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APR 28 2022

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 4th Report of the Standing Committee on Public Accounts entitled *Report 3, Supplying the Canadian Armed Forces – National Defence, of the 2020 Spring Reports of the Auditor General of Canada*, National Defence submits its update on Recommendation 3.

Sincerely,

 Bill Matthews

Enclosures: 1

Canada 

**Response to the Standing Committee on Public Accounts'
Report 4, Supplying the Canadian Armed Forces, of the spring 2020 Reports of the
Auditor General of Canada**

Recommendation 3

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

Background

In the spring 2020 report *Supplying the Canadian Armed Forces – National Defence*, the Auditor General recommended that National Defence improve its oversight of high priority requests to ensure that such requests are only used when necessary.

National Defence agreed with the recommendation, and in its 2020 Management Action Plan committed to conduct a holistic review to improve and optimize costs for the freight distribution services within the Canadian Armed Forces (CAF), while maintaining operational effectiveness. National Defence's 2020 Management Action Plan identified the specific interconnected initiatives that the Defence Team is pursuing to improve how materiel is requested and distributed to end users.

In National Defence's 2021 Government Response to the House Standing Committee on Public Accounts' report, (submitted to the Committee on March 25, 2021) National Defence committed to improving oversight of high-priority requests, acknowledging that this is crucial to reducing unnecessary costs and optimizing the use of resources. In the short-term, National Defence completed a review of the process and subsequently issued direction to all Defence Team members on February 22, 2021, that reinforced policy and direction, including how to properly prioritize requests. This review also identified the interconnected initiatives which seek to improve management and oversight of high-priority requests and the overall requisition/order-fulfillment process. These interconnected initiatives are outlined below and include the Distribution and Materiel Inventory Network Optimization (DMINO) initiative, and the Modernization and Integration of Sustainment and Logistics (MISL) project

National Defence committed to providing the House Standing Committee on Public Accounts with a final report on the progress made regarding the improvement of National Defence's oversight of high-priority requests, as well as an update on freight distribution services, by April 30, 2022.

While National Defence reports that the 2020 Management Action Plan commitments for review and analysis of high-priority requests, as well as improved oversight are now complete and closed, the Distribution and Materiel Inventory Network Optimization and Modernization and Integration of Sustainment and Logistics projects remain in progress. As such, National Defence will once again update the Public Accounts Committee on the progress of the two aforementioned projects by April 30, 2023.

Update on improving oversight of high-priority requests (review and data analysis)

As per its 2020 Management Action Plan, National Defence completed its review of the high-

priority requests process in March 2021. As part of this review, National Defence conducted a comprehensive analysis with key stakeholders of how high-priority requests are identified and managed. This engagement led to the Department revising processes found within supporting procedure manuals, as well as establishing a performance monitoring and oversight framework.

For example, to improve oversight and accountability, National Defence has developed a Defence Supply Chain Performance Management Framework (PMF), which is supported by a growing supply chain analytics program. Additionally, National Defence established the requirement for organizations to formally report on high-priority requests in their semi-annual Materiel Accountability exercise to enhance oversight and monitoring of high-priority requests and policy compliance.

Together, these efforts will address the systemic issues related to the use of high-priority requests and promote improved accountability, monitoring, and materiel management. The 2020 Management Action Plan commitments for review and analysis of high-priority requests, as well as improved oversight are now complete and closed.

Update on the freight distribution service (design and implementation)

As per its 2020 Management Action Plan, National Defence is improving its defence supply chain performance over the longer term, primarily through the Distribution and Materiel Inventory Network Optimization project, and the Modernization and Integration of Sustainment and Logistics project.

Distribution and Materiel Inventory Network Optimization (DMINO) project

The freight distribution review/Distribution and Materiel Inventory Network Optimization project is on-track to improve the efficiency and effectiveness of materiel transportation operations in the CAF. National Defence completed a review of the military freight distribution system on January 31, 2022. This review provided insight into the next steps of the Distribution and Materiel Inventory Network Optimization Phase 3 activity, which is identifying opportunities to offer set schedules to industry for large-scale commercial contracts. Industry engagement is expected to commence in summer 2022 to inform development of a Request for Proposal planned for release in early 2023.

The primary objective of the Distribution and Materiel Inventory Network Optimization project design is to improve and optimize the National Freight Run, a system in which military drivers and vehicles travel on a fixed route and schedule to deliver materiel between select locations across Canada. A secondary positive effect of this project is to improve service delivery to deployed Canadian Armed Forces operations by reducing transit time from national depots to air and seaports of embarkation supporting international operations.

During the final phase of the review, National Defence will evaluate its asset availability and commercial transportation requirements. This will help ensure that National Defence uses an optimal combination of National Defence assets and commercial transportation to help ensure timely and cost effective delivery. This will reduce variability in delivery schedules, decrease the reliance on inefficient and costly cross-docking processes, and increase the frequency of deliveries to clients, thereby minimizing overall costs.

By ensuring greater clarity of service delivery times, combined with greater materiel visibility, National Defence will be able to reduce the use of workarounds, such as over-prioritizing requests and selecting more costly options of transportation, to receive materiel on-time.

Modernization and Integration of Sustainment and Logistics (MISL) project

The Modernization and Integration of Sustainment and Logistics project is on-track to modernize and improve warehousing and distribution operational performance by adopting best practices and business processes from industry and Allies, and by leveraging inventory management technology in a single integrated system. National Defence anticipates the completion of this project in summer 2024.

The Modernization and Integration of Sustainment and Logistics project will strengthen the Defence Supply Chain and help ensure improved support to CAF Force Generation and support the Royal Canadian Navy, Royal Canadian Air Force, and Canadian Army deployed on domestic and international operations through improvements in asset visibility, in transit visibility, and materiel accountability.

Together, the delivery of the Distribution and Materiel Inventory Network Optimization and the Modernization and Integration of Sustainment and Logistics projects are expected to improve confidence in, and the performance of, the Defence Supply Chain over the longer term. Supply chain progress is monitored regularly through Defence Supply Chain Oversight governance committees co-chaired by senior Defence Team officials in the Staff of the Strategic Joint Staff and the Assistant Deputy Minister (Materiel) Group. Additionally, the Modernization and Integration of Sustainment and Logistics project is governed under the Defence Resource Business Modernization program. These committees monitor the status of Defence Supply Chain initiatives and projects outlined in this update, confirming that implementation of the initiatives are on track, and whether there is a need to further refine the management and oversight. By better integrating National Defence's supply chain systems, National Defence will increase materiel visibility, materiel accountability, and materiel readiness.

Future updates to the Committee

National Defence will update the Public Accounts Committee on the progress of the Distribution and Materiel Inventory Network Optimization and Modernization and Integration of Sustainment and Logistics projects by April 30, 2023.