



National Defence

Défense nationale

Deputy Minister

Sous-ministre

National Defence Headquarters
Ottawa, Ontario
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Quartier général de la Défense nationale
Ottawa, (Ontario)
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MAY 30 2019

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

Dear Mr. Sorenson,

As promised 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 its response to Recommendation 2, due 30 May 2019.

Sincerely,


Jody Thomas

Enclosures: 1

Canada 

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* provide 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.

In its report, *Public Accounts of Canada 2016*, the House Standing Committee on Public Accounts requested annual updates from National Defence on its progress in improving the recording and valuing of its inventory. The Department committed to submitting a one-page report within 60 days of fiscal year-end, starting in fiscal year 2017-18, summarizing its progress against its 2016 Action Plan commitments and the rationale for any delays.

National Defence has made significant progress over the last three years in implementing the 2016 Action Plan to help eliminate barriers to the accuracy of record-keeping and address wider institutional challenges. The Department delivered on all of the commitments identified in the Action Plan for 2016-17 and completed 17 of 23 commitments for 2017-18.

In fiscal year 2018-19, the Department delivered on all of its outstanding commitments for 2017-18, and completed 16 of the 17 commitments for 2018-19, exceeding its targets in stocktaking and stock verification. The annex contains details of National Defence's action against its commitments.

The remaining commitment was partially met by 31 March 2019 and will be completed in the coming fiscal year:

- **Inventory Management Modernization and Rationalization Project.** As of 31 March 2019, the Department has disposed of over 98% of all items identified as stagnant during the 2018-19 fiscal year. The actual number of items to be disposed against this commitment was larger than originally forecasted in 2016, due to continued system data cleaning and verification. Therefore, while the absolute number of items disposed has exceeded the original forecast, there still remains approximately 28,800 items requiring physical disposal. These remaining items will be disposed during fiscal year 2019-20.

As a result of these actions, the Department is now able to review all its inventory stock codes and monitor inventory prices. Moreover, the year-over-year trend analysis is ensuring stock-taking highlights areas requiring better support, thereby providing the Canadian Armed Forces with more certainty over the quantity and location of its materiel and enabling better support to operations.

National Defence remains committed to properly valuing and recording its inventory and fully completing its 2016 Action Plan. It looks forward to reporting to the Committee on further progress against its commitments for 2019-20.

ANNEX – 2018-19 IMPROVEMENTS IN INVENTORY MANAGEMENT

Governance		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Semi-annual progress update to Departmental Performance Measurement and Evaluation Committee	Completed	The mid-year progress update was presented to the Performance Measurement and Evaluation Committee on 5 November 2018.
Year-end progress update to Deputy Minister and Departmental Performance Measurement and Evaluation Committee	Completed	The year-end progress update was presented to the Performance Measurement and Evaluation Committee on 15 May 2019.

Automatic Identification Technology (AIT)		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Industry Engagement continues	Completed	Quotes to support costing were received from Industry in Fall 2018. The tender notice inviting Industry to identify interest has been extended to December 2019 as an expression of continued open dialogue.
Option Costing and Benefits Analysis Complete	Completed	Cost tables supporting the options analysis were finalized on 30 August 2018 and incorporated into the presentation to the Defence Capabilities Board on 23 October 2018.
Business Case Complete	Completed	The Business Case was endorsed at the Defence Capabilities Board on 23 October 2018.
Options Screening and Recommendation Complete	Completed	Options screening was completed and recommendation was endorsed at the Defence Capabilities Board on 23 October 2018.
Project Costing for Definition Phase Complete	Completed	Cost concurrence for the Definition Phase was obtained on 29 March 2019.
Definition Phase Plan Developed	Completed	The Definition Phase Plan was produced on 22 March 2019 and endorsed by the implementing organization on 5 April 2019.

ANNEX – 2018-19 IMPROVEMENTS IN INVENTORY MANAGEMENT

Enhanced Materiel Accountability*		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Stock verification at minimum of 10 sites	Completed	The Department exceeded its commitment and delivered stock verification at 40 sites.
Stocktaking at 24 sites	Completed	The Department exceeded its commitment and delivered stocktaking at 31 sites.
Year over Year trend Analysis	Completed	The Department continued its statistical year-over-year trend analysis to enable improved implementation of stocktaking and supply administration.
Mid / End Year results reporting	Completed	Mid-year results were reported to the Materiel Acquisition and Support Oversight Committee (MASOC) on 23 November 2018. Year-end results were reported to the Director General Materiel Systems and Supply Chain as of the end April and were provided secretarially to Governance in May 2019. MASOC will be formally briefed in June.

Inventory Management Modernization and Rationalization Project		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Complete disposal of all remaining materiel stagnated in disposal.	98% complete	In its initial 2016 Action Plan, National Defence estimated 1,562,537 items were required for disposal. During the course of the sub-project, as part of continued system data cleaning and verification, this quantity has grown to over 1.6 million items. At the end of fiscal year 2018-19, 1,597,133 items have been physically disposed, exceeding the original forecast, but representing only 98.2% completion of all items that need to be disposed. Disposal of the remaining 28,800 items will be completed in fiscal year 2019-20.

ANNEX – 2018-19 IMPROVEMENTS IN INVENTORY MANAGEMENT

Pricing Project		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Deliver standardized pricing progress for procurement forecasting and materiel	Completed	The standardized pricing process for procurement forecasting for materiel has been implemented and the policy became available in April 2019.
Deliver final standardized process to minimize use of unforecasted receipts for pricing	Completed	The policy has been amended, system changes have been implemented, and monitoring is now in place that will reduce over time the use of unforecasted receipts.

Pricing Legacy Data Clean-Up		
<i>Commitment</i>	<i>Status</i>	<i>Comments</i>
Validate and correct remaining inventory stock code prices in DRMIS as requested (approximately \$1B value)	Completed	By March 2019, the Department had completed the assessment of more than 350,000 stock codes, worth approximately \$6 billion.
Implement full, ongoing monitoring	Completed	The Department developed and delivered an ongoing monitoring program for consumable stock codes and continues to monitor ammunition stock codes.