved on a random basis from one access door to another) and is equipped with a hand-held metal detector.

There are approximately 4,400 screening officers, who are unionized employees of screening service providers. They receive first-line supervision from unionized “point leaders,” and higher level supervision from non-unionized supervisors (or “service delivery managers”), both of whom are also employees of the screening provider. CATSA oversees operations through twenty-nine regional and operations managers and three general managers.

We noted several areas that need to be addressed in screening operations.

### **Oversight of screening operations**

We found that the level of oversight of screening operations being provided by CATSA personnel is limited. Oversight by the CATSA general managers and regional and operations managers is essential because, among other reasons, the screening officers are not CATSA employees. It is challenging for the 29 regional and operations managers and three general managers to provide sufficient oversight of 89 airports. The fact that airports are often seven-day-a-week, 20-hour-a-day operations exacerbates the situation. Over the years, CATSA has increased the number of regional and operations managers to 29, in the 89 airports, and it is still looking for the correct balance.

CATSA managers have not received formal training to monitor screening operations. There are no up-to-date procedures for monitoring, and the tool that the managers are supposed to use to record observations—the Call and Incident Data Collection system—is not sufficiently structured, nor do many of the managers use it. The result is that managers do not report on the same information across all airports, making it difficult to determine if screening officers are following procedures consistently. CATSA needs to ensure its managers are working as effectively as possible before it can determine the optimal number of resources that are needed.

To assist screening providers in overseeing screening officer attendance, CATSA piloted a time tracking and scheduling system

for screening officers at Pierre Elliott Trudeau Airport in Montreal in 2005. The system is intended to provide electronic time scheduling and tracking of billing information, thus freeing up the managers' time for oversight and ensuring the accuracy of screening provider billing. An invoicing audit conducted by CATSA revealed many billing mistakes related to the improper completion of screening officers' timesheets. Not all of the new system's business requirements were implemented due to time and budget constraints. Given the advantages of such a system, completion and deployment of a time tracking and scheduling system in class I airports needs to be a priority.

An additional CATSA initiative to assist with oversight was the "Smart Card." This card was intended to replace CATSA paper endorsement documents and to provide an on-site record of training taken by screening officers. It is a biometric card that would enable a supervisor to verify that a screening officer has the qualifications to do a particular job. The information source used for the Smart Card is CATSA's Learning and Performance Management System. The Smart Card was implemented in Halifax in October 2004, and is mentioned in CATSA's Standard Operating Procedures. The Smart Card was implemented at 40 other airports, but was recalled due to reliability issues with the technology. CATSA informed us that the delay was due to data integrity problems with the information contained in the Learning and Performance Management System.

A closed-circuit television system has been set up at PBS check points in some class I and class II airports, with ongoing live images provided to Ottawa's Communication Centre. Implementation of this Pre-Board Screening Monitoring project occurred throughout 2004 and 2005. There are plans for implementation to additional airports in 2006 and 2007. Capital and operating costs, to the end of the 2005–06 fiscal year, were \$3.9 million and \$1.7 million respectively. In 2004, CATSA submitted a preliminary privacy impact assessment to the Office of the Privacy Commissioner. To mitigate privacy risks, CATSA also indicated that the project would be used to provide surveillance of passengers, and not used to monitor employee job performance. As a result, CATSA does not use the system as a means to monitor the performance of screeners. CATSA does, however, use the system to verify passenger complaints after the fact (for example, if there is a claim that something was stolen). Also, if notified by CATSA managers at the airport that there is an ongoing incident with a passenger at a screening line, it can use its monitors to view the situation. CATSA does not maintain a log on the number of times CCTV has been used in these cases. A review of informal



correspondence suggests that the system is under-utilized. CATSA management at the airports do not have access to CCTV, although they have indicated that this would be very beneficial.

### **Shortages of screening officers**

In some airports, particularly those where there is competition for a qualified workforce as a result of strong economic activity, CATSA's screening providers have chronic shortages of officers. These shortages are caused by difficulties recruiting and retaining screening officers, due to a highly competitive job market in some areas, lengthy delays to obtain security clearances, and attrition of new screening officers who find other employment. In 2005–06, the overall turnover rate for class I airports was 12 percent, although it increased in the last quarter to 16.4 percent. Two class I airports (Toronto and Vancouver) had lower turnover rates of 6.5 percent and 3.8 percent respectively. Four class I airports had screener attrition ranging from 26.4 percent to 34.6 percent for the year. Three airports (Calgary, Edmonton and Winnipeg) had high attrition due to the competitive hiring market in the west. CATSA's screening providers have had to resort to practices that may increase risk. These practices include the following:

- Using fewer screening officers on a screening line during peak periods, so that one officer performs two functions. For example, instead of having one officer perform explosive trace detection (EDT) and another officer perform carry-on bag searches—both on a “continuously busy” basis—the two functions are carried out by one screening officer. \* \* \*.
- Increasing the use of overtime, which results in fatigue for the screening officers.
- Shifting screening officers from non-passenger screening to pre-board screening, thereby rendering non-passenger screening less effective.
- In some cases, deploying staff provided by the screening providers who do not yet have security clearance (Level “0” screeners) in the first position of the screening line. This practice provides the non-cleared screening officer with inside knowledge of CATSA's screening operations.

In some western airports, the screening provider has brought in staff from other airports at significantly increased cost to deal with severe staffing shortages. They have also provided incentive programs for all screening officers who work overtime. When hiring screening officers

to address the shortage, there are often delays in obtaining security clearances. Potential candidates may find other employment during the waiting period, particularly in competitive job markets such as Alberta. In that province, the screening provider has to submit security clearance application forms for twice the number of employees required for the screening operation. In order to retain candidates awaiting their clearance, CATSA introduced “Level 0” future screeners, who are supposed to work as greeters outside the restricted area.

### **Non-passenger screening**

At Non-Passenger Screening (NPS) check points located at the access doors to restricted areas, regulations require CATSA to randomly screen non-passengers at any restricted area access point, and to focus on the air terminal building, where employee traffic is higher. Two screening officers and one point leader are to conduct Non-Passenger Screening (NPS). There are six “fixed” NPS locations in class I airports that are equipped with walk-through metal detectors. This means that the majority of access doors to restricted areas do not have a fixed NPS check point. For those access doors, the NPS team has a mobile cart that includes hand-held metal detectors. The NPS team moves on a random basis from one access door to another among those that do not have fixed metal detectors. To date, CATSA has not conducted screening outside the air terminal building. The limited number of fixed non-passenger screening check points where random screening occurs and the random nature of the “mobile” check points enable non-passengers to avoid screening.

### **Challenges in hiring**

Until recently CATSA provided no guidance to screening providers for the hiring of screening officers, despite the requirement for each screening officer, once hired, to read and absorb considerable documentation, have visual object recognition skills, and be able to converse with passengers on the screening line. Currently, there are no minimum education requirements and no mandatory test of proficiency in either official language. Screening providers develop their own interview guides and, in one case, a hiring test. While hiring is the responsibility of the screening providers, CATSA has recognized that there are efficiencies in deploying pre-employment testing tools and is acting on this with respect to X-ray image recognition testing. CATSA is now piloting this type of testing in one airport, with the intention of expanding this to other airports.

The Commissioner of Official Languages carried out an assessment in 2004 and followed it up in 2005, which revealed that CATSA was not in compliance with the *Official Languages Act*. CATSA must require that its subcontractors respect the language clauses in their contracts and find a way to ensure adequate bilingual services.

### **Training of screening officers**

With over 740 pages of policies and procedures to be learned,<sup>2</sup> each of the 4,400 screening officers has a huge learning task. The training system is under stress, given airport expansions, the requirement to recertify all screening officers every two years, and turnover of screening officers in some airports, which has impacted the experience level at those airports.

CATSA has redesigned its training program for new screening officers in the following ways:

- reducing classroom time by streamlining training content,
- reducing the amount of time spent in on-the-job training but improving its quality, and
- enabling screening officers to be trained more quickly.

Additional training is provided to screening officers who will work in baggage screening and non-passenger screening.

Point leader training is also being enhanced. The point leader has a key role in screening operations, as the front line supervisor who sets an example for screening officers and resolves confrontations between passengers and screening officers when they arise. Those whom we interviewed reported that they needed more supervisory training. The new point-leader training program will focus more on soft skills as well as techniques for providing effective feedback and managing conflict.

Formal refresher training is limited. Screening officers received a one-day National Enhancement Training course in 2004. CATSA has also introduced two programs to increase threat-object awareness and improve the attentiveness of screening officers. TIPS (Threat Image Project System) is used on the X-Ray machines at each screening line.

2. Policies and procedures for pre-board screening, hold bag screening, and non-passenger screening PBS are described in 517 pages of standard operating procedures, 79 bulletins totalling over 160 pages, 14 pages of directives, and on average 51 pages (per airport) of CATSA operational plans. In addition to this, there are 196 pages of security bulletins issued by Transport Canada.

CATSA conducts an analysis of results by airport, but not by screening line or by officer. X-Ray Tutor (XRT) is a training program used on computers located in a special training area, in which screening officers progressively move on to more difficult levels of detecting threat objects in carry-on bags. CATSA is completing a country-wide rollout of XRT. After screening officers receive their initial training, they are required to spend 20 minutes per week on XRT. Computers with XRT are not always sufficient or in convenient locations. Initial results compiled by CATSA raise concerns about the low level of usage and lack of progression to more difficult levels.

Other informal training included

- an online seminar (webinar) that explains new procedures from one of the recent bulletins, to point leaders, and
- the use of “training bags” containing simulated prohibited items that are sent through screening.

CATSA also provided each airport with a bulletin board demonstrating different types of Improvised Explosive Devices (IEDs). \* \* \*, feedback from screening officers during CATSA’s “Sharing the Vision” cross-country consultation, and input provided during our Special Examination indicated that screening officers need more training on IEDs.

CATSA will need to pay continued attention to ensure that the screening officers on the line understand their duties and responsibilities and are able to perform them. Because of the dynamic environment in which the screening officers work, with new bulletins being issued continually to amend procedures (an average of 20 new bulletins each year), there is a need for additional refresher training. Refresher training should include more than X-ray recognition. For example, it could cover revisions to the standard operating procedures, practical “wanding” (using the hand-held metal detector), search techniques, and the use of new or different threat objects in the training bags. We found that revisions and amendments to procedures are often not effectively communicated in a timely manner to screening officers.

Attention must also be paid to retaining adequate training resources. The eight full-time and nine contract CATSA Learning and Performance Advisors (LAPAs) conduct training and recertification testing across the country and are very tightly scheduled. They sometimes teach two full-day courses in one day, working from 7:00 a.m. until 11:00 p.m. Several have to travel for as much as half of

their working time to teach courses and conduct certifications and recertifications at various airports. Recertification testing for many screening officers has had to be rescheduled due to a lack of available training staff. Screening officers must be recertified every two years in order to continue conducting authorized searches of passengers and their personal belongings.

**Screening service provider options**

According to the CATSA Act, “the mandate of the Authority is to take actions, either directly or through a screening contractor, for the effective and efficient screening of persons who access aircraft or restricted areas . . . .” The mandate further states that the Authority may authorize an airport authority to deliver screening on its behalf, either directly or through a screening contractor.

In June 2003, CATSA commissioned a study of service delivery options for passenger screening. Over a period of many months, CATSA studied the options. Four different options were considered:

- third-party service delivery with some CATSA oversight in the airports,
- a federal employee model,
- an airport service provider model, and
- a matrix model (third-party delivery with enhanced CATSA oversight).

At that time, CATSA chose to continue with the model of third-party delivery with 15 managers performing oversight at the airports. In August 2005, CATSA determined the cost of labour instability. It determined that the replacement cost for one departing screening officer was \$4,000 for training and uniforms. It also determined that the cost to CATSA of labour instability over approximately a two-year period was \$6.7 million. CATSA may want to re-visit its analysis of the options for providing screening services.

**Measuring performance through infiltration tests**

Infiltration test results measure the rate at which screening officers detect threat objects such as a knife, gun, or explosive device when Transport Canada inspectors try to carry them through passenger screening. Infiltration test results \* \* \*.

\* \* \*

When there is an infiltration test failure, Transport Canada issues an “enforcement letter” to CATSA. According to the standard operating procedures in effect during our examination, CATSA managers are to provide Transport Canada with a written response indicating corrective action taken. In the Auditor General’s April 2005 Report, Chapter 2, National Security in Canada—The 2001 Anti-Terrorism Initiative—Air Transportation Security, Marine Security, and Emergency Preparedness, we noted that CATSA had inadequate systems and practices to ensure that letters from Transport Canada, indicating infiltration test failures, received appropriate and timely responses. The chapter noted that CATSA said that they had begun “. . . to track enforcement letters and its responses to them more closely.” However, in our Special Examination, we found that in most cases, CATSA regional management still did not provide written responses to either CATSA Head Office or Transport Canada to provide assurance that appropriate action had been taken. CATSA’s performance in this area has declined since our 2005 Report.

While responses to Transport Canada were generally not issued, we found that the regional offices of CATSA completed “Infiltration Test Reports,” which document the type of test item, the relevant details, and recommended action (usually on-the-job training), and sent them to CATSA Headquarters. However, we did not find evidence at Headquarters that on-the-job training for the particular screening officer, who had been involved in the infiltration test failure in the airport, had actually occurred. This type of information is kept in the screening provider personnel files at the airports but is not available on CATSA’s Learning Management System.

## Recommendations

### Improving oversight

- Improve oversight by better equipping regional and operations managers for their oversight role. Develop specific criteria for use when monitoring screening operations.

*CATSA’s response. Management agrees. In addition to the oversight provided by the 29 RMs/OMs under CATSA’s direct employment, CATSA contracted with service providers for the provision of management/oversight in the form of 54 Service Delivery Managers and approximately 44 other management positions, plus hourly costs of 320 Full Time Equivalent Point Leader positions. These 447 positions are an integral part of oversight. In keeping with our commitment to continuous improvement, a modified Oversight Model is being developed that would reduce the oversight personnel provided by the*

screening providers in order to increase the number of CATSA employees dedicated to oversight in Class 1 airports.

CATSA reviews the Screening Service Providers monitoring and oversight by means of the Performance Payment Program.

- Explore CATSA's right to use closed-circuit TV as a tool to monitor screening officer performance in delivering screening services.

**CATSA's response.** Management disagrees as CATSA discussed the use of CCTV at length and made the business decision that the use of CCTV to monitor individual performance was not appropriate at this time.

- Implement a time tracking and scheduling system for screening officers in class I airports.

**CATSA's response.** Management agrees and has already taken action in this regard. CATSA is commencing the roll out of the SITT and scheduling software. Following completion of this first milestone, the last part of linking the system to invoicing will be implemented.

#### Addressing shortages

- Continue to take measures to address screening officer shortages. Ongoing turnover rates should be factored into all staff planning, as well as security clearance delays.

**CATSA's response.** Management agrees and has already taken action in this regard. First, CATSA believes that screening officer shortages impact passenger throughput but do not compromise the level of security at the screening checkpoint. Screening officers follow Standard Operating Procedures to ensure security is not compromised. CATSA has already taken the following measures to address the challenge: a private firm has been hired to review and advise on staffing and hiring issues; one GM has been appointed as the OPI to have direct contact with TC on security clearances and manage the national screening officer hiring-staffing-training portfolio; and Screening Officer's salaries, benefits, job descriptions, specialization of positions, pre-selection testing, and career planning are being reviewed.

#### Hiring and training screening officers

- Provide greater guidance to screening providers for hiring screening officers.

**CATSA's response.** Management agrees and has already taken action in this regard. Transport Canada's Designation Standards for Screening

Officers (DSSO) prescribe the minimum qualifications required by screening officers and the duties they must perform. CATSA trains the applicants and if successful, certifies their ability to properly conduct those. CATSA has been working with Service Providers to provide guidance and improve selection techniques. For example, a pre-employment assessment test (Object Recognition Test) has been implemented in 5 of the 8 Class 1 airports and is expected to be operational in all Class 1 airports by the end of November 2006.

- Monitor use of XRT to take steps to ensure that screening officers progress to higher levels of training.

**CATSA's response.** Management agrees and the work is ongoing. The use of XRT is a leading edge practice that is being developed and deployed by CATSA in cooperation with the University of Zurich. CATSA will continue to monitor and expand the program.

- Make refresher training a focus of attention to ensure screening officers fully understand all up-to-date procedures.

**CATSA's response.** Management agrees and has been taking action in this regard. CATSA has developed and implemented a number of refresher training tools since its inception, such as the National Enhancement Training program for all screening officers, the "IED Recognition and Safety Boards" posted at all airports, a webcast on Liquid Explosives, and a screening officers website. CATSA is currently exploring the option of recertifying screening officers on an annual basis as it implements an expanded ongoing refresher training program.

- Streamline standard operating procedures and other screener guidance so that key Standard Operating Procedures and new bulletins are more easily accessible.

**CATSA's response.** Management agrees and has already taken action in this regard. There is sufficient oversight and supervision to ensure the latest SOPs are in force; however, respecting our commitment for continuous improvement, Version 2 of the SOPs is being drafted using easier to understand language. Compliance Officers will have the duty to monitor on site the implementation and understanding of new procedures, and they will be working in tandem with an advisory resource available 24/7 from the Security Operations Centre. SOPs as well as bulletins will be made available online.

#### Testing service models

- Re-evaluate the model employed for delivery of screening services. Consider pilot projects to test other models.



*CATSA's response.* Management agrees. In keeping with our commitment to continuous improvement, a modified Oversight Model is being developed that would reduce the oversight personnel provided by the screening service providers in order to increase the number of CATSA employees dedicated to oversight in Class 1 airports.

Responding to infiltration tests

- Provide assurance to CATSA headquarters and Transport Canada that corrective action has been taken in response to failed infiltration tests.

*CATSA's response.* Management agrees and has already taken action in this regard. CATSA local staff have taken appropriate corrective action in cases of failed infiltration tests. All failures to the testing done by TC since 2003 have resulted in individual remedial actions implemented locally by CATSA. All remedial action plans are available locally to TC personnel in the screening officer's file and local TC personnel is made aware of the results and can access them at all times. In the past, the documents have not always made their way to CATSA headquarters, but this has been rectified. Currently, all documentation related to failed infiltration tests is analyzed and processed at CATSA headquarters, and there is timely reporting to TC headquarters.

\* \* \*

**Performance Measurement and Reporting**

Clear measurement and reporting of performance is essential to meeting public sector expectations for accountability and transparency in a Crown corporation and its ongoing management. We expected CATSA to use performance indicators to assess its overall performance and to measure the achievement of its mandate and statutory objectives. We also expected that operational performance would be measured using established objectives and targets at the corporate and airport levels and that CATSA would have reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting to Parliament.

**Internal reporting**

For internal reporting purposes, CATSA has invested considerable effort into the development of a business information system, which it uses to produce quarterly reports for management. A variety of information is gathered from airports and maintained on this system, such as screening hours, cost per passenger at pre-board screening, number of critical security incidents, wait times, intercepted items, number of complaints, screening-officer turnover rate, and equipment

reliability. Overall targets have been developed for most of these with respect to acceptable performance. However, it is not indicated how these relate to CATSA's mandate of effective, efficient, and consistent screening that is in the public interest.

CATSA is also in the process of developing a balanced scorecard relating to its Corporate Strategy Map. This Corporate Strategy Map was being revised during the course of our examination, although its focus is on greater operational and financial flexibility, access to intelligence, and partnerships. CATSA is in the process of developing measures and targets in relation to the objectives in this Strategy Map.

### **External reporting**

Measuring performance against targets and reporting the results to Parliament is particularly important in a security environment, where falling short of a target in performance could have serious consequences for the public.

According to the CATSA Act, screening operations are to be effective, efficient, consistent, and in the public interest. This applies to pre-board screening, baggage screening, and non-passenger screening. CATSA has limited control over these expected outcomes. This is partly explained by the fact that they depend to some extent on Transport Canada's design of the overall air transport security system. Other than effectiveness for pre-board screening, which is measured by Transport Canada through its infiltration tests, it is not clear what "effective," "efficient," "consistent," and "in the public interest" mean or how they should be measured.

CATSA has informed us that it is working toward developing appropriate performance measures and targets. Its 2005 Annual Report does contain some performance measures. However, there are a number of performance measurement "gaps." For example, there do not appear to be any measures in relation to the consistency of screening, and no measures are identified as relating to "in the public interest." For baggage screening, there is only one measure, which is equipment availability. There are no measures for effectiveness or screener efficiency, in relation to baggage screening. Transport Canada and CATSA have recently undertaken preliminary "verification" testing of hold bag screening, to assess its effectiveness. Similar to infiltration test results, this information is only reported internally.

Furthermore, CATSA has not prepared a performance reporting framework to help explain the logical links (such as the use of a results

chain) between its mandate and the performance measures reported in its annual report. For example, in its 2005 Annual Report, it is not clear how the number of enplaned passengers is a measure of security effectiveness, or how the number of airports with non-passenger screening (NPS) and the Restricted Area Identification Card (RAIC) is a measure of operational efficiency. In addition, the annual report does not provide targets of expected performance. For example, the total number of critical incidents involving police is reported as a measure of security effectiveness. However, there is no indication as to whether more incidents or fewer incidents would represent good performance. As well, there has been a significant decline (almost 20 percent) in the average number of prohibited items intercepted by screeners per month, at pre-board screening. CATSA attributes this to improved awareness on the part of passengers, but it provides no support for this conclusion.

We also reviewed CATSA's 2006 Annual Report. It contains a variety of performance measures and some targets, although it does not indicate how these relate to CATSA's mandate of effective, efficient, and consistent screening that is in the public interest. Nor has CATSA articulated how it deals with the trade-offs inherent in its mandate.

The airport authorities, an important stakeholder of CATSA, have stated that measuring wait times (the elapsed time between when passengers enter the pre-board screening queue and when they reach the X-ray machine) twice a year is too infrequent to provide a useful, timely indicator of performance. They also indicate that the use of averages masks poorer performance. In addition, they have indicated that CATSA lacks a formal and well communicated "passenger throughput measure" (the number of passengers to be screened per hour), on an airport-by-airport basis. This measure should consider space allocation, configuration, and the number of screening officers on the line; it would indicate whether screening capacity and performance meets peak airport requirements. Such a measure is particularly important because CATSA has the challenging task of balancing commercial pressures to process passengers more quickly with ensuring passenger security through its screening operations.

### Recommendations

- CATSA should develop a framework that shows how each aspect of its mandate will be measured, to demonstrate that pre-board screening, baggage screening, and non-passenger screening are "effective," "efficient," "consistent," and "in the public interest."

**CATSA's response.** Management agrees and recognizes that it must continuously improve its performance measurement program, especially related to indicators and targets. Already, for those areas over which it is responsible, CATSA has a performance measurement and reporting framework in place for assessing the key aspects of its mandate and for measuring in areas where it has authority to measure. In particular, HBS measuring of results through test bags is being done and reported to operations. The quarterly performance report is provided to the Board and presented following the paradigm of management that the Board endorsed. The strategy map objectives and measures focus on effectiveness, efficiency, and consistency. This approach to performance measurement and reporting is endorsed by the Board.

- CATSA should establish the accompanying targets by which good or poor performance can be assessed.

**CATSA's response.** Management agrees. CATSA has set targets in areas that it controls such as queuing time, wait time, and customer satisfaction, and will continue to develop and refine new and existing measures and targets as mentioned above and report on them. Targets on infiltration tests are the responsibility of Transport Canada.

- CATSA should measure and report its performance against these targets for internal purposes and, and as appropriate, in its annual reports.

**CATSA's response.** Management agrees and, as mentioned above, will continue to develop and refine new and existing measures and targets and report on them.

**Canadian Air Carrier Protective Program**

In November 2001, at the request of the Government of Canada, the RCMP commenced a program of placing RCMP officers on flights to Washington Reagan National Airport. The objective of the program was to prevent control of an aircraft from passing to any person or group of persons who did not have legal authority to take control of the aircraft. When CATSA was created, it entered into agreements with the RCMP and Transport Canada to fund an expanded Canadian Air Carrier Protective Program \* \* \*.

We expected that CATSA would administer these agreements in such a manner as to ensure the successful completion of the agreements in accordance with the prescribed terms.

### Questionable value added

CATSA has limited involvement in the Canadian Air Carrier Protective Program (CACPP). The RCMP is the lead decision-making authority with respect to the program's administration and operation. \* \* \* CATSA retains funding and evaluation responsibilities.

CATSA is to fund "allowable" costs for the CACPP, on a quarterly payment basis. CATSA pays for these services, but it has no control over them. It relies on the RCMP's internal audit to attest to the accuracy of the billings. We question whether this is a sufficient basis on which to make payments. It is difficult to see the value added of CATSA's involvement in making these payments.

CATSA has a professional services contract in place with a third party to conduct quarterly evaluations of the CACPP. In terms of the effectiveness of financial resources expended \* \* \*. The evaluations are of limited value in terms of evaluating program effectiveness. For example, they do not address what the level of funding necessary to successfully run the program would be, whether the threat assessment process is effective, or whether the program is achieving its objectives.

Despite this, the evaluations do represent a useful tool for tracking progress relating to the few operational difficulties encountered by the RCMP. As well, one of the 2004 quarterly evaluations provided some benchmark information for the program. CATSA believes the program has enhanced cooperation between itself and the RCMP.

### Recommendation

- CATSA should, in consultation with the Minister of Transport, Infrastructure and Communities, reconsider its role in the Canadian Air Carrier Protective Program, perhaps as part of the impending mandate review.

*CATSA's response.* Management agrees and has already taken action in this regard. CATSA provided its views to the Minister's Panel through its position papers. CATSA believes that this is a consideration for the Minister.

### **The Airport Policing Contribution Program**

The Airport Policing Contribution Program was designed to cover increased policing costs at airports following the events of September 11, 2001. Policing requirements for class I airports are set out in security measures \* \* \*.

\* \* \*

In 2001, prior to CATSA's creation, Transport Canada determined the allocation of the funds to individual airports based on a threat and risk analysis, rather than actual increased policing costs. \* \* \* CATSA entered into agreements with airport authorities, in order to distribute the funds.

We expected that CATSA would administer these contribution agreements in such a manner as to ensure the successful completion of the agreements in accordance with the prescribed terms.

#### **Towards a more equitable funding arrangement**

\* \* \* CATSA has tried over a period of years (2003–2005 inclusive) to develop a more equitable formula for distributing the funding to these airports, but it has not been able to obtain airport authority consensus. Today, CATSA continues to rely primarily upon the analysis originally prepared by Transport Canada for the determination of payment amounts. \* \* \*

CATSA has indicated that some class I airport authorities want the program to fully fund their airport security policing costs. However, this was never the intention of the program, and it would not be possible with the funding available.

\* \* \*

CATSA commissioned an evaluation in 2005 that raised many questions about the fundamental structure of the Airport Policing Contribution Program.

#### **Recommendation**

- CATSA should, in consultation with the Minister of Transport, Infrastructure and Communities, reconsider its role in relation to the Airport Policing Contribution Program.

*CATSA's response. Management agrees and has already taken action in this regard. CATSA provided its views to the Minister's Panel through its position papers. CATSA believes that this is a consideration for the Minister.*

**Equipment management**

CATSA owns more than 2,500 pieces of critical security equipment for pre-board screening, hold bag screening, and non-passenger screening, to help screening officers conduct screening effectively. Although Transport Canada establishes the list of equipment that has been demonstrated to meet or exceed the designated performance standards, responsibility for selection from the list, installation, testing, use, maintenance, and replacement planning is in CATSA's hands.

We examined the systems and practices used by CATSA to manage this equipment. We expected to see that planning, monitoring, and reporting for the acquisition, deployment, operation, and maintenance of equipment would ensure its continued availability and its efficient and safe performance, and would maximize its useful life. We also expected to see that environmental risks are identified and properly managed.

Management of CATSA's screening equipment is generally satisfactory. Equipment breakdowns are monitored and analyzed, and CATSA ensures that its X-ray equipment does not pose a health risk to screening officers or passengers.

Improvement in some areas is required. The major outstanding concern is the maintenance of a series of conveyor belts that feed the hold baggage screening systems in 20 airports. These costs were not considered when CATSA negotiated hold-bag-screening agreements with the airport authorities; since then, they have become a source of friction. Only five airport authorities have agreements with CATSA relating to the maintenance costs for these conveyor belts. CATSA is currently unable to sign any new agreements until the additional funding approved in the 2006 Federal Budget becomes available.

Detailed life cycle plans for the different kinds of screening equipment have not yet been developed. CATSA determined that each type of equipment has a lifespan of seven years but may be replaced earlier as better technology arises. We noted, however, that certain pieces of pre-board screening equipment had been in place for more than ten years. In an environment where there is a high degree of dependence on equipment for effective screening, this could present a risk.

Finally, CATSA has not yet developed a policy for the disposal of equipment that is potentially harmful to the environment. CATSA has identified the regulations that must be respected when disposing of equipment and is aware of the serious risk presented by certain pieces of equipment.

**Recommendations**

- CATSA needs to work with the airport authorities to resolve cost sharing issues for the maintenance of hold baggage screening conveyor belts.

*CATSA's response.* Management agrees, and this issue is in the process of being resolved. CATSA recently obtained funding in support of this initiative for 2006–07, which included an increase from the previous amount. CATSA is in the process of amending and signing maintenance support agreements with affected airports.

- Detailed life cycle plans should be developed for each type of equipment.

*CATSA's response.* Management agrees, and platform-specific life cycle plans will be developed, starting with older equipment. CATSA has developed depreciation schedules for equipment based on the expected useful life. This was carefully considered and reviewed with the OAG audit team prior to its application.

- For equipment that is potentially harmful to the environment, CATSA should develop an appropriate policy for its disposal.

*CATSA's response.* Management agrees. CATSA did a study of the radiation impacts of the machinery it uses and reached conclusions on its environmental effects. In addition a review was done of the disposal or decommissioning of equipment and sites. As per CICA requirements, the costs of the disposal have been included in our financial statements. CATSA will develop an appropriate disposal policy covering those components.

**Management of administrative systems**

CATSA's administrative systems for contracting, human resources, financial management, information technology, and security are still maturing. In its early years of operation, CATSA focused on taking over passenger screening contracts and implementing hold bag screening and non-passenger screening. The emphasis was on operating systems, and so the administrative systems have lagged behind. Management is working to address known weaknesses; however, some areas of concern remain.

**Contract management**

CATSA is not subject to the Treasury Board Contracting Policy and the Government Contracts Regulations. However, the CATSA Act states that contracts are to “promote transparency, openness, fairness and value for money in purchasing.”



We expected to see that CATSA would exercise due diligence in the structuring, awarding, and approving of contracts, including a clear accountability framework, to ensure goods and services are acquired in a cost-effective manner. Administration of contracts should ensure the risks inherent in third-party delivery are managed and that contracts are successfully completed in accordance with the prescribed terms.

CATSA has had weak controls over its contracting practices. Some contracts were awarded before new processes were put in place. CATSA's contract policy is currently being revised, and other related policies are in various stages of development and approval. A Contract Review Committee (CRC) was established in 2003 to provide guidance on contracting matters. It seldom met until recently, although an approval form was circulated among CRC members.

We found that CATSA's contracting files were dispersed into three separate sets of files. CATSA's contracting information is contained on a stand-alone Excel spreadsheet that is not linked to the financial systems, making it difficult to monitor contract progression. This gave rise to a situation in which a contract originally awarded for \$2.342 million, and amended for an additional \$2.5 million, led to a total amount spent of approximately \$11.3 million before the revised contract was submitted for Board approval. This issue is now being addressed.

“Retroactive contracting” occurs whenever a contract is awarded after the stated “start date.” This practice may place the Crown at risk when the terms and conditions are not specifically identified and agreed to. There may be misunderstandings and a risk that the Crown does not receive what was anticipated. A number of contracts and amendments were signed after the effective date. This included several of the airport screening contracts. One airport screening contract was initiated by way of a Memorandum of Understanding. It states that the contractor “agrees to provide Security Screening Services commencing 20 March 2005 . . . under a financial agreement and term to be agreed upon on a future date.” The follow-up contract for \$12.4 million was not signed until February 2006, with an effective date of March 2005. CATSA is now addressing this issue.

Prior to 2006, CATSA decided to sole-source consumables for screening operations to a single supplier. Consumables include items such as cotton gloves, envelopes, and printer ink. Purchase orders to a single supplier were about \$1 million a year, for the last two years. In January 2006, CATSA made the decision to move to a competitive bidding process, which led to the selection of a new supplier in

May 2006. CATSA estimates that its annual expenditures for consumables will be about \$500,000 less than previous costs.

CATSA obtains temporary help through call-ups against a PWGSC standing offer. We found examples where contract personnel were performing work outside of the terms of their contracts.

**Contracts with screening providers.** Screening operations are largely contracted out to screening service providers. In 2005–06, CATSA paid \$154 million to screening providers for screening services. A number of screening providers have had to be replaced for a variety of reasons. Five class I airports have experienced turnover of screening providers since April 2004 (four due to contract termination by CATSA); one class I airport has had four different screening providers; and one class I airport has had three different screening providers in that timeframe. CATSA has recognized that it needs to strengthen its analysis of the capability of potential screening providers.

While most of the same screening officers are re-employed by the new screening provider, the turnover in management is disruptive to operations. Where screening officers do not move to the new screening provider, new employees must be hired, trained, and provided with uniforms. Those who leave are in some cases provided with termination pay. A new request for proposals must be issued, and the procurement process repeated. CATSA has estimated the total cost of recent turnover to be \$2,568,000.

CATSA has recognized that improvements are required in this area. In its most recent contract for the Calgary airport (April 2006), it altered the weighting of the selection criteria to place greater emphasis on the technical competency of the screening provider. Also, in May 2006, CATSA held an internal “lessons learned” session where it identified a number of improvement initiatives for the next RFP process.

In order to encourage good performance and management by screening providers, CATSA introduced a Performance Payment Program, whereby screening providers may receive a bonus of up to 12 percent of the contract value. While this is a positive initiative, we found that the 2005–06 evaluations of the screening providers’ performance were not done in a timely manner, involved considerable subjective assessment, and did not evaluate the delivery of service in both official languages. Moreover, statistical information was often missing. CATSA is actively working to improve the Performance Payment Program and to raise the bar for screening providers who receive the full 12 percent bonus.

## Recommendations

- CATSA should strengthen its contracting practices and ensure compliance with its own policies.

***CATSA's response.** Management agrees, and CATSA's practices now comply with the policy. CATSA has strengthened its contracting practices throughout the years of operation. For instance, CATSA has recently revised its contracting policy to improve the controls; all significant contracts will have a certification from the General Manager of Contracts that contracting procedures have been followed, or there is a listing of exemptions with reasons; the Contracting unit will prepare a regular compliance report for the Contract Review Committee; and Internal Audit will be asked to review a selection of contracts for compliance with contracting procedures.*

- CATSA should continue to improve its request for proposal process for selecting screening providers and its Performance Payment Program for rewarding good performance.

***CATSA's response.** Management agrees and has been taking action in this regard. CATSA has used state of the art RFP practices and has adapted them with experience. The recent Calgary RFP represents best practices. CATSA started improving the RFP process immediately following the 2004 process. With each new RFP for screening services, documents were reviewed and changed, based on the lessons learned. The next RFP process anticipated in 2009 will take into consideration the changes made to extend current contracts and any additional lessons learned. CATSA is developing an accreditation process to pre-qualify potential screening providers for RFP. The RFP process will be shorter, easier, and faster, and will specifically address the technical part of the requirement and the methodology particular to each airport or airport grouping.*

*The Performance Payment Program is addressed in the current contract extensions and is targeted to improve screening officer's performance in: Compliance to regulations; Testing Results; and Customer service and complaints. CATSA is requiring that 50 percent of the performance payment be returned to the screening officers.*

## Management of human resources

CATSA has 248 employees, including 209 staff based at headquarters and 39 staff based in the regions. We expected that human resources would be managed in a manner that provides CATSA with the core competencies and skills it needs to achieve its goals and objectives economically and efficiently.

We found that CATSA has systems and practices in place to manage its human resources. The HR planning function is integrated with the business planning function. Managers are responsible for ensuring HR requirements are included as part of their business plans to achieve operational goals.

Since its creation in 2002, CATSA has grown at a rapid pace to its current staff complement. CATSA has developed recruitment and selection tools to allow it to attract and recruit qualified candidates. As the organization has grown, there have been several changes to the organizational structure. On 1 April 2006, there was a major functional reorganization, resulting in the introduction of the new position of Vice-President, People. This function now reports directly to the Executive Vice-President and is part of the Executive Committee.

CATSA is in the process of developing a succession plan that identifies potential candidates and development requirements for four key positions: President; Executive Vice-President; Vice-President, Operations; and Corporate Secretary. Of the four key positions, three of the incumbents are listed as eligible to retire as of 30 September 2005. Knowledge transfer needs to be a component of this succession planning. Management positions in the regions were not included in the succession plan.

CATSA has a performance management plan. Performance objectives are established for all employees at the start of the fiscal year. Annual salary increases are determined based on the results of the performance appraisal. In some cases, the links between individual performance objectives and CATSA's operational objectives are not clear.

Training and development have not been a central function of the HR group. In the short term, the majority of CATSA recruits were expected to bring the full set of necessary skills to their new jobs. As mentioned earlier, CATSA managers in the regions are not given any structured training. As part of the reorganization, a new training position was created within HR. It is management's expectation that this new position will allow the HR function to coordinate the development of learning plans for employees and to greatly expand the level of training activity. CATSA has identified the need for training in project management, contracting, and human resource management.

### **Recommendations**

- The succession plan should include a knowledge transfer component to ensure that corporate memory is not lost as

succession occurs. Consideration should be given to including other management positions and management in the regions as part of succession planning.

**CATSA's response.** *Management agrees. A succession planning program has been in place at CATSA in various forms since the organization's inception. As is to be expected for a young organization, the program is continually evolving and improving. For the next five years, greater emphasis will be placed on formalizing a complete executive succession plan, as well as establishing a structured transition program for effective knowledge transfer. Some of the initiatives outlined in the People Branch strategy include the following:*

- *Establish an annual formal talent review process.*
- *Offer developmental assignments to high performers (HQ and Regions).*
- *Implement initiatives to ensure a formal knowledge transfer (for example, establish a three-month transition for key positions; create transition documents highlighting the status of various projects/files for positions affected by internal transfers; and so on).*
- Greater attention should be paid to ensuring that individual performance objectives are linked to corporate and strategic objectives.

**CATSA's response.** *Management agrees. The current practice includes a step to ensure that individual performance objectives are linked to corporate and strategic objectives. Since its inception, CATSA has had a Performance Management System in place to ensure a clear link between individual performance and CATSA's corporate, strategic, and operational objectives.*

*Over the next five years, CATSA will focus on providing more clarity to employees around the link between their own individual performance objectives and the organization's corporate strategic objectives. CATSA will provide training to managers; for example, through the Leadership Committee, and communicate and ensure full understanding of employees' day-to-day responsibilities.*

- CATSA should ensure that staff are given appropriate training to develop their skills and perform their work.

**CATSA's response.** *Management agrees and has been taking action in this regard. Appropriate training is currently being given to many CATSA employees through our ongoing training and professional development (for example, seminars, conferences, retreats, lunch and*

learns, orientation program, Leadership Committee, and so on). In addition, CATSA provides support for employee education (that is, Aviation Sector MBAs, and Management Certificate in Aviation Security by Concordia University). However, in the spirit of continuous improvement, CATSA intends to

- establish the CATSA Academy;
- ensure each CATSA employee (including those in the Regions) has an approved learning and development plan as part of the performance management system, which links to the annual talent review; and
- dedicate three percent of CATSA payroll allocation to continuous learning.

### **Financial management**

Financial management is a key part of an organization’s control, reporting, and decision-making process. We expected to see that financial management systems and practices were in place to ensure that financial planning, monitoring, and reporting are performed in a way to enable the corporation to meet its obligation under its mandate.

Some financial management systems are in place; however, improvement is needed in the systems and practices in relation to planning, monitoring, and reporting financial information.

**Corporate financial system.** CATSA is in the process of enhancing its corporate financial system; however, there have been delays due to a lack of time, prioritization, and/or funds. Some modules, such as accounts receivable and payable, and the general ledger, have already been implemented. Additional modules for requisition management, contract management, purchase order commitments, and project accounting, among others, have yet to be implemented. The completion of this financial system is a key element to having an effective financial function.

**Timeliness of financial information.** Financial information for management decision making is not always available on a timely basis. This has in part been due to a continuing resource problem in the finance section, which CATSA is trying to address. Other factors that have made it difficult to produce financial information on a timely basis include the number of special request reports, the lack of automation of financial processes, the account coding structure, and the number of reorganizations carried out by CATSA, in moving from a “start-up” organization to a more stable one. CATSA has indicated

that it is in the process of changing its account coding structure to make it more user friendly.

**Financial policies.** CATSA’s most recent list of financial policies shows nine completed, although not necessarily approved; twelve in the draft stage; and seven not yet started. CATSA has ranked the importance of its financial policies as high, medium, and low. It has focused on completing those policies ranked high and medium. Seven out of twelve policies with a high rank have been completed, and two out of eleven policies ranked medium have been completed. Policies not yet completed include capital assets, commitment control, project management, and verification of invoices.

**Budgeting and monitoring.** The budgeting process is often untimely. This is in part due to the lack of resources, delays in the approval of reference levels, and the use of budgeting staff at year end to perform other financial management functions. Monitoring of the accounts is done through CATSA’s business information system. As the program is not user friendly, many managers are not using it. Some managers maintain their own independent systems to monitor spending. CATSA has recently prepared a simplified format for reporting business information that provides managers with an advanced “preview” of what the new reporting format will look like.

CATSA has experienced significant budgetary pressure over the past two years. The pressure related primarily to screening operations, where it was clear that expenses were going to exceed budget allocation. Due to the potential risk of exceeding the budget, screening operations had no choice except to significantly reduce the number of screening hours planned to the end of the fiscal year. As well, scheduled training was cancelled in the spring and early summer of 2005. While some of the screening hour reduction was accomplished through efficiency measures, impact statements from some regions indicate that budget reduction measures had immediate and longer term detrimental impacts, in terms of screening officer reductions, morale, and training.

**Recommendations**

- CATSA should proceed with the completion of its Corporate Financial System.

*CATSA’s response.* Management agrees. The Audit Committee in early 2006 reviewed the CFMS and endorsed the action to implement the remaining identified modules. Implementing the Corporate Financial Management System is a priority. The basic elements are in

*place, and the modules required to complete the system have been ranked and will be operational within the next two years.*

- CATSA should work towards simplifying and standardizing its financial reports.

**CATSA's response.** *Management agrees and has already taken action in this regard. This work was under way during the Special Examination and is being implemented.*

- CATSA should educate its managers in using and interpreting information on its business information system.

**CATSA's response.** *Management agrees and has been taking action in this regard. Formal training in the Business Intelligence tool was given to all CATSA managers in 2005. Training is ongoing, and financial planning staff are assisting users in the analysis and interpretation of financial information.*

- CATSA should ensure, when dealing with budgetary pressures, that its actions do not further compromise those airports facing significant challenges in hiring and retaining screening officers.

**CATSA's response.** *Management agrees; however, CATSA must make difficult decisions when budgets are tight. Our first priority is to ensure that security is not compromised. CATSA must also work within its appropriations. Improved internal financial reporting gives the Operations Branch needed information to make appropriate decisions.*

### Information technology

CATSA has a moderately complex IT environment. It operates a wide-area network that enables remote communications between headquarters and 89 airports across Canada. CATSA maintains two server rooms in Ottawa and 27 regional server locations. There is also a Security Communications Centre in Ottawa that receives real-time video feeds from airports across Canada, and an off-site backup facility. On the applications side, the Information Systems and Technology Group (IST) maintains 25 commercial off-the-shelf systems and 11 in-house systems.

In May 2006, the Information Systems and Technology (IST) Group and Technology Programs group were amalgamated under the newly created position of Vice President and Chief Technology Officer. Corporate Security is now under the Director, Office of the President and Executive Vice-President.

We expected to see that the planning, development, implementation, and management of information technology and information



management systems would support the organization's strategic and operational objectives, ensure business continuity, and satisfy informational needs at an acceptable cost and on a timely basis.

**Information Technology Strategic Plan.** Management of CATSA's information technology operations has been slow to develop. CATSA's first IT strategic plan was prepared in September 2005 and has been reviewed by senior management but not yet been approved. Without senior executive approval it will be difficult for IST to implement the strategies in the plan and get buy-in from the business line units. The Plan outlines in general terms the IST strategies, challenges, and objectives. However, these components are not sufficiently elaborated upon to enable management to assess progress.

Given the reorganization in May 2006, there will be a new strategic plan that will incorporate the additional IT functions that are under the Chief Technology Officer's responsibility.

**Project Management.** The project management function now falls under the responsibility of the Chief Technology Officer. CATSA has recently implemented a standard project management methodology that includes a standard set of templates. The standard project management methodology includes defined project requirements, business analysis, and project planning standards. In addition, the Capital Committee has now assumed a broader role of prioritizing projects, ensuring that proposed IT projects have undergone proper business case analysis, and helping to ensure that approved projects meet intended deliverables within the approved cost.

**Threat and Risk Assessment.** The Government of Canada has set out a comprehensive Government Security Policy and an operational security standard known as Management of Information Technology Security (MITS). CATSA voluntarily agreed to be subject to both of these, in July 2004. As a result of this agreement a threat and risk assessment was performed. Many weaknesses were identified. We have not seen an action plan as to how these weaknesses will be addressed. Secondly, this Threat and Risk Assessment scoped out significant components of CATSA's operations such as CATSA's Information Technology services at the airports.

**Security.** Although CATSA must manage very sensitive information, its Corporate Security Policy was only approved in April 2006, and much remains to be done to fully implement it. Its security classification guide is still in draft form. In addition, CATSA does not ensure appropriate safeguards at the head office site of each screening

provider for sensitive government information, and it does not ensure that staff at the headquarters of the screening provider have the required security clearance.

Another area of concern is the tracking of screening officer security clearances. When a screening officer is hired by a screening provider for a class I or class II airport, the screening provider sends the completed security clearance form to Transport Canada, which forwards it to CSIS for processing. When clearance is issued, Transport Canada informs the airport authority, which issues a restricted area pass. The airport authority then provides the clearance information to the screening provider. The screening provider sends the information to CATSA, which enters it into its Learning Management System, a key database of screener information. This allows the screening officer to receive CATSA training. CATSA does not verify screening officer security clearances itself but relies on the screening provider to provide valid information or for the screening officer to have already received a Restricted Area Pass.

A further area of concern relates to CATSA's role in ensuring the return of restricted area passes upon the departure of a screening officer. If a screening officer has quit, the screening provider is to immediately advise the Airport Authority's Pass Control Office that the individual is no longer in their employ. The screening officer's access card is then immediately cancelled by the Pass Control Office. The screening provider is supposed to retrieve the pass before the individual receives his or her last pay cheque.

However, screening officers may just walk away from their job, without informing their employer. The screening provider is supposed to contact the screener, if possible, to find out what has happened. The screening provider is supposed to inform the Pass Control Office that the person has not been present, and the pass will be cancelled and placed on a "failed to return" list. The Pass Control Office attempts to make contact with the screening officer, failing which, a registered letter is to be sent to the last known address. If that also fails, all information is turned over to Transport Canada for whatever action it deems necessary.

We found that CATSA does not play a monitoring or oversight role with respect to the return of these passes for class I and II airports. It has not provided instructions to the screening providers as to what to do when screening officers quit or do not appear at work, nor does it verify whether screening providers have promptly notified the Pass Control Office and taken all appropriate action to recover the restricted area pass.

## Recommendations

- CATSA should ensure that its new standard project management method is consistently applied to all projects.

*CATSA's response.* Management agrees and has already taken action in this regard. Project Management Methodology has been developed and implemented on capital projects. Procedures and templates are documented and available to all CATSA users on our Project Management website. The Capital Committee reviews business cases and project charters and provides recommendations to Senior Management. Any change requests require Capital Committee approval. In-house project management training is available to all employees.

- CATSA should develop an action plan to deal with weaknesses identified in its Threat and Risk Assessment (TRA).

*CATSA's response.* Management agrees, and this is a work in progress. CATSA Information Systems and Technology Group (IST) is developing a TRA plan to target critical components within the technical environment.

- A TRA should be conducted of important IT components that were not included in the first TRA.

*CATSA's response.* Management agrees. As indicated during the Special Examination, CATSA IST has budgeted and will be conducting TRAs on key critical technical components. Further TRAs will be conducted in 2007–08 pursuant to budget allocations.

- CATSA should finalize its security classification guide, ensure that screening providers have the appropriate safeguards and required security clearance for sensitive information, independently verify security clearances before entering the information into its Learning Management System, and monitor the action taken by screening providers in recovering restricted area passes upon screener departure.

*CATSA's response.* Management agrees, and CATSA's "Security Classification Guide" is in the process of being approved. Corporate Security and Emergency Preparedness (CS and EP) is advised that an individual requires a (government) Security Clearance, and the service provider initiates the application for clearance.

*With respect to ensuring screening providers have the appropriate safeguard, CS and EP has identified the need to conduct physical security surveys at the various (CATSA) RM and Service Providers*

*offices. LMS verifies clearances with CS and EP (for Class “Other” airports); or with screening providers (Class 1s and 2s). It is an airport / screening provider responsibility to recover the RAIC cards upon an individual’s departure—this is not a CS and EP mandate.*

*Obtaining security clearance is not CATSA’s responsibility. We submit the names to Transport Canada, and they come back to us when the dossier is complete.*

### **Restricted Area Identification Card**

It is important that the above weaknesses in administrative systems be addressed, as they impact the ability of CATSA to successfully deliver projects that are intended to enhance air transportation security. A good example is the Restricted Area Identification Card (RAIC) project for all class I and class II airports, announced by the Minister of Transport in November 2002.

RAIC includes biometrics, such as a fingerprint or iris scan, to identify the individual working in the airport. Enrollment equipment is fully deployed at all 29 class I and II airports, and overall enrollment of non-passengers is about 34 percent complete, as at the end of June 2006. As mentioned above, RAIC is operational in eight class II airports and one class I airport, although not all non-passengers are enrolled. Of these nine airports, seven have 100 percent enrollment of non-passengers working at the airport. As at 31 March 2006, \$17 million had been spent on RAIC in total.

Planning for RAIC commenced in 2003, and it was expected to be fully implemented and operational at all 29 airports in the fall of 2005. However, RAIC has faced implementation delays.

At the inception of the project, there was no formal project management framework in place. Many of the procedures followed were ad hoc. Problems arose with regard to overspending on a RAIC contract. Approximately \$12 million was spent in relation to contracts totalling \$4.8 million. This led to CATSA Executive requesting a review of the project in January 2006, which identified several issues related to project management, financial management, and contract management practices.

Since the review was completed, there is a more formal structure in place for managing the project, including a RAIC Steering Committee, an approved Project Charter outlining project objectives, detailed steps, timelines and budgets, a formal monitoring and reporting regime, greater involvement and oversight by senior management, and

improved financial management practices. We note that the RAIC system is being implemented in parallel with the development of the supporting regulations. Since Transport Canada's regulations for RAIC have not yet been finalized, among other reasons, CATSA is experiencing difficulties in obtaining airport authorities' agreement for RAIC implementation.

We also note that the RAIC risk assessment was oriented toward the system itself. The assessment did not address risks associated with the overall project, such as the requirement to obtain direction from Transport Canada on key RAIC issues; voluntary nature of implementation; systems acceptance; and approval of funding agreements between CATSA and the airport authorities on a timely basis.

It has also led to misunderstanding with respect to the scope of the project. The project team understood that the project was to control access inside each of the airport terminals only. However, the team was recently informed that RAIC must control external access points to restricted areas of the terminal building as well. The dates to expand RAIC to the perimeter of each airport have not yet been determined.

### Recommendation

- CATSA management should continue to closely monitor the RAIC project and provide the support necessary to ensure its successful completion.

*CATSA's response. Management agrees and has already taken action in this regard. Bi-weekly RAIC steering committee meetings are held where members, management, and Transport Canada representatives discuss all issues, and minutes are recorded. Weekly status updates on deployment progress are provided by the RAIC team via email. Weekly project meetings are held with broad representation from various RAIC sections, including Regulations, Contracts, IT, and Finance with all issues and minutes recorded. The Steering Committee has a website where information is posted and updates are available.*

## Appendix Systems and practices examined in the Special Examination and criteria used

System and practice	Criteria
<b>Corporate governance</b>	To maximize its effectiveness, the Corporation has a corporate governance framework that performs well and that meets the expectations of best practices in Board stewardship, shareholder relations, and communication with the public.
<b>Risk management</b>	The integrated risk management framework allows the identification, assessment (against an acceptable risk tolerance level), and management of all the important risks that the Corporation faces. The action plan is in line with the risk tolerance level, is effectively communicated, and is being consistently implemented across the organization.  Environmental risks are identified and properly managed.
<b>Strategic planning</b>	The Corporation has clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative mandate. Its strategic direction and goals take into account identified risks, and the need to control and protect its assets, and manage its resources economically and efficiently.
<b>Screening operations</b>	The Corporation has defined and effectively communicated screening procedures, and it ensures these procedures are consistently followed during the screening process.  In order to ensure the screening process is effective and efficient, the Corporation ensures that there are a sufficient number of skilled screening officers, and that timely and appropriate action is taken to address any deficiencies identified by Transport Canada.
<b>Canadian Air Carrier Protective Program and Airport Policing Contribution Program</b>	Administration of funding or contribution agreements ensures the successful completion of such contracts in accordance with the prescribed terms.
<b>Equipment management</b>	Planning, monitoring, and reporting for the acquisition, deployment, operation, and maintenance of equipment ensures its continued availability and its efficient and safe performance, and maximizes its useful life.
<b>Contract management</b>	Due diligence is exercised in the structuring, awarding, and approving of contracts, including a clear accountability framework, to ensure goods and services are acquired in a cost-effective manner.  Administration of contracts ensures the risks inherent in third-party delivery are managed and ensures their successful completion in accordance with the prescribed terms.
<b>Human resources management</b>	Human resources are managed in a manner that provides the Corporation with the competencies and skills it needs to achieve its goals and objectives economically and efficiently.
<b>Financial management</b>	Financial management systems and practices ensure that financial planning, monitoring, and reporting are performed in a way to enable the Corporation to meet its obligation under its mandate.

<p><b>Performance measurement and reporting</b></p>	<p>The Corporation uses performance indicators to assess its overall performance and to measure the achievement of its mandate and statutory objectives.</p> <p>Operational performance is measured using established objectives and targets at the corporate and airport levels.</p> <p>It has reports that provide complete, accurate, timely, and balanced information for decision making and accountability reporting.</p>
<p><b>Information technology</b></p>	<p>The planning, development, implementation, and management of information technology and information management systems support the organization's strategic and operational objectives, ensure business continuity, and satisfy informational needs at an acceptable cost and on a timely basis.</p>

