



National Defence

Défense nationale

Deputy Minister

Sous-ministre

National Defence Headquarters
Ottawa, Ontario
K1A 0K2

Quartier général de la Défense nationale
Ottawa, (Ontario)
K1A 0K2

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

Dear Ms. Block,

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 May 30, 2021.

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 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 September 2020 update to the Committee – which covered progress made on initiatives for Fiscal Year 2019/2020 – National Defence reported that it had made substantial progress in implementing the 2016 Action Plan to better record, value, and manage its inventory. At the time of that update, National Defence completed 12 out of 13 commitment milestones assigned for Fiscal Year 2019/2020, with one of these commitment milestones – the Pricing Legacy Data Clean-Up – still in progress and to be completed in March 2021.

Therefore, in this May 2021 update, National Defence is providing a progress report on this delayed 2019/2020 commitment milestone within the Pricing Legacy Data Clean-Up initiative.

In addition, this update provides a report on progress for the Fiscal Year 2020/2021 initiative – Automatic Identification Technology (AIT). National Defence also reports that it has formally closed the Governance initiative and the Enhanced Material Accountability initiative (see attached Action Plan annex). This means that four of six Action Plan initiatives are now closed, leaving only the Pricing Legacy Data Clean-Up Initiative and the AIT Initiative still in progress.

Update on Action Plan Commitments for Fiscal Year 2019/2020: Pricing Legacy Data Clean-Up Initiative

Despite National Defence's commitment to complete the Pricing Legacy Data Clean-Up initiative by March 2021, it remains in progress. The timeline for the final software update was postponed because a particular reporting function within the software was not fully implemented in July 2020. This particular reporting function has been completed, and the Defence Team is now testing and integrating the software for implementation in the financial system by July 2021. This software update will enable the Defence Team to perform weekly analyses of transactions of all inventory records, including at-sea ship inventory data, by the end of Fiscal Year 2021/22. When National Defence completes this software update, it will have met this final milestone commitment and the Pricing Legacy Data Clean-Up Initiative will be closed.

Update on Action Plan Commitments for Fiscal Year 2020/2021: Automatic Identification Technology (AIT) Initiative

In the September 2020 update, National Defence completed its two Fiscal Year 2019/2020 commitments for this initiative: it endorsed the recommended option for asset visibility technology, and it entered the Definition Phase of the AIT project. In Fiscal Year 2020/2021, National Defence began Definition Phase activities. The Project is experiencing delays in the implementation of some of the Definition Phase Plan activities, and remains in progress. These delays are a result of staffing challenges, stakeholder input, and COVID-19 challenges. National Defence has amended its Action Plan and allotted for a five month delay to the implementation milestone. Project Approval and Expenditure Authority for the Implementation Phase is now expected in August 2022.

National Defence will update the Public Accounts Committee on the progress of the Pricing Legacy Data Clean-Up and AIT initiatives as part of its annual report in May 2022.

Grey = Initiative closed.

Yellow = Initiative in progress.

Governance		
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 21 May 2021. Governance continues to monitor and steer supply chain improvement efforts as intended.

Automatic Identification Technology		
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	National Defence is experiencing delays in progressing some of the activities in the Definition Phase Plan. The request for proposal is scheduled to be released to industry in November 2021. The resulting bids will inform the Expenditure Authority for Implementation which is now expected in August 2022, five months later than the decision milestone contained in the Action Plan for FY 2021/22. The contract for implementation is now scheduled to be awarded in September 2022.

Enhanced Materiel Accountability		
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. Stock verification was delivered at 20 sites. This activity has been formalized as an annual activity in the Materiel Acquisition and Support Procurement and Contracting/Materiel Management Compliance Program Framework.

Inventory Management Modernization and Rationalization Project		
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.

Pricing Project		
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.

Pricing Legacy Data Clean-Up		
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	At-sea ship inventory data is not yet included in the current monitoring process, as it was delivered to National Defence's Finance group in March 2021. The Defence Team will implement a final software update to the financial system by July 2021. This update will allow for the production of an automated report that enables National Defence to complete weekly analyses of transactions to identify and investigate potential pricing errors of all inventory records, including at-sea ship inventory. These weekly reports will incorporate the augmented information by the end of Fiscal Year 2021-22.