

GOVERNMENT RESPONSE

GOVERNMENT RESPONSE TO THE 4th REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS, ENTITLED: *SUPPLYING THE CANADIAN ARMED FORCES, OF THE 2020 SPRING REPORTS OF THE AUDITOR GENERAL OF CANADA*

Introduction

The Government of Canada has considered the 4th Report of the Standing Committee on Public Accounts (PACP), entitled: Supplying the Canadian Armed Forces, of the 2020 Spring Reports of the Auditor General of Canada. The Government would like to thank the members of the Committee for their study and recommendations.

The Department of National Defence and Canadian Armed Forces (DND/CAF) remain committed to ensuring materiel is forecasted, delivered, and positioned in a timely manner with appropriate oversight. Making sure CAF members are well-supplied is a key capability, and we will continue to do what is required to improve our ability to uphold our responsibilities.

Recommendation 1 – On Stock Maintenance

That, by 30 September 2021, National Defence provide the House of Commons Standing Committee on Public Accounts with a progress report with regard to

- A) Reviewing its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations; and**
- B) Reviewing its materiel availability measures at warehouse and national levels and using these measures to monitor whether stock levels are met. A final report should be provided by 30 September 2022.**

The Government agrees with this recommendation.

In the report released in spring 2020, the Auditor General found that DND/CAF often did not deliver military supplies to the CAF in a timely and efficient manner. The Auditor General noted that stock shortages were often the cause of delays. Further, the Auditor General found that DND/CAF did not adequately forecast its needs for materiel and did not stock the right quantities of materiel at the right locations. As a result, extra steps were required to procure materiel or transfer it between locations. Additionally, the Auditor General found that DND/CAF did not develop adequate performance indicators on stock availability.

To address these findings, the Auditor General recommended that DND/CAF review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations. The Auditor General also requested that DND/CAF review its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met.

In response to the Auditor General's report, DND/CAF agreed with this recommendation and committed to undertake two relevant reviews. The first focuses on how defence materiel holdings are planned to ensure the right quantities of the right items are available for use and are stored in locations that result in an overall better level of service. The second review examines how DND/CAF measures materiel availability at the individual warehouse level, as well as across the national supply system. DND/CAF's Management Action Plan identified the specific actions and initiatives to deliver on these foundational aspects of a modern and effective Defence Supply Chain.

Progress Update

Reviewing Materiel Forecasting and Positioning to Ensure that Sufficient Stocks are Maintained at the Right Locations

A materiel forecasting and positioning improvement pilot project is currently underway within DND/CAF. This project focuses on how the existing software tool and standardized processes can be leveraged and improved upon to maximize user training and adoption. The pilot is expected to conclude by the end of fiscal year 2020/2021. Conclusions from this effort will inform the performance improvement implementation plan being prepared for supply chain governance bodies' review in June 2022. The plan may include engagement with a broader range of materiel forecasting and positioning practitioners. Additionally, DND/CAF's inventory management policy instruments are being updated regularly to provide materiel forecasting and positioning practitioners with the most up-to-date standards and processes to perform their duties across the Defence Supply Chain. These instruments, such as the Supply Administration Manual, which was updated in April 2019, and the Materiel Management Instruction 1500 – Repair and Overhaul of Centrally Managed Materiel, which was updated in January 2021, provide guidance on methodologies that contribute to the optimization of materiel availability to the CAF. Additional work to align policy and implementation efforts will be a focus for relevant governance bodies in the coming year and a half.

Reviewing Materiel Availability Measures at Warehouse and National Levels and Using These Measures to Monitor Whether Stock Levels are Met

Revised materiel availability measures

DND/CAF is currently revising its materiel availability metrics and is working to develop an inventory availability indicator, which will incorporate lessons learned and best practices. To support these efforts, the DND/CAF participates in a bi-annual supply chain forum with select Allies to share best practices and trends in Defence Supply Chain management. DND/CAF is also engaging leading research and advisory companies to benefit from industry knowledge on matters such as how industry calculates materiel availability. While these engagements offer useful insights, they have not yet led to the direct adoption of an alternate metric in a National Defence context as the methodologies to define these benchmarks do not always align with industry practices. The Department will document and formalize these metrics through

appropriate governance measures once this review is complete and recommendations are finalized. The Department is on track to meet the timeline set for this key milestone in the Departmental Response to the Auditor General's report (July 1, 2021).

Defence Supply Chain Governance monitoring of materiel availability

In December 2018, the Deputy Minister and the Chief of Defence Staff assigned joint accountability of the Defence Supply Chain to senior leaders within DND/CAF. In doing so, they ensured that senior officials within DND/CAF would be engaged in regular strategic oversight and effective management of supply chain performance through established governance venues.

Today, steering and oversight committees representing all levels of management in DND/CAF meet regularly to direct Defence Supply Chain improvement initiatives and review performance. These committees request regular progress updates on the efforts to improve both materiel forecasting and planning and materiel availability performance. These governance bodies will begin formal monitoring of this performance area once the revised metrics for materiel availability are approved and implemented in 2021. The Department is on track to meet the timeline set for this key milestone in the Departmental Response to the Auditor General's report (July 31, 2021).

DND/CAF will provide further details on these initiatives in an update to the Committee by the requested deadline (September 30, 2021), and will provide the Committee with a final report by September 30, 2022.

Recommendation 2 – On next generation Materiel Planning and Positioning tools and Enterprise Resource Planning System

That National Defence provide the House of Commons Standing Committee on Public Accounts with progress reports regarding the development of the next generation of Materiel Planning and Positioning tools and their integration with the next generation Enterprise Resource Planning System by the 31st of December of each of the years 2021 to 2028.

The Government agrees with this recommendation.

As outlined above, in the report released in spring 2020, the Auditor General found that DND/CAF often did not deliver military supplies to the CAF in a timely and efficient manner. The Auditor General noted that stock shortages were often the cause of delays. Further, the Auditor General found that DND/CAF did not adequately forecast its needs for materiel and did not stock the right quantities of materiel at the right locations. Additionally, the Auditor General found that DND/CAF did not develop adequate performance indicators on stock availability.

To address these findings, the Auditor General recommended that DND/CAF review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right

locations. The Auditor General also requested that DND/CAF review its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met.

In its response to the Auditor General's report, the Department committed to integrating the next generation of Materiel Planning and Positioning tools with the next Enterprise Resource Planning (ERP) system, which will be implemented in 2028. An ERP system is a software suite that links together various business functions of an organization, or enterprise, such as finance, materiel, human resources, and purchasing and asset management functions. These types of systems enable the flow of information across an organization through a comprehensive set of interconnected systems modules and support common business processes, functions and data for the systems of record in an enterprise. This new system is part of a capital software project that is already in its early stages of approval, and will improve the Department's ability to forecast materiel requirements and position that materiel to better serve the CAF.

Progress Update

As the Department's existing Materiel Planning and Positioning software approaches the end of its life in 2025, efforts are underway to develop and implement a modernization plan to meet this ongoing need in a way that will work with DND/CAF's current and next generation ERP System. Currently, DND/CAF is actively engaged in aggregating and evaluating business requirements via stakeholder working groups that will inform the search for the future materiel planning and forecasting application. This work remains on-track in its early stages. DND/CAF will provide further details on this initiative in its next update to the Committee by the requested deadline (December 31, 2021), and on an annual basis thereafter through to 2028.

Recommendation 3 – On High Priority Requests

That, by 30 April 2021, National Defence provide the House of Commons Standing Committee on Public Accounts with a progress report with regard to improving its oversight of high-priority requests. A final report should also be provided by 30 April 2022.

The Government agrees with this recommendation. The requested April 2021 progress report is included below. DND/CAF will submit a final report, as requested, by April 30, 2022.

In the report released in spring 2020, the Office of the Auditor General found that DND/CAF did not rigorously prioritize requests for military supplies, determining that a large portion of high-priority requests were flagged as high priority without justification. The Auditor General found that unjustified priority requests put an excessive burden on the supply chain and incur extra costs. To address this finding, the Auditor General recommended that DND/CAF should improve its oversight of high-priority requests to ensure such requests are used only when necessary.

In response to the Auditor General's report released in spring 2020, DND/CAF agreed with this recommendation, acknowledging that improving oversight of high-priority requests is crucial to

reducing unnecessary costs and optimizing the use of resources. As noted in the Management Action Plan, DND/CAF is taking several steps to address the issue. In the short term, DND/CAF is reinforcing policy guidance on how to properly prioritize requests with the responsible personnel at wings, bases, and commands. Further, DND/CAF has begun a thorough review of its freight distribution system to improve efficiency and optimize costs. Providing greater certainty regarding the time it takes for the supply chain to deliver materiel to units is expected to reduce the instances of unnecessary high-priority requests.

Progress Update

As part of the Management Action Plan, DND/CAF committed to issuing communication that reinforces the “high-priority requests” (HPR) policy and direction, including how to properly prioritize requests. A Canadian Forces General Message to this effect was issued to all members of the CAF in February 2021. In addition, the HPR process is undergoing a modernization review. This includes a comprehensive review of how HPRs are identified and managed, as well as process mapping, and establishing a performance monitoring and oversight framework. These efforts aim to address the systemic issues related to HPR usage, and improve accountability, monitoring and materiel management.

With regard to the freight distribution services review referred to in the Management Action Plan, the Distribution and Materiel Inventory Network Optimization (DMINO) project is underway and remains on-track to meet its Phase 2, March 31, 2021, milestone. This project aims to improve the National Freight Run (NFR), a system in which military drivers and vehicles travel on a fixed route and schedule to deliver materiel between select locations across Canada. An update on the status of DMINO is provided in the response to recommendation 4 below.

This review, combined with initiatives such as the Modernization and Integration of Sustainment and Logistics (MISL) project, which will improve materiel visibility and tracking, is expected to improve confidence in, and the performance of, the Defence Supply Chain over the longer term. DND/CAF anticipates that greater certainty of service delivery times combined with greater materiel visibility will reduce the use of workarounds such as over-prioritizing requests and selecting more costly options of transportation to receive materiel on-time.

Recommendation 4 – On Transportation Costs

That, by 30 April 2021, National Defence provide the House of Commons Standing Committee on Public Accounts with a progress report with regard to communicating the costs of all available transportation methods and providing clear guidance on how to select the mode of transportation to ensure that decisions are founded on a full understanding of costs. A final report should also be provided by 31 January 2023.

The Government agrees with this recommendation. The requested April 2021 progress report is included below. A final report will be provided by January 31, 2023.

In the report released in spring 2020, the Auditor General found that, for materiel movements within Canada, DND/CAF did not have the right controls to determine the most appropriate transportation methods to fill requests and to oversee transportation costs. The Auditor General noted that although DND/CAF required that costs be considered when selecting transportation methods, it did not provide guidance on how to assess transportation costs and determine what constitutes high costs. Further, the information system that supports transportation activities did not include the costs of all available modes of transportation. As such, the Auditor General requested that DND/CAF communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure decisions are founded on a full understanding of costs.

In response to the Auditor General's report, DND/CAF agreed with this recommendation, and noted in its Management Action Plan that it is conducting a thorough review of its freight distribution system to improve effectiveness. This will be accomplished via the freight distribution review, also referred to as the DMINO project; on-going training and communication; and the introduction of a new transportation module within DND/CAF's Enterprise Resource Planning (ERP) system, which will include costing information. The overall review is expected to yield a renewed distribution system that would enhance planning, forecasting and decision-making (including distribution costs).

Progress Update

As indicated in DND/CAF's response to the Auditor General's report, DND/CAF policy currently mandates that costs should be considered when selecting transportation methods. Currently, transportation costs are dependent on the provider (DND/CAF versus commercial) and mode of transportation, with internal resources reimbursed at a kilometric rate and commercial transportation costs set within the existing National Master Standing Offer. The use of premium transportation (e.g. air freight) is reserved for high-priority requests. Communication reinforcing the use of high-priority requests was addressed above in response to Recommendation 3. Key information on transportation costs has also been identified for end-user training to ensure users have a full understanding of costs when making materiel-related decisions.

In addition, the CAF's Modernization and Integration of Sustainment and Logistics (MISL) project will introduce a new transportation module within the relevant DND/CAF enterprise resource planning system. This transportation module will address how financial authorities are exercised in the selection of standard or premium service levels. It is forecast to begin rolling out in late 2022, and is also being informed by the outcomes of the freight distribution review described below.

The freight distribution review, or DMINO project, is on-track to improve the efficiency and effectiveness of materiel transportation operations in the CAF. The review is currently in the second of three phases. During the first phase, a private contractor reviewed five years of raw data from disparate IT systems across DND/CAF, including more than five million data points

related to how materiel was being distributed. This phase resulted in eight strategic scenarios for key stakeholders to consider to improve DND/CAF materiel distribution and warehousing. Phase 2 of the project involves modelling options for a new National Freight Run structure and schedule. This phase is expected to be completed by March 31, 2021, in line with the milestone included in DND/CAF's Management Action Plan.

The final phase of the review, Phase 3, will determine the best mix of DND/CAF assets and commercial transportation to deliver a new National Freight Run schedule. DND/CAF asset availability and commercial augmentation requirements will be evaluated during this phase. The expected outcome is a revised National Freight Run that will decrease variability in delivery schedules, and increase the frequency of deliveries to clients while minimizing costs. Upon completion, this project is expected to improve the efficiency and effectiveness of DND/CAF's materiel distribution network to achieve greater customer satisfaction and restored confidence in the distribution network of the Defence Supply Chain. The new National Freight Run will include an automatic default to the lowest cost option to meet delivery requirements, and will require specific intervention to override.

Ultimately, the success of a revised materiel distribution system, in which end-users and Defence Supply Chain practitioners are able to meet CAF requirements and make appropriate resource expenditure decisions, is tied directly to the delivery of the MISL and DMINO initiatives. Going forward, these projects will continue to be fully aligned to deliver a more effective and modern distribution system for the CAF.