



OCT 17 2016

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

Dear Mr. Sorenson:

Pursuant to Standing Order 109 of the House of Commons, we are pleased to present the official Government Response to the Standing Committee's Report on the "Public Accounts of Canada 2015," tabled on June 16th, 2016.

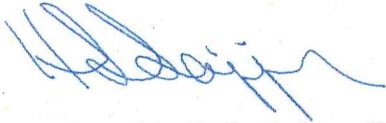
The Government remains committed to improving National Defence's inventory management to ensure the proper stewardship of public resources and support Canadian Armed Forces operational excellence. In this regard, National Defence appreciates the insight provided by the Standing Committee on Public Accounts.

The Government is also committed to ensuring that presentation of the Public Accounts of Canada is clear and accessible to all Canadians, and true to the principle of substantive equality in both official languages. As such, Public Services and Procurement Canada acknowledges the recommendation made in that regard by the Standing Committee on Public Accounts and will continue to improve the presentation of the Public Accounts of Canada.

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We thank you and the other Members of the Committee for your report and your continued commitment and service to Canadians.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Harjit Sajjan".

The Hon. Harjit S. Sajjan, PC, OMM, MSM, CD, MP
Minister of National Defence

A handwritten signature in blue ink, appearing to read "Judy M. Foote".

Hon. Judy M. Foote PC, MP
Minister of Public Services and
Procurement

c.c.: Michel Marcotte, Committee Clerk

**GOVERNMENT RESPONSE TO THE TWELFTH REPORT OF THE
STANDING COMMITTEE
ON PUBLIC ACCOUNTS, ENTITLED: *PUBLIC ACCOUNTS OF CANADA*
2015**

Recommendation 1: That, by 30 September 2016, the Department of National Defence provide the House of Commons Standing Committee on Public Accounts with a report outlining the concrete actions that it will take to properly record and value its inventory. This report should also provide the timeline for each of these actions.

The Government of Canada remains committed to continually ensuring the effective stewardship of public resources in line with Canadians' expectations, and to supporting the Canadian Armed Forces' operational excellence.

To this end, National Defence has adopted a deliberate, integrated and systematic approach to improve its inventory management practices that builds on progress achieved while continuing to support operations of the Canadian Armed Forces.

National Defence manages more than 445,000 different inventory stock codes representing a volume of over 640 million individual items in hundreds of domestic and world-wide locations managed by thousands of part-time and full-time people comprised of military, civilian, and contract staff.

National Defence functions in a dynamic environment supporting operations domestically and around the world. It must be ready to respond to urgent and emerging requirements including international operations, disaster response and humanitarian relief. Like industry, the management of its inventory requires a complex set of decisions and the coordination of competing requirements in an attempt to balance the commitments and expectations of sound stewardship, value for money and program delivery. National Defence, however, is an operator, not a retailer. Unlike industry, which buys to sell, National Defence buys to hold and support the posture and readiness of the Canadian Armed Forces. National Defence's acquisition of materiel and supplies requires long lead time and results in high volume of inventory that is geographically dispersed around the world, and sometimes held and managed in the poorest of conditions, such as in operational theatres abroad.

In the 2012-13 Government Response to PACP's Report on Public Accounts of Canada 2012, National Defence reported several new or ongoing initiatives that were designed in an integrated manner to address repeated Auditor General observations on recording of inventory. Continued progress on the

previously reported, as well as additional initiatives will significantly enhance systemic improvements on proper recording and valuation of inventory.

The Defence Resource Management Information System (DRMIS) is the corporate system of record for financial, materiel, and realty assets for the department. This is the cornerstone of corporate management as it is supported by a team of professional staff, and deployed where necessary on bases/wings, ships, and missions abroad. National Defence has a rolling five-year integrated roadmap and governance plan for DRMIS, as well as the rationalizing of legacy applications of feeder systems.

The following initiatives represent concrete actions that National Defence is taking to better address its cited challenges in inventory management. The table below illustrates which inventory recording criteria these projects address, and the targets of each. As National Defence is a large and complex organization, these projects are multi-year in nature, and do intersect at different stages in their life cycles. Moreover, there are other factors involved, such as the complexity of the National Defence enterprise, IM/IT requirements and availability of skilled personnel resources.

Initiatives	Price	Quantity	Condition	Location	Planned Project Time Line
Strategic Initiatives					
Governance	X	X	X	X	Ongoing
Automatic Identification Technology		X	X	X	Ongoing to 2026-27
Projects					
Enhanced Materiel Accountability	X	X	X	X	2012-2020
Inventory Management Modernization and Rationalization Project		X	X		2014-2020
Pricing Project	X				2015-2020
Pricing –Legacy Data Clean Up	X				2016-2019

Strategic Initiatives

Governance

While Defence has implemented robust governance, this governance has been managed by functional authorities. Moving forward and beginning in 2016-17, 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.

Automatic Identification Technology (AIT)

AIT will acquire and incorporate asset visibility technology (asset marking and reading technology) with business process modernization and data integration into DRMIS. This project will specifically address quantity, location and condition recording by improving real-time asset visibility, inventory valuation, and materiel security leading to improved accuracy of inventory data. This long-term project is currently in its options analysis and its definition phase is expected to be completed during fiscal year 2020-21. End state is expected to be achieved in 2026-27 when automated technology is fully implemented and real time inventory accuracy is sustained through modernized business processes.

Projects

Enhanced Materiel Accountability

This initiative addresses inventory quantity, condition, location and price. Complementing improved unit level stocktakings, the National Stocktaking project (NSP) will continue to augment stocktaking activities across Canada and conduct stock verification activities (since its inception in 2012, the NSP has completed stocktaking of over \$4 billion of materiel at warehouses across Canada). The Materiel Accountability Action Plans (MAAPs), implemented across the nine largest departmental materiel custodians and users, will continue to mature and institutionalize proper inventory management practices, accountability and discipline. Reporting and business intelligence capabilities within DRMIS will continue to be developed and matured. This initiative will systematically improve and institutionalize sound inventory management practices with a corresponding improvement in system of record data accuracy.

Over the coming fiscal years and up to 2019-20, this initiative will deliver critical reporting and business analytics capabilities in DRMIS on an annual basis to enable more effective inventory management, at the unit and national level,

and improve departmental oversight. Further, it will continue to deliver stock-taking activities at 24 sites, and stock verification activities across a minimum of 10 accounts per year, representing an aggregate \$1 billion of materiel reviewed annually. During fiscal year 2017-18, the initiative will also commence delivery of year-over-year trend analysis of materiel holdings accuracy for National Defence and individual departmental organizations.

Inventory Management Modernization and Rationalization Project (IMMRP)

This project addresses quantity and condition, and follows a deliberate plan to identify and rationalize holdings of materiel, eliminate material no longer required, and reflect changes in the system of record. In parallel, it also modernizes business processes, policy and training and integrates into DRMIS to sustain and institutionalize results. In the context of IMMRP, rationalization of centrally managed stock codes has identified 1.6 million items that had stagnated in disposal, of which 487,000 (29%) have been disposed of to date. The accompanying disposal policy and training have been modernized and developed to ensure enduring progress. Further, analysis continues to rationalize repairable materiel. This project's end state will be achieved in 2019-20 when all dormant materiel identified has been reviewed and rationalized for either disposal or retention, and the associated policy and training suites modernized to effect improvements in efficiency and sound stewardship of materiel. Specific objectives for the coming fiscal years include the following:

Fiscal year 2016-17:

- Dispose of 200,000 additional materiel items previously identified as stagnated disposal.
- Implement modernized disposal policy and training suites.

Fiscal year 2017-18:

- Dispose of 500,000 additional materiel items identified as stagnated disposal.
- Complete rationalization analysis of remaining materiel assessed as no longer required.

Fiscal year 2018-19:

- Continue disposal of remaining rationalized materiel assessed as no longer required.

Fiscal year 2019-20:

- Complete disposal for all remaining materiel assessed as no longer required.

Pricing Project

This project specifically addresses valuation by the improvement and standardization of pricing processes. It will complete a full review of materiel pricing processes and data, implement changes to policies, procedures and IM/IT systems, update course training packages, and provide clearly defined processes, internal controls, and roles and responsibilities. The project will significantly reduce classification and pricing errors in DRMIS. It will deliver integrated full pricing and business process integration in DRMIS supported by updated policies, procedures and training suites. Specific objectives for the coming fiscal years include the following:

Fiscal year 2016-17:

- Minimize use of unforecasted receipts for pricing.

Fiscal year 2017-18:

- Deliver standardized processes for Kitting and replacement cost pricing.

Fiscal year 2018-19:

- Deliver standardized pricing process for procurement forecasting of materiel.

Fiscal year 2019-20:

- Deliver standardized pricing process for bulk acquisition of spares.

Legacy Data Clean Up

This project will specifically address valuation by the identification and correction of existing pricing inaccuracies. This initiative will analyze current price anomalies utilizing an automated methodology along with a manual verification of stock codes. It will target inaccurate transactions and amend pricing records to reflect current and accurate data. The end state will be achieved in 2018-19 when all stock codes have an accurate price recorded in DRMIS. Specific objectives for the coming fiscal years include the following:

Fiscal year 2016-17:

- Develop methodology and verify using pilot data.
- Validate and correct ammunition stock code prices in DRMIS as required.

Fiscal year 2017-18:

- Identify high risk and high value stock codes as per the developed methodology, as well as Validate and correct prices in DRMIS as required.

Fiscal year 2018-19:

- Validate and correct remaining stock code prices in DRMIS as required.
- Monitor previous pricing corrections.

Recommendation 2: That, beginning with the 2015-2016 fiscal year, the Department of Public Services and Procurement Canada align the section numbering of the English and French versions of Volume II of the Public Accounts of Canada.

Section 8 of the *Official Languages Act (OL)* states that all documents tabled in the Senate or the House of Commons by the Government of Canada must be tabled in both official languages. The Public Accounts is one of those documents.

Section 13 of the *OL* also provides that such documents must be tabled in both official languages simultaneously, and that both versions are equally authoritative. This is an illustration of the broader principle of substantive equality of both official languages in Parliament.

The implementation of Recommendation 2 from the Standing Committee on Public Accounts' Twelfth Report would favour one official language over the other. Aligning the section numbering of the English and French versions of Volume II of the Public Accounts of Canada would result in information being presented in alphabetical order in one language, but not in the other. This would therefore not be in the spirit of the principles outlined in the *OL*.

Alternatively, the Government proposes that the Table of Contents of both English and French hard copy versions of Volume II be amended to display the corresponding section number and Ministry name of the version in the other language.

For the English and French versions of Volume II published on the Receiver General's website, a hyperlink will continue to be provided to enable readers to easily switch back and forth between English and French.