

2020 Spring 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



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

2020 Spring Reports of the Auditor General of Canada to the Parliament of Canada

Report 3—Supplying the Canadian Armed Forces—National Defence

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Introduction

Background

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

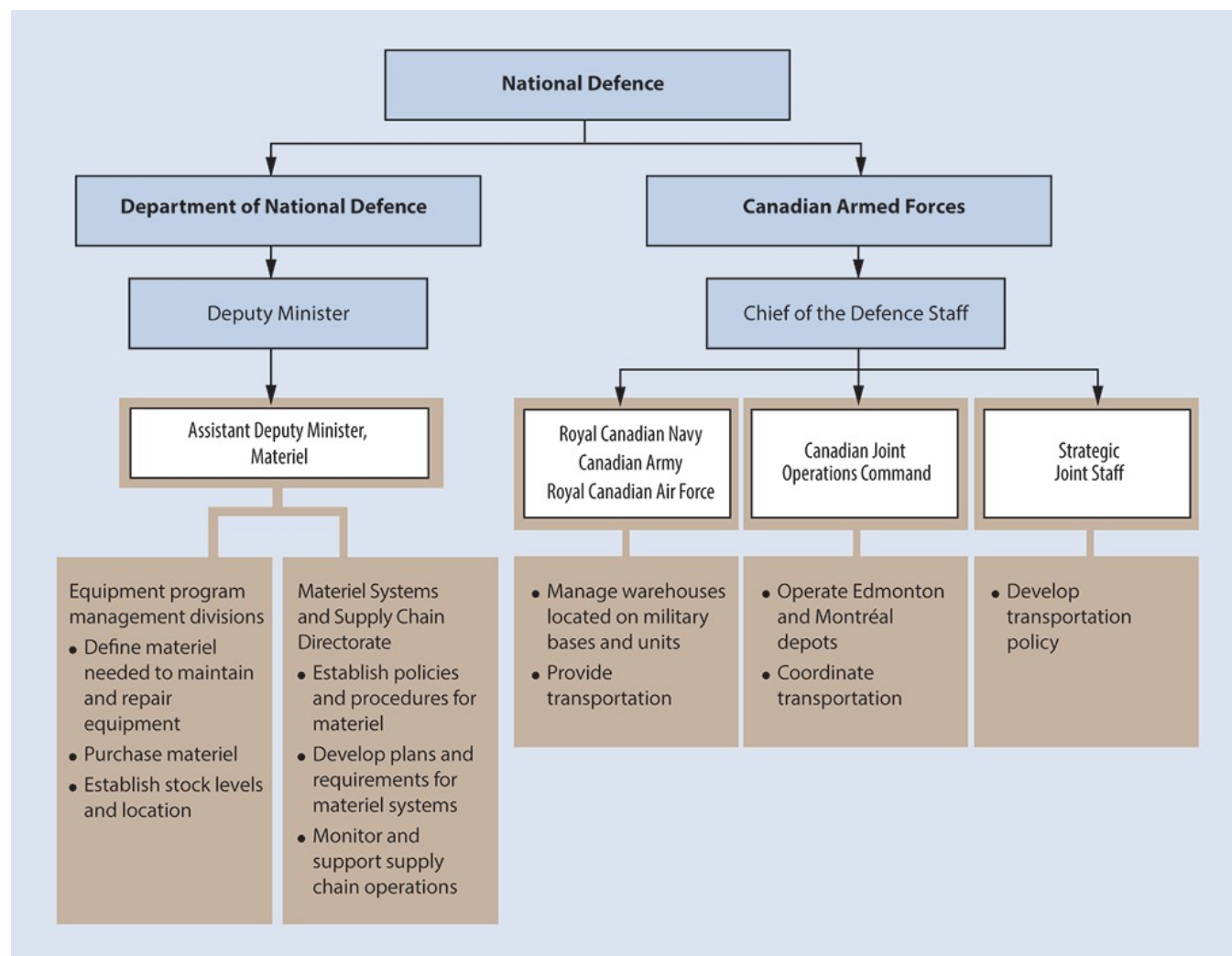
3.2 Such missions can be unpredictable. To prepare for and conduct these operations, the Canadian Armed Forces must be well equipped and trained. The 68,000 regular force members and 30,000 reserve force members must also be supported by a supply chain that provides them with the materiel they need, 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.

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.

Exhibit 3.1—Roles and responsibilities for supplying materiel

Source: Adapted from National Defence documents

▼ **Exhibit 3.1—text version**

This organizational chart shows the roles and responsibilities at National Defence for supplying materiel.

National Defence is composed of the Department of National Defence and the Canadian Armed Forces.

The Deputy Minister heads the Department of National Defence. The Assistant Deputy Minister, Materiel, reports to the Deputy Minister. The equipment program management divisions and the Materiel Systems and Supply Chain Directorate report to the Assistant Deputy Minister, Materiel.

- The equipment program management divisions define the materiel needed to maintain and repair equipment. They also purchase materiel and establish stock levels and location.
- The Materiel Systems and Supply Chain Directorate establishes policies and procedures for materiel, develops plans and requirements for materiel systems, and monitors and supports supply chain operations.

The Chief of the Defence Staff heads the Canadian Armed Forces. The Royal Canadian Navy, the Canadian Army, and the Royal Canadian Air Force; the Canadian Joint Operations Command; and the Strategic Joint Staff report to the Chief of the Defence Staff.

- The Royal Canadian Navy, the Canadian Army, and the Royal Canadian Air Force manage warehouses located on military bases and units, and provide transportation.

- The Canadian Joint Operations Command operates the Edmonton and Montréal depots and coordinates transportation.
- The Strategic Joint Staff develops transportation policy.

Source: Adapted from National Defence documents

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.

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.

Findings, Recommendations, and Responses

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

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.

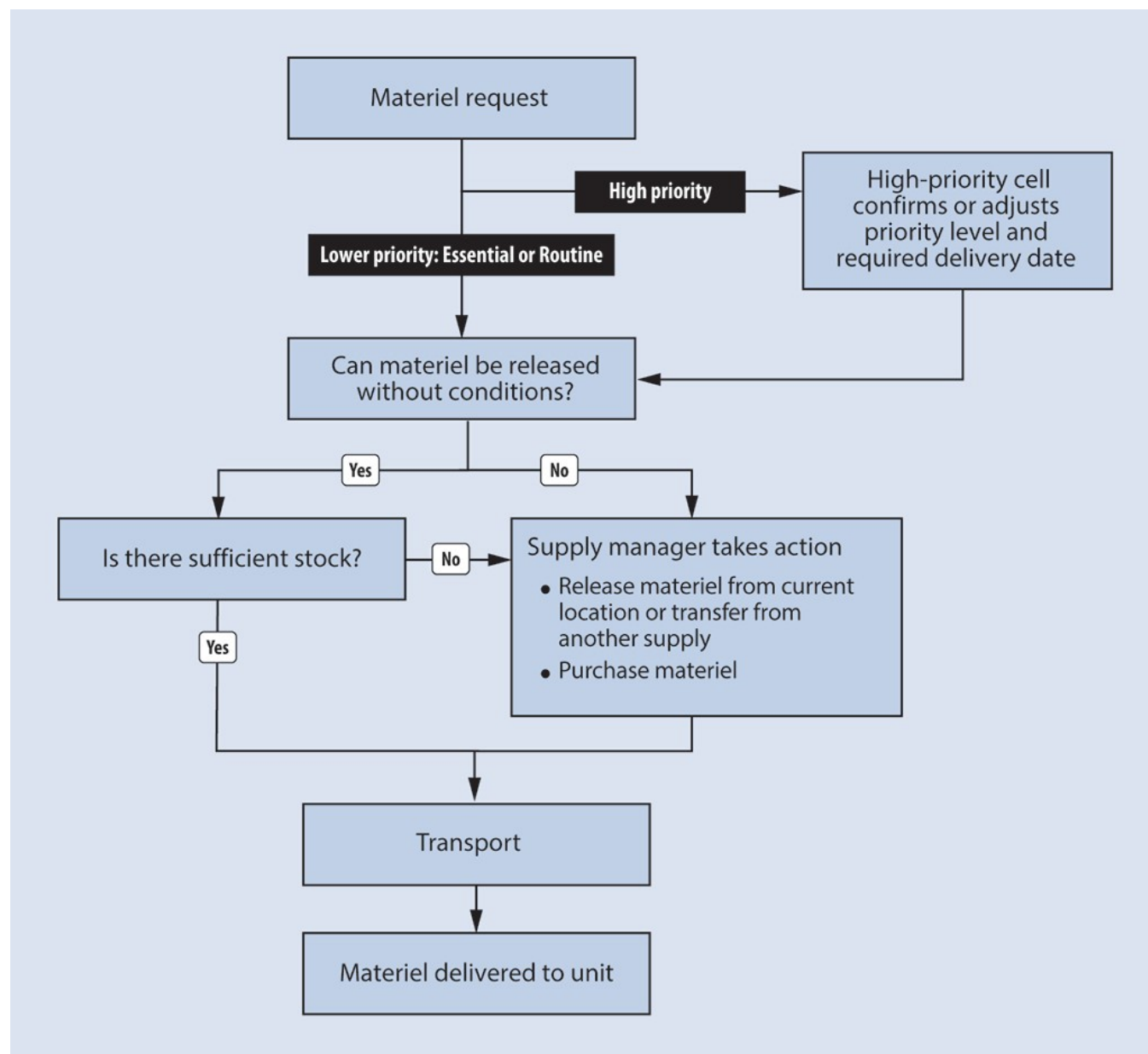
3.18 Materiel requests must be placed to transfer materiel between locations, and each request includes a required delivery date. There are 2 main ways that materiel requests can be initiated:

- 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

Source: Adapted from National Defence documents

▼ **Exhibit 3.2—text version**

This flow chart shows the process for materiel requests.

The first step of the process is to submit a materiel request and establish its priority level. If the request is a lower priority, meaning that the request is considered “Essential” or “Routine,” then the process moves to the next step. If the request is high priority, a high-priority cell confirms or adjusts the priority level and required delivery date before the process moves to the next step.

The next step of the process is to ask the following question: “Can materiel be released without conditions?” If the answer is “Yes,” then the following question is asked: “Is there sufficient stock?” If the answer is “Yes,” then the process moves to the next step.

However, if materiel cannot be released without conditions or if there is not sufficient stock, then the supply manager takes action by releasing materiel from the current location or transferring it from another supply, or by purchasing materiel.

The next step is to transport the materiel.

The final step is for the materiel to be delivered to the unit.

Source: Adapted from National Defence documents

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

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

Recommendations

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

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

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:

Criteria	Sources
National Defence provides the materiel requested in a timely manner to support the Canadian Armed Forces' operational objectives.	<ul style="list-style-type: none"> • Defence Administrative Order and Directive 3000-0, Materiel Acquisition and Support, National Defence • Defence Administrative Order and Directive 3029-0, Movement of Materiel and Baggage, National Defence • Supply Administration Manual, National Defence • Transportation Manual, National Defence • Individual in-service support contracts, National Defence
National Defence provides the materiel requested without incurring needless transportation costs.	<ul style="list-style-type: none"> • Defence Administrative Order and Directive 3000-0, Materiel Acquisition and Support, National Defence • Defence Administrative Order and Directive 3029-0, Movement of Materiel and Baggage, National Defence • Supply Administration Manual, National Defence
National Defence maintains complete and accurate data to support timely and informed materiel distribution decisions.	<ul style="list-style-type: none"> • Policy on Management of Materiel, Treasury Board • Defence Administrative Order and Directive 3029-0, Movement of Materiel and Baggage, National Defence • Defence Administrative Order and Directive 6001-0, Information Management, National Defence • Supply Administration Manual, National Defence
National Defence uses appropriate performance indicators to oversee, measure, and improve its materiel management practices.	<ul style="list-style-type: none"> • Policy on Management of Materiel, Treasury Board • Policy on Results, Treasury Board • Defence Administrative Order and Directive 3000-0, Materiel Acquisition and Support, National Defence

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
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Cyril Catto
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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.

Supply chain

Recommendation	Response
3.43 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. (3.25 to 3.42)	<p>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.</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>
3.50 National Defence should improve its oversight of high-priority requests to ensure that such requests are used only when necessary. (3.44 to 3.49)	<p>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.</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
3.57 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. (3.51 to 3.56)	<p>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.</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>