

Standing Committee on Public Accounts (PACP)

**Spring 2020 Reports of the  
Auditor General**

**Report 3: Supplying the Canadian Armed Forces**



**Appearance by**

**Jody Thomas, Deputy Minister**

**Troy Crosby, Assistant Deputy Minister (Materiel)**

**MGen Trevor Cadieu, Director of Staff, Strategic Joint Staff**

**19 November 2020**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS  
SUPPLYING THE CANADIAN ARMED FORCES**

**APPEARANCE DETAILS**

**DATE:** Thursday, 19 November 2020

**LOCATION:** Richard Malone Multimedia Centre, NDHQ

**PLATFORM:** Videoconference – Zoom

**TIME:** 11:00 a.m. to 1:00 p.m.

**WITNESSES:** **Jody Thomas**  
Deputy Minister

**Troy Crosby**  
Assistant Deputy Minister (Materiel)

**MGen Trevor Cadieu**  
Director of Staff, Strategic Joint Staff



Appearance before:

**House Standing Committee on Public Accounts**

**SPRING 2020 REPORTS OF THE AUDITOR GENERAL  
REPORT 3: SUPPLYING THE CANADIAN ARMED FORCES**

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## STANDING COMMITTEE ON PUBLIC ACCOUNTS (PACP) 43<sup>RD</sup> PARLIAMENT, 2<sup>ND</sup> SESSION

	<b>KELLY BLOCK</b> <i>Chair</i> CPC – Carlton Trail – Eagle Creek (SK)
	<ul style="list-style-type: none"> <li>• Critic: PSPC (2019 – 2020)</li> <li>• Critic: Transport (2015 – 2019)</li> <li>• Chair: PACP (18 August 2020 – present)</li> <li>• Member: OGGO (05 Feb 2020 – 18 Aug 2020)</li> </ul>
<b>Key Interests:</b> Op IMPACT, NSICOP	

	<b>LLOYD LONGFIELD</b> <i>Vice Chair</i> LPC – Guelph (ON) <ul style="list-style-type: none"> <li>• Vice Chair: PACP (05 Feb 2020 – present)</li> <li>• Member: ENVI (05 Feb 2020 – present)</li> <li>• Member: INDU (2016 – 2019)</li> </ul> <b>Key Interests:</b> Op IMPACT; military justice system; participated in CAF Parliamentary Program; Bill C-77; increased funding to the CBC		<b>MAXIME BLANCHETTE-JONCAS</b> <i>Vice Chair</i> BQ – Rimouski-Neigette-Témiscouata-Les Basques (QC) <ul style="list-style-type: none"> <li>• Critic: Public Accounts (2019 – present)</li> <li>• Vice Chair: PACP (25 Feb 2020 – present)</li> </ul> <b>Key Interests:</b> no defence-related interests identified
	<b>MATTHEW GREEN</b> NDP – Hamilton Centre (ON) <ul style="list-style-type: none"> <li>• Critic: National Revenue, Treasury Board, PSPC (2019 – present)</li> <li>• Member: PACP (05 Feb 2020 – present)</li> <li>• Member: OGGO (05 Feb 2020 – present)</li> </ul> <b>Key Interests:</b> Diversity & civic inclusion; pension protection; affordable housing; environment protection; sponsored e-petition to ban use of tear gas by police & CAF		<b>KODY BLOIS</b> LPC – Kings-Hants (NS) <ul style="list-style-type: none"> <li>• Member: PACP (05 Feb 2020 – present)</li> <li>• Member: AGRI (05 2020 – present)</li> </ul> <b>Key Interests:</b> no defence-related interests identified
	<b>GREG FERGUS</b> LPC – Hull-Aylmer (QC) <ul style="list-style-type: none"> <li>• Parl. Sec: President of the Treasury Board (2019 – present)</li> <li>• Par. Sec: Minister of Digital Government (2019 – present)</li> <li>• Member: PACP (2019 – present)</li> <li>• Member: ETHI (2020 – present)</li> </ul> <b>Key Interests:</b> Made in Canada procurement; Op IMPACT; Aircraft maintenance and repairs		<b>FRANCESCO SOBARA</b> LPC – Vaughan-Woodbridge (ON) <ul style="list-style-type: none"> <li>• Parl. Sec: Minister of National Revenue (2019 – present)</li> <li>• Member: PACP (2020 – present)</li> <li>• Member: ETHI (06 Oct 2020 – present)</li> <li>• Former Member: FINA (2016 – 2019)</li> </ul> <b>Key Interests:</b> Veterans; Op IMPACT; Bill C-47; Military Family Resource Centres

	<p><b>JEAN YIP</b></p> <p>LPC – Scarborough-Agincourt (ON)</p> <ul style="list-style-type: none"> <li>• Member: PACP (2020 – present)</li> <li>• Member: Special Committee on Canada-China Relations (2020 – present)</li> <li>• Former Member: OGGO (2018 – 2019)</li> </ul> <p><b>Key Interests:</b> Military justice; pilots; Op HONOUR; hiring Veterans into the public service</p>		<p><b>LUC BERTHOLD</b></p> <p>CPC – Mégantic-L'Érable (QC)</p> <ul style="list-style-type: none"> <li>• Critic: Treasury Board (2020 – present)</li> <li>• Former Associate Critic: Treasury Board (2015 – 2017)</li> <li>• Member: PACP (06 Oct 2020 – present)</li> </ul> <p><b>Key Interests:</b> Fighter jets; Op IMPACT; CAF compensation</p>
	<p><b>PHILIP LAWRENCE</b></p> <p>CPC – Northumberland-Peterborough South (ON)</p> <ul style="list-style-type: none"> <li>• Critic: National Revenue (2020 – present)</li> <li>• Member: PACP (06 Oct 2020 – present)</li> </ul> <p><b>Key Interests:</b> <i>no defence-related interests identified</i></p>		<p><b>LEN WEBBER</b></p> <p>CPC – Calgary Confederation (AB)</p> <ul style="list-style-type: none"> <li>• Former Deputy Critic: Health (2018 – 2020)</li> <li>• Member: PACP (06 Oct 2020 – present)</li> <li>• Former member: HESA (2016 – 18 Aug 2020)</li> <li>• Former Vice-Chair: HESA (2016 – 2017)</li> </ul> <p><b>Key Interests:</b> Post-traumatic stress disorder among CAF members and first responders (Bill C-211)</p>

# **KELLY BLOCK**

## **(CARLTON TRAIL—EAGLE CREEK, SK) - CPC**



### **ELECTION TO HOUSE OF COMMONS**

- First elected in 2008, re-elected in 2011, 2015, 2019

### **PROFESSIONAL BACKGROUND**

- Public servant, elected official in municipal politics (Waldheim's first female Mayor)
- Chair of Gabriel Springs Health District, Member of the Saskatoon Regional Health Authority and the Director of Administration at Forest Grove Community Church

### **POLITICAL AND PARLIAMENTARY ROLES**

- Critic for Public Services and Procurement (2019 – 2020)
- Critic for Transport (2015 – 2019)
- Former Parliamentary Secretary to the Minister of Natural Resources (2013 – 2015)

### **COMMITTEE MEMBERSHIP**

- Chair of the Standing Committee on Public Accounts (15 Oct 2020 – present)
- Member of the Standing Committee on Government Operations and Estimates (05 Feb 2020 – 18 Aug 2020)
- Vice-Chair of the Standing Committee on Transport, Infrastructure and Communities (2017 – 2019)
- Former member of the Standing Committees on Natural Resources (2013 – 2015); Government Operations and Estimates (2011 – 2013)
- Former member of the Special Committee on Violence Against Indigenous Women (2011 – 2014)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Op IMPACT
  - NSICOP
- Believes Canada's NATO allies will have to pick up the slack for the withdrawal of fighter aircraft
- Urged members to support the amendment brought forth by the Leader of the Opposition to reverse the decision to withdraw CF-18s
- Has been critical in the House of bill C-22, the structure of NSICOP, and the level of oversight the committee has, calling it a "PMO working group" rather than a parliamentary oversight committee

### **OTHER INTERESTS**

- Pipelines and oil/gas issues
- Carbon pricing
- First Nations issues
- Was named a runner-up to the Macleans Rookie of the Year in its Parliamentarian of the Year Awards and in 2010 was given the Rising Star Award
- Aerospace industry
- In Committee discussions on Bill C-64, asked about: boat registration; whether witnesses wanted to suggest amendments to the bill; existing regulations on abandoned vehicles

### **CAF BASES/WINGS IN RIDING**

- Nil



## **LLOYD LONGFIELD** **(GUELPH, ON) - LPC**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2015, re-elected in 2019

### **PROFESSIONAL BACKGROUND**

- Business owner (hydraulic and pneumatic automation)
- Former President of the Guelph Chamber of Commerce

### **POLITICAL AND PARLIAMENTARY ROLES**

- Former Executive Member of the Canada-Italy Interparliamentary Group
- Former Member of the Canada-Israel Interparliamentary Group

### **COMMITTEE MEMBERSHIP**

- Vice Chair of the Standing Committee on Public Accounts (05 Feb 2020 – present)
- Member of the Standing Committee on Environment and Sustainable Development (05 Feb 2020 – present)
- Former member of the Standing Committee on Industry, Science and Technology (2016 – 2019); on Agriculture and Agri-Food (2016 – 2019)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Op IMPACT
  - Military justice system
  - CAF Parliamentary Program
- During debate on the refocus of Op IMPACT (Feb 2016), asserted that success should not be measures by the number of airstrikes, but the defeat of ISIL and the establishment of civil society in Iraq and Syria
- During debate on Bill C-77, spoke to the importance of the Indigenous sentencing provision
- Participated in a CANSOFCOM high-speed navigation exercise in Nov 2017, as part of the CAF Parliamentary Program

### **OTHER INTERESTS**

- Increased funding to the CBC
- Stopping the phase-out of door-to-door delivery
- Food security

### **CAF BASES/WINGS IN RIDING**

- Nil



## **MAXIME BLANCHETTE-JONCAS** **(RIMOUSKI – NEIGETTES – TÉMISCOUATA – LES BASQUES, QC) - BQ**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2019

### **PROFESSIONAL BACKGROUND**

- Deputy Director General for the municipality of L'Isle-Verte
- Administrative Officer at the Business Development Bank of Canada
- Involved as regional president of the Bloc Québécois Youth Forum and the Parti Québécois Youth Council

### **POLITICAL AND PARLIAMENTARY ROLES**

- Critic for Public Accounts, St. Lawrence Seaway, and Tourism (2019 – present)

### **COMMITTEE MEMBERSHIP**

- Vice Chair of the Standing Committee on Public Accounts (25 Feb 2020 – present)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Nil

### **OTHER INTERESTS**

- Nil

### **CAF BASES/WINGS IN RIDING**

- Nil

## **MATTHEW GREEN** **(HAMILTON CENTRE, ON) - NDP**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2019

### **PROFESSIONAL BACKGROUND**

- Former City Councillor for Hamilton Centre

### **POLITICAL AND PARLIAMENTARY ROLES**

- Critic for National Revenue, Public Services and Procurement, and Treasury Board (2019 – present)
- Deputy Critic for Ethics (2019 – present)

### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (05 Feb 2020 – present)
- Member of the Standing Committee on Government Operations and Estimates (05 Feb 2020 – present)

### **POINTS OF INTEREST TO DND/CAF**

- Nil
- Sponsored e-petition 2656 calling upon the House of Commons to ban the use of tear gas in all its forms in Canada, destroy the stocks of tear gas currently owned by the police and armed forces in Canada.

### **OTHER INTERESTS**

- Diversity and civic inclusion
- Pension protection
- Affordable housing
- Environment protection

### **CAF BASES/WINGS IN RIDING**

- Nil

## **KODY BLOIS**

### **(KINGS – HANTS, NS) - LPC**



#### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2019

#### **PROFESSIONAL BACKGROUND**

- Completed degrees in commerce, law, and public administration
- Hockey and softball coach
- Launched the East Hants Sport Heritage Society and the Come Home East Hants Association

#### **POLITICAL AND PARLIAMENTARY ROLES**

- Member of Canadian NATO Parliamentary Association (2020 – present)

#### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (05 Feb 2020 – present)
- Member of the Standing Committee on Agriculture and Agri-Food (05 Feb 2020 – present)

#### **POINTS OF INTEREST TO DND/CAF**

- Nil

#### **OTHER INTERESTS**

- Nil

#### **CAF BASES/WINGS IN RIDING**

- Nil

## **GREG FERGUS**

### **(HULL – AYLMER, QC) - LPC**



#### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2015, re-elected in 2019

#### **PROFESSIONAL BACKGROUND**

- Former policy advisor to past Cabinet Ministers
- Former National Director of the Liberal Party of Canada
- Worked in the private sector and in academia

#### **POLITICAL AND PARLIAMENTARY ROLES**

- Parliamentary Secretary to the President of the Treasury Board and to the Minister of Digital Government (2019 – Present)
- Former Parliamentary Secretary to the Minister of Innovation, Science and Economic Development (2015 – 2017)
- Former Vice-Chair of the Canada-Africa Parliamentary Association
- Former member of ten other Parliamentary associations, including the Canada-China Legislative Association; Canada-Israel Interparliamentary Group; Canada-United Kingdom Inter-Parliamentary Association; and Canadian NATO Parliamentary Association (NATO PA)

#### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (2019 – present)
- Member of the Standing Committee on Access to Information, Privacy, and Ethics (2020 – present)
- Former member of the Standing Committee on Finance (2017 – 2019)
- Former Non-voting member of the Standing Committee on Government Operations and Estimates (2019)

#### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Made in Canada procurement
  - Op IMPACT
  - Aircraft maintenance and repairs
- During Committee of the Whole (2016), spoke in favour of the Government's plans for military procurement, including the current strategy to buy ships openly and transparently in Canada
- Questioned Opposition members on the perception that withdrawing the CF-18s made the CAF contribution to the campaign against ISIL less valuable
- Assured that the Government is committed to ensuring that the replacement of the National Defence large tugboats will result in significant benefits for Canadians and Canadian industry

#### **OTHER INTERESTS**

- Interprovincial relations and trade
- Advocate for seeking remedies for Canadians with a criminal record related to the possession of cannabis

#### **CAF BASES/WINGS IN RIDING**

- Nil

## **FRANCESCO SORBARA** **(VAUGHAN — WOODBRIDGE, ON) -LPC**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2015; re-elected in 2019

### **PROFESSIONAL BACKGROUND**

- Business professional (Corporate Bond Research Analyst with Scotiabank)

### **POLITICAL AND PARLIAMENTARY ROLES**

- Parliamentary Secretary to the Minister of National Revenue (2019 – present)
- Chair of the Canada-Italy Interparliamentary Group
- Vice-Chair of the Canada-United States Inter-Parliamentary Group and the Canada-Europe Parliamentary Association
- Executive member of the Canada-Ireland Interparliamentary Group and the Canada-United Kingdom Inter-Parliamentary Association
- Member of the Canadian NATO Parliamentary Association

### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (05 Feb 2020 – present)
- Member of the Standing Committee on Access to Information, Privacy, and Ethics (06 Oct 2020 – present)
- Member of the Standing Committee on Finance (2016 – 2019)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Veterans
  - Bill C-47
  - Op IMPACT
- Has inquired in Committee about compensation for veterans and about veterans' reintegration into civil society; spoke in favour of the affordable housing strategy, explaining it would be an additional step to better support veterans
- Supports the Government's arms control legislation, noting that it will not affect domestic ownership of firearms in Canada
- During the debate on the refocus of Op IMPACT, lauded the CAF and its members, urging others to donate to Military Family Resource Centres across Canada and various organizations that support the CAF

### **OTHER INTERESTS**

- Parents immigrated to Canada
- Supports increased infrastructure spending in cities
- Active volunteer in his community, including with the United Way, homeless, and at-risk youth

### **CAF BASES/WINGS IN RIDING**

- Nil

## **JEAN YIP** **(SCARBOROUGH - AGINCOURT, ON) - LPC**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in a 2017 by-election; re-elected in 2019

### **PROFESSIONAL BACKGROUND**

- Worked in the Insurance & Underwriting field
- Teaches Sunday school at her church
- Involved in the STEM Fellowship Board of Directors and the Parliamentary Spouse Association
- Yip is the widow of her predecessor Arnold Chan

### **POLITICAL AND PARLIAMENTARY ROLES**

- Member of several Parliamentary Associations and Inter-Parliamentary Groups, including the Canada-China Legislative Association.

### **COMMITTEE MEMBERSHIP**

- Member of the Special Committee on Canada – China Relations (2020 – present)
- Member of the Standing Committee on Public Accounts (2018 – present)
- Former member of the Standing Committee on Government Operations and Estimates (2018 – 2019)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Military justice
  - Pilots
  - Operation HONOUR
  - Hiring Veterans into the public service
- Was interested in the timeline for the Judge Advocate General's review of the military justice system
- Has asked questions in Committee about the budget to retain pilots and technicians, upgrading their training, and increasing maintenance hours; financial barriers to programs for pilots; recruitment of pilots
- In terms of Operation HONOUR progress, asked questions about data collection and culture change
- In Committee, asked veterans questions about their experiences in applying for jobs after leaving the CAF, how they received government assistance when transitioning out of the CAF and applying for jobs in the public service, and whether the Veterans Ombudsman or advocacy groups were of any assistance

### **OTHER INTERESTS**

- Nil

### **CAF BASES/WINGS IN RIDING**

- Nil

## **LUC BERTHOLD** **(MÉGANTIC—L'ÉRABLE, QC) - CPC**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2015, re-elected in 2019

### **PROFESSIONAL BACKGROUND**

- Mayor of Thetford Mines (2006-2013)
- Political aide
- Editor in Chief of 'Courrier Frontenac'
- Journalist at CKLD radio
- Attended the Collège militaire royal de Saint-Jean as a cadet

### **POLITICAL AND PARLIAMENTARY ROLES**

- Critic for Treasury Board (2020 – present)
- Critic for Infrastructure and Communities (2019 – 2020)
- Critic for Agriculture and Agri-Food (2017-2019)
- Executive Member of the Canada-Europe Parliamentary Association, Member of the Canadian Delegation to the Organization for Security and Co-operation in Europe Parliamentary Assembly, Member of the Canadian NATO Parliamentary Association

### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (15 Oct 2020 – present)
- Member of the Standing Committee on Transport, Infrastructure and Communities (05 Feb 2020 – 18 Aug 2020)
- Vice-Chair of the Standing Committee on Agriculture and Agri-food (2017-2019)
- Vice-Chair of the Standing Committee on Transport, Infrastructure and Communities (2016-2017)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Fighter jets
  - The Minister of National Defence
  - Canadian Armed Forces compensation
  - Op IMPACT
- Is interested in the procurement of new jets and argues that the Government attempted to create a false 'capability gap' in order to purchase Super Hornets without an open bidding process
- In the House, criticized the Minister for 'taking credit for a victory that was not necessarily his own' in Afghanistan and called on him to resign
- Argued that the Government should not reduce or eliminate the danger pay benefits to CAF members deployed in Iraq and Kuwait
- In the House, criticized the government's decision to withdraw CF-18s

### **OTHER INTERESTS**

- Dairy industry, farmers, supply management, agriculture, trade agreements, railway safety
- Impact of Canada-China relations on Canadian agriculture sector (e.g. pork and canola)

### **CAF BASES/WINGS IN RIDING**

- Nil



# **PHILIP LAWRENCE**

## **(NORTHUMBERLAND-PETERBOROUGH SOUTH, ON) - CPC**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2019

### **PROFESSIONAL BACKGROUND**

- Started his practice in law with a focus on taxation and corporations
- Bachelor of Arts Degree in Political Science from Brock University
- Law Degree from Osgoode Hall Law School
- MBA from Schulich School of Business
- A member of the Newcastle Lions Club
- Director in the Northumberland-Peterborough South Conservative riding association

### **POLITICAL AND PARLIAMENTARY ROLES**

- Critic for National Revenue (2020 – present)

### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (06 Oct 2020 – present)
- Member of the Standing Committee on Justice and Human Rights (05 Feb 2020 – 18 Aug 2020)

### **POINTS OF INTEREST TO DND/CAF**

- Priority interests:
  - Nil

### **OTHER INTERESTS**

- Nil

### **CAF BASES/WINGS IN RIDING**

- Nil

# **LEN WEBBER**

## **(CALGARY CONFEDERATION, AB) - CPC**



### **ELECTION TO HOUSE OF COMMONS**

- Elected in 2015, re-elected 2019

### **PROFESSIONAL BACKGROUND**

- Former Member of the Legislative Assembly of Alberta (2003 – 2014)
- Electrician
- Business owner (contracting company)
- Former Vice-President and Director of the Webber Academy, a private, non-profit university preparatory school in Calgary founded by his father, Neil Webber

### **POLITICAL AND PARLIAMENTARY ROLES**

- Former Deputy Critic for Health (2018 – 2020)

### **COMMITTEE MEMBERSHIP**

- Member of the Standing Committee on Public Accounts (06 Oct 2020 – present)
- Former member of the Standing Committee on Health (2016 – 18 Aug 2020); Vice-Chair (2016 – 2017)
- Former member of the Subcommittee on Sports-Related Concussions (2019)

### **POINTS OF INTEREST TO DND/CAF**

- Priority Interests:
  - Post-traumatic stress disorder
- In Committee study of Bill C-211 (*An Act respecting a federal framework on post-traumatic stress disorder*), spoke about the importance of ensuring that military members and first responders receive training on the traumatic events they might experience as part of their jobs, and be proactive in preparing them for the possibility that they develop PTSD

### **OTHER INTERESTS**

- Healthcare issues, including organ donation, palliative care, and healthcare professionals
- Volunteers for several health-related causes and organizations in his community, including Hospice Calgary, the MS Society, and the Alberta Alcohol and Drug Abuse Commission
- Interested in breast cancer awareness and research
- Recipient of the Queen Elizabeth II Diamond Jubilee Medal

### **CAF BASES/WINGS IN RIDING**

- Nil

# Opening Statement to the Public Accounts Committee on the 2020 Spring Reports of the Auditor General of Canada: Report 3—Supplying the Canadian Armed Forces

Remarks for Deputy Minister of National Defence Jody Thomas

19 November 2020

*(Please check against delivery.)*

## **INTRODUCTION**

Good morning,

Thank you for inviting us to discuss the findings of the Auditor General's report: *Supplying the Canadian Armed Forces*.

I would like to thank the Auditor General for looking into the issue, and for her three recommendations. National Defence agrees with all of them.

Supplying our troops is a Defence Team effort and today I am joined by:

- Major-General Trevor Cadieu, Director of Staff for the Strategic Joint Staff; and
- Mr. Troy Crosby, Assistant Deputy Minister (Materiel) for the Department of National Defence.

## ***STRONG, SECURE, ENGAGED***

A fundamental part of our defence policy, *Strong, Secure, Engaged*, is ensuring our people in uniform have the right equipment to do the challenging work our country asks of them.

A strong supply chain is critical to that outcome.

And as COVID-19 has reinforced for all of us, a robust, effective supply chain is a strategic enabler for the Government of Canada and—in a national crisis—is a critical lifeline. The lack of one is a strategic risk.

More than that, a strong supply chain needs continuous oversight and evaluation, as does any critical capability across all military environments of land, air, sea and cyber.

## **IMPROVED GOVERNANCE**

That is why in 2019, the Chief of Defence Staff and I gave joint direction to establish a strategic supply chain governance committee within National Defence. It is overseen by Mr. Crosby and MGen Cadieu, ensuring a collaborative and fully engaged approach.

The committee also ensures that National Defence has oversight and accountability for the over-arching direction of supply chain management.

It's important to understand that the updates I am giving today fit firmly within a much larger strategic approach to supply chain management currently underway within DND/CAF.

## **NOT A QUICK FIX**

As the committee is well aware, supply chain challenges have been a matter that National Defence has been wrestling with for many years. And there's been progress.

In fact, since we tabled our inventory management action plan in 2016, the Auditor General has positively highlighted our progress in implementing the progress on time, every year, as part of the public accounts audit.

We have a lot more work to do. Meaningful change takes time, particularly when addressing deficiencies that have built up over decades.

And while the challenges identified are real, you can be confident that we always, always ensure that our CAF members in active operations have what they need to do their jobs.

## **ADDRESSING THE REPORT**

To the report itself, we agree National Defence must have the right material in place at the right time, and appropriate metrics in place to monitor whether stock levels are sufficient.

We began two comprehensive reviews this summer to help address our materiel planning and forecasting challenges.

One review will look at improving our inventory availability benchmarks. Doing so will give us a better indication of the health of our supply chain operating environment.

The second review is a more sizeable project.

At a high level, the end-goal is to create standardized processes and leverage advanced tools in support of material planning and forecasting across the Materiel Group.

Both reviews will be completed by June 2022 and will include an implementation plan.

## **HIGH PRIORITY REQUESTS AND COMMUNICATING TRANSPORTATION COSTS**

We are also in the process of ensuring that high-priority requests are only made when necessary, and that these classifications are justified.

First, we are reinforcing policy guidelines on how to properly classify requests with responsible personnel at our wings, bases, and commands.

Changing behaviour is as difficult as changing systems. This is an area of specific focus.

At the same time, we have begun a thorough assessment of how to reimagine the freight distribution system to improve efficiency and optimize costs.

In February 2020, National Defence awarded a contract to Price Waterhouse Coopers Canada to identify potential options to modernize our supply chain network design. I note that a review of this scale has not been undertaken since early 2000.

We are currently evaluating their initial recommendations.

As we gain an understanding of how we can improve our systems, we will revise and clearly communicate guidance on costs and selecting shipping methods to our personnel.

Our goal is that improvements to the distribution system will be complete by April 2024, paying particular attention to performance measurement and oversight.

## **CONCLUSION**

This entire effort will be a multi-year process, but we are committed to getting it right so that our system is efficient and ready to support the Canadian Armed Forces.

Thank you, and we would be very pleased to take your questions.

## Audit Scope, Recommendations, and Key Findings

### Scope

- Whether National Defence supplies the CAF with the materiel they need, when they need it.
  - If National Defence provided materiel in timely manner while avoiding needless transportation costs
  - Audit scope consisted of materiel requests made and fulfilled between 1 April 2017 and 31 March 2019.
- Materiel included: tools, spare parts, uniforms, specialized clothing, rations
- Materiel excluded: aircraft, vessels, vehicles, ammunition, bombs, missiles

### Key Recommendations

- National Defence should review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations. It should also review its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met.
- National Defence should improve its oversight of high-priority requests to ensure that such requests are only used when necessary.
- National Defence should communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure that decisions are founded on a full understanding of costs.

### Key Findings

- Poor supply chain management prevented National Defence from supplying the CAF with materiel when it was needed.
  - Poor stock management, late delivery
    - National defence did not adequately forecast needs to materiel to position it appropriately. This can impede CAF ability to conduct training operations as scheduled, be efficient in missions and operations, act quickly to respond to emerging situations
  - Spare parts, uniforms, rations were delivered later than requested half the time
    - 50% at least 15 days late, 25% at least 40 days late
    - High priority: 50% at least 6 days late, 25% at least 20 days late



- There is a backlog of 162,000 requests that were more than 1 year late
- The delays are frequently due to stock shortages
- When stock is unavailable, materiel is located elsewhere and transported to the right location, adding additional steps and delays
- One third (34%) of ~1 million requests were rerouted
  - This resulted in increased use of commercial transportation, which is often more costly
  - No rigorous controls exist to manage transportation costs
  - When requests did not follow established supply chain structure, commercial transportation was used three times more frequently
- A large portion of materiel requests were submitted as high priority without justification
  - This put an excessive burden on supply chain and resulted in extra costs
  - National Defence did not have performance indicators to measure whether or not materiel was stocked at the right warehouses, and whether warehouses had sufficient stock to meet the needs of military bases and units
  - The result was uncertainties and delays in supply chain, preventing the most efficient use of resources
  - National Defence could not justify the high-priority status of 67% of the reviewed requests
- Inadequate control over transportation costs
  - National Defence requires that costs be considered when selecting transportation method. Manuals note that “premium transportation” can be used to respect the delivery date of high-priority request
  - However, National Defence’s information system does not include the costs of all available modes of transportation. It includes costs commercial shipments, but not National Defence fleets.
  - A lack of clear criteria and full cost disclosure for staff to make authorize shipment methods and make well-informed decisions. It also prevents National Defence from reporting on transportation costs

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**REPORT 3: SUPPLYING THE CANADIAN ARMED FORCES**

**MEDIA/PARLIAMENTARY SCAN**

<b>Minister of National Defence</b>		
<b>Theme</b>	<b>Outlet/ Date</b>	<b>Quote</b>
<b>OAG report on Supplying the CAF</b>	Office of the Auditor General of Canada (08 July 2020)	"National Defence's supply chain for the Canadian Armed Forces delivers late 50% of the time."
<b>OAG report on Supplying the CAF</b>	iPolitics (08 July 2020)	<p>One of the focal points of Strong, Secure, Engaged was to ensure the military was properly equipped.</p> <p>"Providing (the women and men of the Canadian Armed Forces) the training, equipment and care they deserve is the most important objective of this policy," reads a line from the opening paragraph of Sajjan's opening message in more than 100-page policy.</p> <p>Upon being re-elected, Sajjan was again reminded of his responsibility to "ensure the Canadian Armed Forces have the capabilities and equipment required to uphold their responsibilities," in the mandate letter assigned to him by Trudeau.</p> <p>In an emailed statement to iPolitics, Conservative Defence Critic James Bezan said "effective and efficient supply chains are crucial to the operating capability of the Canadian Armed Forces."</p> <p>"Our military heroes rely on these supply chains to defend Canadians at home and abroad. It is clear that more work needs to be done in order to make these supply chains better for our men and women and uniform," Bezan said.</p>
<b>OAG report on Supplying the CAF</b>	Maclean's (08 July 2020)	<p>The AG found problems up and down National Defence's supply chain, including with stock management and an unnecessary reliance on commercial transportation. A lot of the "high-priority" requests also weren't justified as such, gumming up the system.</p> <p>We found here the closest thing to a hockey metaphor (and it was a stretch) in this year's spring reports: the audit indicated National Defence "did not adequately forecast its needs for materiel to be able to position it close to where it would be needed." In other words, they did not skate to where the puck was going. Ouch.</p>

Other Opinions			
Individual	Theme	Outlet/ Date	Quote
<b>MP Cathy McLeod (CPC)</b>	<b>CAF, COVID-19, PPE, LTCFs</b>	Question Period (25 May 2020)	<p>“Mr. Speaker, in January, instead of saving PPE for our health care workers, the health minister decided to ship it off to communist China. This just added to Beijing's growing stockpile. Now the Liberals are desperately trying to procure millions of masks. Where from? China. When they actually get a shipment, they are defective and cannot be used.</p> <p>Can the minister [PSPC] guarantee that her lack in ensuring the availability of N95 masks in no way contributed to the 29-plus cases in our armed forces personnel who are supporting our seniors in their homes?”</p>
<b>Hon. Bill Blair (LPC)</b>	<b>CAF, COVID-19, PPE, LTCFs</b>	Question Period (25 May 2020)	<p>“Mr. Speaker, first of all, I want to join the member in thanking our Canadian Armed Forces for the extraordinary work they are doing in both Quebec and Ontario. They are saving Canadian lives. We have also made extraordinary efforts to ensure that they have access to the personal protective equipment and the training they need to be safe while doing their job, but, as the member indicated, a number of them have fallen ill from this illness.</p> <p>We have had discussions with the general responsible and he assures us that every effort is being made to acknowledge, recognize and support the members who are doing that work, and that their pay reflects that.”</p>

## **Media Response Lines – Supplying the Canadian Armed Forces**

[REDACTED]

### **Narrative**

The Department of National Defence recognizes that the members of the Canadian Armed Forces (CAF) can only do their work when they are supplied with what they need. **Strong supply chain management is one of the keys to our continued success, which is why we are taking action to not only respond to the Auditor General's report, but to modernize our system.**

Today's complex security environment requires a modern, resilient and adaptable supply chain that can respond to concurrent operations as outlined in *Strong, Secure, Engaged*. Already, we have made considerable improvements to our management of inventory. We have made improvements to stocktaking, the reporting of inventory costs, and the oversight of supply work. We have also disposed of a lot of old equipment taking up valuable warehousing space.

We also have a number of initiatives underway to improve how we track and warehouse materiel. These include introducing a barcoding capability, and making sure supply chain decisions are based on reliable and complete information. These initiatives will enable better forecasting, positioning, warehousing, and distribution of the items the CAF needs.

Following our initial changes and throughout the implementation of our planned initiatives, **we will enhance our data analytics capabilities and rely on real-time data to help ensure we have the right supply chain approach for our ever-evolving force structure, and to help us better predict future needs.**

Making sure CAF members are well-supplied is a key capability, and we will continue to do what is required to improve our ability to deliver.

### ***Complexities of the supply chain***

We strive to meet all requirements and ensure that all members are well equipped; however, supplying the CAF is a challenging and complex endeavour with many facets.

The first complexity lies in the equipment itself. The CAF requires items as small as a coil or screw, and as big as a ship that can accommodate a crew of more than 200 members. Some are single items – like canteens – while others have many parts and components that must also be considered – like aircraft. Keeping track of such a diverse array of items can be complicated at the best of times, and more so when dealing with items that are produced infrequently, or that have short lifespans like computer chips.

In addition, supplying every location with every piece of equipment that could possibly be required would not be affordable. We must make decisions that balance military capability and acceptable risk in order to respect our allocated budget. For example, we may not keep a spare engine on-hand at every base that uses a specific truck or light armoured vehicle. Instead, we would keep them at central warehouses that are within a certain distance from a group of bases to help enable a speedy delivery.

Furthermore, a number of the items we must supply are limited in their availability. There are fewer companies that make tanks and their components such as tracks, than there are who make more common items such as pencils and car tires. Ensuring we have all the equipment required in the right quantities sometimes means being added to an order list years in advance. We have ensured that these considerations are part of our procurement process right from the onset, but there can still be delays, such as when a number of countries are in need of similar items at the same time.

The Department of National Defence has one of the largest footprints of any Government of Canada department or agency. We must be able to supply locations across Canada, as well as all over the world when members are overseas. This brings the added complexity of how to transport items. As much as we try to be ready for any possible event, transportation can cause delays when unexpected requests occur. Each transport also includes costs that must be considered, and we always try to find the most economical solution when time is not a pressing factor. For example, we fly our aircraft on a regular basis, and so having these aircraft deliver parts between bases during pre-scheduled flights does not represent a measurable new cost.

We are also using a number of siloed electronic systems that each manage their respective parts of the storage and distribution process. While each system works well individually, their inability to communicate between each other is problematic to staff and the process. We are in the preliminary stages of implementing a new system to help mitigate this challenge and to provide a better picture of the full supply chain when required.

Finally, defence equipment must be available when required. While some needs can be predicted, changing demands due to unexpected events and commitments means identifying the right quantity of items we need to have on hand is a challenge. While we do set minimum quantity levels and have past experience to base our numbers on, our estimates will always be imperfect, and we continue to adapt to evolving needs.

We know that we are not alone in this challenge, and have heard the same concerns and issues from many of our allies. We continue to work with our partners to share best practices and lessons learned as Canada is not unique in facing these challenges.

### **Key Points**

- DND processes over 560,000 orders per year and manages over 460 million items. This scale and complexity are much larger than most, if not all commercial operations in Canada.
- For operations overseas, the Canadian Armed Forces is concurrently managing 29,000 types of items across 19 missions in 25 countries. Delivery for these items is made by military aircraft, contracted airlift, sea lift, commercial carriers, and other piggyback logistics. Each method requires specific customs and diplomatic considerations based on the host nation's guidelines.
- Unlike a private company, National Defence has to buy and store much more materiel than it currently needs, to be ready for unexpected scenarios. This level of readiness presents challenges for planning and maintenance.
- Military equipment procurements are also planned based on the current environment and related factors. These can change dramatically over the lifespan of equipment, and directly impact stocking, forecasting, and resupplying metrics.
- Modern military equipment is increasingly complex, requiring us to source components that support equipment from all over the world, adding to delivery times and increasing pressure on companies that supply a number of countries.
- In December 2018, the Deputy Minister and the Chief of Defence Staff recognized the need to improve the operational effectiveness of the supply chain by formally assigning a clear mandate to its leadership to oversee and improve supply chain performance.
- The resultant Defence Supply Chain governance is charged with making tangible and enduring improvements to supply chain performance. This includes the commitments outlined in DND's response to this audit, as well as numerous other activities.
- The supply chain is flexible and able to meet emergency demand, as proven these past few months when emergency procurements were required to support the Government of Canada's response to COVID, and acquiring supplies was done quickly and efficiently.
- This touches a number of subjects from the Minister's mandate letter. Namely:
  - Continue to ensure that the Canadian Armed Forces are an agile, multi-purpose and combat-ready military, operated by highly trained, well-

- equipped women and men, supported by their Government and by fellow Canadians.
  - Ensure the Canadian Armed Forces have the capabilities and equipment required to uphold their responsibilities through continued implementation of *Strong, Secure, Engaged*, including new procurements and planned funding increases.
  - Ensure the continued effectiveness of Canadian Armed Forces deployments, including Operation IMPACT in the Middle East, Operation NEON in the Asia-Pacific, Operation REASSURANCE in Latvia, and Operation UNIFIER in Ukraine.
- Recent audits include:
  - Annual OAG Audits on Public Accounts, where DND has been regularly reporting and tracking activities related to inventory management;
  - OAG report in 2008 regarding operations in Afghanistan. There were two related areas of observation in this report: the recommendation to develop supply chain performance metrics, including whether supplies are received in a timely manner appropriate to priority and need, and the recommendation that the department review how it establishes stock levels for the parts it needs, with a view to delivering parts to users in a timely way. While management action plans were fully implemented to address these recommendations, the current audit infers a lack of a tangible improvement over time.
  - Our public account audit includes confirmation that we are on track to implement our plan presented to senior management.
- OAG report: [https://www.oag-bvg.gc.ca/internet/English/parl\\_oag\\_202007\\_03\\_e\\_43574.html](https://www.oag-bvg.gc.ca/internet/English/parl_oag_202007_03_e_43574.html)
- Response: <https://www.canada.ca/en/department-national-defence/news/2020/07/minister-of-national-defences-statement-in-response-to-the-auditor-general-of-canadas-report-on-supplying-the-canadian-armed-forces.html>

## **Questions and Answers**

### **Q1. How have you improved since your last evaluation?**

A1. We have made considerable improvements in stocktaking, pricing, inventory reduction, oversight, and introduction of modernization projects, such as scanning technology. In fact, the OAG has positively highlighted DND's progress on this longstanding issue.

### **Q2. Concretely, how are you solving these issues?**

A2. Already, we have made considerable improvements to our management of inventory. We have made improvements to stocktaking, the reporting of inventory costs, and the oversight of supply work. We have also disposed of a lot of old equipment taking up valuable warehousing space. We are also advancing a number of new management projects, such as procuring standardized barcode



scanning technology and new electronic system capabilities, to further improve our performance.

We have committed to the following activities to identify any changes needed:

- Conducting a review of how defence materiel holdings are planned and positioned;
- Conducting a review of how to integrate our multiple electronic systems to enable data to follow equipment through our supply chain, rather than having several different systems that do not talk to one another;
- Conducting a review of how the availability of materiel is measured;
- Continuing the ongoing examination of delivery services within the CAF to determine the most cost-effective approach, including selection of transportation, and
- Communicating with ordering officers to reinforce the correct use of high-priority requests with both the chain of command and the users to curb overuse and misuse of the current system.

We are currently gathering data following progress made to date in order to inform future changes.

**Q3. This seems to indicate that the CAF receive their equipment late more than half the time. How can you justify that?**

A3. We recognize that there are challenges with the delivery of materiel for a number of reasons. We are working to ensure that this situation improves and have established an action plan with performance indicators to get us there.

Some requests include unreasonable deadlines that do not take into account the distance between the item and the destination. Sometimes a number of orders for one item are received at the same time, requiring us to assign priorities and make decisions regarding which order is filled first.

We continuously work with those ordering equipment and those organizing missions and exercises to provide equipment where it is required in a timely fashion and to reduce this type of situation. We will continue to work with all players within the supply chain, including industry, to improve materiel delivery.

**Q4. Does this mean that our members in uniform don't have the equipment they need when on operations and missions?**

A4. No. We always ensure that our members have the equipment they need for the success of operations and missions. The issues flagged in this report are largely related to routine, day-to-day CAF activities here in Canada.

For example, for overseas operations, we are currently supporting 20 missions in 25 countries, and processing over 560,000 orders per year. Regardless of where members of the Canadian Armed Forces are serving, we ensure they are

equipped to fulfill their mission. Not only do they deploy with the right equipment, but we also intentionally insert redundancy in our supply chain to account for any unforeseen events thereby ensuring soldiers, sailors and aviators have what they need to do their job and be safe while doing it. There is no room for failure on this front.

**Q5. Why can't you keep more equipment than required to make sure you always have enough?**

A5. We do keep more equipment than we estimate is immediately needed for key commodities. However, to ensure responsible use of resources and space, we can only keep so much on hand.

Furthermore, much of the equipment we purchase have expiry dates or can become obsolete, which adds a complexity. Buying too much equipment would result in waste of materiel, waste of money, and increased disposal costs.

We continue to evaluate past performance, monitor upcoming commitments, and adjust quantities as required.

**Q6. Why can't you keep more materiel at each base or wing?**

A6. There are a number of reasons that limit the amount of materiel that can be kept on a base or wing:

- Limited space
- Requirements for secure buildings for certain equipment
- Expiry dates for equipment that is not required on a regular basis
- The prohibitive costs associated with buying enough high-value materiel to store it everywhere.

We continue to work with our staff and members across the country to ensure that they have the equipment they need in the right quantities at their disposal despite these restrictions. One component of this effort is to review items that are held in excess quantities and ensure more is not bought inadvertently, freeing up resources to buy higher priority items.

**Q7. Are these problems actually because you don't have enough staff?**

A7. Some of these challenges cannot be solved by increasing the number of people alone. We are addressing the issues raised by evaluating whether existing staff have the right training, looking at how to best leverage technology and improving or reinforcing our proven processes. Once these actions are complete, as well as our current analyses, we will be better able to evaluate whether more staff is needed or if efficiencies can be achieved.

**Q8. The OAG has previously recommended you develop supply chain performance metrics and review how you establish stock levels for the materiel the CAF needs. Why isn't this already fixed?**

- A8. Between 2008 and 2010, DND implemented multiple supply chain performance measurements and implemented an industry-standard capability to predict materiel requirements.

In 2014, the materiel management software was replaced with an enterprise-wide system, and these specific performance measurement functions were not retained. Similarly, the tool we adopted to predict materiel requirements fell out of use during this migration. The impacts this had on materiel planning accuracy were not well recognized until recently.

We are still looking to ensure all systems related to the supply management process can talk to one another.

- Q9. The department has had the same out-of-stock benchmark for years. Has this been revised? If not, when will it be?**

- A9. The current out-of-stock benchmark has been used to understand whether the department is getting better or worse at predicting what materiel we need to support the CAF. When originally set, it was based on past performance. We have committed to revisit this benchmark over the coming year to ensure it is appropriately set, and used to make continuous improvements.

- Q10. Have you set performance indicators to measure whether materiel was stocked at the right warehouse and whether each warehouse had enough stock?**

- A10. We have committed to developing performance indicators around whether materiel was assigned to the right warehouses and whether they had enough stock, but understanding how to measure this while allowing flexibility to centrally store materiel will take some effort. We will develop these indicators over the coming year.

- Q11. Can you explain what happened in the case of exhibit 3.3 [Trenton exercise example], where items were not delivered for over five months?**

- A11. It is important to note that the delay in delivery had no impact on the exercise in question. Equipment was found and delivered on time to ensure the exercise was able to go forward.

A number of factors came into play in the delay presented in exhibit 3. First, the request was not done correctly, and was sent to a warehouse that did not have the requested equipment. Second, the warehouse did not notice the error until the requestor followed up months later. While this does not demonstrate any systematic error in the delivery process, it does support our efforts to reinforce policies and training to ensure that similar errors are avoided in the future.

- Q12. Will you re-evaluate minimum numbers for stock that are indicated as zero?**

- A12. Not all materiel in the defence supply chain needs to be stocked in a National Defence warehouse. If the item can be readily purchased locally, it is acceptable to only buy it as it is needed, which means that it is acceptable for the minimum stock level to be at zero.

Additionally, we will be reviewing how materiel is planned in general. This review will include how minimum and maximum order quantities are determined.

**Q13. How are orders prioritized?**

- A13. There are three levels of priority:

- High priority: if materiel is required for a critical operational requirement. For example, troops are leaving to go overseas and require parts to repair a weapons platform that will be deployed.
- Essential: if materiel is not critical, but has a significant impact on operations. For example, a warship is going to sea and requires parts to repair a secondary weapons system
- Routine: for all other requests. For example, ensuring that a wing has the number of spare tires identified as their minimum.

**Q14. What is a justification for high-priority ordering?**

- A14. A high-priority order must meet an immediate need for current operations, missions, and exercises that cannot be filled by alternative equipment.

**Q15. How will you ensure that orders are submitted using the right priority?**

- A15. Each wing, base, and command has designated officers who review the priority given to a request based on criteria established in our policies. We will communicate with our ordering officers to reinforce the policy and ensure it is followed. An upcoming review of how ordering priorities are determined may also help improve this situation.

**Q16. The flow chart seems to indicate that there's an extra step for high-profile orders. Shouldn't there be fewer steps?**

- A16. An additional step in the approval process ensures that high-profile orders are put at the front of the order line, and in some cases justifies the higher costs associated with premium shipment. This is not a time-consuming step and actually helps ensure that these items are delivered more quickly. It also ensures that the right priority is assigned and orders are processed efficiently.

**Q17. Will you be doing anything to improve the ordering process?**

- A17. We will be looking at how ordering priorities are determined and how materiel is shipped. The ordering process itself matches industry-standards according to our software systems.

**Q18. How do you transport materiel?**

- A18. Within Canada, transportation options include:

- The national freight run, by which military drivers and vehicles deliver materiel by road between Canadian locations
- Navy, Army, and Air Forces fleets are used for areas not serviced by the national freight run, or for more timely delivery than can be achieved with the national freight run
- Commercial transport when required, which can include air and sea lifts

**Q19. Can commercial transport carry any type of equipment? Are there conditions?**

A19. Different types of commercial companies can carry different types of equipment. A number of standing offers exist that indicate what permissions are available based on the company's security clearance.

**Q20. What does it mean to have a request rerouted? Why does it happen?**

A20. We try to avoid rerouting and to always store materiel close to where it will be needed, if that is feasible.

A request is rerouted when it cannot be sent from the nearest warehouse because of insufficient quantities on-hand, or because available stock has been set aside for another requirement. This can lead to additional costs and delays, or in some cases the request will be denied because the supply manager has determined stock is needed for a higher priority.

**Spokespersons:**

- Mat: ADM(Mat), Troy Crosby
- CJOC: DGSP BGen Carla Harding
- SJS: DGS BGen Chris Zimmer
- Mat PA: Tina Raymond

**Approvals:**

- ADM(Mat), Troy Crosby
- DGSP, BGen Harding
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- a/DGPASP, Véronique Duhamel
- a/ADM(PA), Joe de Mora
- MNDO, Todd Lane

## **PLANNING AND FORECASTING MATERIEL REQUIREMENTS**

### **KEY MESSAGES**

- National Defence agrees with the Auditor General that we need to have the right material at the right place at the right time.
- As the Auditor General noted, we also need appropriate metrics in place to monitor whether stock levels are sufficient.
- That is why in our Management Action Plan we committed to launching a comprehensive review of materiel planning and forecasting policies, tools and processes.
- This includes reviewing how we measure the availability of our material both at the individual warehouse level and across the national supply system.
- We launched two reviews this summer. The first will review how we measure materiel availability. This will be done by July 2021 and we will update the Departmental Results Framework to reflect any changes.
- The second, larger review on planning and forecasting will be complete by June 2022, including a full implementation plan.
- Ultimately, these changes will be incorporated into a next-generation resource planning system that will be launched in 2028.
- This entire effort will be a multi-year process, but we are committed to getting it right so that our system is efficient and ready to support the Canadian Armed Forces.

### **KEY FACTS**

- National Defence processes **over 560,000 materiel orders per year** and manages **over 460 million items**.

## AUDITOR GENERAL REPORT

### Key findings:

- 50% of all materiel requested during the audit period was received late.
- National Defence did not stock the right quantities of materiel at the right locations, resulting in additional steps to procure materiel or to transfer it between locations, which slowed deliveries.
- National Defence did not develop performance indicators to measure whether materiel was stocked at the right warehouses, and whether warehouses held sufficient stock.

### Recommendation 1:

- Review materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations.
- Review materiel availability measures at the warehouse and national levels and use them to monitor whether stock levels are met.

## DETAILS

- **Materiel planning:** ensures materiel is positioned in the right location at the right time to meet current and future operational requirements.
- **Materiel forecasting:** determines the quantity of materiel required to meet the operational and readiness requirements of the Canadian Armed Forces.



## PRIORITIZING REQUESTS

### KEY MESSAGES

- National Defence agrees with the Auditor General that improving oversight of high priority requests is crucial to reducing unnecessary costs.
- We also understand that the over-prioritization of requests creates an excessive burden on the supply chain.
- As noted in our Management Action Plan, National Defence is taking several steps to address the issue.
- In the short term, National Defence is in the process of reinforcing policy guidance on how to properly classify requests with the responsible personnel at our wings, bases, and commands.
- Further, National Defence has begun a thorough review of its freight distribution system to improve efficiency and optimize costs.
- National Defence will complete this review by March 2021, and decide on a way forward by March 2022.
- We will ensure that all improvements to the distribution system are complete by April 2024, paying particular attention to performance measurement and oversight.
- As we move forward, we will ensure that high-priority requests are only made when absolutely necessary, and that these classifications are justified.

### KEY FACTS

- There are three levels of priority in National Defence's supply system:
  - **High priority:** materiel for critical operational requirements that cannot be substituted with alternative equipment.
  - **Essential:** materiel not critical, but with a significant operational impact.
  - **Routine:** all other materiel and requests.
- The proportion of orders processed as high-priority requests has ranged from **7.15%** to **8.79%** between fiscal years 2016/17 and 2019/20.

## AUDITOR GENERAL REPORT

### Key findings:

- A large portion of high-priority requests were flagged as such without justification.
- National Defence could not justify the high-priority status of 65% of the requests reviewed (84 of 129).

### Recommendation 2:

- Improve oversight of high-priority requests to ensure that such requests are only used when necessary.

## DETAILS

- On deployed operations and major exercises, oversight of high priority requests (HPRs) is generally conducted by a monitoring cell within a supply organization.
  - This cell monitors and tracks high-priority requests, but does not vet or approve them.
- For day-to-day operations, HPR oversight is the responsibility of the individuals ordering the item, their immediate supervisor, and those with delegated oversight responsibility from the unit's commanding officer.

### Policy on Prioritizing Requests

- The current method of prioritizing requests is based on guidance in the Supply Administration Manual and the judgement of the individual ordering the item.
  - Prioritization is an assessment of time and risk. If an item is needed immediately and the operational impact assessed as 'severe', the item is considered high-priority.
- The Manual defines a high-priority request (HPR) as for urgent situations where planning was not a possibility, such as a mechanical failure of key equipment days before a deployment or while on deployment.
- HPRs must satisfy critical operational requirements that meet one of the following criteria:
  - a) the materiel is critically required to ensure uninterrupted performance of an assigned international or domestic mission;
  - b) the materiel is required to repair or replace damaged or inoperative major equipment in support of critical operational imperatives.
  - c) the materiel is required to repair or replace minor equipment without which critical major equipment cannot meet mission commitments;

- d) the materiel is required to repair or replace critical operational telecommunication equipment;
- e) the materiel is required in support of civil emergency purposes;
- f) the lack of materiel would jeopardize the safety of personnel; and,
- g) the materiel requirement does not meet one of the above criteria but the criticality of obtaining the item on an immediate basis has been authorized in writing by the Commanding Officer of the requesting unit.

### **Defence and Materiel Inventory Network Optimization Initiative**

- Through the Distribution and Materiel Inventory Network Optimization (DMINO) initiative, National Defence is seeking to improve its National Freight Run to produce a reliable system in which shippers can have increased confidence, reducing the need to over-prioritize requests and select commercial options of transportation.
- In February 2020, National Defence awarded a contract for DMINO to PwC Canada, who in turn evaluated over 5 million data points to provide a novel picture of how materiel distribution is flowing and recommendations to increase efficiency.
- National Defence is currently evaluating options and how to best improve its National Freight Run. National Defence will also solicit industry for a next-generation domestic ground distribution network solution for commercial freight movement.

## COMMUNICATING TRANSPORTATION METHODS AND COSTS

### KEY MESSAGES

- National Defence agrees with the Auditor General that we need to improve our communication and guidance on costs and selecting transportation options.
- We understand that both are vital to enabling sound decision making and an efficient supply chain.
- As we note in our Management Action Plan, National Defence is conducting a thorough review of its freight distribution system to improve efficiency and optimize costs.
- This review is underway and in February 2020, National Defence awarded a contract to Price Waterhouse Coopers Canada to identify potential options for more efficient material distribution.
- Price Waterhouse Coopers Canada has already evaluated over 5 million data points and we are currently evaluating their initial recommendations.
- As we gain an understanding of how we can improve our systems, we will revise and clearly communicate guidance on costs and selecting shipping methods to our personnel.
- National Defence will complete the full review by March 2021, and decide on a way forward by March 2022.
- We will ensure that all improvements to the distribution system are complete by April 2024.
- We believe these actions will result in a more efficient distribution system and help our personnel make more informed and cost-effective decisions.

### KEY FACTS

- The Canadian Armed Forces moves **2 million tonnes** of freight across Canada each year.
- **10% of freight volume** is moved using National Freight Runs, with **90% contracted** through commercial carriers.

## AUDITOR GENERAL REPORT

### Key findings:

- For materiel movements within Canada, National Defence did not have the right controls to determine the most appropriate transportation methods to fill requests and to oversee transportation costs.
- National Defence did not provide guidance on how to assess transportation costs and what constitutes high costs.
- The information system that supports transportation activities did not include the costs of all available modes of transportation.

### Recommendation 3:

- Communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure that decisions are founded on a full understanding of costs.

## DETAILS

- **Current method of communicating costs:** varies based on standing offer agreements listed within the National Materiel Distribution System, which all shippers must use.
- **Current guidance on selecting transportation methods:** policies and manuals are in place that outline when premium, high cost, transportation is permitted (e.g. critical operational requirements). For all other routine transportation, including normal commercial shipments, supervision on the ground ensures compliance with policy guidance.
- The decision on methods of transportation is driven by the required delivery date. However, flexibility within National Defence's policies ensures shippers on the ground can make transportation decisions, and that the Canadian Armed Forces achieves its operational requirements, while ensuring accountability and value for money.

### Review underway: Defence and Materiel Inventory Network Optimization Initiative

- Through the Distribution and Materiel Inventory Network Optimization (DMINO) initiative, National Defence is seeking to improve its National Freight Run to produce a reliable system in which shippers can have increased confidence, reducing the need to over-prioritize requests and select commercial options of transportation.
- Another aim of the DMINO project is to provide National Defence with a clear understanding of freight distribution requirements for which it is seeking commercial support. This will enable National Defence to enter into broader freight contracts with

targeted suppliers at known costs, which is expected to increase effectiveness and generate efficiencies through market volume.

- National Defence will also solicit industry for a next-generation domestic ground distribution network solution for commercial freight movement.

## **PERFORMANCE MEASUREMENT**

### **KEY MESSAGES**

- We agree with the Auditor General that National Defence requires better performance measurement metrics to assess our supply chain.
- That is why, in our 2020 Management Action Plan, we committed to reviewing our metrics that measure the availability of materiel at the individual warehouse level and across the national supply system.
- Currently, we report one metric for measuring overall stock availability – our target stock-out rate – to Parliament annually in our Departmental Results Framework.
- This metric indicates whether we have enough of what we need in the national supply chain, but not whether it is stored at the optimal location.
- We are now working to develop additional indicators that will better measure whether we have inventory available to meet forecasted demand for up to twelve months, and whether the inventory is located at specific depots.
- As we collect and analyse our own data, we are also working with allies and industry partners to understand best practices for how to improve our efforts.
- Ultimately, we will integrate these measures into a new Supply Chain Performance Measurement Framework, which we began developing last year.
- Our goal is to complete this new system by the fall of 2022 and we will continue to keep Parliament informed of our progress.

### **KEY FACTS**

- The current national stock-out rate was set in FY 2012-2013, based on the **lowest average level between spring 2010 and March 2012.**
- National Defence first included its national out-of-stock rate in annual reporting in the **2014/2015 Report on Plans and Priorities.**
- The current target of **7.93% or better** represents a benchmark of what was thought to be **realistically achievable year-over-year.**

## AUDITOR GENERAL REPORT

### Key findings:

- National Defence did not develop performance indicators to measure whether materiel was stocked at the right warehouses, and whether warehouses held sufficient stock.
- National Defence could not provide supporting documentation when asked for the method used to set its maximum national out-of-stock target at 8%.
- National Defence had not reviewed the target since 2012 to determine whether the measure was appropriate.

### Recommendation 1:

- Review materiel availability measures at the warehouse and national levels and use them to monitor whether stock levels are met.

## DETAILS

- For several years now, Canada has been meeting regularly with its Five Eyes Allies to collaborate on critical supply chain and transformation issues.
- National Defence is represented by senior departmental and military leaders at the respective Joint Supply Chain and Quintilateral Logistics Forums, and participates actively in the working groups.
- The goal of these forums is to collaborate on supply chain business transformation, business information architecture and policies; to exchange best practices; and to foster interoperable solutions in support of operations.



## **VIGNETTE: SEARCH AND RESCUE EXERCISE MATERIEL**

### **KEY MESSAGES**

- We agree with the Auditor General that stock shortages and rerouting materiel requests are a problem that we need to address.
- We have looked into the specific example raised in the audit, where delays between September 2017 and March 2018 impacted the delivery of search and rescue equipment for a Canadian Armed Forces exercise.
- The delays did not negatively impact the exercise, as the Royal Canadian Air Force squadron was able to obtain the equipment from other squadrons.
- However, we did find that the situation resulted in additional costs and lost time.
- A number of factors contributed to the delays, including the equipment being ordered from the wrong location, and the error not being noticed until the requestor followed up months later.
- This example demonstrates that to improve our system, we need to ensure that our people are well trained and have the necessary tools in place to succeed.
- We will continue to improve our efforts in supply chain management to ensure errors like this are as rare as possible.

### **KEY FACTS**

- **18 September 2017:** A Royal Canadian Air Force squadron at CFB Trenton requests a new type of diving equipment from a local base warehouse to support a search and rescue exercise in Florida.
- **23 January 2018:** The Air Force follows up on the order with the warehouse and is notified that the equipment had been routed to the wrong location.
- **2 February 2018:** The Air Force submits a new high-priority request to the Montreal supply depot. The depot coordinates the order for the required equipment.
- **21 February 2018:** The depot receives the equipment. In parallel, six other Air Force squadrons ship their equipment directly to Florida to support the exercise.

- **27 February 2018:** CFB Trenton receives the ordered materiel from the Montreal supply depot, although not in time for the squadron's departure to Florida.
- **March and April 2018:** The Florida search and rescue exercise goes ahead as planned.

## AUDITOR GENERAL REPORT

### Key findings:

- In September 2017, a Royal Canadian Air Force unit at CFB Trenton requested materiel for a search and rescue diving exercise.
- Several months elapsed before any action was taken, and the materiel was not delivered in time for the exercise.
- In parallel, the unit located equivalent materiel and had it shipped to the exercise location, which duplicating effort and increasing shipping costs.

## CANADIAN ARMED FORCES MEDICAL SUPPLY CHAINS

### KEY MESSAGES

- We remain committed to ensuring that the Canadian Armed Forces has the medical supplies and equipment it needs to conduct operations and maintain readiness.
- Stockpiles of medical-grade personal protective equipment remained stable in the early months of the pandemic, as military personnel provided assistance in response to COVID-19.
- Since then, we have acquired additional supplies of medical-grade PPE for the Canadian Armed Forces.
- It is important to note the distinction between our defence supply chain, which the audit examined, and our medical supply chain.
- The key difference is that National Defence's medical supplies and equipment are procured and tracked by the Canadian Armed Forces Health Services Group.
- This ensures that personnel with the appropriate healthcare expertise ensure specific medical standards.
- Together, both supply chains play a critical role in the support provided to Canadian Armed Forces members at home and abroad, and provides them with the appropriate materiel they need, when needed.

### KEY FACTS

- **Audit scope:** The Auditor General did not analyze National Defence's medical supply chains in the audit, although some dental equipment managed in the Defence Resource Materiel Information System (DRMIS) is likely included in the audit's scope.
- **COVID-19 testing capabilities:** In March of 2020, National Defence procured deployable lab testing equipment to enhance its ability to conduct operational COVID-19 testing at home and abroad.
  - This system is located in several clinics across the country and has recently been deployed in support of Royal Canadian Navy missions.

- **Supply stocks are sufficient** for CAF medical personnel.
  - Medical personnel have been required to access the CAF stockpile more frequently due to the global shortages of masks and gloves.
- **Procurement of non-COVID-19 related medical materiel continues** to progress throughout the pandemic.
  - For example, National Defence delivered a deployable CT scanner to the CAF Center (Atlantic) in Halifax on 19 June 2020.

## DETAILS

### Medical Supply Chain

- National Defence's medical supply chain uses a separate management system than the defence supply system.
- For items such as vaccines, the Canadian Forces Health Services Group Headquarters is a member of the Public Health Agency of Canada-led Vaccine Supply Working Group.
  - This group represents the Provincial, Territorial, and Federal governments, and uses a combined purchasing power to obtain preferred pricing and obtain vaccines in accordance with vaccination guidelines through the contracting authorities of PSPC.

### Personal Protective Equipment (PPE) and other Supplies for COVID-19

- Medical grade PPE and other supplies required for COVID-19 are managed by the Canadian Forces Health Services Group. The Health Services Group operates their own warehouse for both clinical supplies and the medical materiel required for deployed capabilities.
- Non-medical PPE is normally purchased in accordance with industrial health and safety standards. There is no centralized procurement, holding, or management of domestic use medical consumable items.
  - In the case of the COVID-19 pandemic, National Defence is coordinating a single CAF purchase of masks/gloves through Public Service and Procurement Canada to preclude competition for scarce local resources.
  - Non-medical PPE includes dust masks and nitrile gloves, which are assessed as appropriate for the nature of the tasks assigned to our non-medical personnel.

## CAF STOCKPILE OF PERSONAL PROTECTIVE EQUIPMENT (PPE)

- Stockpiles of medical-grade personal protective equipment remained stable in February 2020 and fluctuated in March 2020, as the Canadian Armed Forces responded to the pandemic.
- Since then, we have acquired additional supplies of medical-grade personal protective equipment – or PPE – for the Canadian Armed Forces.
- This medical grade PPE is distributed weekly and as required to our Canadian Forces Health Services medical establishments.
- National Defence continues to closely monitor these stockpile levels to ensure that the military has the equipment it needs to carry out its important work in support of Canadians.

### KEY FACTS

- As of **October 16, 2020**: Canadian Forces Health Services Group **medical grade stockpile** held:
  - 446,536 gowns;
  - 1,618,950 surgical masks;
  - 89,213 N95 masks;
  - 2,177,285 medical-grade gloves; and
  - 98,808 face shields.

## **DETAILS**

- Between November 1, 2019, and February, 29, 2020, the Canadian Armed Forces (CAF) stockpile of medical-grade personal protective equipment contained approximately 4,800 gowns, 2,000,000 surgical masks, 145,000 N95 masks, 2,047,700 pairs of gloves, and 3,200 face shields.
- Work continues through governmental procurement specialists to identify and procure additional PPE stockpile; however, worldwide shortages pose continuing challenges across Canada.
- Stockpiled medical-grade personal protective equipment levels fluctuated during the month of March, as the CAF provided support to the Canadian repatriation efforts through Operation GLOBE, adopted measures to protect personnel and to maintain effective operational capabilities during the pandemic.

## **RECENT MEDIA AND PARLIAMENTARY INTEREST**


- There has been sustained media and parliamentary interest in overall Government-wide levels of personal protective equipment, including multiple Order Paper Questions on Whole-of-Government and National Defence stockpiles.
- Several Parliamentary Committees have also requested information on Government-wide levels of PPE through Motions to Produce Papers, and multiple questions to senior officials during Committee appearances.



INQUIRY OF MINISTRY

DEMANDE DE RENSEIGNEMENT AU GOUVERNEMENT

PREPARE IN ENGLISH AND FRENCH MARKING "ORIGINAL TEXT" OR "TRANSLATION"  
PRÉPARER EN ANGLAIS ET EN FRANÇAIS EN INDIQUANT "TEXTE ORIGINAL" OU "TRADUCTION"

QUESTION NO/N° DE LA QUESTION Q-39	BY / DE Mrs. Gallant (Renfrew-Nipissing-Pembroke)	DATE September 23, 2020
Reply by the Minister of National Defence Réponse du ministre de la Défense nationale		
Anita Vandenberg		
PRINT NAME OF SIGNATORY INSCRIRE LE NOM DU SIGNATAIRE		SIGNATURE MINISTER OR PARLIAMENTARY SECRETARY MINISTRE OU SECRÉTAIRE PARLEMENTAIRE

QUESTION

With regard to Canadian Armed Forces personnel deployed to long-term care facilities during the COVID-19 pandemic: (a) what personal protective equipment (PPE) was issued to Canadian Armed Forces members deployed to long-term care homes in Ontario and Quebec; and (b) for each type of PPE in (a), what was the (i) model, (ii) purchase date, (iii) purchase order number, (iv) number ordered, (v) number delivered, (vi) supplier company, (vii) expiration date of the product, (viii) location where the stockpile was stored?

REPLY / RÉPONSE	ORIGINAL TEXT TEXTE ORIGINAL	<input checked="" type="checkbox"/>	TRANSLATION TRADUCTION	<input type="checkbox"/>
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The Canadian Armed Forces has provided unwavering support to Canadians across the country throughout the COVID-19 pandemic.

From April to June 2020, the Canadian Armed Forces deployed approximately 1,700 personnel under Operation LASER to provide support to vulnerable populations in long-term care facilities in Quebec and Ontario. This operation helped stabilize the situation in a total of 54 long-term care facilities, including 47 in Quebec and seven in Ontario.

The Canadian Armed Forces carefully coordinated all deployments to long-term care facilities with on-site medical personnel, and established protocols to minimize the risk to Canadian Armed Forces members. Additionally, Canadian Armed Forces members received training on how to operate in environments with COVID-19, and they were issued medical-grade Personal Protective Equipment (PPE) to limit their risk of exposure to the COVID-19 virus while executing their duties.

At the onset of the COVID-19 pandemic, National Defence possessed an existing stockpile of PPE. National Defence quickly took action to replenish and increase this stockpile; however, pandemic-induced global shortages created challenges in the acquisition of additional PPE. National Defence worked closely with the Public Health Agency of Canada to source the PPE necessary, to ensure that Canadian Armed Forces members remained adequately prepared for deployment to long-term care facilities.

National Defence issued the following quantities of PPE on Operation LASER:

- 180,250 surgical masks
- 7,460 N95 masks
- 10,189 face shields
- 182 goggles
- 195,074 gowns
- 23,000 shoe covers
- 2,916,120 gloves

The enclosed table provides detailed information regarding the medical-grade PPE issued to Canadian Armed Forces members deployed to long-term care facilities in Ontario and Quebec during the COVID-19 pandemic.

National Defence’s Medical Materiel Management System tracks items by expiry date. This is reflected in the attached table. In some instances, exact information for certain items is not available, as details of those PPE shipments were not registered in National Defence’s Medical Materiel Management System. This is because certain PPE shipments were sent directly from the Public Health Agency of Canada to long-term care facilities in order to reduce shipping and processing time.

Given the global shortage of PPE during the beginning of the pandemic, National Defence drew upon all available resources. Of the nearly three million pairs of gloves used during this period, 85,800 pairs had reached their manufacturer expiry date. National Defence’s Quality Engineering Test Establishment tested these gloves and deemed them compliant with industry standards and safe for use by Canadian Armed Forces’ members.

National Defence continues to receive new shipments to replenish its PPE stockpile. This will ensure that the Canadian Armed Forces remains ready to respond to the needs of Canadians.



## PREVIOUS AUDIT ON SUPPORTING AND SUSTAINING CAF OPERATIONS

### KEY MESSAGES

- In 2008, the Auditor General made three recommendations related to how we supported operations in Afghanistan.
- These recommendations focused on how we establish stock levels, track materiel, and measure our performance in supplying our personnel.
- We agreed with the Auditor General and have taken a number of steps to directly address the recommendations.
- For example, in 2009, we instituted a new software to manage materiel planning and forecasting, which we still use today.
- Further, in 2010, we developed a new performance measurement system to understand whether stock was received in a timely manner.
- These and other efforts have been captured in annual reports to this committee. However, it is clear from the Auditor General's 2020 report that we still have work to do.
- We recognize that this is a long-term challenge and will take a significant and sustained effort over a number of years.
- As noted in our most recent Management Action Plan, we are undertaking a comprehensive review of the policies, processes, and tools we use to plan and position our materiel, as well as our materiel availability metrics.
- We will continue to update this Committee on our progress on inventory management and will work to improve our supply chain so that we get the right materiel to our women and men in uniform when they need it.

### KEY FACTS

Common issues in both the 2008 and 2020 audits:

- Issues with National Defence's ability to **meet demands in a timely manner** and sufficiently **maintain stock levels**.
- A **high percentage of late deliveries**.

- A high percentage of materiel **requests coded as operationally critical or essential**, resulting in **increased transportation costs**.
- In **adequate performance measurement data** to monitor how well user needs are met.

## 2008 AUDITOR GENERAL REPORT

- In 2008, the Auditor General conducted an audit to assess whether National Defence had met the needs of operations in Afghanistan.
- **Recommendation 1:** National Defence should review its practices for tracking materiel once the materiel has arrived to ensure the arrival and storage is accurately recorded in a timely manner.
  - Departmental response: Agreed. National Defence has initiated the Asset Visibility Project to improve better track materiel.
- **Recommendation 2:** National Defence should continue to develop the performance measurement of its supply system, including assessing if supplies are received in a timely manner appropriate to priority and need.
  - Departmental response: Agreed. National Defence initiated a performance measurement system for the supply chain, including key indicators focusing on a variety of areas within the supply system.
- **Recommendation 3:** National Defence should review how it establishes stock levels for parts needed to keep equipment operating at expected serviceability targets, to obtain and deliver parts to users in a timely way.
  - Departmental response: Agreed. The Department is implementing a Distribution Resource Planning tool, complete with a modelling capability that is expected to improve the identification of inventory requirements.

## DETAILS

- In 2013, National Defence adopted a new IT system to manage materiel, in compliance with Treasury Board policy. This change degraded the 2010 performance measurement system.
- From 2013 to 2018, National Defence gradually reconstructed most 2010 performance measurement tools, including those to support Departmental Results Framework reporting.
- In 2019, National Defence began developing a new performance measurement framework for the supply chain to enable oversight and decision-making. Initial operational capability is anticipated in fall 2022.

## **GOVERNANCE**

### **KEY MESSAGES**

- We know that effective governance is a critical component in improving inventory management.
- In accordance with our 2016 inventory management action plan, we have developed a number of governance mechanisms to improve oversight.
- For example, in 2019, we signed a Defence Supply Chain Governance Charter, which established the Defence Supply Chain Oversight Committee to oversee the supply chain in its entirety.
- This Committee holds quarterly meetings to ensure Assistant Deputy Ministers and their advisors are up to date on supply chain performance, compliance, and departmental progress, and are able to provide strategic direction to their respective organizations.
- Further, in 2019 we created the Performance Measurement and Evaluation Committee.
- This committee meets biannually to advise the Deputy Minister and Chief of the Defence Staff on a variety of issues, including on improving inventory management.
- We will continue to improve our structures to ensure oversight, accountability, and direction in improving how we manage our inventory.

### **KEY FACTS**

- Assistant Deputy Minister (Materiel) and the Director of Staff of the Strategic Joint Staff lead the Defence Supply Chain Oversight Committee.
- Committees at the Director General and Director level oversee the functioning of the supply chain and resolve specific issues.

### **DETAILS**

- In October 2018, a joint DM/CDS directive consolidated oversight of the defence supply chain, including inventory management, making it a joint civilian-military responsibility.
- Prior to October 2018, accountability for component pieces of the defence supply chain was distributed within National Defence, and were not managed as an end-to-end system.

## **ENHANCED MATERIEL ACCOUNTABILITY**

### **KEY MESSAGES**

- We agree with the Auditor General that we must continue improve how we record and value our inventory.
- That is why in 2016 we integrated a number of existing efforts into a new Enhanced Materiel Accountability initiative.
- We have made substantial progress in more accurately tracking the quantity, condition, location, and price of our inventory.
- For example, between 2012 and 2020, we counted and verified approximately \$9 billion of materiel across Canada.
- In this period we also conducted 191 stock verification visits, verifying the local management of \$5.27 billion of materiel.
- This past September, we reported to this Committee that we had met all of our objectives for the initiative, and have institutionalized these practices.
- Going forward, we will continue to carefully record our inventory, and will conduct stock verification visits at a minimum of ten sites per year to maintain an accurate picture of our materiel holdings.

### **KEY FACTS**

- **2008-2009:** National Defence introduced Annual Materiel Attestations, whereby senior officials attest that they are tracking materiel accurately.
- **2012:** National Defence implemented the National Stocktaking Program (NSP), increasing the quantity and frequency of stocktaking.
- **2014:** National Defence expanded the NSP to include biannual stock verification compliance visits to detect process issues and train personnel.
- **2015-2016:** National Defence mandated action plans across its nine largest materiel users to ensure progress in addressing enduring issues.
- **2016:** National Defence integrated existing efforts into the Enhanced Materiel Accountability initiative.

## **AUTOMATIC IDENTIFICATION TECHNOLOGY PROJECT**

### **KEY MESSAGES**

- We agree with the Auditor General that more needs to be done to record, value, and manage our inventory.
- That is why we launched the Automatic Identification Technology project in 2017, to determine a solution that will provide a more accurate picture of the quantity, location, and condition of our material.
- Since launching the project, we have worked to identify our own requirements and understand best practices from our Five Eyes partners.
- We are currently working with industry to identify, refine, and cost a recommended option on how to move forward with new technology.
- This is a long term project that will take time and effort, but we believe this will make a lasting difference to how we manage our inventory.
- For example, when complete, we anticipate the use mobile devices to read barcodes on materiel, automatically uploading the data to our inventory management systems.
- We expect that in 2023, we will begin to distribute new technology to units, bases, and wings across Canada and overseas, and fully implement all elements of the project by 2028.

### **KEY FACTS**

- **June 2019:** National Defence entered the **definition phase** of development.

### **BACKGROUND**

- The completion of the Automatic Identification Technology (AIT) Project is a key commitment in National Defence's 2016 Action Plan on Inventory Management. In this plan, National Defence committed to entering the definition phase in the 2019/2020 fiscal year. This commitment has been met.
- AIT is one of a number of efforts intended to modernize the defence supply chain. Other initiatives, including data remediation and marking, materiel identification, and the modernization and implementation of sustainment and logistics, will complement AIT in increasing the accuracy of inventory data.

- Canada shares best practices with our five eyes partners via the Joint Supply Chain Forum and actively participates in the NATO Asset Tracking Working Group which establishes data standards for asset tracking (e.g. unique identification for serialized materiel).

## **INVENTORY MANAGEMENT MODERNIZATION AND RATIONALIZATION PROJECT**

### **KEY MESSAGES**

- We agree with the Auditor General that more needs to be done to improve how we manage our inventory, including obsolete materiel.
- That is why in 2014 we launched the Inventory Management Modernization and Rationalization project, to modernize our business practices and better identify materiel that we no longer need.
- We formally completed the project this year, having successfully achieved all of our objectives for it in our 2016 Inventory Management Action Plan.
- For example, we have exceeded our action plan commitments by evaluating over 346,000 stock codes to determine which materiel should be retained for future use, and which should be disposed of.
- Through that process, we completed disposal documentation for over 138,000 stock codes in our materiel management system and removed over 1.5 million individual items marked for disposal from our warehouses.
- Most importantly, we continue to modernize our business processes and training, and refine the tools we use to manage oversight.
- Last year, the Auditor General stated that they were pleased with the progress we have made in achieving our action plan commitments.
- We will continue to build on this progress to better manage our inventory and improve our supply chain.

### **KEY FACTS**

- **August 2014:** National Defence begins reviewing and archiving 254,000 stock codes with zero holdings, removing clutter in the system of record.
- **January 2015:** National Defence begins disposing of almost 24,000 stock codes marked for disposal in the Defence Resource Material Information System (DRMIS), representing 1.7 million individual items.
- **September 2016:** National Defence begins rationalizing 300,000 stock codes to determine whether they should be retained or disposed of.

## **DETAILS**

### **MODERNIZATION**

- As of August 2016, DRMIS now contains codes to identify when materiel is in surplus, is approved for disposal, when partial disposal is required, and when disposal is completed.
  - This allows for proper materiel valuation, supporting accuracy in the public accounts and the ability of management to generate reports to manage progress.
- Further, National Defence has improved the capabilities of DRMIS to include an updated disposal process.
  - This is expected to improve data for decision making, better warehouse space usage, and prevent the re-accumulation of obsolete materiel.
- National Defence has also developed and implemented a process to facilitate the disposal of broken materiel into regular business.
  - This is expected to improve accuracy of information on materiel quantity and condition, as well as its usage history for procurement planning.



## PRICING PROJECT

### KEY MESSAGES

- We understand that effectively pricing our inventory is essential to the accuracy of the Public Accounts of Canada, given the scale of our holdings.
- And we agree with the Auditor General that we must improve.
- In 2015, we launched the Pricing Project to modernize the processes we rely on to price our inventory.
- Since then, we have made substantial progress by sampling our records to identify the cause of pricing errors, reviewing our accounting policies, and by standardizing our valuation process.
- We also amended prices in our departmental inventory records where appropriate, and implemented systems to monitor for future accounting discrepancies and ensure continued accuracy.
- We completed this project in March 2020 with a more modernized pricing process, revamped policies and training, and more accurate pricing information.
- With these improvements in place, we will continue to make progress in the valuation of our inventory.

### KEY FACTS

National Defence addressed its pricing policies in three main areas:

- **Kits:** the assigned value of a completed “kit” was sometimes different than the value of its component parts.
  - **2017-2018:** National Defence standardized its processes for kit pricing and began monitoring of the process to ensure continued accuracy.
- **Replacement costs:** forecasted costs of replacing an item did not always match the eventual procurement cost.
  - **2017-2018:** National Defence revised its replacement cost processes to ensure its projected price is closer to the replacement value.

- **Bulk acquisition of spare parts:** bulk spare parts can be procured at a lesser price than individual items, which the accounting system could not accommodate
  - **2019-2020:** National Defence standardized the pricing policies for how the acquisition of spare parts must be accounted for in its records.

## DETAILS

- Pricing discrepancies were found due to unaligned policy between pricing requirements, financial accounting policies for determining inventory value, and functionalities within National Defence's system of record.
- Through the Pricing Project, National Defence reconciled the business requirements of its materiel and finance staff, and improved the ability of its personnel to value inventory within the resource management information system.

## **PRICING LEGACY DATA CLEAN-UP**

### **KEY MESSAGES**

- We agree with the Auditor General that we must continue to improve the quality of records to report accurate and complete data.
- This is why in 2016 we launched the pricing legacy data clean-up project to review and correct existing pricing errors in our inventory tracking system.
- We have made substantial progress, resulting in higher-quality records and more accurate financial reporting.
- For example, from 2016 to March 2019 we reviewed 50 million transactions for errors.
- Since 2016, we have validated the correct prices for a combined 402,000 stock codes worth \$6 billion.
- In March 2019, we finished correcting our existing price data, and began monitoring ongoing transactions for errors.
- This past July, we implemented software to conduct weekly analyses and automatically report potential pricing errors, allowing our experts to investigate and identify any problems.
- We will update this software in March 2021 to include inventory updates for our ships at sea, the only piece missing from our current system.

### **KEY FACTS**

- **The legacy data cleanup included:**
  - FY 2016-2017: reviewing 2,000 stock codes worth \$3.5B
  - FY 2017-2019: reviewing 400,000 stock codes worth \$2.5B
- **Monitoring system:** reviews approximately 150,000 transactions per month
  - July 2021: National Defence will adopt a new, simplified monitoring tool.



**Spring 2020**

## **Reports of the Auditor General of Canada to the Parliament of Canada**

**Independent Auditor's Report**

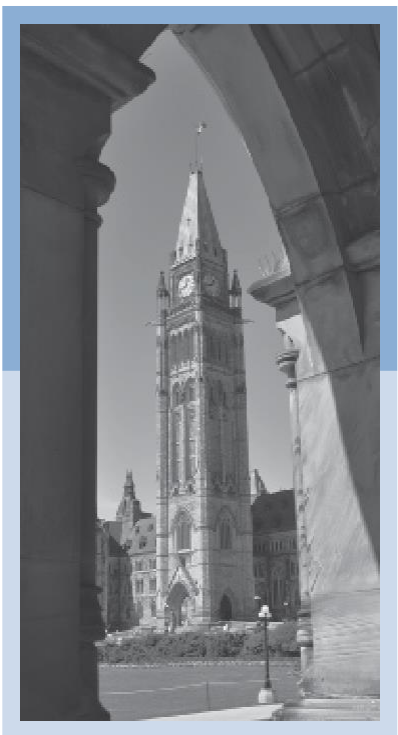
### **REPORT 3**

**Supplying the Canadian Armed Forces—National Defence**



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du Canada



**Spring 2020**

## **Reports of the Auditor General of Canada to the Parliament of Canada**

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**Independent Auditor's Report**

### **REPORT 3**

**Supplying the Canadian Armed Forces—National Defence**



Office of the  
Auditor General  
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vérificateur général  
du Canada

## Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada (OAG) under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected on the basis of their significance. While the OAG may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and OAG policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance
- gather the evidence necessary to assess performance against the criteria
- report both positive and negative findings
- conclude against the established audit objectives
- make recommendations for improvement when there are significant differences between criteria and assessed performance

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

The report is available on our website at [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca).

*Ce document est également publié en français.*

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# Introduction

## Background

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### Defence materiel

3.1 At any time, the Government of Canada can call on the Canadian Armed Forces to undertake missions to protect Canada and Canadians, and to maintain international peace and stability. The Canadian Armed Forces must be prepared to simultaneously

- defend Canada's sovereignty and assist in times of natural disasters and other emergencies that occur on Canadian territory
- help secure North America through its partnership in the North American Aerospace Defense Command (NORAD) and with the United States
- take part in peace support and peacekeeping operations that aim to contribute to world peace and stability

3.2 Such missions can be unpredictable. To prepare for and conduct these operations, the Canadian Armed Forces must be well equipped and trained. The 68,000 regular force members and 30,000 reserve force members must also be supported by a supply chain that provides them with the materiel they need, when needed. This materiel includes the goods military members use regularly, such as uniforms, specialized clothing, and rations. It also includes the equipment and spare parts needed to operate, maintain, and repair large fleets of vehicles, ships, and aircraft, as well as ammunition and fuel.

3.3 For many years, in our reports on the Government of Canada's consolidated financial statements, we have raised concerns about the ability of National Defence to properly account for its inventory of materiel. In the 2016–17 fiscal year, National Defence started to implement a 10-year inventory management action plan that aimed to correct the weaknesses we identified.

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### Roles and responsibilities

3.4 National Defence is composed of the Department of National Defence and the Canadian Armed Forces, which are headed by the Deputy Minister and the Chief of the Defence Staff, respectively. The 2 entities are jointly responsible for managing the supply chain.

3.5 Within the Department of National Defence, 2 groups share responsibilities for the supply chain (Exhibit 3.1). The equipment program management divisions are responsible for supporting the fleets of ships, vehicles, and aircraft. They decide what spare parts are needed, how many, and where the parts should be made available to ensure that the equipment can be properly maintained and repaired. The Materiel

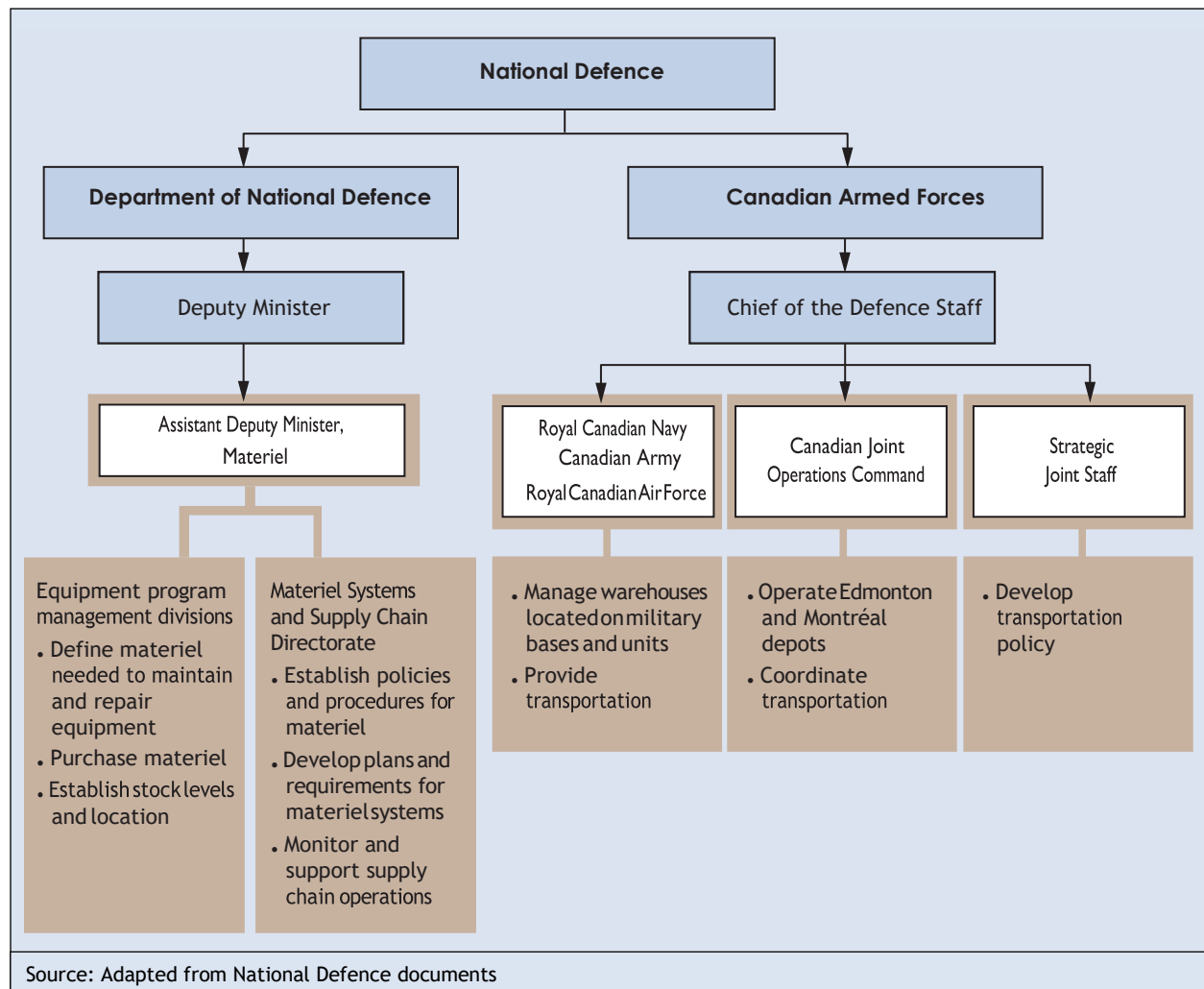


Systems and Supply Chain Directorate develops the supply policies, procedures, and business processes.

3.6 The Canadian Armed Forces are organized into various services. They include the Royal Canadian Navy, the Canadian Army, and the Royal Canadian Air Force, each of which operates bases and units, including local or regional warehouses, and maintenance and repair facilities. The bases and units hold the materiel stocks that members need to perform their duties. Staff at bases and units use the supply chain to replenish those stocks and obtain additional materiel as needed.

3.7 The Canadian Armed Forces also include the Canadian Joint Operations Command, which operates 2 national supply depots, located in Edmonton and Montréal. The navy operates 2 other depots, located in Esquimalt and Halifax. The navy, the army, the air force, the Canadian Joint Operations Command, and the Strategic Joint Staff manage various elements of the transportation system that is used to move the materiel between locations.

**Exhibit 3.1 Roles and responsibilities for supplying materiel**



## Focus of the audit

3.8 This audit focused on whether National Defence supplied the Canadian Armed Forces with the materiel they needed, when needed. We examined whether National Defence delivered the requested materiel items in a timely manner while avoiding needless transportation costs. We examined the supply chain for selected materiel from the time of request to the delivery of the materiel. Selected materiel included tools, spare parts, uniforms and specialized clothing, and rations. We excluded ammunition, bombs, and missiles, and also stand-alone equipment such as aircraft, vessels, and vehicles.

3.9 This audit is important because Canada's national security and the success of Canadian military operations abroad depend on National Defence's ability to supply the Canadian Armed Forces with the materiel they need to do their jobs to the best of their ability. The delivery of supplies must be timely so that materiel reaches military members when they need it.

3.10 More details about the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this report (see pages 14–16).

## Findings, Recommendations, and Responses

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### Overall message



3.11 Overall, we found that poor supply chain management often prevented National Defence from supplying the Canadian Armed Forces with materiel when it was needed. The military received materiel such as spare parts, uniforms, and rations later than the requested date half the time. Delays were frequently due to stock shortages. When stock is unavailable, materiel needs to be located elsewhere and transported to the right location, requiring additional steps in the supply chain and delaying deliveries. We found that a third of some 1 million requests were rerouted. Rerouted requests resulted in increased use of commercial transportation, which is often more costly than other options.

3.12 We also found that a large portion of the high-priority materiel requests were submitted as high priority without justification. Unjustified priority requests put an excessive burden on the supply chain and incur extra costs. National Defence did not have performance indicators to measure whether materiel was stocked at the right warehouses, or whether warehouses had sufficient stock to meet the needs of the military bases and units they were tasked with supporting. These weaknesses create uncertainties and delays in the supply chain, which prevent National Defence from making the most efficient use of its resources to supply the Canadian Armed Forces.

## Supply chain

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### Context

3.13 National Defence's supply chain aims to fulfill materiel requirements in the most economical and timely manner possible. To achieve this objective, National Defence aims to store the right quantity of materiel close to where it will be used.

3.14 While a portion of the materiel that National Defence purchases can be delivered directly to the military units where the materiel will be used, most deliveries are made to the Canadian Armed Forces supply depots in Edmonton and Montréal.

3.15 The supply depots serve the military bases in their respective regions. Materiel is transferred from depots to warehouses in those regions and then redistributed to smaller, local warehouses close to military units. Each unit receives its materiel using a designated supply chain structure.

3.16 At navy, army, and air force bases, supply units manage the local warehouses and help other units on the bases get the materiel they need if it is not available at their local warehouses.

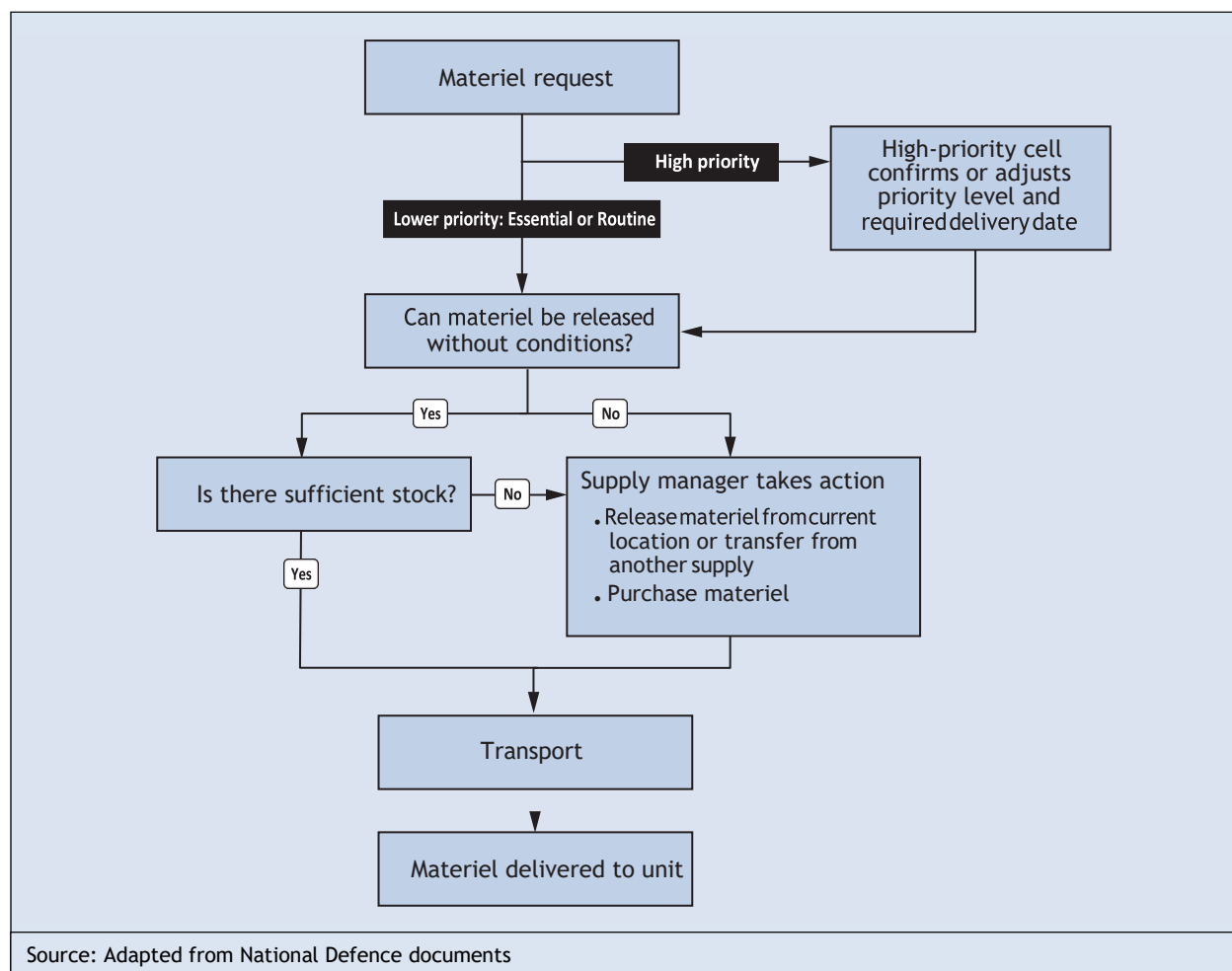
3.17 National Defence established a process and requirements to manage stock and transfer materiel between locations. The process is detailed in the Supply Administration Manual, which covers each phase of the supply chain, including materiel planning and forecasting, stocking, requesting, and delivering. The Transport Manual provides more details on the transportation process. The supply and transportation processes are each supported by information systems.

3.18 Materiel requests must be placed to transfer materiel between locations, and each request includes a required delivery date. There are 2 main ways that materiel requests can be initiated:

- Information systems can automatically initiate a request to, for example, complete a maintenance work order or replenish stock according to pre-established minimum stock levels.
- Supply units can initiate requests.

3.19 Once a materiel request is submitted, the information system searches for the materiel. If the materiel is available in a warehouse that supports the unit, the materiel is reserved. If the materiel is not available, or if there are conditions attached to its availability, the request is referred to the supply manager, who must decide how to satisfy the request. Options include releasing the materiel (if available) or initiating procurement (Exhibit 3.2).

### Exhibit 3.2 Process for materiel requests



3.20 The supply chain policy establishes an order of priority that is based on the importance of the request for operations and the required delivery dates. There are 3 levels of priority:

- **High priority**—Requests for materiel to satisfy critical operational requirements
- **Essential**—Requests that do not meet critical criteria but may have a significant impact on some operations
- **Routine**—All other requests, including stock replenishment

### National Defence often did not deliver materiel supplies when needed

#### What we found

3.21 We found that National Defence's systems and processes often did not ensure the timely and efficient delivery of military supplies to the Canadian Armed Forces. Stock shortages often caused delays. We also found that National Defence inefficiently managed priorities when

fulfilling the demand for materiel and did not have rigorous controls to manage the costs for transporting materiel.

3.22 The analysis supporting this finding discusses the following topics:

- Late delivery
- Poor stock management
- Inefficient processing of requests
- Inadequate control over transportation costs

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**Why this finding matters**

3.23 This finding matters because the late delivery of materiel can impede the military's ability to

- conduct training operations as scheduled
- be efficient in its missions and operations
- act quickly to respond to emerging situations

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**Recommendations**

3.24 Our recommendations in this area of examination appear at paragraphs 3.43, 3.50, and 3.57.

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**Analysis to support this finding****Late delivery**

3.25 We found that National Defence often delivered materiel later than requested.

3.26 When a request for materiel is made, it is assigned a required delivery date. If the materiel is needed urgently, the request may be submitted as high priority. This should trigger extra efforts to ensure that the materiel is delivered on time. During the period covered by our audit, approximately 1 million materiel requests were submitted and fulfilled to transfer materiel between locations. Of those requests, about 86,000 (or 8%) were deemed high priority.

3.27 We found that 50% of all materiel requested during the period covered by our audit was received after the required date of delivery. Among the late deliveries,

- 50% were at least 15 days late
- 25% were at least 40 days late

3.28 Among the high-priority requests, we found that 60% arrived after the required delivery date. Of these,

- 50% were at least 6 days late
- 25% were at least 20 days late

3.29 We also found that at the time of our audit, National Defence had a backlog of about 162,000 requests that were more than 1 year late, stalled at some stage in the process.

3.30 We found that delays occurred at various phases of the supply chain. These delays affected National Defence's capacity to perform its duties and manage its resources efficiently. Exhibit 3.3 provides an example.

**Exhibit 3.3 Delays in processing requests affected the efficiency of the Canadian Armed Forces**

**18 September 2017**—An air force unit from Canadian Forces Base (CFB) Trenton requested materiel needed for a search and rescue diving exercise. The request was not initially deemed high priority.

**23 January 2018**—The unit followed up on the request to find out why it had not been fulfilled. The unit was told that the request had been submitted incorrectly and was advised to delete it and create a new one.

**2 February 2018**—A new high-priority request was submitted. The unit should have normally been supplied by the Montréal supply depot, but the depot was out of stock. An additional request was therefore submitted to replenish the depot from another military warehouse.

**21 February 2018**—The depot received the materiel and later shipped it to CFB Trenton.

**27 February 2018**—CFB Trenton received the materiel.

National Defence was unable to justify why several months had elapsed before any action was taken. While this request was eventually rushed, it did not provide the materiel in time for the exercise.

Instead, and in parallel to the transactions described above, the air force located equivalent materiel at various locations across Canada and had the materiel shipped to the exercise location. While this process ensured that the materiel was available for the exercise, it duplicated effort and increased shipping costs.

3.31 National Defence recognized the importance of timely delivery of materiel to ensure that the Canadian Armed Forces are ready to respond when called on. During our audit, National Defence undertook a transformation project to improve the efficiency and timeliness of its supply chain.

**Poor stock management**

3.32 We found that National Defence did not stock the right quantities of materiel at the right locations. This required additional steps to procure materiel or to transfer it between locations, which slowed deliveries. Poor stock management also resulted in increased use of commercial transportation, which often costs more than other options. In addition, we found that National Defence did not develop adequate performance indicators on stock availability.

3.33 The efficiency of National Defence's supply chain relies on the following concepts:

- Materiel requirements are forecasted to meet the operational and readiness requirements of the Canadian Armed Forces and to ensure that the right materiel and quantity is in the right place at the right time.
- Materiel is positioned close to where it will be used to reduce costs and to enable rapid response in times of operational urgency.
- Minimum stock levels are set according to where materiel will be needed.
- Stocks are replenished to ensure that sufficient materiel is at the right place when required.
- Materiel is distributed according to National Defence's established supply chain structure.

We examined whether National Defence applied these concepts.

3.34 For the 129 high-priority requests we examined, we found the following in terms of minimum stock levels:

- In 100 cases, the minimum stock level was set at 0 for all warehouses in a requesting unit's supply chain structure, but National Defence could not confirm whether this level was set intentionally or was the information system's default.
- In the remaining 29 cases, the minimum stock level was set at greater than 0, but 14 cases did not comply with this level, causing stock shortages.

3.35 In terms of having materiel at the right place when needed, we found the following:

- In 28 cases of the 129 cases we examined, the warehouses that were normally expected to fulfill the request did not have enough stock, so the request had to be rerouted to a different warehouse.
- In 6 of those 28 cases, there was no stock available at any location, so National Defence had to purchase the requested materiel.

In our view, what we found indicated that National Defence did not adequately forecast its needs for materiel to be able to position it close to where it would be needed.

3.36 National Defence often had to reroute materiel requests. We found that 34% of the 1 million requests we examined did not follow the designated supply chain structure. This is consistent with a National Defence analysis dated December 2018 that indicated that stock shortages were particularly problematic in the Edmonton and Montréal supply depots.

3.37 Stock shortages and rerouting requests contributed to delays. We found that stock shortages triggered multiple actions to locate materiel and decide whether it should be rerouted or purchased. Warehouses that had insufficient stock to fulfill requests from the military units they served had to submit requests to get the materiel from other locations. Supply managers had to intervene to release the materiel when it had to be transferred across the supply chain structures. This created bottlenecks and increased delivery timelines.

3.38 We also found that rerouting requests put pressure on the transportation system, which led to increased use of commercial transportation. We reviewed National Defence's transportation data for materiel requests that were made and fulfilled during the period covered by our audit. For requests that did not follow the established supply chain structure, we found the following:

- For all materiel requests, National Defence used commercial transportation 3 times more often than for requests that followed the established supply chain structure.
- For high-priority requests, National Defence used commercial transportation 2 times more often than for requests that followed the established supply chain structure.

3.39 Stock shortages also generated operational costs. For example, in 1 case in our sample, an air force unit had to remove a part it needed from another aircraft. The unit then submitted a high-priority request to replace the part in the aircraft from which it was removed. Borrowing a part from another aircraft involves extra labour of specialized expertise to remove and replace the parts. It also takes time to properly track the transfer of parts to comply with airworthiness requirements.

3.40 We also found that National Defence did not develop performance indicators to measure whether materiel was stocked at the right warehouses, and whether warehouses held sufficient stock to fulfill the requirements of the military bases and units they were tasked with supporting.

3.41 In its performance reporting to Parliament, the Department of National Defence reported on stock availability at the national level. For many years, the department has set the maximum out-of-stock rate at 8%.

3.42 We asked the Department of National Defence to provide the method it used to set its maximum national out-of-stock target at 8%. Although it could not provide supporting documentation, the department informed us that it established the target in 2012 using the lowest stock availability results in previous years. We found that the department had not reviewed the target since that time to determine whether the measure was appropriate.



**3.43 Recommendation.** National Defence should review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations. It should also review its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met.

***The Department of National Defence's response.*** *Agreed. National Defence will conduct a review of how defence materiel holdings are planned to make sure that the right quantities of the right items are available for the Canadian Armed Forces' use, and that items are stored in locations that result in an overall better service level.*

*National Defence will also conduct a review of how the availability of materiel is measured at the individual warehouse level, as well as across the national supply system.*

*In the Auditor General's observations on the Government of Canada's 2017–18 and 2018–19 consolidated financial statements, the Auditor General noted he was pleased with National Defence's actions to meet its commitments in the 2016 multi-year action plan to improve materiel management practices. The 2 new reviews will build on the progress of the 2016 multi-year plan to improve the newly assessed aspects of National Defence's business and to ensure the Canadian Armed Forces are well supported with materiel.*

### **Inefficient processing of requests**

**3.44** We found that National Defence did not rigorously prioritize requests for military supplies; a large portion of high-priority requests were flagged as high priority without justification.

**3.45** When submitting materiel requests, National Defence requires that military units fill a supply form to record key information—requesting unit, requested materiel, and purpose—and document approval of the request. Each materiel request must be assigned a priority level and required delivery date that is consistent with the priority level identified. For high-priority requests, additional information is to be provided to justify its importance for operational requirements and the required delivery date.

**3.46** Each military base has a team (called a high-priority cell) tasked with processing high-priority requests. If a unit wants its request to be treated as high priority, it must submit the required justification to this team. The team then reviews the request and certifies that the materiel is needed to satisfy critical operational requirements.

**3.47** For our sample of 129 high-priority materiel requests, we asked National Defence to provide the supply forms that were completed, or any other document to support the requests, such as emails or work orders. We also requested written explanations to justify the request for high-priority delivery.

3.48 We found that on the basis of the information we received, including explanations and supporting documentation, National Defence could not justify the high-priority status of 65% of the requests we reviewed (84 of 129).

3.49 In our view, the efficient management of priority requests is critical to ensuring that National Defence's resources are used on requirements that have the greatest impact on operations. Unjustified priority requests put an excessive burden on the supply chain and incur extra costs.

3.50 **Recommendation.** National Defence should improve its oversight of high-priority requests to ensure that such requests are used only when necessary.

***The Department of National Defence's response.** Agreed. National Defence is currently conducting a holistic review to improve and optimize costs for the freight distribution services within the Canadian Armed Forces while maintaining operational effectiveness. This program is in the initial stage of defining the problem. Providing greater certainty to the time it takes for the supply chain to deliver materiel to units will reduce the need for unnecessary high-priority requests.*

*In addition, in the short term, National Defence will reinforce the use of high-priority requests in compliance with established policy.*

### **Inadequate control over transportation costs**

3.51 We found that for materiel movements within Canada, National Defence did not have the right controls to determine the most appropriate transportation methods to fill requests and to oversee transportation costs.

3.52 Moving materiel overseas is complex, and the choice of suitable transportation methods depends on multiple factors—beyond costs—that are specific to each situation.

3.53 In Canada, National Defence can use the following transportation methods to move its materiel:

- The Canadian Joint Operations Command operates a materiel transportation system called the National Freight Run. Military drivers and vehicles travel by road on a fixed path and schedule to deliver materiel between some locations across Canada.
- The navy, army, and air force can also use their fleets to transport materiel when it needs to be shipped to locations that are not served by the National Freight Run or when it is more practical to do so.
- When needed, commercial transportation can be used. Various modes are available, from small express shipments to air or sea lifts.

3.54 National Defence required that costs be considered when selecting transportation methods. The supply administration and transport manuals refer to the use of “premium transportation” when additional costs are warranted to deliver materiel on time. They indicate that the use of premium transportation can be authorized only to respect the required delivery date of high-priority requests.

3.55 We found that National Defence defined “premium transportation” as “high-cost methods” without providing any guidance on how to assess transportation costs and what constitutes high costs.

3.56 We found that the information system that supports transportation activities did not include the costs of all available modes of transportation. Although the system listed the costs associated with commercial shipments, it did not list the costs of operating National Defence fleets. Without clear criteria and full cost disclosure, it is difficult for the staff responsible to authorize shipment methods and to make well-informed decisions. It also prevents National Defence from reporting on transportation costs, including premium transportation.

3.57 **Recommendation.** National Defence should communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure that decisions are founded on a full understanding of costs.

***The Department of National Defence’s response.** Agreed. As noted in the previous response (see paragraph 3.50), National Defence is currently conducting a holistic review to improve and optimize costs for the freight distribution services within the Canadian Armed Forces while maintaining operational effectiveness.*

*This review is in its first stage, which is defining the problem and determining the best methodology to query the existing data. The next stage will be collecting and analyzing this data to determine the optimal materiel distribution system for National Defence. A key element of this review is for the distribution system to include decision making for end users that is founded on a full understanding of costs.*

*Once next steps are identified, they will be fully communicated to the leaders and end users in the Canadian Armed Forces’ materiel distribution function, including preliminary plans for specific practitioner training.*

## Conclusion

3.58 We concluded that National Defence often did not deliver on time the materiel the Canadian Armed Forces requested, and that it did not have the right controls in place to determine whether it avoided needless transportation costs.

# About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on National Defence's supply chain. Our responsibility was to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government's management of resources and programs, and to conclude on whether National Defence complied in all significant respects with the applicable criteria.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from entity management:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

## Audit objective

The objective of this audit was to determine whether, for selected materiel, National Defence delivered in a timely manner the materiel items requested by Canadian Armed Forces personnel while avoiding needless transportation costs.

- The term "selected materiel" refers to the scope of examination, which consists of all materiel as defined in the *National Defence Act*, with the exception of ammunition, bombs, and missiles, and also stand-alone equipment such as aircraft, vessels, and vehicles.

## Scope and approach

This audit focused on whether National Defence supplied the Canadian Armed Forces with the materiel they needed, when needed. Our audit examined the supply chain for selected materiel from the time of the request to the delivery of the materiel, whether held in inventory or not. Our examination focused on timeliness, transportation costs, and performance measurement.

The audit's scope consisted of materiel requests made and fulfilled between 1 April 2017 and 31 March 2019. The analysis was limited to requests contained in the main information systems that support the supply and transportation processes. We performed analyses using National Defence's raw data, internal reports, and documentation about specific requests. These included data analyses of all the materiel requests covered by our audit and an examination of a sample of 129 cases randomly selected from the 52,000 high-priority requests that did not meet their required delivery dates.

More specifically, we calculated time elapsed between various phases of the supply chain, and when required delivery dates were not met, we identified where the delays occurred. For the sample of high-priority materiel requests that were delivered late, we assessed

- whether the priority assigned to the requests was justified
- what factors contributed to delays
- the impact of delays

We also analyzed transportation data to determine

- to what extent National Defence incurred additional costs due to delays
- how transportation costs were considered in selecting the mode of transportation to deliver materiel to its destination

Finally, we examined whether National Defence had measures to properly monitor and assess the performance of its supply chain.

We did not examine human resource matters, such as whether National Defence had the right personnel at the right place to manage materiel, or whether personnel had the training they needed to effectively manage the supply chain. We did not examine procurement and purchasing, warehouse management, or the merit of materiel requested and received.

## Criteria

Criteria	Sources
<b>We used the following criteria to determine whether, for selected materiel, National Defence delivered in a timely manner the materiel items requested by Canadian Armed Forces personnel while avoiding needless transportation costs:</b>	
National Defence provides the materiel requested in a timely manner to support the Canadian Armed Forces' operational objectives.	<ul style="list-style-type: none"> <li>• Defence Administrative Order and Directive 3000-0, Materiel Acquisition and Support, National Defence</li> <li>• Defence Administrative Order and Directive 3029-0, Movement of Materiel and Baggage, National Defence</li> <li>• Supply Administration Manual, National Defence</li> <li>• Transportation Manual, National Defence</li> <li>• Individual in-service support contracts, National Defence</li> </ul>

Criteria	Sources
<b>We used the following criteria to determine whether, for selected materiel, National Defence delivered in a timely manner the materiel items requested by Canadian Armed Forces personnel while avoiding needless transportation costs: (continued)</b>	
National Defence provides the materiel requested without incurring needless transportation costs.	<ul style="list-style-type: none"> <li>• Defence Administrative Order and Directive 3000-0, Materiel Acquisition and Support, National Defence</li> <li>• Defence Administrative Order and Directive 3029-0, Movement of Materiel and Baggage, National Defence</li> <li>• Supply Administration Manual, National Defence</li> </ul>
National Defence maintains complete and accurate data to support timely and informed materiel distribution decisions.	<ul style="list-style-type: none"> <li>• Policy on Management of Materiel, Treasury Board</li> <li>• Defence Administrative Order and Directive 3029-0, Movement of Materiel and Baggage, National Defence</li> <li>• Defence Administrative Order and Directive 6001-0, Information Management, National Defence</li> <li>• Supply Administration Manual, National Defence</li> </ul>
National Defence uses appropriate performance indicators to oversee, measure, and improve its materiel management practices.	<ul style="list-style-type: none"> <li>• Policy on Management of Materiel, Treasury Board</li> <li>• Policy on Results, Treasury Board</li> <li>• Defence Administrative Order and Directive 3000-0, Materiel Acquisition and Support, National Defence</li> </ul>

### Period covered by the audit

The audit covered the period from 1 April 2017 to 31 March 2019. This is the period to which the audit conclusion applies.

### Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 28 January 2020, in Ottawa, Canada.

### Audit team

Principal: Nicholas Swales  
Director: Chantal Thibaudeau

Cyril Catto  
Johanna Lazore  
Jeff Stephenson

# List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

recommendation	response
<b>Supply chain</b>	
<b>3.43</b> National Defence should review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations. It should also review its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met. <b>(3.25–3.42)</b>	<p><b>The Department of National Defence's response.</b> Agreed. National Defence will conduct a review of how defence materiel holdings are planned to make sure that the right quantities of the right items are available for the Canadian Armed Forces' use, and that items are stored in locations that result in an overall better service level.</p> <p>National Defence will also conduct a review of how the availability of materiel is measured at the individual warehouse level, as well as across the national supply system.</p> <p>In the Auditor General's observations on the Government of Canada's 2017-18 and 2018-19 consolidated financial statements, the Auditor General noted he was pleased with National Defence's actions to meet its commitments in the 2016 multi-year action plan to improve materiel management practices. The 2 new reviews will build on the progress of the 2016 multi-year plan to improve the newly assessed aspects of National Defence's business and to ensure the Canadian Armed Forces are well supported with materiel.</p>
<b>3.50</b> National Defence should improve its oversight of high-priority requests to ensure that such requests are used only when necessary. <b>(3.44–3.49)</b>	<p><b>The Department of National Defence's response.</b> Agreed. National Defence is currently conducting a holistic review to improve and optimize costs for the freight distribution services within the Canadian Armed Forces while maintaining operational effectiveness. This program is in the initial stage of defining the problem. Providing greater certainty to the time it takes for the supply chain to deliver materiel to units will reduce the need for unnecessary high-priority requests.</p> <p>In addition, in the short term, National Defence will reinforce the use of high-priority requests in compliance with established policy.</p>



Recommendation	Response
<p><b>3.57</b> National Defence should communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure that decisions are founded on a full understanding of costs. <b>(3.51–3.56)</b></p>	<p><b>The Department of National Defence's response.</b> Agreed. As noted in the previous response (see paragraph 3.50), National Defence is currently conducting a holistic review to improve and optimize costs for the freight distribution services within the Canadian Armed Forces while maintaining operational effectiveness.</p> <p>This review is in its first stage, which is defining the problem and determining the best methodology to query the existing data. The next stage will be collecting and analyzing this data to determine the optimal materiel distribution system for National Defence. A key element of this review is for the distribution system to include decision making for end users that is founded on a full understanding of costs.</p> <p>Once next steps are identified, they will be fully communicated to the leaders and end users in the Canadian Armed Forces' materiel distribution function, including preliminary plans for specific practitioner training.</p>

Spring 2020

**Reports of the Auditor General of Canada  
to the Parliament of Canada**

1. Immigration Removals
2. Student Financial Assistance
3. Supplying the Canadian Armed Forces—National Defence

Report of the Auditor General of Canada to the Board of Directors of the Canadian Commercial Corporation,  
Special Examination—2019

Report of the Auditor General of Canada to the Governing Council of the Standards Council of Canada,  
Special Examination—2019

Report of the Auditor General of Canada to the Board of Trustees of the National Gallery of Canada,  
Special Examination—2019

**Spring 2020 Report of the Auditor General of Canada**  
**Supplying the Canadian Armed Forces**

**DEPARTMENTAL RESPONSE – OFFICE OF THE AUDITOR GENERAL REPORT**  
**RECOMMENDATIONS**

Para	OAG Recommendation	Departmental Response	Description of Final Expected Outcome/Result	Expected Final Completion Date	Key Interim Milestones (Description/ Dates)	Responsible Organization / Point of Contact
Para 42 Rec 1	<p>National Defence should review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations.</p> <p>It should also review its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met.</p>	<p>Agreed. The Department will address this recommendation by conducting a review of how defence materiel holdings are planned to make sure the right quantities of the right items are available for Canadian Armed Forces use, and that they are stored in locations that result in an overall better service level.</p> <p>A review of how the availability of materiel is measured at the individual warehouse level, as well as across the national supply system will also be undertaken.</p> <p>In their Auditor General's observations on the Government of Canada's 2017-18 and 2018-19 consolidated financial statements reports, the Office of the Auditor General noted they were pleased with the</p>	Improved capability to forecast materiel requirements and to position materiel to better serve the Canadian Armed Forces.	31 Dec 2028	<p>1 July 2021 – Revised measures for materiel availability will be approved and the Departmental Results Framework will be updated to reflect the changes.</p> <p>31 July 2021 – Formal Defence Supply Chain Governance monitoring of materiel availability will begin.</p> <p>30 June 2022 – Results of review of materiel planning and forecasting policy, tools and processes will be presented to Governance along with an implementation plan for approval that addresses the OAG's</p>	<p><b>OPI:</b> ADM(Materiel) / DGMSSC</p> <p><b>OCI:</b> Strategic Joint Staff</p>

**Spring 2020 Report of the Auditor General of Canada**  
**Supplying the Canadian Armed Forces**

Para	OAG Recommendation	Departmental Response	Description of Final Expected Outcome/Result	Expected Final Completion Date	Key Interim Milestones (Description/ Dates)	Responsible Organization / Point of Contact
		Department's actions to meet its commitments in the 2016 multi-year action plan to improve materiel management practises. These two new reviews will build upon the progress of the 2016 multi-year plan to improve the newly-assessed aspects of our business and ensure the Canadian Armed Forces are well supported with materiel.			observations.  31 Dec 2028 – The next generation of Materiel Planning and Positioning tools will be integrated with the next generation Enterprise Resource Planning System, as part of a capital software project that is already in its early approval stages.	
Para 49 Rec 2	National Defence should improve its oversight of high priority requests to ensure that such requests are only used when necessary.	Agreed. National Defence is currently conducting a holistic review in order to improve, and optimize costs, for the freight distribution services within the Canadian Armed Forces, while maintaining operational effectiveness. This program is in the initial stage of defining the problem. Providing greater certainty to the time it takes for the Supply Chain to deliver materiel to units will reduce the need for unnecessary high priority	Implementation action to improve how materiel is requested and distributed to end users. The newly proposed solution will come with performance monitoring (oversight) as a critical success factor.	30 April 2024	31 Dec 2020 – Communication that reinforces the 'high priority requests' policy and direction.  31 Mar 21 – Review and data analysis complete  31 Mar 22 – Distribution system design complete and implementation order issued	<b>OPI:</b> Strategic Joint Staff  <b>OCI:</b> Canadian Joint Operations Command  <b>OCI:</b> ADM(Materiel)/DGMSSC

**Spring 2020 Report of the Auditor General of Canada**  
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Para	OAG Recommendation	Departmental Response	Description of Final Expected Outcome/Result	Expected Final Completion Date	Key Interim Milestones (Description/ Dates)	Responsible Organization / Point of Contact
		requests.  In addition, in the short term, National Defence will reinforce the use of High Priority Requests in compliance with established policy.				
Para 56 Rec 3	National Defence should communicate the costs of all available transportation methods and provide clear guidance on how to select the mode of transportation to ensure within Canada that decisions are founded on a full understanding of costs.	Agreed. As noted at the response to recommendation at para 56, National Defence is currently conducting a holistic review in order to improve, and optimize costs, for the freight distribution services within the Canadian Armed Forces, while maintaining operational effectiveness. This review is in its first stage of defining the problem and determining the best methodology to query the existing data. The next stage will be the collection and analysis of this data to determine the optimal materiel distribution system for National Defence. A key element of this review is for the distribution system to	Implementation of improved guidance and communication of costs to practitioners.  Implementation of cost-optimized material distribution domestically.	30 April 2024	31 Mar 21 – Review and data analysis complete  31 Mar 22 – Distribution system design complete and implementation order issued  15 Jan 23 – Review of financial framework and adjustments made as required.	<b>OPI:</b> Canadian Joint Operations Command  <b>OCI:</b> Strategic Joint Staff  <b>OCI:</b> ADM(Materiel)/DGMSSC

**Spring 2020 Report of the Auditor General of Canada**  
**Supplying the Canadian Armed Forces**

<b>Para</b>	<b>OAG Recommendation</b>	<b>Departmental Response</b>	<b>Description of Final Expected Outcome/Result</b>	<b>Expected Final Completion Date</b>	<b>Key Interim Milestones (Description/ Dates)</b>	<b>Responsible Organization / Point of Contact</b>
		<p>include decision-making for end-users founded on a full understanding of costs.</p> <p>Once next steps are identified these will be fully communicated to the leaders and end-users in the CAF materiel distribution function, including preliminary plans for specific practitioner training.</p>				



## **National Defence's supply chain for the Canadian Armed Forces delivers late 50% of the time**

**Ottawa, 8 July 2020**—A report from the Office of the Auditor General of Canada tabled today in Parliament concludes that National Defence often did not deliver on time the materiel the Canadian Armed Forces requested, and that it did not have the right controls in place to determine whether it avoided needless transportation costs. On average, materiel such as uniforms, rations, and parts, was delivered late half of the time.

The audit, which focused on the National Defence's supply chain for the Canadian Armed Forces, found that materiel is often not stocked when and where required. This means that requests need to be rerouted, with additional approvals and steps needed to fill them. Half of delayed requests were at least 15 days late, and 25% of these were at least 40 days late.

The audit found many instances where minimum stock levels in the military's system were set at zero. National Defence was unable to confirm whether this was by accident or by design. Flags need to be going up to signal the need to re-order stock to avoid shortages and subsequent delays in filling the Canadian Armed Forces' requests for materiel.



## Statement

### **Minister of National Defence's statement in response to the Auditor General of Canada's report on supplying the Canadian Armed Forces**

July 8, 2020 – Ottawa (Ontario) – National Defence / Canadian Armed Forces

Following the tabling of the Auditor General of Canada's report on supplying the Canadian Armed Forces, the Minister of National Defence, Harjit S. Sajjan, issued the following statement:

"I welcome the Auditor General's report on supplying the Canadian Armed Forces and accept all of the recommendations. We know strong supply chain management provides the necessary backbone for effective operations, which is why we have developed a holistic supply management approach that not only responds to the Auditor General's report, but also modernizes our system and supports various *Strong, Secure, Engaged* initiatives.

Whether responding to emergencies at home or participating in dozens of ongoing missions in countries abroad, the Canadian Armed Forces continue to demonstrate the readiness, resilience, and resourcefulness required to succeed under demanding circumstances. It is also imperative that we, at the Department of National Defence, ensure that each and every member has the equipment they need to do their important work.

Our supply chain is flexible and able to meet emergency demand, as proven these past few months when the Defence team's extensive experience helped supply the government's emergency procurement needs related to the COVID-19 response, and ensure our members are ready should there be a second wave.

Already, we have made considerable improvements to how we manage our assets. We have made improvements to stocktaking, the reporting of inventory costs, and the oversight of supply work. We are also advancing a number of new management projects, such as procuring standardized barcoding technology and new electronic system capabilities, to further improve our performance.

It is important to note that the steps we are taking today are not final actions regarding the way we order, store and distribute equipment for the Canadian Armed Forces. As we move forward, we will enhance our data analytics capabilities and rely on real data to ensure we have the right supply chain approach for our ever-evolving requirements, and to help us better anticipate future needs.

These steps will make sure that we have the right equipment, in the right quantities, at the right places to meet the challenges we ask our members to face now and in the future."



## 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 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.*

### **Background**

In its 2017 Government Response to the Committee's report *Public Accounts of Canada 2016*, National Defence committed to providing a 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 substantial progress in implementing the 2016 Action Plan to better record, value, and otherwise manage its inventory. The Department delivered on all commitments for fiscal years 2016-17 and 2017-2018. In May 2019, National Defence reported that it had completed 16 of 17 commitments for 2018-19, while exceeding targets in stocktaking and stock verification. We reported that the seventeenth and remaining commitment for fiscal year 2018-19 – related to the disposal of stagnant materiel – was nearly 98% complete, with only 28,800 items left to be disposed out of a total of over 1.6 million.

As of 31 October 2019, 99% of stagnant materiel has been disposed of. Given this progress, National Defence considers the commitment complete, and will continue to monitor and report on levels of stagnant materiel internally to ensure the problem does not reoccur.

### **Update on Action Plan Commitments for Fiscal Year 2019-20**

The Department has made positive progress. At its mid-year update to the Performance Measurement and Evaluation Committee, National Defence reported that it had already completed 7 of 13 initiatives, and was on track to meet its targets for an additional four by fiscal year-end. Two were reported as being delayed. For the remainder of the fiscal year, National Defence continued to work on the outstanding initiatives.

The current COVID-19 situation has limited the ability of National Defence to verify subsequent progress and provide a complete year-end picture to the Committee by 30 May 2020. To ensure accuracy, National Defence is providing a partial update, with data reported internally at mid-year, covering 1 April 2019 to 31 October 2019. The enclosed annex provides details of National Defence's actions against its specific 2016 Action Plan commitments. National Defence will continue to verify the remaining data, covering 1 November 2019 to 31 March 2020, and will provide an update to the Public Accounts Committee by 30 September 2020.

**Green** = Initiative reported as completed.

**Light Green** = Initiative reported as on track for completion by 31 March 2020, and is pending final verification.

**Yellow** = Initiative reported as delayed, but 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	Completed	National Defence presented a mid-year update to its Performance Measurement and Evaluation Committee on 25 November 2019, and will present the year-end progress to the same committee in September 2020.

<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>
Recommended option for asset visibility technology endorsed	Completed	National Defence's Defence Capabilities Board endorsed the recommended option on 23 October 2018.
Enter definition phase to refine and cost recommended option in preparation for bid solicitation	Completed	National Defence entered the definition phase on 25 June 2019.

<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>
Stock verification at minimum of 10 sites	Completed	National Defence verified stock at 20 sites as of 31 October 2019.
Stocktaking at 24 sites	On track for completion (pending verification)	National Defence completed stocktaking at 17 of 24 sites as of 31 October 19, and is confirming that it met its commitment by 31 March 2020.
Year-over-year trend analysis	Completed	National Defence continues year-over-year trend analysis of completed stocktaking, overdue stocktaking, and discrepancies.
Mid- / end-year results reporting	In progress	National Defence reported mid-year results to its Materiel Acquisition and Support Oversight Committee on 9 December 2019, and will present year-end results to the same committee in August 2020.

<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>
Complete disposal of all remaining materiel identified for disposal in Repairable Reserves	On track for completion (pending verification)	National Defence disposed of 81,597 items as of 31 October 2019, and reported 11,000 items as remaining for disposal.
Complete rationalization of all remaining dormant materiel (300,000 stock codes) to enable disposal action for materiel deemed as no longer required	Completed	National Defence rationalized all of the original 300,000 stock codes by 31 October 2019, and has rationalized 309,000 in total.
Implement final modernization of materiel management policies and business processes	On track for completion (pending verification)	National Defence implemented approximately half of the policies and processes required for modernization as of 31 October 2019.  National Defence is confirming that it implemented the remaining policies and processes required to prevent the re-occurrence of a disposal backlog by 31 March 2020.

<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>
Deliver standardized pricing progress for bulk acquisition of spares	Completed	National Defence delivered the process and procedures for bulk acquisition of spare parts in April 2019.
Project Close-Out	On track for completion (pending verification)	National Defence is confirming it achieved project close-out by 31 March 2020.

<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	In progress	National Defence is monitoring transactions monthly.  National Defence will confirm to the Committee in September 2020 when it will begin performing analysis on a weekly basis.

## 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 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.*

### **Background**

In its 2017 Government Response to the Committee's report *Public Accounts of Canada 2016*, National Defence committed to providing a 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.

In its May 2020 update to the Committee, National Defence reported that it had made substantial progress in implementing the 2016 Action Plan to better record, value, and manage its inventory. In this update, National Defence also noted that the COVID-19 pandemic had limited the ability of the Department to provide a complete year-end picture by the annual deadline of May 30, 2020. Therefore, National Defence provided a partial update covering the period from April 1, 2019, to October 31, 2019, noting it had completed 7 of 13 initiatives from the Action Plan, and was on track to meet its targets by fiscal year-end. At the time of the partial update in May 2020, National Defence committed to provide a full year-end update to the Committee by September 30, 2020. Please find this update below.

### **Update on Action Plan Commitments for Fiscal Year 2019-20**

Since the update provided to the Committee in May 2020, National Defence has concluded five additional Action Plan initiatives, bringing the total number of completed initiatives to 12 out of the 13. The attached annex provides detailed information regarding these additional initiatives.

One final initiative remains in progress - the Pricing Data Legacy Cleanup commitment. This commitment will be completed by March 2021. National Defence has already implemented a software update in July 2020, which included automated reports that enable the Defence Team to identify and investigate potential pricing errors through weekly analyses of transactions. The Defence Team will implement an additional software update to the financial system by March 2021. This update will capture weekly at-sea ship inventory data and enable the Defence Team to perform weekly analyses of transactions on all inventory records.

National Defence will update the Public Accounts Committee on this last initiative as part of its annual report in May 2021.

**Green** = Initiative completed.

**Yellow** = Initiative delayed, but 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	Completed	National Defence presented a mid-year update to its Performance Measurement and Evaluation Committee on 25 November 2019, and presented the year-end progress to the same committee in September 2020.
<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>
Recommended option for asset visibility technology endorsed	Completed	National Defence's Defence Capabilities Board endorsed the recommended option on 23 October 2018.
Enter definition phase to refine and cost recommended option in preparation for bid solicitation	Completed	National Defence entered the definition phase on 25 June 2019.
<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>
Stock verification at minimum of 10 sites	Completed	National Defence delivered stock verification at 40 sites. This activity has been formalized as an annual activity in the Materiel Acquisition and Support Procurement and Contracting/Materiel Management Compliance Program Framework.
Stocktaking at 24 sites	Completed	National Defence delivered stocktaking at 31 sites.
Year-over-year trend analysis	Completed	National Defence continues year-over-year trend analysis of completed stocktaking, overdue stocktaking, and discrepancies.
Mid- / end-year results reporting	Completed	National Defence presented its year-end results to its Defence Supply Chain Oversight Committee in August 2020.

<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>
Complete disposal of all remaining materiel identified for disposal in Repairable Reserves	Substantively Completed	As of 30 June 2020, National Defence completed 100% of disposal documentation and only a small residual amount of materiel could not be disposed prior to this update. The remaining residual physical disposal activity will occur routinely when normal logistics operations resume.
Complete rationalization of all remaining dormant materiel (300,000 stock codes) to enable disposal action for materiel deemed as no longer required	Completed	National Defence rationalized all of the original 300,000 stock codes, and has rationalized over 346,000 in total, as of 30 June 2020.
Implement final modernization of materiel management policies and business processes	Completed	National Defence implemented updated disposal policies and processes required for modernization as of 31 March 2020, including automated reports to conduct oversight of disposal activities.

<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>
Deliver standardized pricing progress for bulk acquisition of spares	Completed	National Defence delivered the process and procedures for bulk acquisition of spare parts in April 2019.
Project Close-Out	Completed	National Defence achieved project close-out by 31 March 2020.

<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	In progress	National Defence implemented a new software update to the departmental financial system in July 2020. This update allows for the production of an automated report that enables National Defence to complete weekly analyses of transactions to identify and investigate potential pricing errors, with the exception of at-sea ship inventory data. These weekly reports will be augmented by March 2021 to include at-sea ship inventory data.





The Honourable Kevin Sorenson, P.C., M.P.  
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, please accept this as the Government Response to the Twenty-Eighth Report of the Standing Committee on Public Accounts entitled, "*Public Accounts of Canada 2016*."

We would like to take the opportunity to thank you and the members of the Standing Committee for your dedicated and cooperative work to improve the effectiveness of the financial practices and controls of the Government of Canada.

#### **Recommendation 1**

With respect to Recommendation 1, the Government agrees with the recommendation, and will publicly share the results of the project to update the methodology used to determine discount rates on or before the tabling of the *Public Accounts of Canada 2018*. In addition to sharing the results of the review and any adjustments to the methodology, the Government will share the supporting discussion paper. This document will include a summary of industry practices and meaningful trends in both the private sector and the public sector as well as highlighting any relevant trends in the accounting standard setting world.

We would like to inform the Committee that, to date, the Government has made significant progress on its review of the discount rate methodology. This includes benchmarking of industry practices in the public sector, engagement with a variety of experts to discuss the merits of various methodologies, and ongoing dialogue with standard setters. We look forward to sharing the results of this work with you.

.../2

## **Recommendation 2**

With respect to Recommendation 2, the Government agrees to provide a yearly one-page progress report on the Department of National Defence's Inventory Management Action Plan. However, the Government proposes that the report be provided to the Committee within 60 days of fiscal year end, beginning in 2017-2018, as opposed to the 30 days requested in order to allow the Government to provide accurate and current information that would most benefit the Committee. National Defence end of year activities will still be underway until mid-May, including assessing information on progress in implementing the 2016 Action Plan. National Defence requires sufficient time to conclude these activities, prepare the report, and submit it for final approval.

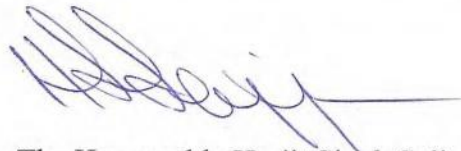
National Defence continues to expend considerable efforts to address its challenges with inventory management with a deliberate, integrated, and sustained approach. While there has been significant progress, as noted by the Office of the Auditor General, there remain challenges as a result of the size and complexity of National Defence materiel and associated systems. Nonetheless, the 2016 Action Plan represents a comprehensive and integrated approach to address legacy data errors in the enterprise system of record while modernizing National Defence's business processes moving forward.

We would like to take the opportunity to thank you and the members of the Standing Committee again for your important work.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Scott Brison', with a stylized flourish at the end.





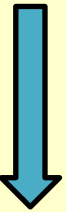


The Honourable Scott Brison, P.C., M.P.  
President of the Treasury Board

A handwritten signature in blue ink, appearing to read 'Harjit Singh Sajjan', with a long horizontal line extending to the right.

The Honourable Harjit Singh Sajjan, P.C., M.P.  
Minister of National Defence



# ANNEX C: 2016 ACTION PLAN: SCHEDULE AND MILESTONES

<div>Initiative</div> <div></div>	<b>Governance:</b> Ensure more consistent senior leadership, visibility, accountability and direction using existing departmental governance	<b>Automatic Identification Technology:</b> Acquire asset visibility technology (asset marking and reading technology) with modernized business processes integrated into Defence Resource Management Information System (DRMIS)	<b>Enhanced Materiel Accountability:</b> Continue to augment stock taking and verifications activities, sustain and mature Materiel Attestation framework and sponsor development and delivery of automated reporting and business analytics	<b>Inventory Management Modernization and Rationalization Project:</b> Rationalize holdings of materiel, enable disposal of materiel no longer required and modernize business processes, policy and training aligned to DRMIS	<b>Pricing Project:</b> Review and modernize all materiel pricing processes and data, implement changes to policy, procedures, training and DRMIS to sustain accurate materiel pricing moving forward	<b>Pricing Legacy Data Clean-Up:</b> Identify and correct existing pricing inaccuracies
<div>Fiscal Year</div> <div></div>		<ul style="list-style-type: none"><li>Scaled Options Framework Finalized</li><li>Complete development of scaled options</li></ul>	<ul style="list-style-type: none"><li>End Year Stock Verifications (10 sites)</li><li>New Stocktaking Contract</li><li>End Year results reporting</li></ul>	<ul style="list-style-type: none"><li>Dispose of 200,000 Materiel Items identified as stagnated in disposal</li><li>Implement Modernized disposal policy and training</li></ul>	<ul style="list-style-type: none"><li>Identification of pricing gaps</li><li>Develop initial standard process to minimize use of unforecasted receipts for pricing</li></ul>	<ul style="list-style-type: none"><li>Develop methodology for analyzing all 50 million transactions in DRMIS</li><li>Validate and correct ammunition stock code prices in DRMIS as required (\$3.5B value, 2,000 stock codes)</li></ul>
2017-18	<ul style="list-style-type: none"><li>Development of integrated reporting dashboard</li><li>Semi-annual progress update to Defence Renewal Oversight Committee</li><li>End-Year progress update to Deputy Minister and Defence Renewal Oversight Committee</li></ul>	<ul style="list-style-type: none"><li>Selected Scaled Options Endorsement (Defence Capability Board)</li><li>Requirements Endorsed</li><li>Project Charter Approval</li><li>Initial Industry Engagement Commenced</li><li>Engage with Allies on Best Practices</li><li>Initial Project Complexity and Risk Assessment Completed</li></ul>	<ul style="list-style-type: none"><li>Stock Verifications at minimum of 10 sites</li><li>Stocktaking at 24 sites</li><li>Year over Year trend Analysis start</li><li>Mid / End Year results reporting</li><li>Annual business reporting requirements</li></ul>	<ul style="list-style-type: none"><li>Dispose of 500,000 Materiel Items identified as stagnated in disposal</li><li>Complete rationalization analysis of all materiel held in Repairable Reserves (20,000 stock codes) to enable disposal.</li><li>Initiate rationalization for remaining 300,000 stock codes assessed as dormant</li></ul>	<ul style="list-style-type: none"><li>Semi-annual progress update to Defence Management Committee</li><li>Standardize and deliver process for Kitting, and Replacement Cost pricing</li></ul>	<ul style="list-style-type: none"><li>Identify High Risk/High Value inventory stock codes</li><li>Validate and correct prices in DRMIS as required for High Value/High Risk inventory stock codes (approximately \$1.8B value)</li><li>Begin trial monitoring</li></ul>
2018-19	<ul style="list-style-type: none"><li>Semi-annual progress update to Defence Renewal Oversight Committee</li><li>End-Year update to Deputy Minister and Defence Renewal Oversight Committee</li></ul>	<ul style="list-style-type: none"><li>Industry Engagement continues</li><li>Option Costing and Benefits Analysis Complete</li><li>Business Case Complete</li><li>Options Screening and Recommendation Complete</li><li>Project Costing for Definition Phase Complete</li><li>Definition Phase Plan Developed</li></ul>	<ul style="list-style-type: none"><li>Stock Verifications at minimum of 10 sites</li><li>Stocktaking at 24 sites</li><li>Year over Year trend Analysis</li><li>Mid / End Year results reporting</li></ul>	<ul style="list-style-type: none"><li>Complete disposal of all remaining materiel stagnated in disposal.</li></ul>	<ul style="list-style-type: none"><li>Deliver standardized pricing process for procurement forecasting and materiel</li><li>Deliver final standardized process to minimize use of unforecasted receipts for pricing</li></ul>	<ul style="list-style-type: none"><li>Validate and correct remaining inventory stock code prices in DRMIS as required (approximately \$1B value)</li><li>Implement full, ongoing monitoring</li></ul>
2019-20	<div><ul style="list-style-type: none"><li>Sustain senior management oversight</li></ul></div>	<ul style="list-style-type: none"><li>Endorsement of Recommended Option</li><li>Enter Definition Phase to refine and cost recommended option in preparation for bid solicitation</li></ul>	<ul style="list-style-type: none"><li>Stock Verifications at minimum of 10 sites</li><li>Stocktaking at 24 sites</li><li>Year over Year trend Analysis</li><li>Mid / End Year results reporting</li></ul>	<ul style="list-style-type: none"><li>Complete disposal of all remaining materiel identified for disposal in Repairable Reserves.</li><li>Complete rationalization of all remaining dormant materiel (300,000 stock codes) to enable disposal action for materiel deemed as no longer required.</li><li>Implement final modernization of materiel management policies and business processes.</li></ul>	<ul style="list-style-type: none"><li>Deliver standardized pricing process for bulk acquisition of spares</li><li>Project Close-Out</li></ul>	<div><ul style="list-style-type: none"><li>Ongoing monitoring (weekly analysis) of transactions to identify and investigate possible errors)</li></ul></div>
2020-21		<ul style="list-style-type: none"><li>Implement activities as per Definition Plan schedule</li></ul>	<div><ul style="list-style-type: none"><li>Sustain institutional stock verification</li></ul></div>	<ul style="list-style-type: none"><li>Project Close Out and transition to matrix</li></ul>		
2021-22		<ul style="list-style-type: none"><li><b>Decision:</b> seek effective project approval for implementation</li></ul>				
2022-23		<div><ul style="list-style-type: none"><li>Implementation</li></ul></div>				
2023-24						
2024-25						
2025-26						
2026-27						
<div>Outcome</div> <div></div>	<ul style="list-style-type: none"><li>Increased senior leadership visibility, accountability and direction of the 2016 Action Plan</li></ul>	<ul style="list-style-type: none"><li>Real-time asset visibility, inventory valuation and material security, leading to improved accuracy of inventory data</li></ul>	<ul style="list-style-type: none"><li>Accurate inventory data as it pertains to quantity, condition, location and price</li></ul>	<ul style="list-style-type: none"><li>Reduction of obsolete materiel, improved materiel visibility and accountability, and maximization of warehousing and storage spaces</li></ul>	<ul style="list-style-type: none"><li>Streamlined pricing processes, policies and training packages. Pricing data and accounting requirements are aligned for better valuation</li></ul>	<ul style="list-style-type: none"><li>Regular monitoring corrects inaccurate stock code prices and deter errors as they emerge, resulting in a more accurate inventory database</li></ul>

## CANADIAN ARMED FORCES SUPPORT TO WHOLE-OF-GOVERNMENT RESPONSE TO COVID-19

- Since the outbreak of the pandemic, the Canadian Armed Forces has contributed to whole-of-government efforts in response to COVID-19.
- The Canadian Armed Forces played a critical role in initial response efforts, including repatriating Canadians from outbreak epicentres across the world and housing returnees at CFB Trenton for their quarantine.
- When it became clear that COVID-19 posed a serious threat within Canada, the Canadian Armed Forces answered the call.
- This support included responses to Requests for Assistance across the country, to include logistical support to the Public Health Agency of Canada.
- The Canadian Rangers were also active across Canada, where they provided assistance to northern and Indigenous communities.
- Most notably, the Canadian Armed Forces helped provincial partners support some of our most vulnerable populations in long-term care facilities.
- Looking ahead, the Canadian Armed Forces will continue to remain responsive to new challenges that emerge as a result of COVID-19.
- National Defence stands ready to provide support to federal, provincial, and territorial partners in response to COVID-19, while also maintaining operational readiness abroad.

### KEY FACTS

#### Operation GLOBE activities:

- The Canadian Armed Forces assisted in the repatriation and quarantine of a total of **870 individuals at CFB Trenton**, and the NAVCENTRE, Cornwall.
- The CAF delivered over **180,000 lbs of medical supplies** into Latin America and the Caribbean between July 23rd and August 3rd, 2020

#### Operation LASER activities:

- Through Op LASER, approximately **1,700 CAF members** deployed to support long-term care facilities in Quebec and Ontario.
  - A total of **47 facilities in Quebec**
  - A total of **7 facilities in Ontario**
- Another **30 CAF members assisted Public Health Ontario** in conducting contact tracing over a 71 day period, establishing contact with 1536 individuals.
- CAF infrastructure was used to **house testing equipment, distribute essential medical equipment** domestically, and **transport personal protective equipment samples** for testing in the US.

## DETAILS

### OPERATION GLOBE

- Canadian Armed Forces (CAF) personnel are sometimes asked to help other Canadian federal departments with various tasks or to participate in Government of Canada activities abroad. When these tasks involve working outside of Canada, Canadian Armed Forces personnel deploy under Operation GLOBE.

### OPERATION LASER

- As a part of Operation LASER, the CAF provided support to Government of Canada objectives and requests for assistance.
- This included support in long-term care facilities in Quebec and Ontario by assisting with day-to-day operations, helping with the coordination and provision of medical care, and providing general support.

### NORTHERN AND INDIGENOUS COMMUNITIES

- In the COVID-19 environment our Canadian Ranger Patrol Groups remain ready to support community leaders and provincial and territorial COVID-19 awareness programs. The Rangers will also help identify potential emerging demands of the communities in which they operate.

### RECENT PARLIAMENTARY AND MEDIA INTEREST

- There has been sustained media and parliamentary interest in all aspects of the Canadian Armed Forces' support to whole-of-government efforts in response to COVID-19, particularly the CAF's role in repatriating Canadians from overseas and the CAF's more recent deployment to long-term care facilities.
- On February 5, 2020 and February 26, 2020, National Defence officials appeared before the House Standing Committee on Health (HESA) to provide testimony on the CAF's role in the medical screening and repatriation of Canadians.

- On June 26, 2020 National Defence officials appeared before the Standing Senate Committee on Social Affairs, Science and Technology to provide testimony on the CAF's role in the government's response to COVID-19.
- On July 20, 2020 the House Standing Committee on Health passed a motion for the production of papers, requesting documents from National Defense on CAF support to long-term care facilities in Ontario.

**2008**



**Report of the  
Auditor General  
of Canada  
to the House of Commons**

**MAY**

**Chapter 2  
Support for Overseas Deployments—  
National Defence**



Office of the Auditor General of Canada

*The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.*

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**Chapter**

# 2

**Support for Overseas Deployments**  
National Defence

*All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*



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# Support for Overseas Deployments

## National Defence

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### Main Points

#### What we examined

Canada's military role in Afghanistan since the end of 2003 has been to contribute to international security and, in particular, to the stability of the area. National Defence support to the mission is essential to ensuring that troops as well as civilians working alongside the military have the supplies and services they need to conduct operations and maintain readiness.

We examined whether the National Defence supply chain has been able to respond to the needs of the mission in Afghanistan as the mission has evolved. We looked at whether the supply system has been able to maintain adequate stocks for the repair and maintenance of military equipment, to track and control supplies as they move to Afghanistan through the supply chain, and to deliver items to those who need them when they are needed.

#### Why it's important

Military operations cannot be conducted without logistical support that moves the right equipment to the right people at the right time. The ability to support operations dictates what the mission can do. The Canadian Forces' deployment to Kandahar, Afghanistan, is its largest overseas deployment since the Korean War. The supply chain needs to respond faster to more demanding situations in this mission than it has had to for previous overseas deployments. This mission has tested the ability of the Canadian Forces to support a major military operation when called upon to do so.

Canada is seen as a lead nation to the mission in Afghanistan and is self-supporting for the most part, although, like previous deployments, the Canadian Forces can also rely somewhat on support provided by allies. Canada is also providing medical services to other nations through the Canadian-led military hospital at Kandahar Air Field.

#### What we found

- National Defence has been able to deliver to troops its equipment and supplies that they need to do the job in Afghanistan. While we did note that commanders have expressed concerns over some supply chain shortcomings, we found no reports of supply chain problems that had significantly affected operations. This is largely

because the high level of dedication and hard work of Canadian Forces personnel enabled them to deliver the needed support.

- While National Defence has been able to adapt and adjust to the supply chain problems our audit identified, unless the deficiencies are addressed, the Department's ability to provide timely and appropriate support could be at risk over time. For example, we found delays in moving needed supplies to Afghanistan and found that the supply system does not provide enough information to track the arrival and whereabouts of all goods. Some key equipment has been difficult to maintain because of spare parts shortages or reduced stocks as equipment begins to wear out. Support to the mission is being supplemented by a growing number of contract personnel for maintenance and other services to help keep operations going.

**The Department has responded.** The Department agrees with all the recommendations. Its detailed responses follow the recommendations throughout the chapter.

## Introduction

**2.1** The Canadian Forces initially moved to Kandahar from Kabul during the fall of 2005 under Operation Enduring Freedom, the American-led operations in Afghanistan. With that move came the responsibility for the stabilization and security of a larger area alongside Canada's coalition and Afghan partners. As well, the Canadian Forces took on the lead role of providing hospital facilities and medical services for injured military personnel from all countries deployed to Regional Command South, one of the areas of NATO's operations in Afghanistan.

**2.2** The Canadian Navy, Army, and Air Force are contributing to the mission in Afghanistan and are working cooperatively toward its success. Within Afghanistan, most Canadian Forces personnel are stationed at the main base at Kandahar Air Field but also work out of a number of other locations, including the camp for the provincial reconstruction team and several **forward-operating bases** in Kandahar province. Although most of these personnel are members of the Army, the Air Force is providing needed air assets and personnel for operations. As well, the Navy has played a major role in the security of the Persian Gulf region and is providing personnel to the mission.

**2.3** The Joint Task Force Afghanistan is composed of Canadian Forces military personnel and approximately 250 positions for civilian personnel and contractors. As well, there are ongoing technical assistance visit teams who supplement the military personnel in Kandahar when needed, to do such things as

- replace key personnel on leave;
- perform modifications to vehicles, such as increased armoured protection;
- introduce new equipment; and
- put warehouse stock records in order.

**2.4** The number of Canadian military personnel in Afghanistan varies significantly during a rotation cycle (the period, generally six months, when personnel are stationed in Afghanistan). On average, there were about 2,445 Canadian Forces personnel **in-theatre** as part of the Joint Task Force during the six months ending January 31, 2008.

**2.5** Before they go to Afghanistan, Canadian Forces troops prepare for the mission at a specially designed training centre in Canada where they train as a battle group. The military has actively sought out

**Forward-operating base**—One of a number of small military camps outside of Kandahar Air Field from which operations can be launched.

**In-theatre**—The military's area of operation under one commander who is responsible for the mission. Theatres can comprise several sites, some of which may be located over large areas or include several countries. The Joint Task Force Afghanistan conducts its activities in one operational theatre that includes, for example, Kandahar Air Field, sites where the provincial reconstruction team is working in Kandahar, forward-operating bases where troops are located, and areas that provide logistics support to the operation.

lessons to be learned from the mission in Afghanistan and where appropriate it has incorporated these lessons into the training.

2.6 During the summer and fall of 2005, Canadian Forces troops participated in the transition from Kabul to Kandahar to prepare for operations to officially start in Kandahar in February 2006. The Assistant Deputy Minister (Materiel) assessed requirements and ensured that the camp at Kandahar Air Field could accommodate the personnel and equipment necessary for the operation, and that the needed mechanisms for logistical support were in place.

2.7 To prepare for the move, the Canadian Forces prepared the Table of Organization and Equipment, a document that National Defence uses for all overseas deployments to detail the personnel and equipment that the military will provide. The **Canadian Expeditionary Force Command** takes the lead on developing the Table of Organization and Equipment in consultation with other stakeholders, such as the Army, Air Force, **Canadian Operational Support Command**, and the Assistant Deputy Minister (Materiel), which, in particular, provides input on the composition of support services.

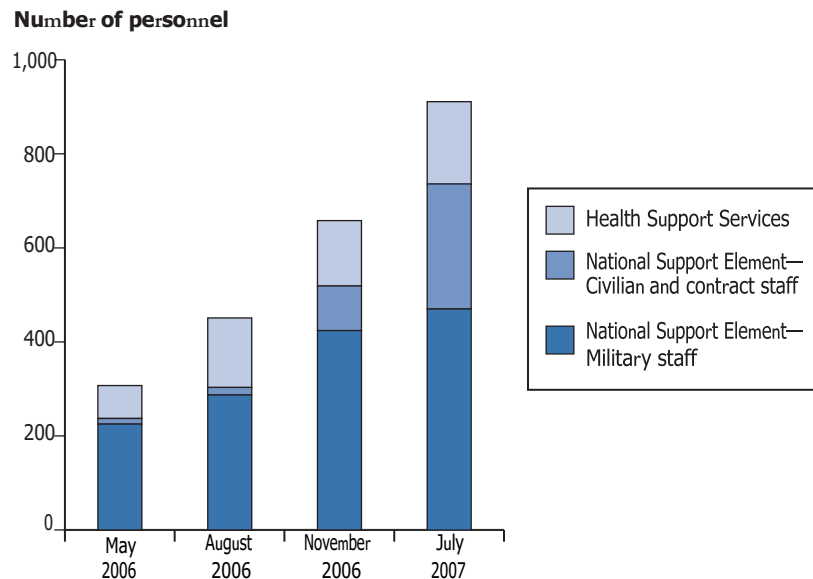
2.8 As the nature of the mission in Afghanistan has evolved since operations began in Kandahar in 2005, the Canadian Forces has adapted and adjusted. The Canadian Forces recognized that it would need to learn from its experiences in Afghanistan and would identify additional requirements as the mission progressed. The Canadian Forces has responded to changes in mission requirements by adjusting the Table of Organization and Equipment and along with the Army, Air Force, and Assistant Deputy Minister (Materiel), has provided commanders with its equipment, vehicles, and weapons that they reported were needed to carry out the mission.

2.9 Since deploying to Kandahar, the Canadian Forces has significantly increased the number of personnel deployed to Afghanistan to support the mission, as each rotation has found that additional personnel were required. Exhibit 2.1 illustrates the changes in the number of personnel making up two key organizations within the Joint Task Force Afghanistan that provide support: the **National Support Element**, and Health Support Services, which includes personnel at the Canadian-led multinational field hospital at Kandahar Air Field. These elements represent many, but not all, positions within the Joint Task Force that could be regarded as providing support.

**Canadian Expeditionary Force Command—**  
A departmental organization created in 2005 to plan and conduct Canadian Forces international operations, with the exception of operations conducted solely by the Canadian Special Operations Forces Command.

**Canadian Operational Support Command—**  
A departmental organization created in January 2006 to support all military operations. Headquartered in Ottawa, it is responsible for planning and delivering national-level operational support, including providing the logistics for setting up in-theatre operation, its sustainment, and for coordinating the logistic support. Its tasks include managing the main supply depots in Canada.

**National Support Element—**A Canadian Forces unit, based at Kandahar Air Field, consisting of approximately 730 military, civilian, and contract personnel. It sustains the Task Force Afghanistan combat operations by providing a range of support services, including warehousing and supplies, supply convoys, equipment maintenance, and food services.

**Exhibit 2.1** The number of support staff for the Joint Task Force Afghanistan has increased

Source: Department of National Defence

**2.10** Exhibit 2.1 shows that between May 2006 and July 2007, the number of support personnel needed for the Joint Task Force Afghanistan had tripled. Between November 2006 and July 2007, much of the increase was made up by increasing positions in health services and civilian and contractor personnel for functions such as equipment maintenance and supply functions.

### The supply chain has many components

**2.11** Supporting the mission requires personnel to manage supplies, such as truck tires, water, medical supplies, and ammunition, to name just a few items. Most everything a soldier may need comes through the supply chain. Personnel must acquire needed items and transport the goods to the users. They must maintain the overall supply chain to plan and purchase goods in advance, so that when requirements are identified in-theatre, the goods are available.

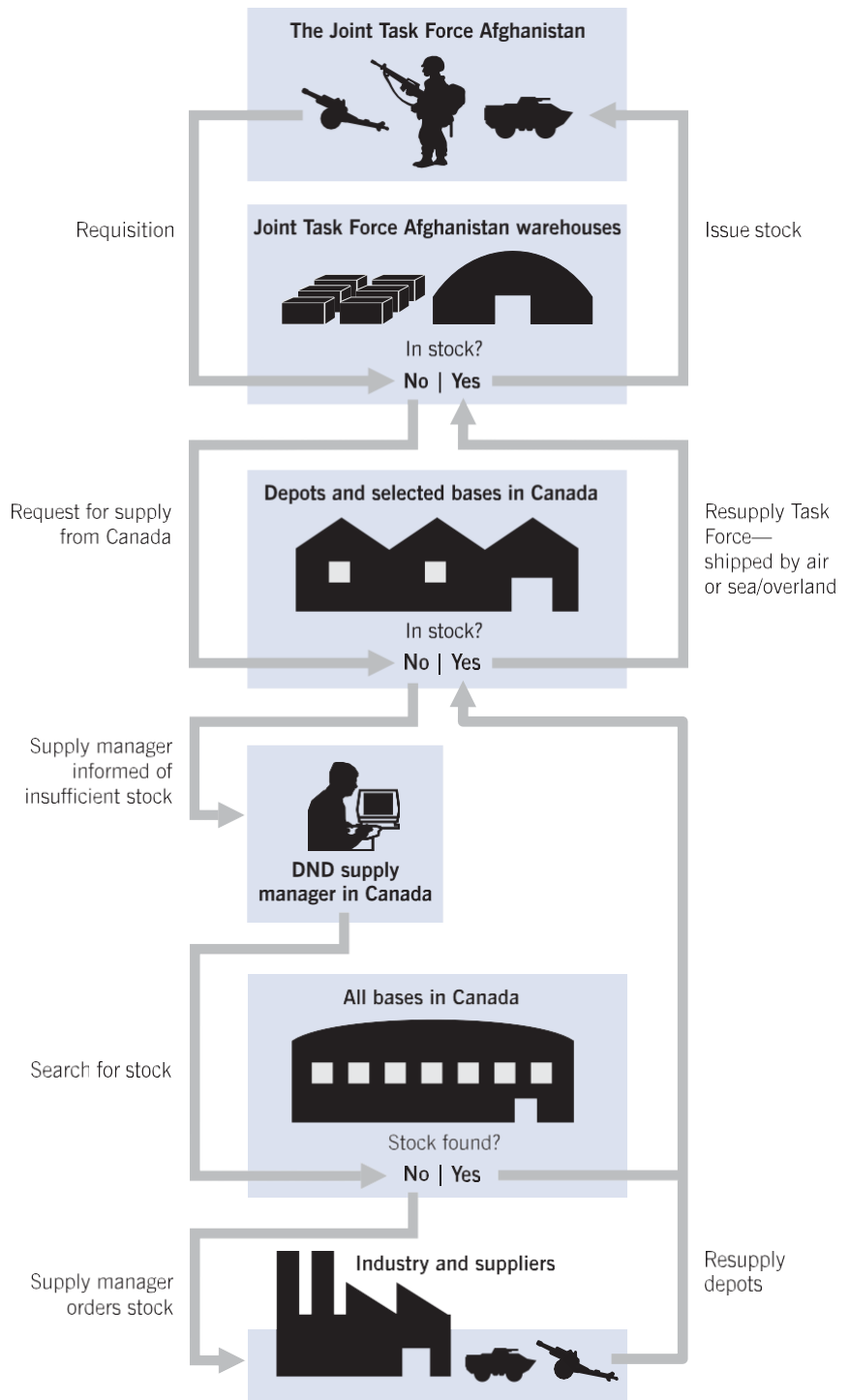
2.12 The operation is supported in-theatre by the National Support Element at Kandahar, which purchases locally and receives shipped goods, and by the Canadian Operational Support Command, which is responsible for the supply depots, including local purchases of items in Canada, and coordinating the transportation of goods into Afghanistan. The Assistant Deputy Minister (Materiel) organization is responsible for buying materiel and ensuring that stocks on hand can meet demands.

2.13 When stocks run low in-theatre, requisitions for more are entered electronically into the Canadian Forces Supply System by the supply technicians, who code the request by priority: operationally critical, essential, routine, or replenishment. Technicians also indicate when the goods are needed in-theatre. Requisitions are received at the supply depot, where, if stock is available, items are packaged and sent for transport. Approximately half of the orders placed for Kandahar are needed quickly and are deemed operationally critical or essential. Exhibit 2.2 shows the key steps in the supply chain to send goods to Afghanistan.

#### **Focus of the audit**

2.14 We conducted our audit to determine whether the logistical support to the Canadian Forces overseas deployment to Afghanistan has met the mission's needs. We examined the movement of materiel and supplies into Afghanistan, the maintenance of equipment and the supply of parts to keep equipment in service, and the provision of stocks for operations.

2.15 The scope of the audit was limited to this overseas deployment and did not include other deployments also under way. We did not examine the economy of supply chain operations in this area, nor did we examine the mission operations or contracts for the purchases of new military equipment. More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

**Exhibit 2.2** Simplified supply chain operations



## Observations and Recommendations

### Supply chain performance

#### National Defence is supporting the operation's needs

**2.16** The logistics effort for the mission has been huge and is key to success. While we did note commanders' concerns about some supply chain shortcomings, they have reported that they are, overall, satisfied with the support and equipment that has been provided to the mission, which, in their view, has made the Canadian Forces one of the best-equipped militaries in the coalition.

**2.17** However, while the supply chain has achieved, for the most part, the desired results, it has weaknesses that, if not addressed, may threaten its ability to sustain the mission over time. With each review by the Department of its holdings in Kandahar, there have been ongoing concerns over items that have been lost track of because storage, tracking, and retrieval methods are generally less capable than those used in the supply chain in Canada. While there is little information available to quantifiably assess the supply chain's performance, our observation is that results are often achieved more by military personnel's concerted efforts than by the system's design.

**2.18** Some of the system's weaknesses are understandable given the mission's fairly sudden shift in 2005 to a combat role of relatively high intensity for Canada—an overseas mission of a scale that the Canadian Forces has not faced since the Korean War. We have reviewed the audit reports for the supply operations of the United States and British forces and they show problems similar to those experienced by the Canadian Forces. This suggests, given the long experience of both those countries in overseas combat missions, that some of the issues may be inevitable for military operations with long supply chains. Nonetheless, it is important that the problems be addressed.

**2.19** The Canadian Forces Supply System and depots are organized to supply materiel to military bases in Canada and respond to their needs in a timely way. The system also provides many of the supplies needed by the operation in Afghanistan. In order to move supplies from depots in Canada to Kandahar, the Canadian Forces has relied for the most part on chartered heavy lift aircraft from the private sector because requirements have exceeded the available capacity of the Canadian Forces' fleet of CC-150 Polaris Airbus (A310) aircraft and aging CC-130 Hercules aircraft. Supporting the operation in Kandahar requires transporting by chartered aircraft, on average, about 85 tonnes of supplies each week. During the audit, the Department's

needs ranged from chartering as many as nine aircraft per week to as few as none but, on average, the Canadian Forces needed two or three commercial aircraft per week to either fly cargo into Afghanistan or have items returned; for example, damaged vehicles or equipment for repair in Canada. During the same time, National Defence used its own aircraft to move supplies and personnel to Afghanistan from Canadian Forces Base (CFB) Trenton about once per week.

**2.20** To a lesser extent, the Department has begun using commercial ships to support its operation in Afghanistan. Ships transport some less urgent equipment and supplies. Between an ocean port in Southwest Asia and Kandahar, the items are transported by road or air.

### **Transportation limitations slow the delivery of supplies**

**2.21** According to the Canadian Forces, the Joint Task Force Afghanistan should expect delivery of supplies from Canada to take 10 to 20 days. Department data showed that about half of items shipped do not reach Kandahar from the main supply depot in Canada within this expected time frame.

**2.22** Most cargo travels through CFB Trenton, where it is loaded onto military or commercial aircraft. Ensuring aircraft are loaded at CFB Trenton in a timely way has depended upon aging cargo loaders to lift containers, pallets, and equipment on or off aircraft. We found that when the Department's loaders were awaiting repair, the cargo loading and flights were delayed, which added to the time it took to move supplies to Afghanistan. We found that items often arrived at CFB Trenton already late for shipment to Afghanistan, but once items did arrive, about 15 percent sat waiting to be loaded onto an aircraft for a further 20 days or more before being loaded. The shipments often included items considered operationally critical or essential.

**2.23** The proportion of some types of materiel-handling equipment that is in working order has been unacceptably low. It was reported that some materiel-handling equipment deteriorated so badly that it needed immediate replacement. Logistic reports from Kandahar showed that the shortage and lack of working equipment was affecting the ability to support day-to-day operations. Logistic reports also stated that the unavailability of working materiel-handling equipment at CFB Trenton, used to load and unload supply planes, delayed the return of various types of equipment shipped by these planes for repair. The Department has informed us that to address these problems, it has been acquiring additional materiel-handling equipment.

**Meeting required delivery timelines is difficult**

**2.24** Department data also showed that most requests for supplies to Afghanistan from the main supply depot in Canada asked for the items within 15 days or less. While we found that the supply chain did deliver almost all goods requested, we found that most did not arrive by the time they were asked for. Our analysis of data provided by the Department indicates that less than 10 percent of operationally critical or essential items requested from the main depot in Canada were received in Kandahar by the required delivery date. Nearly one quarter of all requests were already late before being shipped out of the main depot. At the time of our visit to Kandahar Air Field, the supply system showed that 3,467 requisitions were outstanding, of which 61 percent were already past the required delivery date. These requisitions were for items from the main depot in Canada for spare parts, tools, clothing, weapons, and equipment such as engines and transmissions.

**2.25** We observed that requests are identified in the system with both required delivery date and priority. Some 47 percent of requests for items from the main depot in Canada are coded as either operationally critical or essential. As well, 81 percent of these orders ask for delivery within 10 days—a cycle that has been very difficult to achieve. The supply chain is expected to use the priority code in conjunction with the required delivery date to determine the most appropriate and economic mode of transportation to meet the required delivery date. For example, less urgent items can be shipped by sea and road, which is less costly than by air. However, most items were needed within a time frame that only shipment by air could accommodate.

**2.26** We observed that while some supplies needed on a priority basis arrived quickly, often supplies listed as operationally critical or essential did not. We wanted to know if there was an impact on operations if supplies that were described as operationally critical or essential arrived late. We could find no reports of late supplies seriously affecting operations. However, we did review reports where delays in receiving parts reduced the number of military vehicles and equipment ready to be put into service.

**2.27** We also found that the system sometimes recorded required delivery dates that were the same as the date the request was made, thus making timely delivery impossible. We found that these unrealistic required delivery dates, combined with high priority coding, resulted in special handling and increased transportation costs. The Department is currently redrafting its instructions to provide better guidance on

requesting and shipping supplies and to try to minimize high priority demands.

**2.28** We found that higher priority items were generally transported faster than those of lower priority. Nevertheless, we noted that when items were identified as particularly high priority by the user in-theatre, those responsible for getting them to Kandahar did not rely on the supply chain, but instead made phone calls back to Canada to ensure that items were flagged and shipped right away.

### **Goods are tracked in transit but can become lost once delivered**

**2.29** We found that in many cases when supplies seemed to be arriving late, the goods had already been received but the mission in Afghanistan was unaware. The mission has a database that lets users know if items are in transit. It cannot, however, provide information on when supplies are likely to arrive. The Department is shipping 85 tonnes of goods weekly by contracted airlift to the mission, and we found that it is able to track goods while in transit, but can lose sight of supplies once they arrive at their destination. In Kandahar, it can be difficult for supply technicians who run the supply warehouses that receive shipments to know what has arrived or where to find it.

**2.30** National Defence has an established system of stock numbers, package tracking numbers, and waybills to know what the requested items are and where they are in the supply chain, but technicians receiving the plane loads of supplies are required to deal with shipments manually. Supply technicians must physically find the goods, check their condition and quantity, and write down that they have been received. Therefore, supply technicians in Kandahar may not actually know that some supplies have arrived until they find the boxes and put them on the shelves. As a result, some items may be reordered or even forgotten, which can result in surplus stocks, unnecessary delays, or wasted shipments. National Defence regularly reviews its holdings in Afghanistan to maintain control and sends in rotation support assistance teams to conduct inventory counts. During the last review of its inventory holdings, the team found that the Department had lost track of a significant amount of inventory—over \$7 million of items could not be located—but it found another \$6.6 million of items that were not listed as part of the mission's holdings. The mission may have been unaware that it had the items, which included spare parts to repair equipment.

**2.31** Apart from ammunition and medical supplies, there is no single warehouse for supplies. Warehousing usually involves storing items in



Supplies can become lost in these sea container warehouses in Kandahar.

one or more of hundreds of sea containers stacked around the camp. As a result, if an arriving item is put into storage without being logged in the system indicating where it is stored, it can become lost.

**2.32** The Department has recognized that it has a shortage of supply personnel to deal with the volume of goods arriving in Kandahar and, from time to time, it sends in technical assistance teams to help clear backlogs. It also increased the number of contract personnel it uses to perform supply functions. However, the technicians are using a bar coding system in a manual way, not in the electronic way they are trained to do in Canada. This slows down the receipt of goods in Afghanistan.

**2.33 Recommendation.** National Defence should review its practices for tracking materiel once the materiel has arrived to ensure the arrival and storage is accurately recorded in a timely manner.

**The Department's response.** Agreed. The Department has initiated a project that should address this issue. The first phase of the Asset Visibility Project is to put in place a Canadian radio frequency identification capability to track consignments moving to and from Afghanistan. This capability will remove our current dependency on U.S. support and is expected to be in place by December 2008.

The second phase of the project is to develop an interim capability that will provide visibility of items in transit both within Canada and abroad. This interim capability is expected to be in place by 2009.

The third phase is to develop a comprehensive capability that will provide real time, or near-real time, visibility of assets throughout their life cycle. In other words, a system that provides visibility from the time the Department takes custody of an asset until the time we dispose of that asset.

### Supply chain performance monitoring is improving

**2.34** National Defence is starting to better monitor the performance of its supply system to determine whether it can respond to needs in a timely way. The Department does not have data on system performance and is currently working to gather data to monitor how well the system can meet user needs.

**2.35** We wanted to examine whether items not held in the supply system, such as parts shipped directly from the manufacturer or locally purchased items delivered directly to Kandahar, were received in a timely manner, but the Department could not provide us with reliable

data for analysis. The Department had also been attempting to measure the rates of stock-outs—the temporary unavailability of an item—but we found significant shortcomings in its methodology and data.

**2.36 Recommendation.** National Defence should continue its efforts to develop the performance measurement of its supply system, including assessing whether supplies are received in a timely manner appropriate to priority and need.

**The Department's response.** Agreed. The Department has initiated a performance measurement system for the supply chain. To date, 15 key performance indicators have been developed to monitor system performance using data from the Canadian Forces Supply System. At the conclusion of a user trial, this initiative is set to roll out to a number of supply management organizations in the fall of 2008.

The 15 key performance indicators developed so far focus on a variety of key measures within the Department's Supply System, such as average cycle times, depot stock reactivation rates, requisition volumes, and requisition satisfaction.

Work is continuing to prioritize and further develop performance indicators based on the Department's strategic direction and the perceived needs of the supply chain community.

## **Stock levels      Management of stock levels needs to be improved**

**2.37** The Joint Task Force Afghanistan codes the requisitions it puts into the supply system according to priority and required delivery date. Anything coded operationally critical or essential is needed for the success of the mission. We found that 19 percent of operationally critical or essential requests were delayed at the main depot in Canada for 10 days or longer due to stock-outs or other reasons the Department was unable to adequately provide. One possible explanation given was that perhaps the slips produced by the system that tell staff what items to take from the shelves for shipment had become misplaced within the depot. While the Department has not been compiling reliable stock-out statistics, stock-outs have clearly been a significant factor, but not the only factor, contributing to delays. Data obtained from the Department indicates that approximately 16 percent of items requested from the main depot in Canada for Kandahar during September 2007 were temporarily out of stock.

**2.38** The supply system has automatic reorder points for some stock held in Kandahar: when a minimum level is reached, more stock is supposed to be automatically ordered and delivered before levels on



hand reach zero. We noted that the base at Kandahar is under the same stock restrictions as other Canadian units, that is, stock to last 30 days, with some exceptions, is to be held at the supply warehouse. However, it can often take more than 30 days for the system to deliver supplies that have been ordered. Therefore, stock-outs can occur. We found that for about 12 percent of the items for which automatic reorder levels were set in Kandahar, stock on hand was zero.

**2.39** Materiel managers told us that, for spare parts, their assumptions of stock usage did not always fulfill the higher maintenance requirements in Afghanistan. Therefore, spare parts were often needed sooner than supply managers could acquire them from suppliers. As a result, stock-outs tended to occur for spare parts for combat equipment being used in Afghanistan under difficult conditions. We found that the Department had run out of some spare parts for equipment such as the light armoured vehicles and the heavy logistics trucks.

**2.40** We also noted that stock-outs tended to occur for equipment bought as an unforeseen operational requirement to provide additional resources for the Joint Task Force. Planning assumptions made when equipment was acquired underestimated the rate at which parts would need replacement and stocks ran out before they could be replenished. This occurred partly because some of these items had not been used in combat by Canada before this mission. For some of the new equipment, rapid replenishment was simply not possible because these items were not readily available from the manufacturer. The Department informed us that encountering problems in supporting new equipment is an assumed risk of these fast-tracked acquisitions and is balanced against the benefits provided by the new equipment that enhance combat effectiveness and soldier survivability.

**2.41** Materiel managers determine the appropriate stock level at which replacement orders should be made. They need to know how quickly stock is used and how quickly new stock can arrive. Therefore, materiel managers need to know how often there are stock-outs and better match these to the procurement turnaround times to ensure that the mission does not run out of needed supplies and that operationally critical or essential stock levels do not fall to zero.

#### **Parts shortages are delaying repairs**

**2.42** The Canadian Forces has several maintenance shops at Kandahar Air Field and can also repair equipment both at forward-operating bases and outside the camps. Our audit found that parts availability has been a factor in making timely repairs. While several thousand

different parts are warehoused by the Canadian Forces in Afghanistan, there have been times when equipment was waiting for parts from outside Afghanistan, such as from Canada, in order to be repaired. Between December 2006 and October 2007, equipment status reports prepared in Kandahar show that for the main combat equipment awaiting repair, 65 percent of the time, on average, they were waiting for parts to be delivered from either outside theatre, such as the main depot in Canada, or within theatre, such as between a warehouse at Kandahar Airfield and a forward-operating base. The other 35 percent of time was spent waiting for available labour.

**2.43** We found that the unavailability of parts from suppliers contributed to parts shortages. For example, shortages of spare parts from the manufacturer contributed to the armoured wheeled vehicle known as the Nyala being sent back to Canada. The three Nyala in Kandahar were out of service for months and subsequently returned to Canada as the parts could no longer be acquired, due in part to obsolescence.

**2.44** Although undesirable, maintenance personnel are permitted, when necessary, to borrow parts from one piece of equipment in order to make timely repairs to another. Our audit found that borrowing was necessary on some critical fleets in order to keep enough equipment available to meet mission needs.

### **The Canadian Forces Hospital is maintaining its stocks**



Canadian-led multinational hospital at Kandahar Air Field.

Source: Department of National Defence

**2.45** Since February 2006, Canadian Forces medical staff has run the multinational field hospital at Kandahar Air Field. Data provided for the period February to July 2007 shows that the hospital treated several thousand coalition and Afghan soldiers as well as civilians. It is a full-care facility that needs the support any hospital would require to run trauma resuscitation, operating rooms, intensive care and critical care wards, mental health care, and physiotherapy, as well as a pharmacy, a laboratory, and a radiology unit. Hospital support has three basic requirements: qualified personnel, medical supplies in stock, and functioning medical equipment.

**2.46** Because of the specialized handling and storage needed for medical supplies and equipment, National Defence manages its medical supply chain separately from the general supply system. The Department requires enough stock to respond to mass casualties and sustain medical operations for 26 days. We found, however, that supplies from Canada can take weeks to arrive. To prevent stock from falling short, the practice in Kandahar has been to carry 90 days of



inventory. Statistical information was not available on stock levels so we were unable to determine the extent to which stock-outs occurred. However, senior staff informed us that there have been a few times where the hospital has run critically low on certain medical supplies, but that the hospital staff were able to mitigate any potential impact on patient care.

**2.47** Medical officials informed us that when stocks of medical supplies run low, it often occurs due to delays in procuring the items rather than shipping them. Medical supplies can be expensive and those that cost over \$5,000 must go through a contracting process, which takes time. National Defence has been able to fast-track some items for immediate operational needs within 48 hours, and has put in place some **standing offers of agreement** to speed up the process. However, routine purchases can take several weeks to several months to complete, especially if the items cost more than the \$5,000 limit (Exhibit 2.3).

**2.48** We also found that as the lead nation, Canadian medical personnel make up the majority of staff at the hospital. Coalition partners have also committed to providing medical staff but, in some cases, have not been able to do so. Therefore, in order to ensure patient care and cover shortfalls, National Defence has sent more medical professionals to Kandahar than initially envisioned, including civilian medical staff. In addition, the hospital has reported that it has insufficient technical staff to adequately maintain and repair the medical equipment. Due to a limited number of medical equipment technicians available from within the military, the Department is considering hiring additional staff.

**Standing offer of agreement**—An agreement between the government and suppliers to provide goods and services at prearranged prices under set terms and conditions. These are not guaranteed contracts, but suppliers with standing offers can be called upon when and if needed.

#### **Exhibit 2.3** Purchasing expensive medical supplies can be a lengthy process

Soldiers in Afghanistan are protected by body armour, helmets, and goggles, which has saved lives by protecting vital areas. Consequently, the hospital treats a large number of serious injuries to arms and legs. Between February and July 2007, 281 orthopaedic surgeries were performed, representing half of all the surgeries during that time. Surgeons needed large numbers of orthopaedic surgical pins to fix and correct the bone fractures on wounded soldiers and civilians.

Orthopaedic pins are expensive and since orders for pins cost more than the \$5,000 procurement approval limit, any purchases of more pins had to go through the government contracting process. In April 2006, National Defence recognized the high demand for these items and initiated negotiations for a standing offer of agreement to ensure a quick supply. By October 2006, an agreement was signed with a vendor, with a purchase limit of \$40,000. However, by this time the Canadian Forces medical system needed over \$400,000 in surgical items from the vendor and it was not until November 2006, seven months after the need was identified, that stocks were shipped to Kandahar.

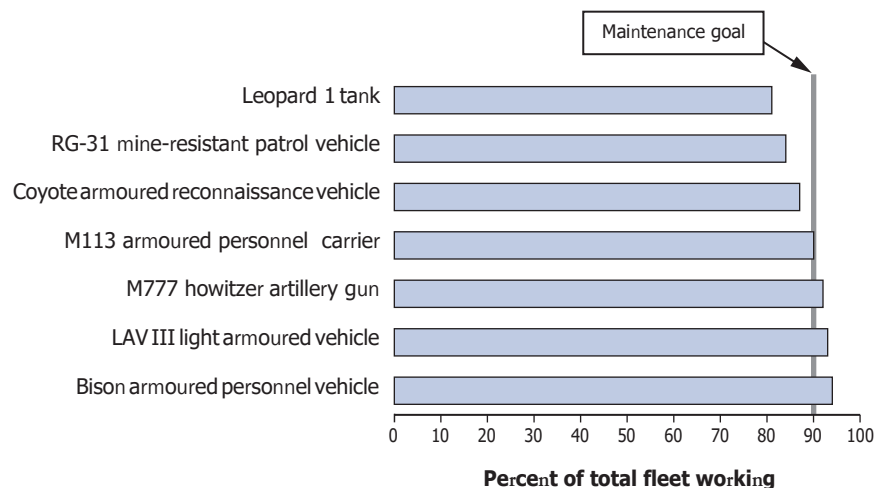
## Equipment availability

**Equipment serviceability**—The number of pieces of equipment ready to be used for their intended purpose from among those available. An item is not serviceable if it needs maintenance or repair. For example, if there were 10 trucks available, of which 7 could be put into service and 3 were undergoing repair, the serviceability rate would be 70 percent.

### Maintenance personnel are keeping most combat equipment fleets operational

**2.49** Our audit expected to find that the Department provided the operation with the serviceable equipment it needed. We found that the overall **serviceability** of the main combat fleets of vehicles and other **equipment** has been at or close to departmental expectations, as illustrated in Exhibit 2.4. This is despite harsh operating conditions, damage from enemy action, parts shortages, and modifications made on-site. The Department has supplemented the maintenance function with contract personnel and technical assistance teams. The commanders have established a maintenance goal of 90 percent serviceability for the combat fleets and we found that many combat fleets were close to this goal, ranging from 80 to 95 percent.

**Exhibit 2.4** Most fleets of combat equipment are close to or meeting the maintenance goal (December 2006–October 2007)



Source: Department of National Defence

### Maintaining a consistent level of serviceability has been a challenge

**2.50** The Department has had difficulties maintaining a consistent level of serviceability. This has been a particular challenge for the new equipment introduced directly to Afghanistan, purchased to respond to unforeseen operational requirements. National Defence expected that unforeseen operational requirements would be encountered as the mission evolved and needs were better understood. Since deploying to Afghanistan, the Department has responded to a number of unforeseen operational requirements and acquired several pieces of equipment, including the mine-resistant RG-31 wheeled patrol vehicle, the

long-range precision M777 howitzer guns (155mm), uninhabited aerial vehicles, Leopard 2 tanks, and systems to identify, detect, and defeat improvised explosive devices. The Joint Task Force has found that some items have not been as serviceable as planned.

**2.51** Because the new equipment is being introduced directly into action, the Department is challenged to ensure that it can properly support it, such as by providing an adequate supply of parts, and solving serviceability issues that are associated with any new piece of equipment but which would normally be dealt with prior to deployment and after lengthy testing. Our audit found that the Department has had difficulties in ensuring an adequate supply of spare parts for a number of new acquisitions after the initial purchase of spare parts was used faster than expected.

**2.52** In 2003, before beginning operations in Kandahar, the Department introduced tactical uninhabited aerial vehicles into operations at Kabul. About 85 flights were flown until June 2004 when the vehicles were no longer sustainable due to crashes and failures. In February 2006, the vehicles were reintroduced into operations at Kandahar, resulting in a number of challenges, including crashes, frequent flight cancellations due to equipment problems, and shortages of spare parts, with long lead times to reorder. By September 2006, the Department recognized that the vehicles' sustainability was again at risk. A number of actions have been taken, including extensive borrowing of parts from other aircraft to keep the aircraft operating. Our review of flight data from February to August 2007 shows that Canadian Forces operators, maintenance personnel, and supply personnel managed to keep the fleet operational but serviceability and parts availability issues persisted.

**2.53 Recommendation.** National Defence should review how it establishes stock levels for the parts it needs to keep existing and new equipment operating at expected serviceability targets, with a view to obtaining and delivering parts to users in a timely way. It should take into account changes as wear and tear to equipment increases on deployments, as better information becomes available on the performance of new equipment, or as the level of support from the manufacturers changes.

**The Department's response.** Agreed. The Department is now implementing a Distribution Resource Planning tool, complete with a modelling capability that is expected to significantly improve the ongoing identification of inventory requirements. This electronic tool will improve the Canadian Forces Supply System by addressing a

significant weakness in inventory rationalization and optimization. It will also provide the necessary information to make complex decisions regarding what to repair, and what to buy, in what quantities, and where to position it. Rollout is expected to begin in the spring of 2008.

The rapid introduction of new equipment to a theatre can be mitigated by the early identification of an initial provisioning plan for spare parts. The initial provisioning plan will be entered into the electronic Distribution Resource Planning tool and will be monitored by comparing actual usage to the estimated requirements identified in the plan. Within a few months, the Distribution Resource Planning tool will identify the optimal forecast methodologies and algorithms to use for the equipment in question. At that point, the initial provisioning plan can be subsumed into the normal day-to-day inventory management of the Distribution Resource Planning tool.

### **Maintaining reserve stocks of equipment has been difficult**

**2.54** The Canadian Forces in Kandahar keeps a reserve fleet of equipment, known as operational stock, to be used when the number of available vehicles declines. For example, a LAV III light armoured vehicle damaged beyond local repair could be replaced by a vehicle from the reserve if one is available. This reserve stock has also been used in Kandahar as a pool through which equipment is rotated in order to undergo upgrades, such as the installation of additional armour and protection, without affecting the number of pieces of equipment available for operations. Reserve stock has been authorized to be held in-theatre for some but not all fleets. We were informed by the Department that the decision to establish reserve stock is based on several factors, including estimates of the rates at which vehicles are damaged beyond local repair, and the fleets' sustainability.

**2.55** Through our review of equipment status reports prepared in Kandahar, we found that reserve stocks have been essential to keeping available the needed number of equipment to offset losses when a vehicle is destroyed in combat or cannot be repaired locally. However, when authorized reserve stocks become depleted, there are no more left to replace any further losses. In some instances, where reserve stock had been authorized, there was zero quantity available. As a result, in a limited number of instances, the amount of equipment available for operations in-theatre declined.

**2.56** The Department informed us that overall, reserve stocks have met its needs because the Canadian Forces can adapt and adjust according to circumstance.

### Maintaining serviceability levels of support vehicles has been more difficult

**2.57** In addition to the main combat fleets, the Canadian Forces uses several hundred support vehicles ranging from militarized logistics vehicles to non-military vehicles. These are needed to transport personnel, to move supplies to forward-operating bases, to recover damaged equipment, and to handle materiel at warehouses. The Canadian Forces has set an 85 percent serviceability goal for most of these non-combat vehicle fleets. Our audit found cases where it has been difficult to maintain serviceability of several types of logistical support equipment.

**2.58** There have been low rates of serviceability among several types of specialized heavy engineering equipment (Exhibit 2.5). Several rotations of personnel have reported concerns on the serviceability of these fleets. Problems were encountered with the aging fleet of heavy wheeled logistics vehicles used to carry cargo. The Joint Task Force also experienced problems with its materiel-handling equipment such as forklifts.

**Exhibit 2.5** Various support equipment has serviceability issues



#### **Armoured Engineering Vehicle**

A variant of the Leopard tank. Average serviceability from December 2006 to October 2007 was 63%. At times there has been zero serviceability. Shortage of parts has been a factor.



#### **Multi-Purpose Engineer Vehicle**

A heavily armoured backhoe and loader. It was deployed for the first time in December 2006. Theatre has reported that during the first six months, the vehicle had been subject to frequent breakdowns and experienced low serviceability.



#### **Improved Landmine Detection System**

The equipment in-theatre had been allowed to reach a state of disrepair and was grounded. A team was sent to Kandahar Air Field in 2006 but was unable to make repairs. Equipment was returned to Canada, replaced with upgraded equipment during the fall of 2007, and placed back into service in the theatre.



#### **Heavy Logistic Vehicle Wheeled**

This aging fleet is used to transport cargo and is used extensively to resupply forward-operating bases. The operations have experienced reliability issues, with serviceability at 69%. The Department is in the process of procuring a replacement it believes will be better suited for operations in Afghanistan.

Source: Department of National Defence



Heavy equipment transport truck and trailer borrowed from the Government of the Netherlands.

Source: Department of National Defence

**2.59** Our audit also found that the mission experienced shortcomings in the equipment used to recover damaged vehicles and bring them back to Kandahar for repair or return to Canada. We found that the Department is addressing these concerns. As one example, it obtained and shipped directly to Kandahar several heavy equipment transport trucks borrowed from the Netherlands government, and provided the training on how to use and maintain this equipment.

## Conclusion

**2.60** National Defence is supporting the deployed operation in Afghanistan—an overseas mission of a scale the Canadian Forces has not seen since the Korean War. However, we found some shortcomings in the supply chain that need to be addressed or the Canadian Forces risks having difficulty supporting the mission over time. For example, while we found that supplies reached their destination, this was often due more to the concerted efforts of personnel rather than by the system's design. When we asked those involved in the command of, planning for, and conduct of military operations about the impact of shortcomings discussed in this report, we were told that these deficiencies had not significantly affected operations as the Canadian Forces was able to adapt and adjust.

**2.61** To meet the support requirements of the mission, the Department has needed to increase the number of support personnel in-theatre. Much of the increase has been in the number of contract personnel used to perform functions such as supply and equipment maintenance. Technical assistance teams have also been sent to Kandahar to assist support functions.

**2.62** While the supply chain has been able to respond to deliver to Kandahar the supplies needed, we found that most items do not arrive in Afghanistan by the required delivery date. We found that there have been parts shortages and stock-outs of needed parts and supplies, which affected the ability to keep some equipment serviceable. The operation has been challenging on equipment and maintenance. Some key fleets are difficult to maintain because of spare parts shortages and reduced reserve stocks as some fleets begin to wear out.

**2.63** The system has not provided sufficient information to track when supplies have arrived in Kandahar, which has resulted in some multiple ordering of goods along with surpluses and increased the difficulty in locating needed stock.

**2.64** The Department is working to improve its performance measurement of the supply system to give it better information on whether stocks are available when needed and whether supplies are arriving in a timely way. More information on requisition status and when to resupply to match the usage rates in Afghanistan would also improve performance monitoring.



## About the Audit

### Objectives

The overall objective of the audit was to assess whether the logistical support provided by the Department of National Defence has met the needs of the deployed operation in Afghanistan. The objectives were to examine the following:

- the support required for the deployment, including planning;
- the need for personnel for logistical support, including alternative contracting arrangements;
- whether equipment is maintained to required standards and whether spare parts are available as needed; and
- the capacity of the Department to transport materiel into theatre to meet demands in a timely manner.

### Scope and approach

The focus of the audit was on the support provided to the Canadian Forces' mission in Afghanistan since February 2006, after the operations moved to Kandahar. We examined how well the supply chain was able to meet the needs of the Joint Task Force Afghanistan. We looked at how the Department introduced and supported equipment into the mission. We examined whether the Department was able to maintain adequate stock levels for the repair and maintenance of equipment. We examined how the Department maintains accountability and visibility of items on deployed operations.

The audit team conducted field work at a number of locations: Canadian Forces Supply Depot (Montréal), Canadian Forces personnel training for Afghanistan at Canadian Forces Base Wainwright, at the Theatre Support Element and at the Joint Task Force Afghanistan (Kandahar), and the air movements unit at Canadian Forces Base Trenton. In the National Capital Region, we conducted interviews and obtained information from a number of organizational units, including Assistant Deputy Minister (Materiel), Assistant Deputy Minister (Finance), Canadian Land Staff, Canadian Air Staff, Canadian Expeditionary Force Command (CEFCOM), Canadian Operational Support Command (CANOSCOM), Chief of Military Personnel, Strategic Joint Staff, and National Defence Chief of Review Services.

The audit included analysis of operational data collected from several sources, including movement data from the National Materiel Distribution System (NMDS) and the Canadian Forces Supply System (CFSS).

The audit included a review and analysis of various internal reports, including Commander's Mid-Tour and End-of-Tour, change in command reports, site inspection visit reports, comptrollership site inspection visit reports, rotation staff assistance reports, weekly logistic reports submitted to the Canadian Expeditionary Force Command prepared by the Joint Task Force Afghanistan, daily equipment status reports, combat logistical patrol reports, and internal audit and evaluation reports.

While in Afghanistan, the audit team conducted all audit work at the Kandahar Air Field and for security reasons did not visit other sites, such as the provincial reconstruction team's operations, or forward-operating bases.



The scope of the audit was limited to deployed operations in Afghanistan and did not include other deployments under way nor did it examine the support to the operations of the Canadian Special Operations Forces Command (CANSOFCOM). The audit did not examine the economy of the supply chain operations in this area, or the contracts for new military equipment purchased to support the mission, nor did the audit examine how supporting the mission in Afghanistan may be affecting the Department back in Canada.

### **Criteria**

The audit was based on criteria obtained from the Department of National Defence contained in its military doctrine and instructions for international operations, including the following:

- Support functions in-theatre will be able to effectively accomplish their assigned tasks.
- The provision of support personnel will be effective and sufficient to meet operational requirements.
- The supply chain will ensure that appropriate levels of materiel are provided to the theatre of operations, including supplies, ammunition, spare parts, and equipment.
- The Canadian Forces will adequately keep track of and maintain accurate records of materiel deployed to theatres of operation.

### **Audit work completed**

Audit work for this chapter was substantially completed on 30 October 2007.

### **Audit team**

Assistant Auditor General: Hugh McRoberts

Principal: Wendy Loschiuk

Director: Daniel Thompson

Mary Lamberti

Craig Millar

Arnaud Schantz

Jeff Stephenson

Mathieu Tremblay

For information, please contact Communications at 613-995-3708 or 1-888-761-5953 (toll-free).

## Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p><b>Supply chain performance</b></p> <p><b>2.33</b> National Defence should review its practices for tracking materiel once the materiel has arrived to ensure the arrival and storage is accurately recorded in a timely manner. <b>(2.29–2.32)</b></p> <p><b>2.36</b> National Defence should continue its efforts to develop the performance measurement of its supply system, including assessing whether supplies are received in a timely manner appropriate to priority and need. <b>(2.34–2.35)</b></p>	<p>Agreed. The Department has initiated a project that should address this issue. The first phase of the Asset Visibility Project is to put in place a Canadian radio frequency identification capability to track consignments moving to and from Afghanistan. This capability will remove our current dependency on U.S. support and is expected to be in place by December 2008.</p> <p>The second phase of the project is to develop an interim capability that will provide visibility of items in transit both within Canada and abroad. This interim capability is expected to be in place by 2009.</p> <p>The third phase is to develop a comprehensive capability that will provide real time, or near-real time, visibility of assets throughout their life cycle. In other words, a system that provides visibility from the time the Department takes custody of an asset until the time we dispose of that asset.</p> <p>Agreed. The Department has initiated a performance measurement system for the supply chain. To date, 15 key performance indicators have been developed to monitor system performance using data from the Canadian Forces Supply System. At the conclusion of a user trial, this initiative is set to roll out to a number of supply management organizations in the fall of 2008.</p> <p>The 15 key performance indicators developed so far focus on a variety of key measures within the Department's Supply System, such as average cycle times, depot stock reactivation rates, requisition volumes, and requisition satisfaction.</p> <p>Work is continuing to prioritize and further develop performance indicators based on the Department's strategic direction and the perceived needs of the supply chain community.</p>

Recommendation	Response
<p><b>Equipment availability</b></p> <p><b>2.53</b> National Defence should review how it establishes stock levels for the parts it needs to keep existing and new equipment operating at expected serviceability targets, with a view to obtaining and delivering parts to users in a timely way. It should take into account changes as wear and tear to equipment increases on deployments, as better information becomes available on the performance of new equipment, or as the level of support from the manufacturers changes. <b>(2.50–2.52)</b></p>	<p>Agreed. The Department is now implementing a Distribution Resource Planning tool, complete with a modelling capability that is expected to significantly improve the ongoing identification of inventory requirements. This electronic tool will improve the Canadian Forces Supply System by addressing a significant weakness in inventory rationalization and optimization. It will also provide the necessary information to make complex decisions regarding what to repair, and what to buy, in what quantities, and where to position it. Rollout is expected to begin in the spring of 2008.</p> <p>The rapid introduction of new equipment to a theatre can be mitigated by the early identification of an initial provisioning plan for spare parts. The initial provisioning plan will be entered into the electronic Distribution Resource Planning tool and will be monitored by comparing actual usage to the estimated requirements identified in the plan. Within a few months, the Distribution Resource Planning tool will identify the optimal forecast methodologies and algorithms to use for the equipment in question. At that point, the initial provisioning plan can be subsumed into the normal day-to-day inventory management of the Distribution Resource Planning tool.</p>

# Report of the Auditor General of Canada to the House of Commons—May 2008

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House of Commons  
CANADA

## Standing Committee on Public Accounts

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PACP • NUMBER 040 • 2nd SESSION • 39th PARLIAMENT

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EVIDENCE

Tuesday, June 17, 2008

Chair

The Honourable Shawn Murphy

Also available on the Parliament of Canada Web Site at the following address:

<http://www.parl.gc.ca>

## Standing Committee on Public Accounts

Tuesday, June 17, 2008

● (1100)  
[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): I want to welcome everyone here.

This meeting, colleagues, is called pursuant to the Standing Orders. The committee today is dealing with chapter 2, “Support for Overseas Deployments—National Defence” of the May 2008 report of the Auditor General of Canada.

We're very pleased to have with us, from the Office of the Auditor General, Mr. Hugh McRoberts, Assistant Auditor General, and Wendy Loschiuk, Assistant Auditor General. From the Department of National Defence, we have the accounting officer and deputy minister, Mr. Robert Fonberg; the present Vice-Chief of the Defence Staff, Walter J. Natynczyk—soon to be elevated, and congratulations again; Dan Ross, assistant deputy minister, materiel; Major General Timothy Grant, Deputy Commander, Canadian Expeditionary Force Command; and Major General Daniel Benjamin, Commander, Canadian Operational Support Command.

On behalf of all members of the committee, I want to extend to everyone a very warm welcome.

Mr. Sweet.

Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC): Could I just ask if this meeting is televised? Is this video for DND purposes, or it is fully televised?

The Chair: The meeting is televised.

I'll ask the clerk to explain.

The Clerk of the Committee (Mr. Justin Vaive): A request came in yesterday evening from the press gallery to have a CTV camera in the room to video-record the proceedings per the guidelines that were set out by the procedure and House affairs committee several years ago. It's actually a fairly routine thing.

The main reason is that we're not in a televise-equipped room, and sometimes the media would still like to cover a meeting, so they make a request through the press gallery to video-record footage of the meeting. They do have to cover the meeting gavel to gavel, and the camera must be focused in on the member of the committee who is recognized to speak by the chair. So there is no panning. They cannot move around the room, in that respect. It's obviously for their news footage for later in the day or week.

Mr. David Sweet: That clarifies it fully. Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Sweet.

We're now going to hear the opening statement from Mr. McRoberts.

Mr. Hugh McRoberts (Assistant Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chairman.

Mr. Chair, thank you for the opportunity to discuss chapter 2 of our May 2008 report, “Support for Overseas Deployments—National Defence”. I am pleased to speak to you today about this important topic, as operational support is the foundation on which military missions rely.

With me is Wendy Loschiuk, Assistant Auditor General, who was the principal responsible for our defence audits at the time this audit was under way.

Our objective for this audit was to examine the logistical support provided to the Canadian Forces mission in Afghanistan. We focused on whether the supply chain is moving needed equipment and supplies into theatre in a timely way and whether it can keep track of stocks in theatre.

In doing this, we wanted to ensure we fully understood the demands of support personnel in Canada and in Afghanistan and that we had the right perspective and appreciation for the challenges they face. To do this, we followed the supply chain from Canada into Kandahar airfield, where we saw first-hand the hard work and dedication of our Canadian Forces members.

[Translation]

We found that it is this hard work and dedication that is keeping the supply chain going. National Defence has been able to deliver to its troops the equipment and supplies they need to do the job, and personnel are finding ways to maintain the equipment and weapons. However, the operation has been challenging for them. The Canadian Forces has had to adapt and adjust as the Afghanistan mission has changed and demands on logistical support have increased. This mission has tested the ability of the Canadian Forces to support a major operation.

● (1105)

[English]

National Defence has adjusted to the mission demands in several ways: by chartering civilian airlift to help move about 85 tonnes of equipment and supplies each week; by borrowing or stealing spare parts from one piece of equipment to make timely repairs to another; by sending technical assistance teams to visit Kandahar airfield to help when backlogs build up; by hiring civilian personnel to provide support, especially in the maintenance functions and for the hospital; and by making do with what they have to accomplish objectives according to circumstances.

Some weaknesses in the supply chain are understandable, considering the changes in the mission since 2003. Audits by our colleagues in the U.K. and the U.S. have reported problems in their deployments similar to those we have found in ours. Their findings suggest to us that given the lengthy experience of both these countries in conducting overseas deployments, some of the problems we found are inevitable where there are long supply chains supporting thousands of personnel. Nonetheless, we believe it is important to be aware of these problems and to be addressing them.

[Translation]

We found that there is some cause for concern as supplies are arriving late and significant amounts of supplies cannot be accounted for. Most items requested from the supply system by Kandahar airfield do not arrive on time, including spare parts needed to keep equipment and weapons working. Shortages in spare parts make it harder to maintain some equipment and weapons in an environment that has already put considerable wear and tear on fleets. For the most part, combat fleets are meeting operational expectations, but reserve stock for some combat equipment has been declining. Some support vehicle fleets, such as land mine detection systems or trucks for transporting supplies, had very low rates of serviceability.

[English]

Commanders have expressed their concerns about shortcomings in the supply chain and the difficulties these have added to conducting the mission. Nevertheless, we found no reports that, according to the commanders, supply chain problems had caused a significant impact on operations.

Tracking supplies was also a problem in Kandahar. While we appreciate that the camp is large and shared by several countries, we nevertheless expected that most supplies once received would be readily retrievable. Supply technicians at Kandahar airfield manually record that items have arrived and in which container they have been stored. Given the volume of goods arriving on any one flight, this could be quite a challenge and has added to the difficulty of keeping track of items.

We are pleased to note that National Defence takes this matter very seriously, and at the end of each rotation does an inventory count. However, these counts have shown that several million dollars' worth of items either could not be located or were there but had not been entered into the records.

[Translation]

National Defence has agreed with all the recommendations in our chapter. The department has also prepared an action plan that we believe represents a reasonable approach to addressing the concerns we have raised. We are happy to see that their plan includes objectives and target completion dates.

● (1110)

[English]

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions.

Thank you.

The Chair: Thank you very much, Mr. McRoberts.

We're now going to hear from the Deputy Minister of National Defence, Mr. Robert Fonberg.

Before you start, Mr. Fonberg, we usually ask witnesses to keep opening statements in the vicinity of five minutes. I notice yours is 15 pages long. I don't know how you plan to deal with it. Perhaps I'll let you go for a while and see how you do, but we would like to keep it to five to seven minutes if that's possible.

Mr. Robert Fonberg (Deputy Minister, Department of National Defence): Thank you, Mr. Chairman. I will speak quickly.

Mr. John Williams (Edmonton—St. Albert, CPC): We can get that entered into the record, Mr. Chair, and perhaps he can give us a synopsis of it.

The Chair: It will definitely be entered into the record, in any event, Mr. Fonberg.

Mr. Robert Fonberg: I'm sorry, I didn't hear the question.

The Chair: Mr. Williams' point is that your document will be entered into the record and will be part of the record.

You can go ahead, sir.

Mr. Robert Fonberg: Thank you.

Mr. Chairman, members of the committee, thank you for the opportunity to speak with you today.

You have already introduced my team. I don't need to do that again.

I would obviously like to thank the Auditor General and her staff for her report and for their presence here today.

Mr. Chairman, I would like to spend just a few minutes outlining for the committee some of the complexities involved in the supply chain that supports the Canadian Forces.



[Translation]

Every day, Canada's men and women in uniform depend on a supply chain for resources, food, medicine and equipment—often required on an urgent basis—which will allow them to do their job effectively. The military supply chain is a highly complex process with many components. Personnel located in Canada must acquire the supplies, transport them to users and manage inventory for the most demanding of operational environments.

[English]

This currently involves shipments by air, as the Auditor General has said, two to three times a week to transport approximately 85 tonnes of equipment and supplies to a destination 12,000 kilometres away. At Kandahar airfield, the Canadian Forces receives supplies and equipment from all over the world, including direct shipments from places like France and South Africa. A sea shipment may originate at the port of Montreal, transit in a place such as Pakistan, and then be driven overland into theatre. Once in Afghanistan, materiel and spare parts are moved from the base at Kandahar airfield to five different forward operating bases, as well as several remote sites, on a daily basis.

As the threat environment evolves, there is a need to deploy different or additional capabilities, spare parts, and other supplies on a regular basis. Adapting and adjusting to challenges in the supply chain helps ensure that the Canadian Forces continues to get the right equipment and resources to the right place at the right time.

The Department of National Defence welcomes the recommendations made by the Auditor General in her May 2008 report. The committee has asked about a \$7.1 million deficiency found during an inventory review in Kandahar. Additionally, while the committee did not request information on the \$6.6 million in surplus items highlighted by the Auditor General, I would like to speak to these briefly as well. Together these are a measure of overall supply chain efficiency.

[Translation]

An explanation of the discrepancies is included in a report requested by the committee, which I understand has been tabled with the committee.

The time period under which the Auditor General conducted her review includes the most active window of combat operations for the Canadian Forces since the Korean War. Undoubtedly, this intense period of combat has had an impact on the accuracy of supply record keeping, and this has been a real challenge for us.

[English]

We take our responsibilities and accountabilities for the effective and efficient management of our materiel holdings extremely seriously. We strive to maintain the highest standards in that respect. This is why we are one of the few nations that does stock-taking in theatre every time we do a troop rotation. Our major allies only do this type of accounting at the end of the mission. In fact, Canada is a leader among the armed forces of the world for inventory stock-taking.

Having the strict security parameters within which the Canadian Forces operate in Afghanistan gives us considerable confidence that

the vast majority of the unaccounted-for items on the \$7.1 million list are in fact stored somewhere within our secure compounds, or were actually used for equipment repairs or upgrades. However, due to the exigencies of a manual supply chain operating in a combat theatre, supplies and equipment may be unaccounted for. At present every effort is being taken to account for these variances. Over 5,000 investigations have been conducted into the \$7.1 million deficiency and the \$6.6 million surplus, including a number that are still ongoing.

To date the findings have consistently demonstrated that these discrepancies are the result of accounting variances, which are a combination of variances that result from manual entries into the CF information systems in theatre; misidentification of goods and spare parts by supply technicians who are unfamiliar with new equipment and parts arriving in theatre, some directly from manufacturers; and shortages in personnel caused by operational tempo.

These variances were compounded by the need to transfer assets to forward operating bases and a lack of connectivity to CF support systems. For example, supply technicians in these austere locations had no automated tracking system for items.

● (1115)

[Translation]

The urgent need for certain equipment in Afghanistan also increased the pressure to deliver assets quickly. As a result, some were introduced without proper identification for tracking purposes. In addition, we cannot dismiss the difficulty in accounting for items destroyed or abandoned due to engagement by the Canadian Forces with enemy insurgents.

I am pleased to note that in spite of these challenges, the Auditor General does confirm that National Defence has been able to deliver to troops the equipment and supplies they need.

[English]

While we take extremely seriously our accountability for managing every taxpayer dollar voted to us by Parliament, the fact that there is a \$7.1-million deficiency is in some ways nothing short of remarkable. This deficiency, along with the \$6.6-million surplus, represented only 1.28% of the \$1.072 billion of equipment and inventory held in Afghanistan. We also anticipate that a very significant proportion of these surpluses and deficiencies will be resolved when we do complete a full reconciliation of accounts at mission close-out and that very little of the materiel will in fact be assessed as lost.

That said, we have learned from this experience and the recommendations made by the Auditor General. I would like to address what measures we have taken to resolve the issues you identified, including those relating to the monitoring, tracking, and management of the supply chain.

Mr. Chairman, Canadian Forces and the Department of National Defence have reinforced specific efforts aimed at enhancing compliance and oversight. We regularly send in assistance teams to review stock levels and address problems with the supply chain in theatre. Specialized teams will have received the transfer of spare parts from the manufacturer's factory to Canadian Forces operations in Afghanistan. These teams will ensure that new parts are entered into the inventory system immediately upon receipt. We've also increased the number of supply technicians available to provide dedicated stock-taking and investigation capabilities.

[Translation]

Further, we have developed an action plan to address the problems identified by the Auditor General, which I understand was also tabled with the committee.

Please allow me to outline for you some of these measures.

[English]

In addition to the current consignment tracking system in theatre, a phased asset visibility project is currently under way to ensure timely and accurate tracking of inventory. An interim radio frequency identification has been established to track assets moving to and from Afghanistan. We expect a final solution based on a Canadian approach by the end of this year.

In addition, the department is currently introducing a hand-held bar code reading capability in Canada, which we hope to evaluate in Kandahar this summer. This will help deal with the manual entry issue in theatre.

Mr. Chairman, while the Auditor General found no reports of supply chain problems that had significantly affected operations, we recognize that this is due in significant measure to the dedication, hard work, and ingenuity of the troops on the ground. While we currently have a supply system accuracy rate of nearly 99%, we will continue our best efforts to help the Canadian Forces respond to the demands of Canada's mission in Afghanistan. Again, we take our accountability for managing taxpayers' dollars extremely seriously.

[Translation]

I wish to thank the committee for the opportunity to address this issue today and would welcome any questions you may have.

Thank you.

[English]

The Chair: Thank you very much, Mr. Fonberg.

I want to raise a couple of matters before we go to the first question.

The first item, colleagues, is that I just want to take this opportunity to introduce our colleague, Jim Maloway, who is the vice-president of the Manitoba public accounts committee. He has business today. Jim, would you stand up and be recognized? Welcome to the meeting.

The second item is that I just want to caution members that today this meeting is called to deal with all the issues raised in the Auditor General's report, chapter 2, "Support for Overseas Deployments—National Defence"; in other words, the supply chain. Some of the

other related issues are controversial—they've been in the news lately—but the chair will certainly be looking for relevancy in the questions.

Mr. Wrzesnewskyj, you have seven minutes.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): Thank you, Chair.

Welcome, Mr. Natynczyk. We certainly look forward to meeting with you more often as you take us through probably the most difficult period of our Afghan mission, through to December of 2011.

Mr. Natynczyk, in the last little while we've had a backdrop for this particular chapter. We've read reports of difficulties the government is having with procurement. What's of special concern is difficulties in procurement of equipment that's necessary for the ongoing mission in Afghanistan. We know we have a system that's supposed to meet requirements within 10 or 20 days. We see that the system is not functioning, not meeting its particular objectives. Some of those objectives perhaps are being met just strictly because of personnel deciding to step in and take things into their own hands.

How long do you figure it will take before we could revamp the system so that it actually meets its objectives of 10 to 20 days?

● (120)

Lieutenant General Walter Natynczyk (Vice-Chief of the Defence Staff, Department of National Defence): Sir, I don't have the detailed information with regard to revamping the process to meet your requirement of 10 to 20 days. I do want to say, though, that in terms of the major equipment that our soldiers and sailors and airmen and women use on operations, and now specifically in Afghanistan, we've had a pretty good track record over the past few years. Going from identifying a requirement, especially when we see either tactics change or the environment in which we're working change, to such time as we're actually able to field something on the ground, we're very, very quick.

I'll just use the example of tanks in theatre with regard to Operation Medusa, going back to August and September of 2006. The requirement for the tanks going into theatre was identified on about September 6. Through a massive effort led by Dan Ross, who can probably address some of these things, working with Public Works, working with Industry, in terms of getting the spare parts and so on, supporting that piece of equipment, we got that piece of equipment into theatre within a month, in fact less than a calendar month. On October 3, 2006, I believe the first tank rolled off the aircraft in Kandahar.

Indeed, the parts flow had a different expenditure rate from what we had expected before. The tanks were not intended at that point in time to be used in theatre. So buying engines, buying transmissions, buying all kinds of spare parts, we changed the flow. We got great support from Public Works and so on.

I can use other anecdotes with regard to artillery, with regard to some of the armoured trucks. Again, we found that some of our armoured trucks were not sufficient for the new techniques and procedures that the Taliban were using. In very short order, as a result of an immediate operational requirement, our materiel people, working with Public Works, working with Industry, reacted to that, and we had vehicles on the ground.

I would defer to Dan Ross and General Benjamin to go further on this issue, sir, if you wish.

Mr. Dan Ross (Assistant Deputy Minister (Materiel), Department of National Defence): Perhaps I could elaborate in more detail.

Some of the challenges that were evident at the place in time when the Auditor General did her review were representative of the early introduction of equipment, without perhaps the normal time and space to deliver the integrated logistics support with normal spare parts.

Normally when you would embark on a major project—for instance, to buy the armoured trucks—you would have about two years before your armoured trucks would be delivered. In the intervening time, you'd build up your logistics stocks, your spare parts, your procedures, and you'd be ready for the armoured trucks.

In this case, we got armoured trucks delivered directly from the factory to the field, directly to combat. So you have a lag to get those spare parts and processes in place. It did take extraordinary efforts to do that. The entire supply chain, General Benjamin's command, and the troops in the field reacted to get the job done, but I have to comment that in those instances of tanks, Nyalas, Mercedes trucks and so on, we are catching up to that supply chain lag. We are building up those stock levels. We are finding fewer instances where there are urgent demands required.

As time goes on, I think we'll see with future stock-level reviews that the spike of variances will come down significantly.

Mr. Borys Wrzesnewskyj: Thank you, Mr. Ross and Mr. Natychyzk.

What I find a little disturbing is that the personnel actually have to, in your own words, make extraordinary efforts, or they have had to in the past. Perhaps at a later point we could take a look again at the system design and what's being done to make sure that we don't put this additional burden on the personnel of having to make extraordinary efforts every time it appears that we're missing equipment.

Is there an actual list? You say things are much better now. I understand that on Kandahar base there's a so-called graveyard of equipment. Some of it's been taken out by IEDs, and some other equipment has had to be cannibalized for parts. Is there an inventory of what's in that particular graveyard or of what's being cannibalized? Or is it just kind of ad hoc?

I'm just wondering if there's a list that you can provide this committee of equipment—especially when it comes to ground transport—that is needed, that we don't have in place for spare parts, that you're critically short of in Kandahar at this time. The worry

there is not only the inability to meet field mission objectives; it's also, for our soldiers, the worry of jeopardizing life and limb.

So do you have a list that you can provide to this committee of what we're short of right now? And if you don't have that type of list, why not?

As well, what's in this “reserve” inventory, I guess, that you have in the graveyard in Kandahar?

● (1125)

Major General Daniel Benjamin (Commander, Canadian Operational Support Command, Department of National Defence): Mr. Chairman, basically procurement is through Mr. Ross's organization, and they bring most of the assets into our depot. I take care of the national depot here in Canada and I project this equipment into the theatre through the distribution process, which is worldwide and very complex, and we do the retrogrades, meaning bringing back all of that equipment. Once in theatre, it then goes to the theatre commander. General Grant in this instance is representing people taking responsibility of the kit there.

Part of my task is to make sure that we understand the full supply chain from the manufacturer to the theatre, understand the level of stocks, and understand whether in time and space we can bring it into that theatre at the right time and at the right place to make sure we don't compromise operations. We call it total asset visibility.

This is something my command is looking at. We're looking at all the assets there and trying to determine in fact what those choke points are. What we're seeing now, Mr. Chairman, as we procure many of the items, is that many of those items are procured worldwide off the shelf. I thought our supply chain would come from Canada to the theatre, but in fact we needed to have those critical pieces of equipment go directly into that theatre, so our supply chain in fact very often starts from the manufacturer and goes into the theatre of operation.

It's the first time that many of those capabilities are being exposed to this climate. It's 50-plus degrees, with very fine dust that gets into the mechanics and so on, so it's extremely difficult to forecast what is going to break. It's almost an art to understand what will break in three months and six months.

I monitor this very closely back through the supply chain to see if we have the repair parts in our depot in Afghanistan or in our depot here in Canada. If not, we see what the manufacturers have in their stocks, and how in time and space we can bring it into that theatre. Just the right amount at the right time is something that I'm looking at, and I have this for every capability in that theatre.

Mr. Borys Wrzesnewskyj: To continue on a point of order, I had requested whether we could have a schedule tabled of the actual equipment that is missing in the field, and the spare parts—

The Chair: It seems to me, Mr. Wrzesnewskyj, that although I'm going to get them to respond, we may be getting into situations that for security reasons may cause the leadership of our defence not to want to get that specific in their answers.

I will invite the vice-chief to respond.

LGen Walter Natynczyk: The number of vehicles in that yard that have been damaged in theatre is constantly changing because we are actually bringing vehicles home when we have the ways and means. When aircraft are coming back or when lowbeds are going out of theatre and out to ships, we bring these vehicles home, because many of them actually can be repaired, so the number of vehicles in that compound changes on a regular basis.

General Benjamin may want to comment about the repairs to some of these vehicles.

• (1130)

MGen Daniel Benjamin: Right now, Mr. Chairman, we have four of those vehicles that are set to be brought back. As soon as I have aircraft coming back, we'll bring them in. The flow is back and forth all the time.

[Translation]

The Chair: Mr. Laforest, you have the floor for seven minutes.

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

Good morning. First off, I would like to ask Mr. Fonberg a question.

In the response we received this morning from National Defence, you state that the deployment of forces in Kandahar has been the most demanding and complex since the Korean War. I get the impression that you are saying that to justify the problems with the supply chain. Since this is such a major deployment involving manifest danger, that should be not used as an excuse, but rather as a motivation to have a perfect supply chain. That should be an additional reason to send even more precise goods and equipment from Canada to support the armed forces. Further, your excuse is something that was identified by the Auditor General. You have repeated something the Auditor General said in order to draw a comparison with the Korean War.

I would like to hear you explain that.

[English]

Mr. Robert Fonberg: Mr. Chairman, I would obviously ask my military colleagues to respond in part, but having gone from limited combat operations to a sustained combat operation and everything that this entails over the last few years has required the Canadian Forces not only to in some ways relearn what it takes to fight a mission 12,000 kilometres away, but to get better at that process day after day and week after week. I would just say two things and then perhaps turn it over to the vice-chief.

Number one is, again, that the deficiencies and surplus that the Auditor General discovered happened—1.3% of the total inventory in theatre, actually measured at a time of perhaps the highest operational tempo during this combat mission—at the time of Operation Medusa. If you look at the variances before and after that, you'll see them to be quite a bit lower; in fact, although I haven't

done the numbers, probably well below 1% of the inventory in theatre, when you look at them.

But I would turn to the vice-chief to see whether he would like to comment on the complexity of the mission, Mr. Chair.

[Translation]

LGen Walter Natynczyk: I would first like to say that our inventory is under the responsibility of the entire command chain, i. e., from the master corporal all the way up to myself, the vice-chief of defence staff. We say that amateurs talk about tactics, but professionals talk about logistics.

The situation in Afghanistan is far more complex than the operations we conducted in Bosnia, Kosovo and East Timor. There, the theatres had been stabilized. But in Afghanistan, the pace of operations changes daily, not to mention all the troop deployments. There are changes happening each and every day.

Mr. Jean-Yves Laforest: I am sorry to interrupt you but we have little time.

The Auditor General raised supply problems, and some commanders said that those problems hindered them somewhat, and yet no report was made. Do you find it normal that the commanders did not write a report on the fact that equipment was missing? That equipment was worth seven million dollars. We do not know what it included. My predecessor asked that we be provided a list, and I think that that would be important for us to have. I asked Ms. Fraser whether the missing supplies were medical products or weapons.

I am somewhat concerned by the fact that the commanders did not write a report on the missing equipment.

• (1135)

LGen Walter Natynczyk: I will ask Major General Benjamin to talk about the details, but I would first like to repeat that the situation is complex because of the pace of operations and all the displacements.

Daniel will give you the details by sector.

MGen Daniel Benjamin: Mr. Chair, I would like to put that inventory into context. As part of this mission, we work with other national armed forces. They begin and end their mission, and then do their accounting. Canada goes one step further. Each time a new commander arrives in the theatre of operations, one of my teams travels there to conduct a spot check in order to ensure that the people in the theatre of operations have properly kept their inventory.

My team collected the data and calculated the \$7.1 million deficit and \$6.6 million surplus. That was only a spot check. You have to keep that in perspective.

Mr. Jean-Yves Laforest: Before the Auditor General did her report, did you know that \$7 million in inventory was missing?

MGen Daniel Benjamin: My team travels there twice a year, and every six months, we know what our contingents are doing to monitor their equipment. We therefore do not know ahead of time what the results of the spot check will be. We do not assess the entire inventory. There are some one billion dollars in inventory in the theatre of operations, spread out over hundreds of square kilometres. Of course, we cannot stop all the operations and do like they do at Canadian Tire, where one evening they will decide to take their inventory and make sure that everything is where it should be.

Mr. Jean-Yves Laforest: That is quite understandable.

MGen Daniel Benjamin: It is impossible to do. So, everything is constantly being displaced, and my people try to conduct spot checks.

The chain of command wants to know where we think there are problems, and my team does spot checks in those areas.

[English]

The Chair: Mr. McRoberts, do you have something to say?

Mr. Hugh McRoberts: Thank you, Mr. Chairman.

I'd just like to clarify this so that we don't leave an impression....

In terms of the commanders' reports, they dealt at length with logistical issues and supply issues, and they certainly did raise concerns, in some instances, about deficiencies in the supply chain. What we identified as being notable was the fact that in reviewing all of those reports, at the end of the day, yes, there had been problems with the supply chain, but what they also indicated was that those had not affected combat operations, which we thought was important to draw attention to. But they certainly addressed logistical issues at some length in those reports.

The second thing I just want to be clear about is that the \$6 million and \$7 million—the other end-of-rotation inventories—was not something that we identified. That was something we drew attention to as a result of the reports and the very good work that DND had done. If they had not done that work, we certainly would not have had the audit capacity to detect that.

I think, in fairness to the forces, I just wanted to clarify that.

The Chair: Thank you, Mr. McRoberts.

Merci, Monsieur Laforest.

Mr. Sweet, for seven minutes.

Mr. David Sweet: Thank you, Mr. Chairman.

First and foremost, I'd like to say to those who have had to handle the responsibility of a very difficult mission, all Canadians are proud of you and appreciate the work that you're doing there and continue to do.

I wanted to ask a couple of questions. I probably took a look at this report in a different light from what most people would, because as a leadership assignment I read General Pagonis's book, *Moving Mountains*, and have an idea of just how sophisticated a supply chain is. As I was reading this report, I thought it was too bad that we didn't have everything labelled as tonnes of equipment moved, as General Pagonis did in his book, because you really realize when

you're constantly feeding a small city of people just how much work it is.

I wanted to ask some questions to get some details on some of the things the Auditor General highlighted.

In paragraphs 2.43 and 2.51 in the Auditor General's report, on pages 15 and 18, there's some talk about the Nyala and other equipment, and something was really niggling at me when I was reading that. What responsibility do the manufacturers have in this? I would think that when they come to you, they probably make some significant promises about equipment. And as Major General Benjamin said, you almost have to have this down to an art in figuring out when something is going to break down. Are the manufacturers of this equipment fulfilling their responsibilities?

● (1140)

LGen Walter Natynczyk: I'll just start off, if I might, Mr. Chairman.

Any piece of military equipment put out there is a compromise of a number of factors: protection, mobility, power, its firepower. It's always a compromise of all of these characteristics of a vehicle. The Nyala is a great vehicle. And we realized, because of how the mission was evolving, that we needed to provide a more heavily armoured car than we initially had with the G-wagon or the jeep that we had in theatre, which were armour-protected but didn't have sufficient protection.

On the market at the time, the Nyala, the RG-31, was out there. It was designed more specifically for road work. Well, in the Kandahar area there aren't a lot of roads, so it's going over some pretty tough terrain. Also, it's a vehicle that we fielded pretty quickly, because we needed it out there. That vehicle has saved a lot of lives, and we've learned a lot about how it is to be employed, and the drivers have learned what they can put it through. That put a lot of strain on the vehicle.

Because the vehicle is so popular, a lot of our allies have lined up at the manufacturer to buy it as well, so all of the parts are actually not going for spares, but to the manufacturing of original equipment. So therein lies the challenge. At the same time, the manufacturer is learning about its vehicle and producing better variants of that vehicle.

I will turn this over to General Grant, who, as the commander on the ground at the time, received those vehicles and put them into theatre.

Major General Timothy Grant (Deputy Commander, Canadian Expeditionary Force Command, Department of National Defence): Thanks very much, sir.

I was the commander during the time of the audit, but more particularly, the commander when the Nyalas were being introduced into theatre. The one thing that made it a success story from my standpoint is the fact that the manufacturer provided us with two individuals, two civilian technical experts—"field service representatives" they were called—who provided us with the expertise, not only on how to maintain this vehicle, but also to help the drivers to use the right techniques to manoeuvre it through some of the terribly complex and rough terrain the vice-chief has spoken about.

So certainly from my standpoint, although we had some challenges with getting spare parts, the fact that we had those two technical experts provided by the company was a huge step in the right direction, and allowed us to maintain the serviceability of that fleet.

LGen Walter Natynczyk: I would also add that in any theatre, Mr. Chairman, when you introduce a piece of equipment, the manufacturer may not have had that vehicle to the exact specifications of that theatre.

The kind of fine powder that General Benjamin mentioned earlier gets everywhere. It gets into air filters, and therefore your consumption rate of parts like that is totally unlike what you'd face anywhere else. So we're dealing with those kinds of things, and there are extraordinary efforts by the entire chain, right from the soldiers who are driving those vehicles up through to Mr. Ross, working with the Department of Public Works, to try to get those kinds of pieces.

Mr. David Sweet: Thank you.

Mr. Fonberg, towards the end of your opening remarks you talked about the bar code readers in theatre. I'm just wondering if that will bring the level of supply chain capability and functionality to the same level in theatre that it is at back here at home.

Mr. Robert Fonberg: I'll turn to Major General Benjamin on that. My understanding is it will certainly take care of part of that. My understanding is that as the supplies come off the airplanes now, what was bar-coded at home ends up getting manually entered at Kandahar airfield, because we haven't introduced that capability. But that does not or will not help with the pushing forward of those supplies to the forward operating bases where they have to be received again and inventoried again.

I would turn to the general to add any more detail on the bar code orders.

MGen Daniel Benjamin: Thank you.

Mr. Chairman, I had the chance to introduce the RFID, the radio-frequency identification device, to track the items up to the theatre. I'm really looking forward to having the bar coding, because there's a massive amount of equipment that is getting there, and we want our supply technician to have this bar code type of technology and register and remove any of the errors that you could make when you type the eight-digit or twelve-digit numbers into the system. This will greatly enhance that. I'm really looking forward to getting that technology very rapidly.

Mind you, you should realize that many of our allies use it, and they will use it at the entry point, for example, in Kandahar, but they very rarely push it to the forward operating bases, and this is something we will have to explore. This is a combat zone. How do you do stock-taking in a combat zone?

Mr. David Sweet: That makes sense.

Another question I have refers to page 9, paragraph 2.23. One of the things that was causing a lot of delay was the materiel-handling equipment. I believe there was a promise there that you were going to deal with that. Has that equipment actually arrived? Is there new materiel-handling equipment to fix that aspect of the supply chain?

● (1145)

MGen Daniel Benjamin: Yes, Mr. Chairman.

This is very much linked to the C-17, which is a tremendous capability that we have acquired, but you have to load it up. And what we don't have in Canada as part of the capability is proper handling equipment. It's called a K60 loader, so it loads 60,000 pounds. You put things on a pallet and roll it into the C-17.

The U.S. were out of stock, but we have been dealing with the commander of US TRANSCOM. They have been very helpful and have provided us with two of those devices. The assistant deputy minister for materiel is moving forward to get some of our own for the future. So right now the problem has been solved, and what a capability it is.

Mr. David Sweet: I have just one point. Did you say these loaders are 60,000 pounds?

MGen Daniel Benjamin: The loader can lift up 60,000 pounds.

Mr. David Sweet: Is that on one single pallet?

MGen Daniel Benjamin: It's a huge system.

The Chair: Thank you, Mr. Sweet.

Mr. Christopherson, you have seven minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thanks very much, Chair.

Thank you all for your attention today.

I will begin with congratulations, General. Now we'll get to work on your name, Natynczyk. I've got a longer name than you, so I think you'll understand you have great sympathy from me in terms of how it gets pronounced.

The Chair: Soon we'll all be able to pronounce it.

Mr. David Christopherson: Yes.

We all wish you the best of luck, really, especially in the care of our soldiers. And let me just say that if my approach to this today seems a little uncharacteristic, it's because I have a great deal of sympathy. Prior to entering public life—quite a while ago now—I spent ten years punching a clock, working in a parts department. So nobody knows more about back orders and the wrong part and things that don't fit and why it happens than I do. It's been quite a few years, and there is a lot of technology, but that's not always a big help. So you're going to hear a lot more sympathetic a questioner than normal here, because I do have a great deal of sympathy for how difficult this is.

That being said, however, the report, in paragraph 2.21, shows us that 50% of all the equipment and supplies that are ordered don't make it on time. That speaks to planning as much as it does to the actual delivery on the ground. Is that improving? Why is that number so high?

We've been out there for quite a while now. It would seem to me we'd be a little closer to knowing when things could really happen, given all the difficulties you have. So can you give us a little explanation of why the figure is 50%, and what you're doing to lower that, please?

MGen Daniel Benjamin: Yes. It's a great question. In fact, I can come back to another question we had earlier on the systemic approach to the problem and the improvements that we've been making. When the OAG went in theatre, we were in the process of changing our priority code system from twelve codes to four. What happened, from a full DND and Canadian Forces perspective, was that people had to change their approach. Our depots were being swamped with high-priority demands, the top demand, when in fact they were not demands required for theatre. We have disciplined the process, and now priority code one is for operations.

Our extremely urgent demands, to be brought to the theatre, went from 47% to 5% or 6%. Then I do the tracking. How fast do we deliver it? Right now, on average, we do it in 11 to 21 days, depending on the type of aircraft. It's a huge improvement.

Mr. David Christopherson: Very good.

LGen Walter Natynczyk: This is a credit to ADM Materiel, Mr. Dan Ross, with the procurement side, in getting those spare pieces. Also, with regard to Canadian Operational Support Command and how they have used the C-17s, contracting the ships, and ensuring that the high priority is flown in, those pieces, those commodities that we have a month or two before getting into theatre are in a container aboard ship. So we're actually getting best value for the transit costs.

Mr. David Christopherson: I also noted that there are different supply chains for medical equipment. A common-sense approach would say that's because it's life-saving and you can't afford the delays, but I'm wondering how that system would work. I'm going to make an assumption that it works more efficiently than the other and that's why there's a separate one. You don't want glitches. But what would the differences be between what you do with medical supplies and how the regular system would handle them? I would assume your way is more effective. Just enlighten me on that, please.

● (1150)

MGen Daniel Benjamin: We have two supply chains that work in parallel. This is a legacy issue. With the creation of my command, the medical in support of operation is also part of my command, and we work hand-in-hand. The problems they were facing in Afghanistan, in the role three and having the proper medical supplies, we have resolved through proper SOAs and proper stock discipline. So even though it works in parallel, it's still very much integrated into the overall system. We track the other as well.

Mr. David Christopherson: So you've adopted some of the techniques you used there.

MGen Daniel Benjamin: Yes, we have paid special attention to stock levels and having enough supplies for 60 to 90 days, so that we don't run out in a critical time at the role three hospital in Kandahar.

LGen Walter Natynczyk: Just before this audit, in the fall of 2005, we created General Benjamin's headquarters. The Canadian Operational Support Command brings together logistics, medical, engineering, and signals under one umbrella to ensure that it's all synchronized. And what we're seeing now is the effect of that.

Mr. David Christopherson: I'd like to ask you a real layperson's question about supplies. How does it work if there is something incredibly urgent? If you just found out you need blood or key components of a piece of equipment, it could very well be, in your

business, life and death. Do you have a special means? Is there something available where you or somebody can get on the phone and just say, "Grab it. Make it happen. I want it there, I want it there within  $x$  period of time, and don't tell me procedures"? Does that exist, or is that TV?

LGen Walter Natynczyk: I call Dan Benjamin.

Mr. David Christopherson: Okay.

MGen Daniel Benjamin: Yes, the material priority code one for operations is the one. But I guess you could have sub-priorities within that, if you absolutely need it, like within three days. We'd take the phone and tell them to make sure of this and we'd track it through the whole system. And I have the ability to track it.

Mr. David Christopherson: I'm just curious. Let me push you one more step. How would that work? Do you have special aircraft ready? Would you divert aircraft if that was needed? Would you send personnel? If it's life and death, there are no procedures that are going to get in the way; this is just going to happen. How would that work?

MGen Daniel Benjamin: We have a support pipeline that goes from Canada to that theatre on a regular basis. We have a Canadian Airbus from the air force; we have an IL-76 every week leaving from Trenton; we have our C-17 twice a week; in the future, once we have all of them, we'll have the C-17 once a week; and right now I have three to four Antanovs per month that are also put in the pipeline.

This pipeline goes back and forth, and we optimize what we put in the pipeline through that process, making sure that people in theatre have the right kit at the right moment.

Mr. David Christopherson: Very good.

Thank you, Chair.

The Chair: Thank you very much, Mr. Christopherson.

Mr. Hubbard, for seven minutes.

Hon. Charles Hubbard (Miramichi, Lib.): Thanks, Mr. Chair.

I think we are comforted by what we hear. Sometimes you read about the loss of supplies, but I guess the other case is you have a surplus of supplies.

I want to ask about bar coding. Why is that a problem? Most little stores in Canada have bar code systems. Why would a big organization like DND not have a bar code system in place? It seemed to be a problem when you mentioned bar codes.

MGen Daniel Benjamin: Yes, we do have bar coding in Canada. My depots in both Montreal and Edmonton are using bar coding. The ADM for materiel was in the process of procuring the capability for all of the warehouses within Canada, and obviously we wanted it in operation. But we realized that we must have it in operation as soon as possible, and I really wanted to have this capability in that theatre.

Hon. Charles Hubbard: When would you expect that? The Auditor General made a report that's been around for some time. When would you expect to have this in the theatre?

Mr. Robert Fonberg: I believe the action plan that we tabled talks about rolling this out for piloting before the end of July of this year, and having the capability operational in theatre before the end of this year.

Hon. Charles Hubbard: With the equipment we're using in Afghanistan—we're part of an allied system—is there an interchange between us and our allies in terms of equipment, medical supplies, or other needs, where you can go to your neighbour and say you need...?

MGen Daniel Benjamin: Mr. Chairman, this is a very interesting question, because there is no interchange as such. Even though we're all under the NATO umbrella, there is no systemic approach to sharing equipment between the key countries. We have formed a group of partners, and we talk to each other. We are connected to each other all the time, and when we see a deficiency we use the unofficial network to get them supplies.

We have had several examples in Afghanistan where the United Kingdom, the United States, and even New Zealand have been providing us with some of the equipment we need for our troops.

• (1155)

Hon. Charles Hubbard: I'm rather surprised that NATO hasn't done more to look at the standardization of equipment and the ability to exchange, on an almost hourly basis, when something is needed.

LGen Walter Natynczyk: During the Cold War period, when we had a lot of troops—air and land troops—in Europe, we did indeed have NATO standards for various pieces of equipment, and there was a degree of sharing across the board. We now see efforts by NATO partners, as General Benjamin just mentioned, to try to get back into that. But the problem is there are so many different pieces of equipment being used by various nations, especially on the kinds of major vehicles that we're using in theatre, that it's difficult to do that. But at the same time, Mr. Ross gets together with his colleagues from other NATO countries to find ways and means in order to do that, because we absolutely agree that it would be far more efficient if we had that wherewithal to do some sharing on the ground.

Hon. Charles Hubbard: In Somalia we had trouble with break-ins at our compounds, and the loss. Has that been a problem in Afghanistan?

MGen Timothy Grant: Every forward operating base that we operate by ourselves has an outstanding level of security. To this point there has been no indication of a break-in by anyone into those forward locations.

Certainly at Kandahar airfield, where we share those security requirements with our allies, the security requirements are absolutely stringent, and there is a layered defence to the airfield. All of the

locally engaged employees are searched by hand and mechanically as they come into the airfield, they're managed while they are on the airfield, and they're searched again before they leave. So we're very comfortable that we have not suffered any losses through theft by locals who have infiltrated our camps.

The other thing that we acknowledge is that if Taliban insurgents were actually entering into our camp, they would not be there to steal fuel or food; they'd be there to kill us. From that standpoint, we're very cautious of our security situation, and we make sure that is always the number one priority.

Hon. Charles Hubbard: A final question, if I might.

With the deficiencies, the Auditor General seemed to say.... This is a very small percentage of the overall equipment and supplies that are available in the field. In terms of the Auditor General's report, there are what they call write-offs: every quartermaster can write off certain equipment. Does this include write-offs, Mr. McRoberts, or is it simply overall loss of equipment?

Ms. Wendy Loschiuk (Assistant Auditor General, Office of the Auditor General of Canada): If I may, Mr. Chairman, I'll answer that question.

If I understand, you're asking about the \$7 million and the \$6.6 million. These were inventory counts. National Defence went in, basically to do a spot check: "This is what we expect to see. Is it there?" If items were not there, it may well have been that they were written off but not recorded.

From our knowledge of the count that was done, it was simply to check to see if the goods were actually in place.

Hon. Charles Hubbard: General Benjamin might have something on this, but in the write-off system you tear gear out of a big tank and throw it away.

MGen Daniel Benjamin: Mr. Chairman, the \$7.1 million in fact represents the write-offs. But as I was saying, this was a spot check, so it is not the final write-off. When we close that mission and we have a chance to localize the items, then we will reverse the process, if you wish.

It's not a matter that we've lost anything, it's just that we cannot track it. It was the first time ever during that rotation that our specialists could go outside the wire, outside of Kandahar, and look at the FOBs, the forward operating bases. But they were at the FOBs for three or four days, and there was action throughout that time, so it was very, very difficult to track the items. They didn't see it, so they reported that they didn't see it.



When we close the mission, we'll see reverse engineering of much of this kit.

Hon. Charles Hubbard: Thank you, Mr. Chair.

The Chair: Thank you very much, Mr. Hubbard.

Mr. Fitzpatrick, seven minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Thank you very much.

Actually, a lot of the questions I was going to ask have been answered.

I want to especially commend the folks from the military. We sit on a committee where the old saying “when in doubt, mumble or use double-speak” seems to be the standard rather than the exception. In both hearings I've had with the Canadian military people, this is very refreshing—straightforward answers to questions. I think everybody on this committee should be impressed with the quality of answers we receive here. We're certainly not getting any of this mumbling or double-speak.

I think some people have described the era leading up to our entry into the war as a “dark decade”, especially in terms of equipment that our forces had when we entered this situation. I'm assuming the supply chain wasn't exactly a Canadian Tire or Wal-Mart operation either, if the equipment was pretty much rusted out as well. So it would go hand in glove with the system we had.

Major-General Benjamin, it's my impression that the supply chain that exists today has improved dramatically over what we had in 2005 or 2004, when we got involved in this operation. Is that a correct assumption?

• (1200)

MGen Daniel Benjamin: Exactly. In fact you should be proud, as Canadians, because we have one supply system, and we're one of the few countries in the world that has one supply system. So we can track it.

People from the United States, United Kingdom, France, Germany, all come to Canada now to look at how we are doing this. They don't believe it. It's amazing what we do.

Mr. Brian Fitzpatrick: Thank you very much, sir.

Much has been focused on the \$7 million worth of inventory that wasn't accounted for. I have read the reports and so on. I mean, you're in an operation where your focus is to make sure you get equipment to the front lines to supply your people. It's important to have a good accounting system in place, but the priority is priority.

But \$7 million out of \$1 billion—let's put that in context. At the same time, let's compare that to some other government operations we're all quite familiar with: \$350 million on a sponsorship program, where we had to pull teeth between the Auditor General's office and a commission to find out what in the world happened, where this money went. We still don't know what happened to \$40 million; we have suspicions of what happened to it. But the Gomery commission couldn't even figure out what happened to \$40 million.

We spent over \$1 billion on a firearms registry, and the error rate was double-digit on a lot of these things. When you tried to use the system, it was double-digit. We had things like \$30 million spent on

computer programs that failed. They didn't work. And it was never even authorized by Parliament.

Putting this in context, I think this is a vast improvement over some of the things we've seen here.

On the \$7 million, let's just get the record clear here. Some people are suggesting that maybe this equipment disappeared or there was fraud involved or something along that line. My reading of the report doesn't give me that indication at all. It's a tracking error or not putting labels on stuff, but it doesn't mean the equipment doesn't exist or isn't being used by our forces.

Could you clarify that for us, General?

MGen Daniel Benjamin: Yes, I can give you the flavour of it.

Most of the equipment in fact is related to spare parts. This is one of the key issues, that the chain of command wanted to have a better grip on spare parts, especially as we were moving to the FOBs.

So just imagine my team going into an FOB, and they go there for three or four days. We ask the the company to line up their armoured vehicles, because we want to check them and make sure that the kit is there. Each of those LAVs has 8,000 parts, and some of them we have to account for. And we had big armoured plates to account for. We have to go in and check them out. So they line the vehicles up, and we start checking the plates, and all of a sudden they say, “Oh, sorry, we're in the middle of an operation”, and they all bug off.

And then what happened? Well, we did 75% or 80% of the check, and we couldn't confirm the other 20%, so we reported the other 20%. This is what it's all about.

Mr. Brian Fitzpatrick: I have just another observation. It would seem to me that if Wal-Mart or Canadian Tire had to deal with the Taliban, maybe their supply chain wouldn't be that efficient either, and they might have some inventory that's missing as well.

• (1205)

LGen Walter Natynczyk: I would just say that certainly one of the fundamentals of being in the military and wearing a uniform is accountability for kit. You'll probably be aware that a sergeant or a warrant officer getting his section—the platoon—out with all their kit, ensuring that every soldier has what they need in order to go into operations, which will save their lives and ensure that they can achieve their mission successfully, has grown into our culture across the board. That's why we do these follow-up checks. That's why we do things some of our allies don't do, and that's why they're having a look at what we do now. It is part of our culture.

We send in these teams because it's a command responsibility. Before we switch out and bring on a new commander, we want to give them a snapshot of what they are signing on to. Yes, there might be a deficiency, but also it might be somewhere else, and we just don't know that. We recognize it's imperfect, but we still have to give them that snapshot.

Mr. Brian Fitzpatrick: The final question I have is about the current situation. I know in the past maybe we had some problems with not updating our equipment or working on our supply chain and so on, and then we get into a tough situation and we find out how deficient everything is, and we get these terms like the "dark decade". In the current situation, General Benjamin, do you believe that the government is making significant investments in updating equipment and improving the supply chain system?

MGen Daniel Benjamin: Mr. Chairman, I've been in the forces for 32 years, and I have never seen such support. We did procure some of the kit that was really required for force protection for our people so rapidly, and we brought it into theatre and they're adapting to it. I've never seen that. I've talked to many people who do logistics, and every time I go in that theatre and talk to them, they just cannot believe how much support we've been getting. In fact, now we're pushing the equipment forward, and it gets to them without their even knowing it's coming. This is what we need to be successful in that mission.

Mr. Brian Fitzpatrick: Thank you very much, sir.

The Chair: Thank you very much, Mr. Fitzpatrick.

Before we go to the second round, I want just two clarifications.

First of all, General Benjamin, you've been using the acronym FOB. A lot of people would understand that to be freight on board. Could you explain that for the benefit of all of us?

MGen Timothy Grant: Mr. Chair, the military is full of acronyms. An FOB is a forward operating base. This would be a site that is separate and distinct from the main base at Kandahar airfield. It would be a tactical location that would have 50 to 200 troops associated with it. It would be in an area probably 20 to 50 kilometres from the main airfield, and it would be located in an area of tactical importance, one that would allow soldiers to conduct their operations more efficiently and more effectively, because they wouldn't have to travel to that area to conduct those operations.

The Chair: I just wanted to clarify that for the record so that everyone understands what that term means.

Going back to you, Mr. Vice-Chief, you're taking over command as the new Chief of Defence Staff, and you're in very difficult and challenging circumstances. We certainly want to thank you and congratulate you on your appointment and wish you all the best.

Looking at the supply chain, the engagement's going to last at least another three or three and a half years. Things change every day, as we know, but does the military have a critical path as to what equipment is needed, whether this equipment is available, and whether the parts are available to take this mission to at least its scheduled time of conclusion? Can you see that now and what's needed? How do you see that flowing out in the future?

LGen Walter Natynczyk: As General Benjamin said a moment ago, we have seen a huge amount of support to ensure that the

soldiers, sailors, and airmen have everything they need to do their mission. However, through the Manley panel process that's now under government consideration, we will put the helicopters and/or UAVs into theatre with government approval.

We're dealing with a different kind of supply chain with helicopters and UAVs, so it's critical to learn the consumption rates of those pieces of highly sophisticated machinery and how they operate in theatre. We know that the kind of equipment we're talking about already operates in that theatre, so we'll be able to learn from our allies. We need to ensure that our supply chain works commensurate with our allies' to ensure that those pieces of additional equipment are as effective as they can be in support of our soldiers on the ground.

• (1210)

The Chair: Thank you very much.

That concludes the first round. The second round will be five minutes. I will ask all members of the committee to keep their questions short, and witnesses to keep their answers as brief as possible under the circumstances.

Mr. Wrzesnewskyj, you have five minutes.

Mr. Borys Wrzesnewskyj: Just prior to beginning, once again on a point of order, I made a request for a schedule of critical equipment and spare parts for equipment that's necessary for the success of field operations to protect life and limb of our soldiers engaged in those operations. You raised the issue of security quite correctly.

I'd like to point out that not all meetings have to be in public and televised. We have the capacity to go in camera and have that sort of document numbered, circulated to members, and resubmitted to the clerk at the end of the in camera meeting. That would alleviate security concerns and guarantee that as a committee of accountability we could address the issue of accountability on a very important issue—the success of field operations—and also the potential jeopardy of life and limb of our troops in the field. So I'd like to make that request and point out that we have the capacity to do it in a way that would not jeopardize security.

The Chair: Before I hear from the vice-chief, I'm still not clear what you're looking for.

Mr. Borys Wrzesnewskyj: We've heard critical equipment mentioned several times in the report, whether it's ground transport equipment, equipment of various types that we don't have or haven't had in the past in the field, or spare parts for that sort of equipment that may be running low and would jeopardize our ability to perform our functions there.

My question at that time to General Natynczyk was do we at this time know what we are critically short of in terms of that equipment and the spare parts for that? If he has that, can he provide a schedule to this committee? And on the security concerns, we have methods to address those.

The Chair: I'm going to hear from the vice-chief, but I believe he or the accounting officer answered this before. They said it was a moving target—what the shortage was three months ago, or when the auditor did the report.

Mr. Borys Wrzesnewskyj: I'm asking for it at this point in time.

The Chair: I'll ask the vice-chief to comment.

LGen Walter Natynczyk: On equipment holdings, we guard our security very closely. That goes without saying, because it's a matter of life and limb of our soldiers. At the same time we insist that given the various fleets of vehicles—be they tanks, light-armoured vehicles, reconnaissance vehicles, or trucks—there are spare vehicles in theatre. That is our number one priority. Theatre is our number one priority.

We look at our stocks of equipment back home and ensure that in theatre they have everything they need to be successful. Indeed, with the priority ones we force or push spare parts forward to make sure those vehicles are serviceable. So when we look at where we are in terms of vehicle states and serviceability, it's always a snapshot in time. When we have significant operations and vehicles that are damaged, the challenge is how quickly we can turn those vehicles around by either getting them fixed or replaced.

So I guess I would say to you that we have a lot of data we could provide. It's always a snapshot in time, but we ensure that in theatre they have not only the vehicle fleets, but spares behind.

Mr. Robert Fonberg: If the question is whether we have or forecast critical shortages, I would turn to the general. He may undo my answer, but I would expect the answer to be that we have no critical shortages, because we manage our supply chain to ensure that we don't. I'd ask the general to comment.

MGen Daniel Benjamin: This was the point I was trying to make earlier. I look at the overall supply chain. I look at what's needed in theatre and what the requirement is, where the resources are available, and how much time and space it will take to bring it into the theatre. For every capability, I track it to make sure. If there is a single point of failure, e.g., if a manufacturer cannot provide a spare part, I'm aware of it and we put pressure on the manufacturer to make sure we don't compromise operations. This is what we are putting in place to have total visibility. It changes on a daily basis.

• (1215)

MGen Timothy Grant: In theatre I was briefed daily on the status of every vehicle fleet. I made sure that the information was shipped back to Canada to my boss, General Gauthier, to ensure that he could discuss with General Benjamin on a daily basis those issues that needed attention. Because there was the dedication of troops on

the ground and the close supervision of the stockpiles in theatre, we never had an operation affected by a shortage of spare parts. This is an important point that the Auditor General noted in her report: operations didn't suffer for lack of spare parts.

Mr. Borys Wrzesnewskyj: With those assurances, I withdraw my request. It's a good-news story there.

The \$7 million has been raised a number of times. I'm not particularly perturbed about that, because we seem to have good answers on it, but it was mentioned several times that we distribute and share equipment with our allies. I assume that you included our Afghan allies when you made that reference.

In the last week, we've had the minister question the loyalty of our Afghan allies. Do we keep a separate count? Do we inventory equipment that we share or provide to our Afghan allies, especially when it comes to small arms and ammunition? Do we have those numbers? Do we track those numbers? This is important, especially with questions about their loyalty to the mission.

MGen Daniel Benjamin: One of the key donations that Canada has made to the Afghan security forces is the 2,500 C7 rifles. We had to put in place the control measures to make sure we could track them throughout. Those control measures are being taken in theatre by the contingent.

MGen Timothy Grant: We acknowledge that the Afghan army as it stands today does not have the same mature logistics system that we have in Canada. As a result, we work closely with them through our operational mentor liaison team not only to build the capacity in their logistics battalion, but also to make sure that we can account for all of our equipment that they are using in operations. That's closely monitored and accounted for. We want to make sure we know exactly where it is and what it's being used for.

LGen Walter Natynczyk: We have seen huge progress in the capacity and professionalism of the Afghan security forces, both the Afghan army and police. We have a lot of our soldiers right with them, providing them with training, education, and mentoring. We have military police working with the RCMP and others professionalizing their police and staying with them in various outposts. Similarly, we have a lot of our great soldiers with the Afghan army providing that accountability function, but also providing the professionalism and mentoring they need.

Mr. Borys Wrzesnewskyj: That seems to indicate that you have no question about the loyalty of the Afghan security forces that you're providing materials to, especially when it comes to light arms and ammunition.

LGen Walter Natynczyk: That's correct.

Mr. Borys Wrzesnewskyj: Thank you.

The military has been lauded for its inventory systems, which have served as a template for other countries. Mind you, when you look at the situation in Iraq with the Americans and how they track—or don't track—their billions and billions of dollars worth of equipment contracts, that's not the best model to measure yourself against. Why wouldn't we go one step further? Most large corporate entities that carry critical inventories would actually, as opposed to the mission or the rotation, use 13 four-week inventory periods. Every four weeks there's an inventory done. Is there an intention to step it up one level, so we don't wait until end of mission to find out the status?

The second part to this question is, is there an upgrade? When we take inventories, there's the equipment in Afghanistan and also the spare parts and equipment back in Canada. It's a continuous pipeline. Is it a coordinated inventory system? When we make inventories in Afghanistan, do we do it at the same time in Canada? If we move to an even more precise system, for instance a 13 four-week system, would that be coordinated throughout the pipeline?

• (1220)

MGen Daniel Benjamin: Yes. That's the beauty of having one supply system, which no other country in the world has. What we do in inventory control here in Canada is the same system we push in theatre, which is then connected throughout. We have one supply system, one end to the other. That allows Canada to do the proper tracking, which the other countries cannot do.

We adjust the inventory stock-taking in theatre, basically on the operational tempo. The units do their own, then I come in and I do a big spot check at the rotation. We amend through the process and try to do our best. This is something that we want to do better and better, so we'll be the best in the world. Nobody right now can touch us. The U.S., for example, has four or five different pipelines going into Iraq and Afghanistan. How can you reconcile this? It's almost impossible.

LGen Walter Natynczyk: To reinforce General Benjamin's point, platoon commanders, company commanders, and battalion commanders all have stock checks occurring on a regular basis. When they finish a major operation and get back to one of the four operating bases, or to Kandahar airfield, they take stock. They have a responsibility to make sure the soldiers are successful on the next mission. The NCOs will tell the soldiers to lay out their kits and they'll check their equipment. Some of the inventories that General Benjamin does are outside that chain of command, to make sure we have an independent audit of what's on the ground. These stock checks happen on a regular basis, depending on the operational tempo.

The Chair: Mr. Williams.

Mr. John Williams: Thank you, Mr. Chairman.

I want to start by congratulating General Natynczyk on his promotion to the Chief of Defence Staff. I also want to say hello to my good friend General Tim Grant. If the Afghan mission is in his hands, it's in good hands. Welcome to Parliament.

Some hon. members: Hear, hear!

Mr. John Williams: I have two concerns: getting proper supplies to our soldiers, and minimizing corruption in the war zone. These are the two things that I think are fundamentally important. Yes, there are losses and slippage and shrinkage of inventory. But even retail stores here in Canada have shrinkage in inventory. We're not that concerned about the \$7 million in inventory, provided that it's not going into the hands of the other side. I need to get your assurance that everything is being done to ensure that this isn't happening.

LGen Walter Natynczyk: Mr. Chair, that's absolutely the case. Ensuring that the soldiers and sailors and airmen have what they need is an absolute priority. Our challenge is anticipating the next demand. How do we anticipate their needs so that, even before the soldiers ask for something, a new piece of equipment arrives that will enable them to achieve success while mitigating their risks?

As General Grant mentioned earlier, we have no indication of any infiltration at our base. Indeed, from intelligence we have no indication that anyone has taken a piece of our equipment and used it inappropriately.

We have a huge challenge, however, in the realities of this theatre. We have all kinds of circumstances where a vehicle goes into a minefield or hits an improvised explosive device, and it blows up, and then the ammunition inside blows up. Indeed, there have been situations where we actually have to put a bomb into that vehicle, because we cannot extract it, and we don't want that sensitive equipment to get into anybody else's hands. So these vehicles are decimated.

Can we account for every radio, every grenade, every piece of equipment in that vehicle? We can't. It might be just obliterated through that destruction. Those are the kinds of challenges we have.

• (1225)

Mr. John Williams: Okay, that's very good.

I see in paragraph 2.29 and 2.30 that the Auditor General is pointing out that when the goods arrive in Kandahar, that seems to be the most difficult time at which we can lose control. I am concerned that there is pilferage and that it ends up in enemy hands, so I appreciate your comment there, General.

Paragraph 2.48 deals with the medical supplies. Medical supplies are a very critical thing on a front line. I notice that you sometimes are short of medical staff. Is that being addressed?

LGen Walter Natynczyk: In terms of...?

Mr. John Williams: Are medical staff and medical equipment being addressed on the front line?

MGen Daniel Benjamin: Yes, these are being addressed. One of the key issues was very rapid procurement of some of the items, and what we've done with the health support services is to have several standing offer agreements and a procurement mechanism to get all these pieces of critical kit, and we have increased the level of stocks in that theatre to between 60 days and 90 days so that whatever happens, we're there and we can react through the whole supply chain.

I visit the role three every six months when I visit the theatre. They are doing an outstanding job, and they were not missing any items.

Mr. John Williams: I have two more points left.

Paragraph 2.47 talks about the need for the contracting process. That sometimes kind of slows things up. Are you maintaining an adequate inventory bank here in Canada so that the tendering process does not hamper you in any way, shape, or form, so that you have bought it, you have it in stock, and you can ship it as needed? Is that under control?

MGen Daniel Benjamin: Those are the standing offer agreements I was referring to, Mr. Chair.

Mr. John Williams: The last question I have is on paragraph 2.55. In some cases we are relying on our allies there, and they don't always come through. Are we able to ensure that if the allies don't come through, we can carry it ourselves?

MGen Daniel Benjamin: Yes. This is an evolving one. New Zealand has just come up and are increasing the level of multinational support at role three in Kandahar. Australia is very much interested, and we already have our friends from the Netherlands and others. So it is a multinational effort.

I wish we had much more, but medical and health support services are an issue worldwide right now, and this is why it is so difficult to support and sustain such capability in that theatre.

MGen Timothy Grant: Mr. Chair, I would add that the role three hospital, although it's in a plywood barn, essentially, is a state-of-the-art facility. And I would add that it is in fact the organization that gives soldiers confidence to go outside and conduct combat missions. They know that if they are injured or hurt, the role three hospital will provide them with the best medical care possible. From that standpoint, a soldier absolutely has confidence in the ability of all of those multinational folks who provide that first-class, world-class medical support in Kandahar.

Mr. John Williams: What is the role three hospital? Can you define that for us?

MGen Timothy Grant: Not being a professional logistician....

MGen Daniel Benjamin: A role three hospital is a hospital at a level that can do surgery. So as we evacuate our soldiers who have been injured, this is the first hospital in which we do the initial surgeries. After that, if they are stable enough, we do aerial medical evacuation to a facility in Germany, which is really state of the art, and this is where we do final stabilization of our folks before they come back to Canada. It is a very slick process.

We're getting tremendous help from the United States, which is doing the aerial medical evacuation from Kandahar to Germany. It's a beauty to see.

The Chair: Thank you, Mr. Williams.

Mr. Lussier, *pour cinq minutes*.

[Translation]

Mr. Marcel Lussier (Brossard—La Prairie, BQ): Thank you, Mr. Chair.

Since the start, not much has been said about secure vehicles on the ground. I would like to get some information on the helicopters.

What is the program for the helicopter equipment in Kandahar? Do some delivery schedules extend beyond 2012? Do you expect to shortly receive transport helicopters for the troops on the ground?

● (1230)

LGen Walter Natynczyk: Sir, it is now up to the government to come to a decision regarding helicopter procurement.

We have done our planning. Major generals Grant and Benjamin, in conjunction with NATO, ensure planning and coordination at the Kandahar Airport, prior to the government decision being made.

MGen Daniel Benjamin: Mr. Chair, clearly, with regard to planning, our people are already on the ground so as to be ready to incorporate the new capacity we might receive, and which will be used not only by Canada but also by the NATO forces in the region. Therefore, there is a lot of negotiation going on with NATO officials on the ground. We do, however require the government's decision, and as soon as we are given a signal, we will be ready to respond accordingly.

Mr. Marcel Lussier: Could someone give me a brief overview of the current situation in Afghanistan with regard to the number of soldiers and civilian and Afghan employees who work for the Canadian troops?

MGen Daniel Benjamin: Mr. Chair, I do not have the exact figure, but the total number has remained steady at around 3,000. We have increased the number of support staff. As for the number of military personnel that support the mission, their numbers increased from 1,034 to 1,288. That includes all support functions, including engineers, military police, medical practitioners and others. There are also many civilian employees on contract under CANCAP. At first, the program was not used...

Mr. Marcel Lussier: I am only looking for figures.

MGen Daniel Benjamin: There are now 265 employees working under CANCAP, and the number is still expected to increase. That is but a small part, because Canada is only one of the 24 countries present in Kandahar. Many multinational contracts are managed by NATO. The organization has close to 1,300 contract employees from many nations who have come to provide support in terms of operations, water, supply, etc. Every day, approximately 1,100 Afghans cross the check-point to support the effort. A colossal effort is required for such a large base, which is not only Canadian but multinational.

Mr. Marcel Lussier: Have any goods that were checked by the controllers ever disappeared? Have attendants who work with material ever been caught with their hand in the bag? Have there been any reported cases, reports or files?

MGen Daniel Benjamin: We know that military police is currently investigating the loss of a handgun. The paperwork of the audit into the \$7 million in losses could fill up two pick-up trucks. That is what we would have to review if we wanted to spot other cases. The case we know of and which is under investigation is regarding a handgun.

Mr. Marcel Lussier: Some 1,400 containers are stored in the warehouses. Is all of their content identified?

MGen Daniel Benjamin: No, Mr. Chair, not the content, that is for sure.

Mr. Marcel Lussier: Therefore, the word “explosives” would not appear on a container.

MGen Daniel Benjamin: Explosives are kept in a completely separate and segregated warehouse, for obvious reasons.

Mr. Marcel Lussier: The action plan states that 15 key performance indicators were developed. What are they?

MGen Daniel Benjamin: One of the indicators is the time it takes to deliver an item. Another is the time it would take to purchase items, after having checked that there were none on our shelves. There's also a series of detailed indicators.

Mr. Marcel Lussier: I am rather interested in material items. Are there indicators regarding the number of rifles or grenades in stock?

MGen Daniel Benjamin: The indicators are associated with priority codes, i.e. 1, 2, 3 and 4. We measure the number of priority 1 items and the time it takes to purchase them and ensure delivery to the theatre. This is a new process, which we are only starting to implement. This is one of the areas we really want to improve over time.

[English]

The Chair: Merci, Mr. Lussier.

We'll have Mr. Poilievre, for five minutes.

Mr. Pierre Poilievre (Nepean—Carleton, CPC): My question is for Major-General Benjamin.

I'd like to know a little more about the importance of strategic airlifts in executing your supply chain plans. Can you tell us what impact they have?

There has been a lot of debate as to whether Canada needed strategic airlift capacity. I'd like you to explain to us whether it has been an important investment, or if in fact you could have done without it.

• (1235)

MGen Daniel Benjamin: Strategic airlift and sealift in fact is something critical to a country like ours that wants to be successful in a place like Afghanistan, which is a land-locked country.

You may take Air Canada and fly to wherever in the world. These are predetermined paths. When we bring the military materiel and go to a place like Afghanistan, we have to go over 16 different countries. We need flight clearance over those 16 different countries, and very often they will say they need two weeks' notice, especially if it's a weapons system, ammunition, and those types of things. So it is extremely complex. In some instances you could go one way, and that nation may say no, you're not coming this way. It's like a huge

puzzle. It is a tremendous challenge to then support our forces by having strategic airlift and sealift to that theatre.

We have found over the last three years of experience that the most efficient way of doing business is obviously related to planning and for us to load the heavy equipment on a ship, a full-time charter. I now have a full-time charter, a roll-on roll-off type of ship that's like a big ferry, if you wish, so we can bring that equipment closer to the theatre of operations. We do the last leg with a tactical airlift directly into the Kandahar region. The way we do that is saving us millions and millions of dollars. As we do that, obviously there's equipment we want to repatriate back to Canada, especially the beyond-repair kit that they don't need any more, and we fly it back to that staging base very close to the theatre and sail it back to Canada. That's the most efficient way of doing business.

The business is extremely demanding, as I've mentioned. We have at least 16 strategic flights per month to support and sustain that mission, and every time it's a different path as we go there and have to get clearance or not. The C-17 has been a tremendous asset to help us out in that process, and it's giving us some autonomy. We use it. It is in the pipeline, and it has been a tremendous asset for us to support that mission and to support any other demands worldwide. For example, we had the cyclone in Burma, we had the earthquake in China, and we can use our own strategic airlift or we can contract it out.

Even though we will have at full operating capability four C-17s, this will only represent about 40% of the job that I do on a daily basis—only 40%. We will always rely on other strategic airlift and sealift means, because it gives you a lot of flexibility as you move around the world to do the job. So it is complementary and it is giving us, really, the autonomy that we need.

If Canada could afford five, six, or eight C-17s, that would be great and fantastic, because it would give us that much more autonomy. But look at the United States. It has close to 200 C-17s. And even though they have 200, they still rely heavily on strategic commercial airlift through the Antonov IL-76 type of platform.

It is a complex business, and having the two tools helps you out, because in some instances a country will say no to a military aircraft but will say yes to an Antonov. That gives us tremendous flexibility to go anywhere in the world.

Mr. Pierre Poilievre: The advantage, then, of having some strategic airlift capacity is in the flexibility it offers to your planning and execution of the supply chain. Are you telling me that even though we cannot carry out 100% of our strategic airlifts with our own planes, it's better to have some rather than contract out for all?

MGen Daniel Benjamin: You really need some autonomy. When a crisis explodes somewhere—and an earthquake is a good example that we've seen in the past—everybody goes out to get those Antonov 124s and those IL-76s. Everybody wants them, and it's first come, first served. If you're out of the loop, you don't have any. That would mean that if you wanted to send the disaster assistance relief team and you don't have your own autonomy in terms of strategic lift, you may end up not being able to do anything. We've seen it with Burma; we were well set up for that. But many other countries in the world could not access either their own strategic lift or the Antonov. So it's really fundamental, because it gives you that autonomy.

• (1240)

Mr. Pierre Poilievre: Perhaps I could close with a quick, very numerical question. How many C-17 flights are there to Afghanistan in the same month?

MGen Daniel Benjamin: Right now we have flights every two weeks. That's because we only have an interim capability. There are still some upgrades being done to—

Mr. Pierre Poilievre: There's one flight every two weeks?

MGen Daniel Benjamin: Yes. We'll go to once a week pretty soon, as we get more crew qualified and all the upgrades done on the airplane. But this is a capability of the air force. I give them the tasking.

Mr. Pierre Poilievre: Great.

The Chair: Thank you, Mr. Poilievre.

Major-General Benjamin, there's one point I want to clarify. In the Canadian supply chain, the way I interpret your testimony, all the work is done by the Canadian Forces. If you read about what happens in the United States, a lot of it's done by private contractors, such as Halliburton. But in the Canadian experience, it's all done internally by the Canadian Forces. Is that correct?

MGen Daniel Benjamin: We contract out for strategic airlift and sealift. We have an agreement with the United States, the integrated line of communication, and we use their assets extensively. We have CANCAP, which is also a Canadian contract, working hand-in-hand with an MSOC contract in that field.

The Chair: So CANCAP works in the theatre.

MGen Daniel Benjamin: Yes, sir.

The Chair: Once the materiel and goods arrive in Kandahar, are they handled by the Canadian Forces, or independent contractors working for the Canadian Forces?

MGen Daniel Benjamin: When our equipment gets into theatre, it is handled by Canadians. We take ownership of our equipment.

The Chair: But when it arrives in Kandahar for storage and supply, is it all handled by the Canadian Forces? I know you rent

strategic lift from other independent contractors, but when it arrives, is it handled by Canadian Forces personnel or by independent contractors?

You know that in the States, the whole supply chain in some cases is handled by independent contractors. That's not the Canadian experience.

MGen Daniel Benjamin: We could really go into detail on how we operate the airfield in Kandahar. It is a NATO airfield. They have a contractor that does materiel handling and gives that materiel to our supply tech, who then takes ownership of it. You will be pleased to know that the contract under NAMSA is held by a Canadian company.

The handling of the equipment as they land, the control of the airspace, and all these types of things are under the NATO umbrella. But as soon as the airplane has landed and we take the equipment, we bring it to our compound and take ownership of it.

The Chair: Thank you very much.

Colleagues, that concludes the second round.

I'm going to invite Mr. McRoberts to give any closing comments.

Mr. Hugh McRoberts: I'd like to come back to the department's action plan. We believe it is a very constructive action plan and responds well to the recommendations we've made. We look forward to watching the department put it into operation. I think that will help move the yardsticks.

The Chair: Mr. Fonberg, are there any closing comments you want to make?

Mr. Robert Fonberg: I have no further comments, Mr. Chairman, except to thank the Auditor General for the report and recommendations, and the committee for its time.

The Chair: The committee has a few minutes of business. I'm not going to adjourn; I'm going to suspend the meeting. But I want to take this opportunity, on behalf of the committee, to thank you all for your appearance here today and the excellent way you prepared for the meeting.

Vice-Chief Natynczyk, on behalf of the committee I want to congratulate you. This is the culmination of an amazing military career. We want to wish you all the best, thank you, and ask you to pass on our thoughts and thanks to the many people who perhaps are not under your command right now, but will be on July 2. I understand that is the day you'll be sworn in. Congratulations, sir.

LGen Walter Natynczyk: Mr. Chairman, thank you very much, and I certainly will.

The Chair: The meeting is suspended.

*[Proceedings continue in camera]*

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