



National Defence

Défense nationale

Deputy Minister

Sous-ministre

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Ottawa, Ontario  
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Ottawa, (Ontario)  
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The Honourable Dean Allison  
Chair, Standing Committee on Public Accounts  
House of Commons  
Ottawa, Ontario  
K1A 0A6

Dear Mr. Allison,

As promised 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 30 May 2020.

Sincerely,

  
Jody Thomas

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 provide 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 *Public Accounts of Canada 2016*, National Defence committed to providing 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 the rationale for any delays.

National Defence has made substantial progress in implementing the 2016 Action Plan to better record, value, and otherwise manage its inventory. The Department delivered on all commitments for fiscal years 2016-17 and 2017-2018. In May 2019, National Defence reported that it had completed 16 of 17 commitments for 2018-19, while exceeding targets in stocktaking and stock verification. We reported that the seventeenth and remaining commitment for fiscal year 2018-19 – related to the disposal of stagnant materiel – was nearly 98% complete, with only 28,800 items left to be disposed out of a total of over 1.6 million.

As of 31 October 2019, 99% of stagnant materiel has been disposed of. Given this progress, National Defence considers the commitment complete, and will continue to monitor and report on levels of stagnant materiel internally to ensure the problem does not reoccur.

### **Update on Action Plan Commitments for Fiscal Year 2019-20**

The Department has made positive progress. At its mid-year update to the Performance Measurement and Evaluation Committee, National Defence reported that it had already completed 7 of 13 initiatives, and was on track to meet its targets for an additional four by fiscal year-end. Two were reported as being delayed. For the remainder of the fiscal year, National Defence continued to work on the outstanding initiatives.

The current COVID-19 situation has limited the ability of National Defence to verify subsequent progress and provide a complete year-end picture to the Committee by 30 May 2020. To ensure accuracy, National Defence is providing a partial update, with data reported internally at mid-year, covering 1 April 2019 to 31 October 2019. The enclosed annex provides details of National Defence's actions against its specific 2016 Action Plan commitments. National Defence will continue to verify the remaining data, covering 1 November 2019 to 31 March 2020, and will provide an update to the Public Accounts Committee by 30 September 2020.

**Green** = Initiative reported as completed.

**Light Green** = Initiative reported as on track for completion by 31 March 2020, and is pending final verification.

**Yellow** = Initiative reported as delayed, but 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	Completed	National Defence presented a mid-year update to its Performance Measurement and Evaluation Committee on 25 November 2019, and will present the year-end progress to the same committee in September 2020.

<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>
Recommended option for asset visibility technology endorsed	Completed	National Defence's Defence Capabilities Board endorsed the recommended option on 23 October 2018.
Enter definition phase to refine and cost recommended option in preparation for bid solicitation	Completed	National Defence entered the definition phase on 25 June 2019.

<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>
Stock verification at minimum of 10 sites	Completed	National Defence verified stock at 20 sites as of 31 October 2019.
Stocktaking at 24 sites	On track for completion (pending verification)	National Defence completed stocktaking at 17 of 24 sites as of 31 October 19, and is confirming that it met its commitment by 31 March 2020.
Year-over-year trend analysis	Completed	National Defence continues year-over-year trend analysis of completed stocktaking, overdue stocktaking, and discrepancies.
Mid- / end-year results reporting	In progress	National Defence reported mid-year results to its Materiel Acquisition and Support Oversight Committee on 9 December 2019, and will present year-end results to the same committee in August 2020.

<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>
Complete disposal of all remaining materiel identified for disposal in Repairable Reserves	On track for completion (pending verification)	National Defence disposed of 81,597 items as of 31 October 2019, and reported 11,000 items as remaining for disposal.
Complete rationalization of all remaining dormant materiel (300,000 stock codes) to enable disposal action for materiel deemed as no longer required	Completed	National Defence rationalized all of the original 300,000 stock codes by 31 October 2019, and has rationalized 309,000 in total.
Implement final modernization of materiel management policies and business processes	On track for completion (pending verification)	National Defence implemented approximately half of the policies and processes required for modernization as of 31 October 2019.  National Defence is confirming that it implemented the remaining policies and processes required to prevent the re-occurrence of a disposal backlog by 31 March 2020.

<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>
Deliver standardized pricing progress for bulk acquisition of spares	Completed	National Defence delivered the process and procedures for bulk acquisition of spare parts in April 2019.
Project Close-Out	On track for completion (pending verification)	National Defence is confirming it achieved project close-out by 31 March 2020.

<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	In progress	National Defence is monitoring transactions monthly.  National Defence will confirm to the Committee in September 2020 when it will begin performing analysis on a weekly basis.