

## **Response to the Standing Committee on *Public Accounts* 2016 Annual Update – Improvements in Inventory Management**

### **Recommendation 2**

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

### **Background**

In the 2017 Government Response to the Report of the Standing Committee on Public Accounts (PACP), entitled *Public Accounts of Canada 2016*, National Defence agreed to update the Committee annually on its progress in relation to Recommendation 2, and as outlined in the National Defence Action Plan (2016).

In its Fiscal Year 2022/2023 update to the Committee (May 2023), National Defence provided an overview of its work on the Automatic Identification Technology (AIT) project, the remaining initiative in progress under Recommendation 2.

### **Update on Action Plan Commitments for Fiscal Year 2023/2024**

A progress update for Fiscal Year 2023/24 on the implementation of AIT is provided below. The 2016 Action Plan is also provided at Annex, which includes information regarding all initiatives taken by National Defence in response to *Public Accounts of Canada 2016*.

#### *Automatic Identification Technology Initiative*

Through the AIT initiative, National Defence will procure and integrate automated data capture technologies to improve materiel inventory management across the Defence Supply Chain. The AIT will deliver capabilities across three distinct workstreams: Materiel Management (asset marking and barcode scanning); In-Transit Visibility (shipment tracking); and, Fuel Monitoring (automatic tank gauging).

National Defence continues to make progress on activities in the Definition Phase Plan, with the Implementation Phase now forecasted to start in late 2025.

In its last update to the Committee, National Defence reported that it was seeking one System Integrator, and a common business transformation approach, under a single Statement of Work. This approach would have brought all three workstreams that make up the AIT under a single combined contract.

The procurement strategy described above has proven to be complex, as each workstream has a unique set of data integration, physical infrastructure, and materiel procurement requirements, which would need to be implemented across Canada. Therefore, in August 2023, and based on continued dialogue with industry, National Defence updated its approach; moving away from a single prime contractor to a workstream-specific approach.

By separating the procurement into three clear workstreams, the project will be able to engage companies that were not involved in previous industry engagements. This means that participating companies are likely to have more relevant workstream-specific experience, more optimized resources, and better cost and implementation schedule forecasts. This revised procurement approach is supported by Public Service Procurement Canada and will result in the award of multiple contracts.

In addition, this updated approach has helped to progress key aspects of the Definition Phase Plan. For instance, in January 2024, the Fuel Monitoring workstream released to industry three draft Statements of Work, within a single Request for Proposal. Initial industry one-on-one meetings have confirmed that this approach is sound and consistent with industry expectations.

Further, the Materiel Management workstream is preparing to release its draft Request for Proposal in July 2024. The In-Transit Visibility workstream will leverage a NATO standing offer to acquire its capability in April 2025.

In parallel, National Defence is continuing to progress data remediation and the marking of serially managed equipment to prepare for implementation of the Automatic Identification Technology. An additional 35,000 items have been marked in the past year, with a total of over 145,000 items having been marked to date.

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

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

National Defence will update the Public Accounts Committee on the progress of the Automatic Identification Technology initiative as part of its annual report in May 2025.

Grey = Initiative closed.

Yellow = Initiative in progress.

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

<b>Automatic Identification Technology</b>		
Acquire and integrate asset marking and reading technology with modernized business processes to improve inventory data.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Implement activities as per Definition Plan schedule	In progress	In 2023 the strategic decision was made to divide the project procurement to better align with the three workstreams. The Fuel Monitoring workstream released three SOWs into a draft RFP to industry in January 2024 and is on track to proceed to final RFP in 2024. The In-Transit Visibility workstream is going to be optimised via the use of a standing offer and in-service support contracts that already exist. The Materiel Management workstream is preparing to release its draft RFP in July 2024.

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

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

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

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