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MAY 29 2023

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

Dear Mr. Williamson,

As agreed upon in the Government Response to the Twenty-Eighth Report of the Standing Committee on Public Accounts, entitled *Public Accounts of Canada 2016*, National Defence submits an update to Recommendation 2, due May 31, 2023.

Sincerely,

Bill Matthews

Enclosures: 1

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

Recommendation 2

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

Background

In the 2017 Government Response to the Committee's report entitled *Public Accounts of Canada 2016*, National Defence agreed to provide the Committee annual reports within 60 days of fiscal year-end, summarizing progress against its 2016 Action Plan commitments and providing the rationale for any delays.

In its last update (May 2022) to the Committee – which covered progress made on initiatives for Fiscal Year 2021/2022 – National Defence reported that the Pricing Legacy Data Clean-Up initiative was completed. National Defence also reported on progress related to the Automatic Identification Technology (AIT) project, the remaining initiative in progress under Recommendation 2.

Update on Action Plan Commitments for Fiscal Year 2022/2023

A progress update on the implementation of AIT is provided below, while the attached 2016 Action Plan annex includes detailed information regarding all initiatives taken in response to *Public Accounts of Canada 2016*.

Automatic Identification Technology (AIT) Initiative

Through the Automatic Identification Technology (AIT) initiative National Defence will acquire and integrate asset marking and reading technology to improve inventory data. National Defence continues to make progress on activities in the Definition Phase Plan. However, the Program is experiencing some delays related to procurement after receiving industry feedback. Seeking feedback from industry for complex procurement projects is a standard practice to increase the chance of a successful procurement outcome.

The Statement of Work is complex as it includes three streams of related work, which are often provided by different vendors. Based on lessons from past projects, National Defence is seeking one System Integrator for ease of integration, and a common business transformation approach, under a single Statement of Work.

A draft Request for Proposal was released in 2021 and again in 2022. Each time, industry deemed that the Statement of Work within the draft Request for Proposal required additional detail to appropriately design and build an Automatic Identification Technology solution.

Through the recent industry engagements in 2022 and in February 2023, industry have provided feedback to improve the Statement of Work and inform the procurement strategy, including the

basis of payment for the various work packages. Their feedback will contribute to a Request for Proposal with greater clarity in conveying the department's requirements. For example, the Statement of Work required additional information for the basis of payment, evaluation criteria and In-Service Support (ISS) plan. To address this, requirements were consolidated and concentrated to one location (CFB Edmonton) to better enable industry to price this component. National Defence's further restructuring of the solicitation documents will ensure the work being performed in each stream is clearer, thereby allowing the vendor community an opportunity to present comprehensive bids.

The revised Statement of Work is expected to be released to industry by fall 2023. The Final Request for Proposal is planned for release in early 2024. National Defence will aim to award the contract by the end of 2024.

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. Over 110,000 items have been marked to date.

Once the Automatic Identification Technology 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 2024.

Grey = Initiative closed.

Yellow = Initiative in progress.

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

Automatic Identification Technology		
Acquire and integrate asset marking and reading technology with modernized business processes to improve inventory data.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Implement activities as per Definition Plan schedule	In progress	<p>National Defence continues to progress the activities in the Definition Phase Plan, however the project is experiencing some delays, particularly on its procurement activities. A draft Request for Proposal was released in 2021 and again in 2022. Industry deemed that the draft Request for Proposal required additional detail to appropriately design and build an Automatic Identification Technology solution.</p> <p>As such, refinement of requirements with multiple stakeholders has taken place, and follow-on industry engagement in February 2023 resulted in National Defence's decision to restructure the Statement of Work. The restructured Statement of Work is anticipated to be released to industry by fall 2023, and will facilitate the development of the Final Request for Proposal, planned for release in early 2024.</p> <p>Pending further approval, National Defence expects to award the contract by the end of 2024.</p>

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

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

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

Pricing Legacy Data Clean-Up		
Identify and correct existing pricing inaccuracies.		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Ongoing monitoring (weekly analysis) of transactions to identify and investigate potential errors	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.