



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Public Accounts

PACP • NUMBER 035 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Thursday, November 24, 2016

—
Chair

The Honourable Kevin Sorenson

Standing Committee on Public Accounts

Thursday, November 24, 2016

• (1530)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): I call the meeting to order.

Good afternoon, everyone. This is meeting number 35 of the Standing Committee on Public Accounts, on Thursday, November 24, 2016.

I will remind all the committee members as well as the audience that today we are televised. I would encourage you to mute your phones or to shut them off.

Today we're conducting a review of the plan of the Department of National Defence to record and value inventory.

Appearing before us from the Department of National Defence are Mr. John Forster, deputy minister; Mr. Patrick Finn, assistant deputy minister, materiel; and Claude Rochette, assistant deputy minister for finance and the chief financial officer.

We will begin with Mr. Forster's comments.

I invite the deputy minister now to bring those comments forward. Thank you.

Mr. John Forster (Deputy Minister, Department of National Defence): Thank you, Mr. Chair.

I have prepared some remarks, which I think the committee has, but I know you'd like to leave as much time as possible for questions, so perhaps I could leave them with the committee members to read through and I'll make a few brief opening remarks.

First, we understand the importance of this issue. We know we are 86% of the Government of Canada's inventory, some \$7 billion. What we do has a significant impact on the government's public accounts. We know it's an important issue and we're committed to succeeding.

Second, we have made some progress, and I think both the comptroller general and the Auditor General have acknowledged that. However, we know we still have a significant amount of work left to do, and we're managing this as an important priority for the department.

I think a key milestone for us was developing an integrated and automated system. Previously, our inventory information was disaggregated, decentralized. The engineering information was in one place, the financial information in another, and the purchasing

information in another. A key thing for us to really break the back of how we're going to improve our inventory was to bring this all together in an integrated system, which will give us real-time information, and we're starting to do that.

Third, I would say that this is a very large and complex problem. Believe me, if it was easy, we would be finished. We have about 640 million items in our inventory, and over 450,000 different codes.

In respect of ammunition alone, we have over 5,000 different items, and they're stored in warehouses and bases across the country and around the world. Some of the inventory goes back decades and predates the government's starting to value this and put it on its accounts. Sometimes it's a challenge to put a value on it.

Sometimes we're asked, "How hard can it be? Why can't you be like Canadian Tire?" That's true to some extent, and I asked the same question when I first arrived, but there are some key differences.

First, most businesses acquire inventory to use it, sell it, and replenish it, so they're always able to update the value of their items. In defence, it's a bit different. We actually often acquire inventory and hold it to ensure that we have inventory and parts in readiness and for emergencies. Sometimes we need to make sure we have a stockpile of older equipment because it may be hard to get parts anymore.

We take items out of our inventory to repair them, to fix them, to use them, and then we put them back in. Sometimes it's hard to put a value and a number on it. For example, we bought a large number of parts for the submarines from the United Kingdom. We paid a bulk price for those, and now we have to go through them as we enter them into our inventory and put a price on each one of them, even though we bought them as an aggregate, in bulk.

These aren't intended in any way as excuses. It's just our reality. Our inventory is large. It's spread out close to our operations, and it involves tens of thousands of people who are either purchasing, stocking, or using those items and who put in our inventory information.

As I said, I think we've made some progress. We have a lot of work to do. We sent the committee a report with a proposal and a six-point action plan.

First, on those six points in the action plan, number one is governance. We are making this a priority for the department. Our associate deputy and vice-chief, through a defence renewal committee, oversee it. Our senior leadership have it on their agenda, and a directive from the deputy and the chief have gone out on this.

Second, we do want to implement an automated identification technology. That's bar codes and radio frequency identification. We're doing the options analysis. This will be a big change and a big project, and we'll have to look at how fast we can do it and what we can afford.

Third, we're changing the accountability of our senior managers. They have to sign attestations each year that they're following our processes, and we do an annual stock-taking. We're trying to work our way through it. To date, we've done about \$4 billion worth of our inventory, and we'll do another \$1 billion this year, to recount.

● (1535)

Fourth, we're trying to modernize our inventory management. We're removing obsolete items and outdated items. We go through some of that every year to get out-of-date codes on stock and write that stock down. It's kind of like cleaning out your attic. We're trying to get through some part of it each year.

Fifth, we're reviewing how we price and value our inventory. We want to make sure going forward that we have the right prices. We still have to deal with some of the original legacy prices that were in there, so that's the sixth element.

Our system now looks for anomalies in how we've priced items in our inventory so that we can change them, fix them. For example, we had 20,000 detonators that were purchased for \$158 each, but in our system they were recorded as 20,000 detonators for \$158. When you find that, it's a \$3-million undervaluation. That on its own is large enough, but when the Auditor General does his audit, if they sample that item, they then extrapolate that to the entire stock, and that has a very large effect on the public accounts. That's why we're going back as quickly as we can to look at our legacy pricing for items that may be 10 years old, 20 years old, that pre-dated when the government started to value this inventory.

Mr. Chair, that will conclude some opening comments. We know we have made some good progress. We know we have a heck of a lot of work still left to do.

Both my colleagues and I look forward to your questions this afternoon.

The Chair: Thank you, Mr. Forster.

I appreciate your comments, but we need to make very clear that you've been invited back to a public accounts committee. We've had the department here earlier. In 2013, again you released a report. Part of that report said you were going to follow certain guidelines, certain dates. You had the dates there. Then you said that to ensure the proper stewardship of public resources, it was important that you follow the plan. Then this year, some of those dates were completely changed around. Some of the guidelines that said you would accomplish this in 2016-17 became 2026-27. I guess that's the reason you wanted you back.

Our role as a committee is to hold departments to account after the Auditor General has filed a report. You came and said what you were going to accomplish in this timeline, and then almost unilaterally changed the timelines after you appeared. That's why we're inviting you back.

I'll turn it to Madam Mendès to begin, but I wanted to lay out some of the concerns that the committee has as a whole.

● (1540)

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you, Mr. Chair.

To follow up on your introduction to the issue, what is very worrying for us is that we went from an action plan that gave us some dates for 2016-17, and now they're 10 years later.

First we'd like to know why there is this big change. What is considered a step, and what will be considered the end point of this process of improvement and change in the department?

Mr. John Forster: Thank you for the question.

We have one item in the action plan that has been pushed out to 2026-27, and it is a long time frame. That is the automation technologies. That's the bar coding, the radio technology chips. It requires changes to our IT systems. It's going to require Wi-Fi in all of our warehouses and bases.

Clearly it is a transformative change, and it will be a big change, so we're doing the options analysis work on that now. As we look at it, it could be quite expensive, so we're trying to break it down and scale it as best we can. What we have given you is the end date, but that doesn't mean nothing will happen for 10 years. However, some of the cost estimates could be over \$1 billion. It is a big item for us. We're going through the options analysis, and we hope to finish that work and have a way to phase it in and manage it to get that one piece of the six done.

On the other elements in our action plan, we are making progress now. As I mentioned, we're doing stock-taking every year. Every year we're going through legacy items to correct pricing. The change in the integrated system, with inventory, purchasing, engineering, and financial information all integrated, is what is starting to give us a real picture of the inventory.

We're trying to make progress on all fronts. The one item that will be longer than expected is this technology piece, just because it's larger and quite expensive.

Mrs. Alexandra Mendès: I agree that it will take a certain amount of time to get that one correct, but there are other elements in the action plan that have been extended. Our question, as a committee, was "Why?" What were the reasons that required this extension in timelines? Is it just because you didn't foresee certain problems? Is it because some things are more difficult to achieve? For us it's important to know it and be aware of it, and that's why we invited you back.

Mr. John Forster: Okay. I'll ask Mr. Finn to provide some more detail on each of the elements, and where we're at.

The Chair: Go ahead, Mr. Finn.

[Translation]

RAdm Patrick Finn (Assistant Deputy Minister, Materiel, Department of National Defence): Thank you very much for that question.

[English]

As the ADM responsible for materiel, I oversee all the aspects of the inventory, including location and value, etc. One of the things we're trying to do with this plan, and I'm going to call it a cultural change as well....

I've been in the department 38 years, 36 years in uniform, and have been involved with this for most of my career. When I was a junior officer, when we were a larger military, we had more people who were heavily involved with inventory and stock-taking and those sorts of things. In the mid-nineties, we got out of that game. We've been spending our time not just trying to fix today's problem, but looking at whether we can we localize it all. Can we count it all? Can we put a value on it all? To some extent we can, but it's a very large undertaking. Our fear is if we just stop and try to do that, the problems will reappear. Every time we do data entry of a new stock code, of a new system that we get, we risk recreating the same problems that we've had.

When we really started down this path of improvement, we had a previous plan. I would say it's proven to be optimistic. We've talked about these three big systems, all of which are enterprise systems, but there were many more than that. Every fleet that we got came with its own inventory system, which was a mirror of what the original equipment manufacturer would provide to us. We brought them together into one system and we dealt with all of the legacy issues and problems with that. We only landed that in 2015. Since 2015, we've had one system that does the financial, procurement, and inventory aspects of it. We now have, frankly, what some of my colleagues have called a "richness of data". We have, in fact, almost more data than we can handle.

For us, it's really about changing the culture at the same time, to make sure that we're not back here in three or four years if we've cracked it, we've looked at it, we've valued it all, but it's gotten away from us again.

In some of the automated technology we're looking at, and even within the systems we have, we're bringing in some algorithms, some procedures, some things that we can do to find the issues. The deputy gave an example of it not being the dollar amount or the number, but rather the units that were entered improperly. We've had situations when a lot of bullets were acquired, and the unit cost of the bullet was put against the whole lot when somebody entered it.

We have tens of thousands of people who interact with this system. Getting them all sufficiently aware and trained to make sure that we understand it.... I'm heartened to see all of my colleagues at level one—the commanders of the army, navy, air force, special forces—are also all personally engaged in this to understand that we have to get back the culture of understanding what we have and where it is and what state it's in, not just for the purposes of public accounts but also for operational reasons. If we don't understand our inventory, it affects us operationally, and it actually triggers overbuys

and excess buys. Something we're trying to do—and we've made some pretty important progress, to the tune of tens of millions of dollars annually in savings—is to actually deal with those as well.

We recognize that we have more to do here, but what we're trying to do is transform the organization around inventory management as we do it.

• (1545)

Mrs. Alexandra Mendès: If you'll allow me in my seconds left—

The Chair: No, no.

Mrs. Alexandra Mendès: No? No seconds left.

The Chair: No, your seconds are up. Sorry. We'll come back to you, though, Madam Mendès.

Thank you very much for the answer.

We'll now move to Mr. McColeman, please, for seven minutes.

Mr. Phil McColeman (Brantford—Brant, CPC): Thank you, Chair.

When I look at the timelines that we're given and then the timelines that were restated, I see all of them are extended. You mentioned the 2026-27 change in the earlier comment, but if you look at all of the categories, the initiatives, they were all bumped up, some to 2020, some to 2019. I make that comment. When I was reviewing the materials for this meeting, frankly, it really struck me as gobbledegook in terms of what was trying to be said. I'll read you a section. This is your response to governance. I'll quote:

While Defence has implemented robust governance, this governance has been managed by functional authorities. Moving forward and beginning in 2016-2017, National Defence will reinforce its existing inventory management governance by ensuring more consistent senior leadership visibility, accountability and direction, using the existing departmental corporate governance structure. This will facilitate senior leadership oversight and reporting on inventory management improvements at National Defence.

What does that really mean? I'm going to be quite blunt about this. This seems to me like a dog's breakfast that you're trying to explain to us—the people who are supposed to be holding the organization to account—and you're saying things like "functional authority". What is that a euphemism for? It suggests there is dysfunctional authority somewhere. Could you answer that for me, please? What does that term mean, "functional authority"?

• (1550)

Mr. John Forster: Thank you, Mr. Chair.

Functional authority usually means that one of your senior leadership is responsible for an area but doesn't necessarily have direct accountability for it. Pat, for example, would be a functional authority about inventory materiel management, but at the same time some of that work is being done by people in the army who report to a base commander. Defence, in itself, is a bit of a matrixed organization, because we have both a civilian workforce and a military workforce.

I don't disagree with you that perhaps that wording isn't as clear as it could be. I think what we're trying to get across here in terms of governance is, first of all, we have—

Mr. Phil McColeman: I'm going to stop you here. You answered my question and I have another question. I have limited time, sir.

Can you quantify in what ways this quote, “consistent senior leadership visibility, accountability and direction”, has been ensured thus far? Again, the words would suggest that there is something inconsistent, not very visible, and not very accountable.

Mr. John Forster: I think it gets back to my earlier comment that inventory originally was very disaggregated, decentralized, in the department, so base commanders who will play a role in that inventory. We have parts in warehouses across the country and around the world. All of those people are buying and entering information into an inventory system. It's not like we have one room with 25 people and all they do is inventory. I will have a base commander and he will be buying supplies. He will be entering that information into an inventory system. Through a committee that's co-chaired by my associate and the vice-chief, we've tried to put it on their agenda to have regular monitoring. We've issued a directive from the chief of defence and the deputy to all of the senior executive that makes this much more clear in their accountabilities. Every year they, the senior leadership, have to attest that they have followed the procedures and policies about inventory and how we record materiel in that system. We're trying to make sure, going forward, that the information going in is accurate and complete, and we're trying to work to clean up a legacy.

Mr. Phil McColeman: Okay. I understand. You perhaps were handed the dog's breakfast, but the reality is this looks like a system.

I come from business. I know inventory management. I've seen it happen in fairly large companies. This looks like chaos to me. It appears, from what Mr. Finn described, that when procurement happens, you do not specify the exact type of inventory management system you need for the additional parts that you're buying. They're all different. That's what your comments suggested to me. In other words, you're always trying to fit a square peg into a round hole. I'm just new to this committee, but, frankly, from where I come from, with 25 years of my own business, it just blows me away how dysfunctional...and how this looks to me to be a system in chaos. Can you react to my perceptions?

RAdm Patrick Finn: Thank you for the comments.

A system in chaos.... Did we wind up there particularly in the context of, I'll say, some of the valuation of inventory? Perhaps.

I was talking about all the procurements. We have inventory that goes back 50 years that is still inventory that we need and use. It's very different from a business, where the inventory is about the

bottom line and the profits. As I often say to colleagues who talk about going into a store and how stores may do it, if I walk into a large retail business that doesn't have inventory, they give me a raincheck that allows me to come back later. For military operations, the inventory has to be there. We have decades of inventory that has come in at different times.

To your point about whether we now specify the format, we do. In fact, part of the evolution of our enterprise system is that we've gone now to an electronic information exchange. However, we are dealing in some cases with large multinational corporations that have customers all over the world, and they don't always want to bend to our standards. We work at that now as we go forward. Part of what we've done to improve and why it's taken us some time is that as we've merged this one enterprise system, we've included a means by which we now do automatic exchange.

Going back to equipment that we acquired 50 years ago, in some cases we're disposing of it, but frankly, that didn't come with that kind of option. It's not inventory we just dispose of. In some cases, we're moving through the disposal of it, but a lot of our inventory is also controlled goods. We've acquired it under international agreements, and in the case of the U.S., under international trade agreements and arms regulation. That means we have to be very careful about who sees it and what it's exposed to. Some of our inventory is classified, so there's a complexity to what we do that, in my experience, is not like the private sector, although we are co-operating internationally and with the private sector for best practices.

• (1555)

The Chair: Thank you, Mr. Finn.

We'll now move to Mr. Christopherson.

Mr. Christopherson, you have seven minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Chair, and thank you for being here today.

I just returned from a NATO Parliamentary Assembly meeting in Istanbul, Turkey, two days ago. I would like to reflect back to you the respect our allies have for the presence and the professionalism of the Canadian contribution to our common defence.

Today we're underscoring the fact that fiscal accountability is part of that professionalism, but make no mistake: that professionalism is recognized on the world stage. I was proud to be a Canadian and to see the Canadian presence there working with our allies on our common defence.

Having said that, I want to echo the Chair's comments and make it crystal clear that this is not just a regular meeting, nor is this just a regular public discussion, and it's not just a regular callback. You are being called back on the carpet because this issue has been going on now for at least 13 years, 12 of which I've been here for, so I know this issue.

I was here in 2012 when we got your first plan. As colleagues have said, one of our problems, and one of the reasons you're being called back on the carpet, is that the plan you gave us in 2013 is different from the plan you gave us in 2016.

Now, you may appreciate that historically, one of the goals of ministries when they are called in for a hearing is "one and done". If you can get in here and get through the meeting, you're safe, because the committee really doesn't have the means or the ability to follow up on all the details and all the promises, so if you can just get through that meeting, you're good.

Those days are over, and have been for a while now, based on the Gomery inquest. It was this committee that uncovered the sponsorship scandal. One of the recommendations from Justice Gomery was that we increase our analytical abilities and our research abilities, so now we have more analysts than most people do on most committees. That's so that we can follow these kinds of things. Those days of "one and done" are over.

I want you to know we take this very seriously, and I want to get to the crux of the matter.

First of all, I want to point out that in your figure 1, the chart—I'm sure you have copies of the chart you sent us in 2013—what's interesting is that the words at the top of the chart are exactly the same.

It says:

Key Milestones and Deadlines of the Department of National Defence's 2013 Plan to Record and Value its Inventory.

Exactly the same words are at the top of the chart in 2016.

What's interesting and problematic is that it doesn't even use the same words after that. One could make the argument that it was meant to be a con job, which is why my friend was asking about the details of what you're saying.

It's tough enough to understand what some of this stuff means, but when we get a second report under the same heading using a new set of gobbledegook with longer deadlines, then it's easy. You will respect, I'm sure, that we could conclude you came in here with that first plan, and it was one and done. There they go. They got a plan. We put some stuff in there, and that's that. Oh, suddenly they asked us for another one in 2016. Well, we can't send the same thing. That wouldn't look very good, so you made up something new.

This is our problem right now, or at least I'll own my own words: this is my problem right now. Either it was deliberate, which is a huge problem, or you really didn't have a handle on it and you threw something together to get you through, and that's not acceptable either.

So what's the explanation, gentlemen?

• (1600)

Mr. John Forster: Thank you.

First of all, thank you for your comments regarding NATO and the respect they have for the Canadian Forces. I think that's very much appreciated. I agree with you that Canada is very well respected in NATO.

Let me start off by getting to the heart of your questions.

First of all, I don't consider this a one-and-done. I'm happy to come back here and report to the committee on our progress on this issue. I wasn't here in 2012 when that first plan was done. I was here when this one was resubmitted.

I'm happy to appear before this committee as often you would like, for me to update you on that. If you're finding our report back to you a bit difficult to understand, that's not our intent. I'm quite happy to clarify anything in here and provide an updated one if you feel it would make it easier to get a picture of what's going on. I'm happy to provide you with milestones. I'm happy to report on those milestones and come back to you as often as you would like to have us.

I don't see this a one-and-done and that if I can get from here to 5:30, I'm pretty much home free for another four years. That's not how I do my business or take my job.

We totally acknowledge this is an important issue.

Mr. David Christopherson: Can you get to the answer? We're running out of time.

Mr. John Forster: My apologies, sir.

In terms of the plan we've put in, I think we have made progress since the last plan. I talked about it somewhat at the beginning, in terms of going back and putting in the system, first of all. That's what was needed to help us break the back of it.

Mr. David Christopherson: Didn't you know that in 2012? Didn't you know you needed that system? And if you needed it, why didn't you tell us that?

Mr. John Forster: It was part of the original plan, as I recall.

Mr. David Christopherson: It's only the time frame that changed.

Mr. John Forster: I would believe so, sir.

Mr. David Christopherson: Then explain to me why the time changed in such a short period of time? It's three years. That's not that long. Why did it change?

Mr. John Forster: I can't answer that for you, but I'm happy to get you—

Mr. David Christopherson: Sorry, sir. That's not good enough. We've dealt with this before. I've been around a long time.

Mr. John Forster: Yes, sir.

Mr. David Christopherson: We've dealt with this before. Bringing in a new deputy who says, "I wasn't there, so I'm not responsible"—that's not going to cut it, sir.

Mr. John Forster: I am—

Mr. David Christopherson: The ministry gave this committee, the premier oversight committee of Parliament, a chart of how they were going to do things and when they were going to do it.

When we asked for a follow-up chart, three years or four years later, it was different. You're not giving me an answer as to why it was different.

Mr. John Forster: Sir, first of all—

The Chair: Mr. Forster—

Mr. John Forster: I am responsible for it, even though it was my predecessor. I wasn't here at the time. I take that responsibility seriously.

I'm the deputy now, and it is my responsibility and it's my accountability. If you would like an explanation on any matter of where we are now versus where we said we were in 2012, I'll be happy to get back to the committee—

Mr. David Christopherson: I'm waiting, with great respect, sir. I'm waiting.

Mr. John Forster: I would be happy to provide that back to the committee on every item we had in the 2012 plan—

Mr. David Christopherson: Start talking to me now. We'll get a detailed report from you and haul you back again if we need to, but tell me now. Give me some obvious reasons to show you weren't playing us for fools.

The Chair: As much as I'm interested in your answer, we're a minute over.

Mr. David Christopherson: That's fair, Chair. Thank you.

The Chair: I can't keep doing that.

We'll now move back to Mr. Chen, please. You have seven minutes.

Mr. Shaun Chen (Scarborough North, Lib.): Thank you very much.

I'm relatively new to Parliament, to this committee, but I am quite shocked at what I am reading and what I am seeing in this report. This is like walking onto a field of land mines. Like the subject at hand, we have no idea where they are lodged, how many there are, whether they are obsolete or not, or active.

I want to thank our guests for being here, first of all. In terms of the various strategic initiatives and projects that are articulated here by the department, I'd like to get a better sense of the cohesiveness. On the one hand, you've got, for example, the automatic identification technology initiative, which I understand is for looking at the department's inventory. You've articulated that it's quite challenging.

You've got 640 million different items, 445,000 different stock codes. Within all this inventory, there is everything from bullets to boots to jumpsuits to jet fuels, and you've mentioned today that there are 5,000 different types of ammunition, for example.

On the one hand, you're trying to get a handle on what the inventory is, how old it is, and whether it's priced properly, and on the other hand, you've got another initiative that appears to be simultaneously happening, the inventory management modernization and rationalization project. That, based on your report that I read, looks to dispose of items that are no longer needed.

Can you explain to me how you simultaneously do not have an understanding of what you have and then at the same time are able to start disposing of items? How does that connect?

•(1605)

Mr. John Forster: Go ahead.

RAdm Patrick Finn: Thank you very much for the question.

What we're trying to do here is to make sure we have an understanding of our inventory overall. This means the location of it, the quantity of it, the state of it, and ultimately the price of it from a valuation perspective. The latter is key to the public accounts and also key in the context of replacement inventory. The first three are particularly important in the context of military operations: the inventory we have, how much, and where it's located.

All of these activities we've talked about in total are bent to come together and to rationalize the entire inventory. There are different activities because there are different aspects to it, including how we do stock-taking and where our stock is. As we do stock-taking, we go back into the hundreds of warehouses we have. We literally have inventory all over the country and around the world. Every ship at sea has inventory in it, and it gets drawn locally. A technician goes into the bowels of the ship, draws inventory, and months later comes back alongside and puts in a request to replenish things.

What we're trying to do is rationalize what we have. As we go through it, we take stock of it and we identify things. In some cases, we have inventory that has sat on the shelf for 50 years unopened. Do we still need it? Is it a propeller for a ship that's 30 years old? I hope to never use the propeller, but if we have a ship run aground, we have to have access to it to use it. For us, inventory is quite different from what it is in the private sector.

All of these activities include finding out what we have: the stock-taking, the disposal of it, the making sure that we're changing our processes so we're not over-buying inventory. That's the accountability that the deputy talked about. We are raising this up so that our level ones—the commanders of the army, navy, air force—understand that this is part of their key accountability. All of these activities are subsets of a plan that we are doing. We are operating in a cohesive fashion and trying to bring all that together under the governance so that we ultimately can come before you and say we have a handle on all of our inventory—where it is, how much of it there is, what state it's in, and what the value of it is. It's a very large undertaking, given that in some cases we're going back decades to look at the valuation of some of the inventory we hold.

Mr. Shaun Chen: It sounds to me like you have legacy processes right now that are looking at the inventory.

I'm trying to connect the dots here. You're looking at analyzing the options for your automatic identification technology by 2020, yet at the same time you have key milestones for disposing of 200,000 materiel items that are not needed by 2016, and another half a million items that you plan to dispose of by 2017. It seems to me that there are overlapping processes here.

RAdm Patrick Finn: When we talk about the automated identification technology, we have some of that technology today. We have high-value items that are bar-coded. We use hand scanners. Some of our processes are dated. We're renewing all of our processes. We're doing a lot of work. We're using the technology we have. We're increasing stock-taking, which means we have people going out into the field and visiting bases, visiting warehouses, doing hand counts, using bar codes, doing those sort of things so that we can identify what to dispose of and take the necessary actions.

We also realize, however, that if we don't go further in modernizing this, the potential is going to be to come right back to this situation, so what we're looking at around the world with our NATO allies, with other allies, and with business is determining the state-of-the-art technology—radio frequency identification and things of that nature—so that we can have instantaneous knowledge of the location of a lot of our inventory, particularly the high-value items.

At the same time that we're doing the cleanup, specifically in this automated identification technology, we're looking at how we can improve our processes, how we can automate more of our inventory processes to align with best practices. This way, as we roll forward through the next decade, not only have we cleaned it all up and not only are we capable of coming to the public accounts committee and the OAG and the comptroller general and answering the questions, but we will also be able to do it in a more efficient manner.

We have a large undertaking under defence renewal. We're looking at inventory—the overbuys, the things we're trying to avoid—but we're also taking these other steps to ensure that missiles, torpedoes, and other high-end things are very closely tracked. It's really two parts: how we clean up, and how we improve our practices to manage our inventory.

• (1610)

Mr. Shaun Chen: Thank you.

The Chair: Thank you, Mr. Chen. We're out of time.

[Translation]

Mr. Godin, you have five minutes for this second round.

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair.

Honestly, I am scandalized by what I am hearing today; that is how I feel. I think we are making fools of ourselves and Canadians are being made fools of.

Mr. Finn, you just said you want it to be effective in the next ten years. How can we believe you? Today you presented a plan for 2016, with a deadline that will be extended. The steps in the 2013 and 2016 plans do not match and are postponed to a later date.

My colleague said earlier that private companies manage their inventory, what is going out and what is coming in. Depending on the company size, part of their inventory remains on the shelves, of course, but it is recorded.

We are in 2016. With the systems that exist today, I do not understand how National Defence cannot maintain a proper inventory of its equipment.

It is very simple. There are three kinds of stock. Stocks from the past can be recorded. Determine their value based on expert calculations, whether it has increased or decreased, but at least we would have an indication. For the current stock, the value is not hard to determine: it equals the purchase price. As to the future stock, you have to decide how you will manage it and then harmonize it all after that.

Does National Defence not have trade services that who could do this? If you truly intend to find a solution, you can use departmental staff. But is there the will to do it?

That is the question I have to ask myself. I do not feel the will. You are full of good faith, and I do not mean you personally. That said, I do not feel you are taking the necessary steps to achieve your objectives.

My comments before the committee are always the same. The Auditor General conducts audits and you testify about them. Mr. Forster, I am not sure that you will be relieved at 5:30, because you will simply postpone it to another meeting. The fact that you are taking part in this exercise is a step in the right direction, but that is not what I want. In fact, I do not want to see you. It would be a good sign if I didn't see you because that would mean the Canadian Forces' inventory was being done properly, and the committee could then focus on something else.

NATO is now calling on Canada to invest more money. How will we as parliamentarians vote when, in 2016, we cannot track our inventory properly?

I am not very comfortable or assured. How can you reassure us and give Canadians confidence in the management of your inventory? We know that National Defence has a huge budget in Canada. We have to respect Canadian taxpayers who invest in this department with their taxes; that is the minimum. I am asking you to reassure us today so we can move forward in the right direction.

You are saying things, but I am having trouble believing you. I am willing to give people a chance. Can you reassure us and confirm that you will take the necessary steps?

• (1615)

[English]

The Chair: Go ahead, Mr. Forster.

[Translation]

Mr. John Forster: Thank you for your question.

[English]

I guess I'll come at it like this. We have two issues, I think, one going forward and one dealing with the legacy. Going forward, we want to make sure we have a modern information system that can collect the financial and inventory information and put it in one place. That's being done. Two, we want to make sure going forward that all of the people buying and entering inventory information into the system are well trained, have clear policies, and have clear practices. We have the accountability in place that they're to do this and take this seriously. This is going forward. That's being done.

We want to make sure going forward that we're putting in the inventory and it's clear and correct, and I think even the Auditor General acknowledges that in terms of quantity, we made significant progress and it's in not too bad a shape, but there's still more to do on quantity—how many of this and how many of that.

I think where the Auditor General has signalled a problem is on the value of that inventory. What we're trying to do with the technology project, with the information systems, with the accountability and with the policies and practices for things we're buying now.... It's going in, and it's relatively clean and accurate.

Now we have a legacy problem. Before 2003, nobody worried that much about what the value per se was. We needed to know how many pairs of boots were in the warehouse and how many bullets were in the warehouse. The systems weren't designed to track their value so that we could report it. We have an issue with what we do with the legacy of material that's there. To go back to Mr. Chen's earlier comment, that's why we have two tracks: first, going forward, let's not create any more problems. Let's get good information and not create more problems. Then, how do we clean up what's there? We still need some of that inventory. It may be 20 years old, but we still need it because we're using that equipment.

We're trying to do it in a number of ways. One, every year we go in and do a stock-taking on a portion of it. We're doing a billion dollars worth of parts every year. We've done \$4 billion to date.

Two, we're trying to get rid of the old obsolete material that we no longer need. We should get rid of it and we should take it out of the system.

Three, we need to look at how we put a price on it in 2003, because some of it would have just been estimated, and they may not have had the records of what they bought. That's the work we're doing on pricing. We're going in and saying, "Hmm, that thing's only valued at \$10, but it's actually worth \$1,000."

We're trying to track it in two ways going forward, first in systems, technology, policies, accountability, and then cleaning up the legacy. I think the Auditor General has recognized that we've done some good work and made some good progress on quantity, and, yes, we've got to deal with the value and the price we want to put on that material. It's mostly for the older legacy material, not the newer stuff coming in, and that's the part we're trying to do.

The Chair: Thank you very much.

We'll now move to Ms. Shanahan for five minutes, please.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you, Chair.

Thank you very much to the witnesses for appearing before us today.

I think what really triggered our questions about how National Defence was managing its inventory was the fact that the Auditor General had signalled this problem for the last 13 years. I too noticed that there was a thumbs-up on the improvements that had been made by National Defence in regard to quantity. I think that can't be understated, because we can understand. Many of us have had experience dealing with inventory. I've certainly dealt with clients

who have had that issue, and we can appreciate the size of the problem.

I would like to return to the Auditor General's remarks and get your comments on the fact that again this year the Auditor General found that National Defence's inventories were overstated by hundreds of millions of dollars. I just want to understand where that's coming from. Can we attribute that purely to legacy evaluation problems, or is it still a problem with the input that you mentioned in your remarks, and people are making mistakes with the input? That's worrisome, because why isn't somebody checking that? How can an error of that magnitude be made?

On the quantity as well, talk to us a little bit about how the improvements were made on the quantity. Here the Auditor General remarks, "Inventory is counted through a cyclical, risk-based approach." Just talk to us a little bit about that.

For me personally, the thing that I get concerned about is that when we're not sure where everything is and so on, what is the risk of loss and, of course, of stolen items? Where do you feel you are in the security of the inventory?

• (1620)

The Chair: Thank you for that, Ms. Shanahan.

Go ahead, Mr. Forster.

Mr. John Forster: I will ask Monsieur Rochette to talk about the Auditor General's work on the financial aspect, and then I can speak to you about the quantity and loss parts.

Colonel Claude Rochette (Assistant Deputy Minister (Finance) and Chief Financial Officer, Department of National Defence): Thank you very much, ma'am, for your question.

On the pricing, you're right. We have two problems. The first problem, of course, is legacy information. We have also a problem with the pricing of new items coming in.

If I may take two minutes, I just arrived as the deputy minister in 2015 and I too was wondering why it was taking so much time and why we were having problems with our pricing.

We have thousands of people, in fact, who have an impact on inventories and on entering information into the systems. We have to keep in mind that often.... I've done a bit of survey to look, because when I deal with the comptroller general when they do the audit, they keep referring to 2003, so I wanted to know what was done and why, 13 years later, this is where we are. We referred before to accrual accounting; it started in 2003. Just to have the Minister of National Defence change our financial system to an accrual basis meant that to be able to do our financial statement was a challenge.

When we entered all the information—and we combined between 2003 and 2013—it was to bring the defence financial management system and the materiel system together. We have done that, and now we have a new system called DRMIS, defence resource management information system, that has connected the materiel and the financial systems.

However, we have a lot of legacy information that came from the previous system that still has to be downloaded, and we are cleaning that up right now.

You will note, probably, that the comptroller general and the Auditor General both made reference to an allowance. For the first time, we have been working on suggestions from the auditors last year. Over the past year, we have developed a new process with an allowance to be able to at least find and evaluate the potential errors that we may have.

Right now we have started the first initiative. We are doing ammunition, because this is the most important part for us and it is where we have many items. The value is \$3.5 billion, and we have 17,000 stock items. We are looking at the items by stock item—for example, ammunition. We have a three-way point, and we try to find a purchase order to be able to match the price so we can come back with a proper evaluation for the ammunition.

By the end of this fiscal year, we will finish the ammunition, and the plan is to do the consumable items over the next two years, but again, we are talking about \$2.5 billion and 400,000 stock items. It is taking time, because we have people looking line by line in the system. At the same time, they are developing and working with our engineers to try to automate that system. We are getting there now, at least for ammunition. We have been able to automate that system so that when we enter the price, it will check it to make sure it's the right price.

Some of the errors we have.... Mr. Forster made a comment about, for example, receiving one item that costs \$158. We may receive a box of 100 of them, but the clerk may enter into the system \$158 for that box, so we have to have a system that can spot that and make the correction. This is what we are working on right now.

•(1625)

The Chair: Thank you, Mr. Rochette, and thank you, Ms. Shanahan.

We'll now move back to the opposition side.

Go ahead, Mr. McColeman.

Mr. Phil McColeman: Thank you, Mr. Chair.

Gentlemen, with regard to the automatic identification technology that you're referring to, the options analysis and definition phase of the project is expected to be completed during 2020-21. That's what you've presented.

When did the options analysis and definition phase begin?

RAdm Patrick Finn: There are actually two consecutive phases. We do the options analysis on all of our major projects to look at just that—what the options are, and how we should proceed. The options analysis for the automatic identification technology started a few years ago. We looked at it at the time, and it looked to be about \$1 billion. We were sent back to look at it to scale it.

Within a few years, we will look to finish the options analysis and get a decision through the department, potentially through Treasury Board and others who could be involved. That would then allow us to enter the definition phase, which would mean requests for proposals, tendering, and all those sorts of things. The government's

contracting regulations mean that we would seek a competitive process to find a supplier who could help us with this, with the idea

Mr. Phil McColeman: I'll stop you there, please.

By the sounds of what you have just described, it's a multi-year process, to say the least. It could be up to 10 years from start to finish.

RAdm Patrick Finn: It could be, from option analysis through definition, implementation, contract awards, and delivery. Yes.

Mr. Phil McColeman: Do you personally find that an acceptable time frame to implement technology? Do you know what happens to technology over 10 years?

RAdm Patrick Finn: Yes. I think the point—

Mr. Phil McColeman: I'm asking you that question. Do you find that acceptable from a management point of view?

RAdm Patrick Finn: From the context of inception and definition of the problem, we're not selecting technology. We're doing problem definition from a corporate perspective, if I can call it that. What was the budget? How does this fit? How does this fit in the overall defence budget? Where do we find ourselves?

We're years away from identifying the technological solution, so we're not saying we've identified the technological solution today and we want you to deliver that technology in 10 years. Frankly, we're in the problem definition mode—how does it fit with the corporate priorities, etc.?

Mr. Phil McColeman: Okay.

How soon after completion of this phase do you intend to launch a competition for the technology?

RAdm Patrick Finn: Once we enter definition, that will be the time at which we launch a competitive phase, a request for proposal. Depending on the value, this will involve our colleagues at Public Services and Procurement Canada and elsewhere, such that we go out to the marketplace for the solutions.

Mr. Phil McColeman: I know the process. Has an indicative estimate for this procurement been established?

RAdm Patrick Finn: Not an indicative, as of yet. As we approach definition, we'll have that from what we call a rough order of magnitude. Looking at scaled options, we've scaled some options anywhere from \$300 million to \$1.2 billion, again a rough order of magnitude cost, as we've talked to different suppliers to get different ideas.

Mr. Phil McColeman: Is the end state in 2026-27, 10 years from now, defined as full implementation of this technology?

RAdm Patrick Finn: In this context, it would be full implementation of that technology. It might take some time, but our intent is to have it as a road map for continuous improvement.

As you indicated, it's a technology that's moving very quickly from RFIDs to satellites and other things, and we recognize we have to keep up with it if we want to continue to improve. Part of this solicitation and effort is not just to deliver us a solution and we implement it and we're done, but how we work on it in service for decades after that. For a lot of our complex equipment, that continuous technical refresh becomes key.

Mr. Phil McColeman: In your work, are you aware of vendors or companies that handle inventory systems for other militaries in the world?

• (1630)

RAdm Patrick Finn: We are aware of some. We also work internationally. Canada has been one of the leaders in setting up an international partnership consultation around inventory management with our closest allies. We are aware of companies that do it. For an enterprise system, we use SAP as the underlying system. We are working very closely with them, as are many of our allies.

In a number of areas, we're leading the way as we try to work our way through this from a military supply chain perspective.

Mr. Phil McColeman: You're suggesting that other militaries—perhaps the U.S., the U.K., or whatever you want to say—are in the same circumstances we are. Their accounting of inventory is totally unsatisfactory at this point in the history of these militaries.

RAdm Patrick Finn: Other militaries are having struggles similar to ours, which is again not about so much where they have it and where it is, but the valuation and the accounting process, etc. It is not something many militaries had automated a decade ago, and we recognize collectively that this is a new requirement.

The Chair: Thank you very much, Mr. McColeman.

We'll now move to Ms. Lapointe. Welcome to our committee. You have five minutes.

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair.

[*Translation*]

Thank you very much.

I am surprised. Mr. Christopherson has been a member of this committee since 2004. Looking back, he said there is still the same problem.

If your department were a private company and had to draw up its financial statements, it would be unable to obtain a loan or continue receiving money. Fortunately, it is a government organization and it can continue its operations.

I am somewhat removed from this. Are there financial problems or human resources problems? I sit on other committees and, in recent years, the amounts of money were in many cases locked in, in a sense. People were unable to do what they had to do.

Mr. John Forster: Thank you for the question.

[*English*]

I think it's a number of factors. I don't think there is a single source. Sure, it's a question of resources, so for us to—

[*Translation*]

Ms. Linda Lapointe: Is it a question of human resources or financial resources?

Mr. John Forster: Both.

[*English*]

For us to implement an AIT, as Pat indicated, the first costs we looked at were over \$1 billion. That's a lot of money.

[*Translation*]

Ms. Linda Lapointe: Yes.

[*English*]

Mr. John Forster: That's money that we would have to take from our capital budget, which we use to buy military equipment.

[*Translation*]

Ms. Linda Lapointe: Is there some resistance to change or to new technologies? There is often resistance in large organizations. Is it a human resources problem in the sense that people do not want to embrace change?

RAdm Patrick Finn: I talked about the culture initially. That might be the issue. In an organization that is fully focused on military operations and the related tasks, this might be viewed as secondary.

We talked about the changes that have been made. Inventory management is now recognized much more as a priority among my colleagues. It might indeed be a human resources issue.

To address this issue in the military, we have created a team of logistics specialists who work full time on this. There is a shortage of personnel in many areas of the military, but this area has been recognized as a priority. In the past few years, we have assigned more personnel to it. As to the financial aspect, the technology we are talking about is recognized as a priority. We must go ahead and determine how to proceed.

Two years ago, 640 million items were transferred from one system to the other, which is significant. The information was not current, even when it was entered decades ago. There is a huge volume of information to be corrected.

Ms. Linda Lapointe: I can understand that entering the data could be problematic.

As my colleague said earlier, we could look to what they have done in Great Britain and the United States. There are other NATO countries whose example we could follow. There must be people who can determine the value of their inventory and who know what is happening at all the warehouses.

I know there are logistical problems. These exist in many warehouses around the world. I do not think Canada is the only country with this problem. In government, there is Public Services and Procurement Canada. I cannot believe that this department has the same problem. There must certainly be organizations you could look to as regards best practices.

• (1635)

RADM Patrick Finn: Yes, there are organizations like that in Canada. We said that National Defence accounts for 82% of inventory in Canada. In the federal government, our department is truly unique because of its value. We also have our NATO partners. A number of them have the same problem and we discuss our ways of doing things.

We have made some changes to our information system and our software. The resulting systems are now used elsewhere by our partners. We learn from them and vice versa.

Ms. Linda Lapointe: Do the various departments and Defence have different systems? Could you not use SAP products as the private sector does?

RADM Patrick Finn: Sort of; more and more of our partners are using those products. At our department, we often have to issue calls for tenders. We do not choose who our supplier will be. Once we issued a call for tenders and SAP was chosen.

In Canada and many other countries, including the United States, each branch of the military has its own stock inventory. There is not one complete inventory for the whole of National Defence. There are separate inventories for the navy, air force, ground forces, coast guard, and so forth. Various military forces have multiple systems and work the same way. There is more and more cooperation.

Ten years ago, there was not much talk about the value of military inventories. We had large inventories, but there were not necessarily high in value. In all countries, the value is getting higher and higher. We are on the same path in this regard. Moreover, the plan we created three years ago when I was in a different position was designed to find out how, in an international field where there is little experience, we could work together in the long term to improve the approach to recording inventories.

Ms. Linda Lapointe: Thank you very much.

[English]

The Chair: Thank you very much, Ms. Lapointe.

We'll go back now.... Actually, we'll just go from one to another.

Ms. Mendès is up next.

[Translation]

Mrs. Alexandra Mendès: Yes, I'm back. What a surprise!

[English]

I understand when you talk about the \$1 billion for the technological change that you need to implement eventually, either now or in five years' time, that it's going to be a massive amount of money. It is not something that is going to come cheap.

To follow on my colleague's line of questions, has this been taken into account by the defence department as part of the needs for the department? Is this part of their annual budgeting? Is it something

that the department knows is a necessity for the changes you need to implement?

Mr. John Forster: Absolutely.

The department has a resource management committee that I chair, and the chief of the defence staff is on that. Every major financial proposal goes through that committee to be examined, justified, reviewed. We have an investment plan that is laid out over the next five or 10 years. This will be a key part of it.

When they did the first cut at what was needed at over \$1 billion, in terms of doing our due diligence, we said, "Okay, could you look at other cheaper alternative options? Can we phase this in a bit to spread it out, so that we can manage the financial impact?" That is the work that's going on.

That project—

Mrs. Alexandra Mendès: It's still going on.

Mr. John Forster: Yes, absolutely.

Mrs. Alexandra Mendès: That is not—

Mr. John Forster: Oh, no, absolutely. This is a priority for us.

Mrs. Alexandra Mendès: If I may, Mr. Forster, I do understand what Mr. Finn was saying about costing not just the acquisition of whatever software or whatever you're going to need. There are the technological advances that probably every six months you'll have to make, and then the updates, the upgrades, that are coming with the speed of technology. Is that part of the \$1 billion, or is this going to be more than that?

Mr. John Forster: As they do the project definition work, they will look at the likely technological solutions we would use, and that will be part of the project, whether it's radio chip technology or whether we do bar codes. Don't forget that some of our inventory isn't sitting in a nice Canadian Tire warehouse all in one location. Some of it is on a ship halfway round the world.

Mrs. Alexandra Mendès: I know. I get it. I do understand that.

• (1640)

Mr. John Forster: We need technology that accommodates that.

Mrs. Alexandra Mendès: I do understand that you also have equipment, such as planes and ships or whatever. That is not exactly easy to count or to put a chip on and monitor, so that is part of the equation.

However, it's the budgeting for this implementation and this huge change in the whole department that I'm asking about. How is this being budgeted? Is it one year to the next, and let's see how...?

I'd like a little more clarification on that.

Mr. John Forster: Sure.

Every major capital project, as I said, comes to our resource management committee, which I chair. The chief financial officer is there and the chief of the defence staff is there. We will review and approve projects that go into our investment plan. When we do our budgeting, we include the cost to develop and engineer the project, whether it's infrastructure or a truck or, in this case, an IT system. We look at the operating costs of what it's going to take to run it and how we sustain that, so we do a life-cycle budget. We do budgeting for 50 years.

Mrs. Alexandra Mendès: It's for 50 years.

Mr. John Forster: Absolutely.

When I buy a ship, I need to know how much it's going to cost me to design it, to buy it, and to run it for the next 50 years. Our financial budgeting is unlike anything else in the federal government, because we're taking a 50-year view of what we do. With the decision we're making today, we have to pay for it 50 years from now.

In this case, when an IT system comes forward, it will come to that resource committee that I chair. We will look at the costs, both to design it and develop it and acquire it and operate it, and that will go into our budget.

In this case, the first cut at it was over \$1 billion. I think it was a reasonable thing for us to say, "Okay, can we send you back to do some more thinking? Is there a way we can phase this? Are there cheaper alternative options?"

We only have one capital budget. It's the same budget that we use to buy trucks for the army that we're using to do this system, so we have to manage those priorities too.

Mrs. Alexandra Mendès: Thank you very much. Do we have any time left?

The Chair: Your time is up, Ms. Mendès, but we can come back.

We'll now move to Monsieur Godin for five minutes.

[*Translation*]

Mr. Joël Godin: Thank you, Mr. Chair.

I have a fairly specific question about inventories. We talked earlier about future, present and past inventories. I think the problem is mainly with the past inventories, which are difficult to track. That is what I understood, but correct me if I am wrong.

Can you tell the committee when you will be finished taking the stock of items acquired in the past, when there was no management system or adequate system as there is now?

RAdm Patrick Finn: We are talking about finishing recording the inventory, especially the value of the inventory.

When we are verifying our inventory, we see how many spare parts we have and items that are no longer useful. They have to be eliminated and disposed of, which is quite a complicated process.

As I said earlier, in some cases, these items were purchased through the American process. We are constantly looking at what we have on hand, at a rate of about \$1 billion per year; so we still have a few years to go.

With regard to past stock, consider the Sea King helicopters, which have been in service on vessels for over 50 years now.

Mr. Joël Godin: I will stop you there, Mr. Finn, because I am running out of time.

For the past inventory, can you tell us now that it will not be possible to record and justify some items? You will not be able to do it in 10, 20 or 30 years either. The process started in 2003 and will end in 2026. It has to last 23 years. When will you be able to draw a line and stop talking about the past and start looking to the future? Can you tell me when your plan will be finished?

• (1645)

RAdm Patrick Finn: Our plan is to complete most of the stocktaking by 2020. I cannot guarantee that, one day, there will not be a single error left in our record of past inventories, even though that is our goal.

We want to reduce the backlog, especially as regards value. We have to remember as well that the inventory that accounts for the majority of the value is relatively small. At some point, the recording of our very low-value stock may not be completely resolved and there will probably still be a few errors. Our intention, our plan, is to have completed everything in three or four years.

Mr. Joël Godin: Do you think it will be three or four years? I tend to think it will be four years, based on National Defence's track record.

I have information that you are already disposing of items that are no longer useful. You have eliminated 487,000 items from the inventory, which is 29% of the 1.6 million or so items you have. You are making gradual progress. You have taken stock of 1.6 million items, but you are saying there is a lot more.

The most important thing to me is not the value. We have to know what we have. At some point, you will make an accounting decision and say that you are not able to evaluate it. Then the past will be written off, a new inventory management system will be established, and you will go forward from there. Is that what you have in mind?

RAdm Patrick Finn: Yes, indeed, but one of the reasons we are discussing this with you is the high value in relation to government accounts.

Mr. Joël Godin: If you don't know what you have, you cannot evaluate it. The basic problem is that you do not know what you have.

RAdm Patrick Finn: I will talk about what we have and then give the floor to my colleague.

As to our holdings, the Auditor General said that we had made a lot of progress.

Mr. Joël Godin: Yes, but I am not satisfied with progress; I want perfection. I think Canada has sufficient intellectual capability to be up to date and manage its stock at some point. I think we should be an example.

RAdm Patrick Finn: Okay.

Mr. Joël Godin: Thank you.

[English]

The Chair: Do you have something to add to that, then?

[Translation]

Col Claude Rochette: We have a plan. In our response, we talk about taking stock of our past inventory. We have a plan to complete stocktaking in 2019. Our plan is to complete the review of our munitions stocks this year and then to work on the remaining stocks over the next two years.

You are right. We will never have a price for everything. We are working with our colleagues, however, the auditors, to determine what kind of contingency we will use for the items for which we cannot determine a specific value.

Thank you.

[English]

The Chair: Thank you very much. You're out of time.

[Translation]

Mr. Joël Godin: Just one more comment: thank you, there is hope.

[English]

The Chair: Thank you very much, Mr. Rochette.

We'll come back to Mr. Chen and to Ms. Shanahan.

[Translation]

Mr. Shaun Chen: Thank you, Mr. Chair.

[English]

We've talked about a lot of the costs involved—for example, the billion dollars that we need for the new IT system, the inventory system—but there's also a tremendous cost to doing nothing, and these costs are both financial and non-financial.

For example, when we look at the inventory itself, we need inventory to support inventory. You need to put these out-of-date materials in boxes or on shelves. You need capital cost warehouses and storage areas to house them.

There is also over-purchasing. If you don't know that you have an extra helicopter propeller somewhere in B.C., you might just order a new one and then buy it again for no particular reason other than not knowing what you have.

There's also an unmeasured cost, and that is where it really bothers me, because if that helicopter doesn't get that new propeller, then that helicopter stays on the ground, and then our people are not able to do the work that they're set out to do.

Mr. Christopherson talked about NATO and talked about how Canada is appreciated. I heard from the U.S. president when he came and spoke to our Parliament that we need more Canada in the world. To me, our Canadian Armed Forces are truly amazing. They're just brilliant, amazing people who have dedicated themselves.

Other than looking at the cost of implementing the changes that we need, I want to know if your department has actually articulated the costs that are involved in doing nothing? How much does it cost, for example, to house all this inventory, particularly inventory that we may not need?

● (1650)

Mr. John Forster: Thank you for the question. I would answer in two ways.

We—and the Auditor General agrees—have made a lot of progress and have a reasonably good handle on quantity, so it's not a question of a military operation overseas not being able to get parts. That is our first and primordial priority, and it has to be. What I would suggest we're looking at is that there's a cost of maintaining outdated, non-useful inventory. I have to heat it, I have to secure it, I have to store it. We're going through that every year to get rid of it and to accelerate that process.

However, let's be clear in terms of the materiel group. Their business is to forecast what the military needs are and to make sure the parts are there, and I think the AG has said we're doing pretty well on quantity. Where we are having trouble is the value to put on that information.

It's not a question of doing nothing. I don't think anybody is sitting here saying we've done nothing or are doing nothing. We're trying to do as much as we can as fast as we can, because we do think it's important. I don't want to be paying to heat and secure and store materiel that I don't need, because I could use that money somewhere else, so we're trying to get rid of it and go through it. When you have 600 million pieces of inventory, you need to do it as fast as you can, but in stages, and that's what we're trying to do.

The Chair: Thank you, Mr. Chen.

We'll go to Ms. Shanahan, please.

Mrs. Brenda Shanahan: Thank you, Chair.

I want to come back to some of the themes that we've been following with the Auditor General.

One thing that we have talked about here at the committee over a number of government departments and agencies is the problem of data management, the problem of adequately ensuring that data input is accurate and that it's managed properly and that we're able to get the kinds of reports and information that we need from collecting those data.

You mentioned in your remarks that you have the integrated system of record, the DRMIS. I'm sure you know the breakout better than I do. Please talk to us about how it is working now, to what percentage it has been implemented, and some of the checks and balances that you have in place to make sure that it is the system that's going to take us through the next 10, 15, 20, 50 years.

RAdm Patrick Finn: Thank you for the question.

The defence resource management information system is what you're talking about. When we describe the convergence of all of these systems we had, that's what we're talking about. A decade ago we even had two separate instances of SAP. We had a materiel acquisition support information system and a financial management system, both SAP-based, in different versions that talked to each other. We had another system for materiel and inventory, another system for people, and a plethora of systems underneath those, not at the enterprise level, with all of the suppliers.

Through our colleagues in information management, we've had an information management road map to pull this all into creating a true enterprise system, as they would call it in the commercial context, such that we have one system of records that now does all of this. That is the piece for which we underestimated the time to get to full amalgamation. We fully brought it all together in December of 2013 or in early 2014. Of course, in transferring all the data, we had a year to a year and a half of data cleanup to do.

We are now there. We are doing much more business analytics using it. Mr. Chen asked about some of the work we're doing around overbuys. We've created resource planning tools that actually track buys and overbuys and buys against dormant stocks, and a whole bunch of things that we can now do with this one system in place. We are using it much more for business analytics, as I mentioned, and decision-making. It is there.

It is our system of record financially as well. It is the system that I use in project management, in materiel, in inventory. It is coming together. We are probably the world leaders. We talk to SAP about how we're now using this from a military enterprise perspective. That is now there. We need to continue to grow it, and we recognize that, but the thing about the system that we brought together is that it is highly complex, and now, as we get into it and make changes.... For example, how do we use the fields around inventory? For aircraft, the manufacturing part number is so important, whereas for other equipment, a NATO stock number is the key piece. We wind up dealing with conflicts and issues and processes to make sure, as I said earlier on, that we are transforming.

However, DRMIS is an incredibly important enabler, and it is an operational system. Aircraft do not fly unless they're actually recorded as green in DRMIS, because that's the indication that all their maintenance has been done. It is an absolutely key enabler for us.

• (1655)

The Chair: Thank you very much.

I have a couple of questions, then I'm going to turn it over to Mr. Christopherson.

You've talked about one system of inventory. It's not one system for the army, one system for the navy, one system for the air force, but one overarching system. Are there other subsystems where the navy or the air force have their own inventory for quick access, or does it go back to this one humongous system?

RAdm Patrick Finn: The system I'm talking about, of course, is the information system. It is one system for our department. I think I mentioned early on that some of our allies will have different systems for army, navy, air force. We do not. We track that inventory, whatever it is. It brings a complexity.

Do the army, navy, and air force have access to inventory on bases and wings and at sea? Yes, they do, but the system under which it's tracked is our defence resource management information system.

The Chair: It always sounds good, and in business it's good to have one system, but is that part of the problem? Would it be easier to have a silo system for the different arms of our Canadian Armed Forces?

RAdm Patrick Finn: I don't think so. We buy most of the inventory centrally. From an acquisition perspective, it is my organization that buys the vast majority of the spare parts for equipment. There is other, I would say, materiel that's bought locally in bases and wings, but when it comes to military operations, equipment, and spare parts, it's my organization that does all of that.

The Chair: Is there a lot of information exchanged with our allies? I remember that when we were involved in the mission in Libya, one of the key things was that when our air force was there, and other air forces, we could be consistent. We can use their mechanics, and they can use.... Is there sharing of information in theatre or sharing of information with Australia or Britain in regard to accessing their inventory and their being able to access ours?

RAdm Patrick Finn: There is, absolutely. In fact, with our system, when we talk about stock codes, they are NATO stock numbers. Across all of NATO, for example, we use a common approach, common fields for stock. We have multinational and bilateral agreements. "Mutual logistic support arrangements" is what we call them.

Again, in my career at sea, we routinely would work with allies, mostly with the U.S., by virtue of the type of equipment. Many times at sea, through binational and international agreements for common equipment, I've accessed spare parts through our allies. We do that.

When I talk about the system, at this point I'm talking about the software or the enterprise system, but we have to be very careful about that as well in the context of data refresh and knowing where it is and what's going on. A lot of it is satellite-based. We'll have what we call a deployed instance of our defence resource management information system, but interestingly, we have to be careful that we don't put it on a ship that actually goes EMCON, silent, and turns off all the emissions, but the logistic system is actually saying, "Here I am", or that we don't have an RFID system on weapons that others can detect.

We have an operational dynamic to it, but we absolutely cooperate internationally.

• (1700)

The Chair: Good. I think that's important. Again, that's quantity, not the valuation of what that inventory is, and that's really what we have to focus in on.

We just pulled up the national audit office of Great Britain, and some of the committee will be going there in the next few weeks to speak with their public accounts committee. At their national audit office, they have a defence and armed forces page. It says the ministry of defence is buying more inventory than it uses and not consistently disposing of it if it's no longer needed, using money that could be spent elsewhere. The head of the NAO goes on to say:

In the current economic climate where the department is striving to make savings, it can ill-afford to use resources to buy and hold unnecessary levels of stock, and it clearly does so. The root cause of excess stock, which the Department is seeking to address, is that management and accountability structures currently fail to provide the incentives for cost-effective inventory management.

That becomes the problem. When we're trying to deal with taxpayers' dollars, the valuation of some of this inventory becomes a problem, not just for Canada, but for our allied countries and probably for most countries in the world.

It goes on and it lists some of the varied concerns that Mr. Chen, Mr. Godin, and Mr. McColeman brought forward, so we get it. It is a problem around the world.

You have come today and you've thrown out an offer, I guess, to be more accountable to this committee, because we're called upon to do our job as well. I'd be interested in hearing ways we can do that.

I'll turn it over to Mr. Christopherson for a few ideas. He's kind of our idea guy.

Mr. David Christopherson: Thank you, Chair. I appreciate your underscoring the importance of the issues.

I know this has not been a fun or comfortable meeting for you. It wasn't meant to be, but I also want you to know that it's not our goal to have these kinds of meetings. We are happiest when there are audit reports that show how everybody is complying with everything and that taxpayers' money is being spent exactly the way it should be. That's our goal.

Where things are not complying, our goal is to change behaviour so that the behaviour is in compliance and Canadians can know that their hard-earned tax dollars are being spent properly and being accounted for properly. That's our ultimate goal. It's not necessarily to bring in senior people and make their lives difficult, although as you can see, if you're not complying with the rules in the way you should, that's what's going to happen.

With a goal now to move forward—we've dealt with where we are and why we're here—let's look at going forward and getting things back on track and getting into a positive world.

With that, Chair, I'd like to suggest that we ask the department to provide the following pieces of information.

One is that the Department of National Defence will provide the committee with a report explaining how each of the milestones of the 2013 action plan were either met or not met. Two, the department will also provide the committee with detailed reasons for any of the—well, it's most of them—deadlines of the 2013 plan being extended into the future. Three, the department is to provide a clearer explanation of the terms used and is to make the two charts comparable for proper comparison.

Deputy, that's taking up directly on your offer, sir.

Four, the department will provide the committee with a further report regarding how well military inventory is managed in comparison to Canada by the following Canadian allies: one, the United States; two, the United Kingdom; and three, Australia.

I put that last one in, gentlemen, to be fair, because if we are facing challenges similar to those three allies, it will at least give us some tempering in knowing that this is not just screw-ups but a tough new way of accounting, and that everybody is in the same boat. By the same token, if they have some methods that are working better than ours, then we would hope that your report would reflect that and maybe make some suggestions about how we might better account for our spending.

This is really meant to put things in proper context, because I took you at your word when you said that everybody is struggling with this situation. Fair enough; show us. Show us that this is not unique to Canada, and that will provide you with a little more compassion, shall I say, for lack of a better word, from us as we go forward.

Chair, I think if you seek it from colleagues, you'll find that there is support for these four measures.

I want to emphasize again how much we appreciate your coming in. These are difficult matters, but when I spoke to you about the pride in your professionalism that I felt as a Canadian delegate to the NATO Parliamentary Assembly, that professionalism also includes not only what we do in theatre but how well we account for the taxpayer money that pays for those things. I appreciate that you understand that and I appreciate that you came here with an intent to answer our questions. I believe that ultimately, collectively, we will get this in hand; it's just going to take us a bit to get there.

The last thing I would say is that I really hope the report we receive is sufficient and that we don't need to have you come back in, because if that's the case, this meeting will probably look like the fun one. Again, on a positive note, I think you understand our concerns, and I will be shocked if that report doesn't address them. It will be very honest in its evaluation. Even if it has to be a little self-critical, now is the time to get back out in front. I have every faith that you'll provide us with the kind of report that allow all of us to feel good about moving forward and hitting the goals that our Auditor General has set for us all.

• (1705)

The Chair: Thank you very much, Mr. Christopherson.

I want to watch what I say here, but I noticed that in your recommendations and in your action plan, you didn't include a date for them to get back to us. I think we want a fair date. We certainly don't want it extended—

Mr. David Christopherson: Don't change it.

The Chair: Yes, right.

What is a fair timeline on some of these, Mr. Forster?

Mr. David Christopherson: We want one report for all four measures. Fair enough.

The Chair: We aren't talking about a report that will solve and cure insomnia for weeks. We're talking about something that's going to be very succinct and will lay out.... I should be just whatever length—

Mr. David Christopherson: To be fair, Chair, if you look at our schedule and what's coming with the holidays and everything, we could give them until sometime early in the new year. This is a big job. I don't want a one-pager, quite frankly.

The Chair: No, no—

Mr. David Christopherson: I want a good detailed explanation, and if there is some *mea culpa* in there, that takes time to wordsmith too. I'm looking more to know when, early in the new year, you think it would be fair to give us a comprehensive response on these four areas.

The Chair: I wasn't suggesting a one-pager with a couple of sentences on each thing.

I also realize that the wheels of departments seem to churn very slowly and I want to be fair to them as well. I want to be fair to them.

Mr. David Christopherson: What would you suggest to us is a fair timeline for you to get back to us with a comprehensive report, as we have asked for?

Mr. John Forster: The House will adjourn, and you'll be back at...what, the end of January?

The Chair: Yes.

Mr. John Forster: We'll be happy to provide it when you're back after the holidays.

The Chair: That's more than fair.

Mr. David Christopherson: Is the end of January fair?

Mr. John Forster: Yes.

Mr. David Christopherson: Okay, colleagues, is the end of January fair?

The Chair: Are we good with that? All right, there's consensus on that.

Thank you very much.

Go ahead, Mr. Forster.

Mr. John Forster: Can I just say that I appreciate it, and we'll be happy to provide that? We share the same goal on accountability. I'm happy to come here and be accountable. I am responsible for the whole department and stuff that's gone on before me. We share the same goal.

I don't want to be wasting money on parts I don't need either. I have lots of demands to fill, and if I can free up resources in managing our inventory better, boy, that's near the top of my list. We'll be happy to provide an explanation of where we were in the early plan, what changed, and why it changed. We have no problem saying—

Mr. David Christopherson: I will just emphasize again that if there's been a screw-up or two or if something wasn't as it should be, please say so, because it will save us all a lot of effort. The harsh part of this, I hope, is over, and if we get a report that clearly tells us that you've given us a forthright answer to all the questions and satisfied the concerns we have, then, Chair, my hope is that's the end of it, and we'll continue to see the kind of progress that we all want.

That's our goal. I think the deputy is saying the same thing. I'm feeling fairly optimistic, Chair, that we're going to get that. It's now in your hands.

Mr. John Forster: Thank you, Mr. Chair.

● (1710)

The Chair: All right. Thank you very much for attending today. We'll look forward to that report.

Thank you very much.

We're going to suspend for about five minutes to allow our visitors and our witnesses to take their exit. We're going to come back for about five minutes on an item of committee business. We'll be in camera at that point. Please don't leave.

[*Proceedings continue in camera*]

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

The proceedings of the House of Commons and its Committees are hereby made available to provide greater public access. The parliamentary privilege of the House of Commons to control the publication and broadcast of the proceedings of the House of Commons and its Committees is nonetheless reserved. All copyrights therein are also reserved.

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the House of Commons website at the following address: <http://www.ourcommons.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Les délibérations de la Chambre des communes et de ses comités sont mises à la disposition du public pour mieux le renseigner. La Chambre conserve néanmoins son privilège parlementaire de contrôler la publication et la diffusion des délibérations et elle possède tous les droits d'auteur sur celles-ci.

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web de la Chambre des communes à l'adresse suivante : <http://www.noscommunes.ca>