



National Defence

Défense nationale

Deputy Minister

Sous-ministre

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Ottawa, (Ontario)  
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MAY 19 2022

The Honourable John Williamson  
Chair, Standing Committee on Public Accounts  
House of Commons  
Ottawa, Ontario  
K1A 0A6

Dear Mr. Williamson,

As agreed upon in the Government Response to the Twenty-Eighth Report of the Standing Committee on Public Accounts, entitled *Public Accounts of Canada 2016*, National Defence submits its response to Recommendation 2, due May 31, 2022.

Sincerely,

*for* Bill Matthews  
Enclosures: 1

Canada 

## **Response to the Standing Committee on Public Accounts Annual Update – Improvements in Inventory Management**

### **Recommendation 2**

*That, by no later than 30 days after the end of each fiscal year beginning in 2017-2018, the Department of National Defence provides a one-page report to the House of Commons Standing Committee on Public Accounts outlining the Department's progress in implementing its 2016 Action Plan to properly record and value its inventory. This report should identify and provide the rationale for any delays in the implementation of the Action Plan's proposed corrective measures.*

### **Background**

In its 2017 Government Response to the Committee's report entitled *Public Accounts of Canada 2016*, National Defence agreed to provide the Committee a report within 60 days of fiscal year-end, starting in fiscal year 2017/18, summarizing its progress against its 2016 Action Plan commitments and providing the rationale for any delays.

In its last update (May 2021) to the Committee – which covered progress made on initiatives for Fiscal Year 2020/2021 – National Defence reported that the Pricing Legacy Data Clean-Up initiative remained in progress, with full implementation of the software update expected by the end of Fiscal Year 2021/2022. National Defence also reported that the Automatic Identification Technology (AIT) Initiative was experiencing delays in the implementation of some of the Definition Phase Plan activities. Additionally, National Defence reported that the initiative remained in progress, with Project Approval and Expenditure Authority for the Implementation Phase expected in August 2022.

National Defence committed to providing the House Standing Committee on Public Accounts with a report on the progress made regarding the remaining two Action Plan initiatives, as part of its annual report in May 2022: 1) Pricing Legacy Data Clean-Up; and, 2) Automatic Identification Technology (AIT).

### **Update on Action Plan Commitments for Fiscal Year 2021/2022**

Since the update provided to the Committee in May 2021, National Defence has concluded one additional Action Plan initiative – Pricing Legacy Data Clean-Up. This brings the total number of completed initiatives to five out of the six. One final initiative remains in progress – Automatic Identification Technology (AIT). The attached 2016 Action Plan annex provides detailed information regarding these initiatives.

#### *Pricing Legacy Data Clean-Up Initiative*

National Defence achieved project close-out of the Pricing Legacy Data Clean-Up initiative in March 2022, after transitioning to a steady state. With the implementation of the final software update, the Defence Team is now able to perform weekly analyses of transactions of all inventory records, including at-sea ship inventory data. By regularly monitoring transactions of all inventory records, National Defence is better able to correct inaccurate information as they emerge, thereby resulting in a more accurate inventory database.

### *Automatic Identification Technology (AIT) Initiative*

In the May 2021 update, National Defence reported that it completed its one Fiscal Year 2020/2021 commitment for the Automatic Identification Technology initiative, which was to start the Definition Phase activities.

National Defence continues to progress the activities in the Definition Phase Plan, however the project is experiencing some delays, particularly on its procurement activities. While the draft Request for Proposal was released in July 2021, industry deemed that the draft Request for Proposal required additional detail to appropriately design and build an Automatic Identification Technology solution.

As such, refinement of requirements with multiple stakeholders has taken place, and follow-on industry engagement in December 2021 resulted in National Defence's decision to restructure the Statement of Work. The restructured Statement of Work is anticipated to be released to industry by summer 2022, and will facilitate the development of the Final Request for Proposal, planned for release in early 2023.

The project is anticipated to seek Project Approval and Expenditure Authority from Treasury Board to implement the project by the end of 2023, and awarding the contract for implementation by spring 2024.

Once the Automatic Identification Technology is fully implemented, National Defence will have increased real-time asset visibility, inventory valuation, and materiel security, thereby resulting in improved accuracy of its inventory data.

### **Future updates to the Committee**

National Defence will update the Public Accounts Committee on the progress of the Automatic Identification Technology initiative as part of its annual report in May 2023.

Grey = Initiative closed.

Yellow = Initiative in progress.

<b>Governance</b>		
Ensure more consistent senior leadership visibility, accountability, and direction using existing departmental governance.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Sustain senior management oversight	Closed	National Defence achieved project close-out in September 2020, after transitioning to a steady state. A year end update was presented to the Performance Measurement and Evaluation Committee on 20 May 2022. Governance continues to monitor and steer supply chain improvement efforts as intended.

<b>Automatic Identification Technology</b>		
Acquire and integrate asset marking and reading technology with modernized business processes to improve inventory data.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Implement activities as per Definition Plan schedule	In progress	<p>National Defence continues to progress the activities in the Definition Phase Plan, however the project is experiencing some delays, particularly on its procurement activities. While the draft Request for Proposal was released in July 2021, industry deemed that the draft Request for Proposal required additional detail to appropriately design and build an Automatic Identification Technology solution.</p> <p>As such, refinement of requirements with multiple stakeholders has taken place, and follow-on industry engagement in December 2021 resulted in National Defence's decision to restructure the Statement of Work. The restructured Statement of Work is anticipated to be released to industry by summer 2022, and will facilitate the development of the Final Request for Proposal, planned for release in early 2023.</p> <p>The project is anticipated to seek Project Approval and Expenditure Authority from Treasury Board to implement the project by the end of 2023, and awarding the contract for implementation by spring 2024.</p>

<b>Enhanced Materiel Accountability</b>		
Augment stocktaking and verification activities to improve inventory data on quantity, condition, location, and price.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Sustain institutional stock verification	Closed	National Defence achieved project close-out in September 2020, after transitioning to a steady state. This activity has been formalized as an annual activity in the Materiel Acquisition and Support Procurement and Contracting/Materiel Management Compliance Program Framework.

<b>Inventory Management Modernization and Rationalization Project</b>		
Rationalize holdings, disposing of materiel no longer required, to reduce obsolete materiel and maximize storage use.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Project Close-Out and transition to matrix	Closed	National Defence achieved project close-out in September 2020, and transitioned to a steady state. This initiative has resulted in a reduction of obsolete materiel, improvement of materiel visibility and accountability, and maximization of warehousing and storage spaces.

<b>Pricing Project</b>		
Review and modernize materiel pricing processes and data to improve the valuation of inventory.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Project Close-Out	Closed	National Defence achieved project close-out in March 2020. This initiative has streamlined pricing processes, policies, and training packages. Pricing data and accounting requirements are now also aligned for better valuation.

<b>Pricing Legacy Data Clean-Up</b>		
Identify and correct existing pricing inaccuracies.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Ongoing monitoring (weekly analysis) of transactions to identify and investigate potential errors	Closed	In March 2022, the Defence Team implemented a final software update to the financial system. As of March 2022, this software update now allows for the production of automated reports which enables the Defence Team to complete weekly analyses of

		transactions to identify and investigate potential pricing errors of all inventory records, including at-sea ship inventory.
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