



National
Defence

Défense
nationale



CANADIAN
ARMED FORCES

Matériel Management at the Department of National Defence

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Outline

- Current State and Statistics
- What is DND doing Now
- Policy Modernization
- Other Materiel Management Topics of Interest



Current State and Statistics



Policy Statements

- Materiel acquisition and support (MA&S) includes the resources and business functions required to acquire and support materiel throughout its entire life cycle.
- MA&S contributes to the defence capability of Canada by ensuring that the CAF is equipped with the right materiel in a timely manner, prepared to accomplish its roles and missions.



Policy Statement

The DND and the CAF are committed to carrying out all MA&S activities in a manner that:

- supports the pre-eminence of CAF operational requirements, materiel performance and readiness;
- ensures value for money;
- focuses on the sound stewardship of materiel entrusted to the DND and the CAF;
- manages materiel in a sustainable and financially responsible manner that supports the cost effective and efficient delivery of DND and CAF programs;
- supports government objectives; and
- minimizes adverse environmental impacts, enhances sustainable development and meets legal obligations to Aboriginal peoples.



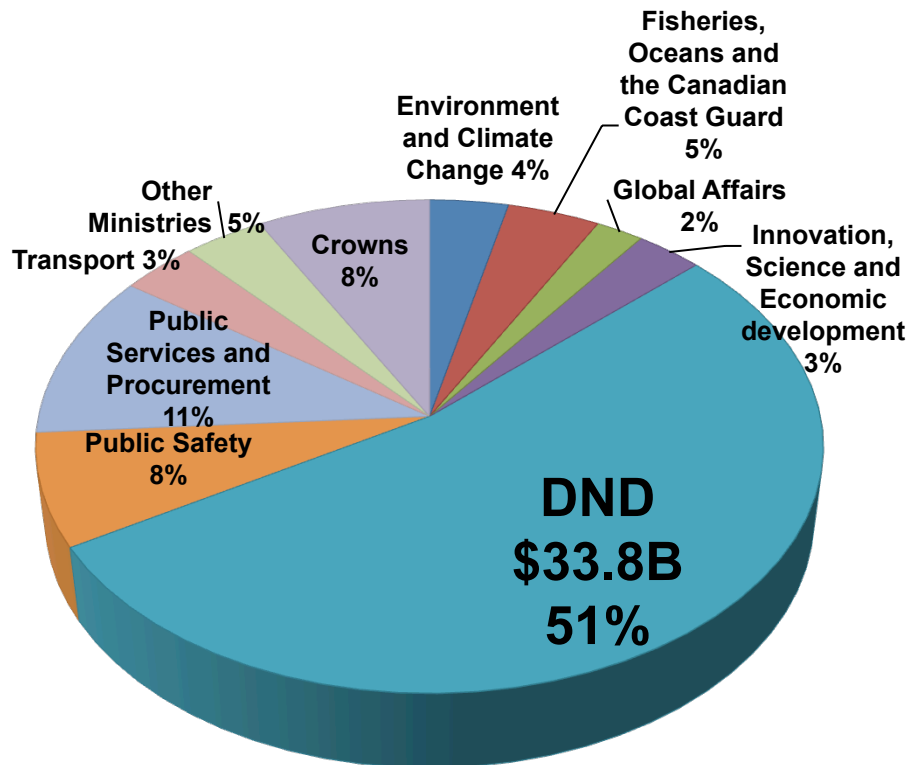
Materiel at DND

- 1.2 Million NATO Stock Codes
- Over 50% of GoC Tangible Capital Assets
- Approximately 80% of GoC Inventory
- 4 x Materiel Depots, 4 x Ammo Depots
- 25,000 storage locations across thousands of different sites
- Domestic and International sites
- Global Value \$36 Billion



Distribution of Tangible Capital Assets

2015-2016 Public Accounts : Net Tangible Capital Assets



2015-2016 Public Accounts:

*“..quantity **errors**, failure to write-off obsolete items, pricing errors, and **misclassification** between inventory and asset-pooled items..”*

2010-2011 Public Accounts:

*“..**errors** remain in the **pricing**, quantities, and **timely recording** of transactions..”*

2002-2003 Public Accounts:

*“..it **may be years** before inventory records are suitable for management decision making..”*

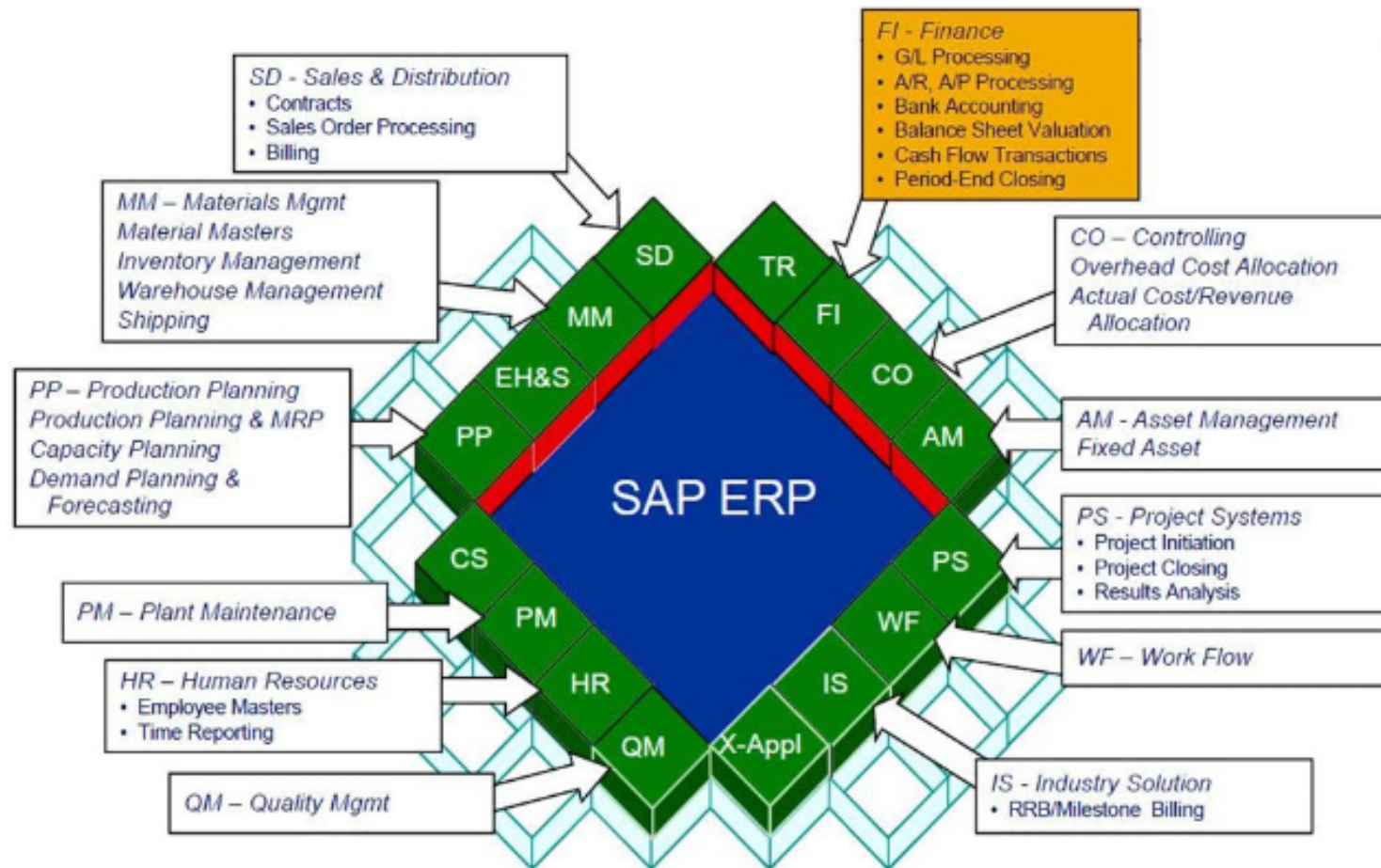


Material Management System of Record

- DRMIS – Defence Resource Management Information System
- SAP Based
- Mostly Integrated: Modules for Material Management, Financial Management, Engineering Management & Project Management
- There are still some bolt on or outside programs that we have not yet been able to fully integrate into DRMIS.
 - For example >> Medical Material, Munitions and Distribution of materiel



SAP DRMIS Modules





OAG Audits

- DND has been cited for the last 15 years on:
 - Obsolescence – too much stuff that is no longer required still in warehouses
 - Quantity – stocktaking results demonstrating a previous inconsistency in “sound stewardship”
 - Price – pricing anomalies that affect valuation
 - Capital Assets/API/Inventory accounting
 - Valuation methodologies including Asset Pooled Inventory, Capitalization



What is DND Doing Now?

....trying to improve materiel management policies and processes



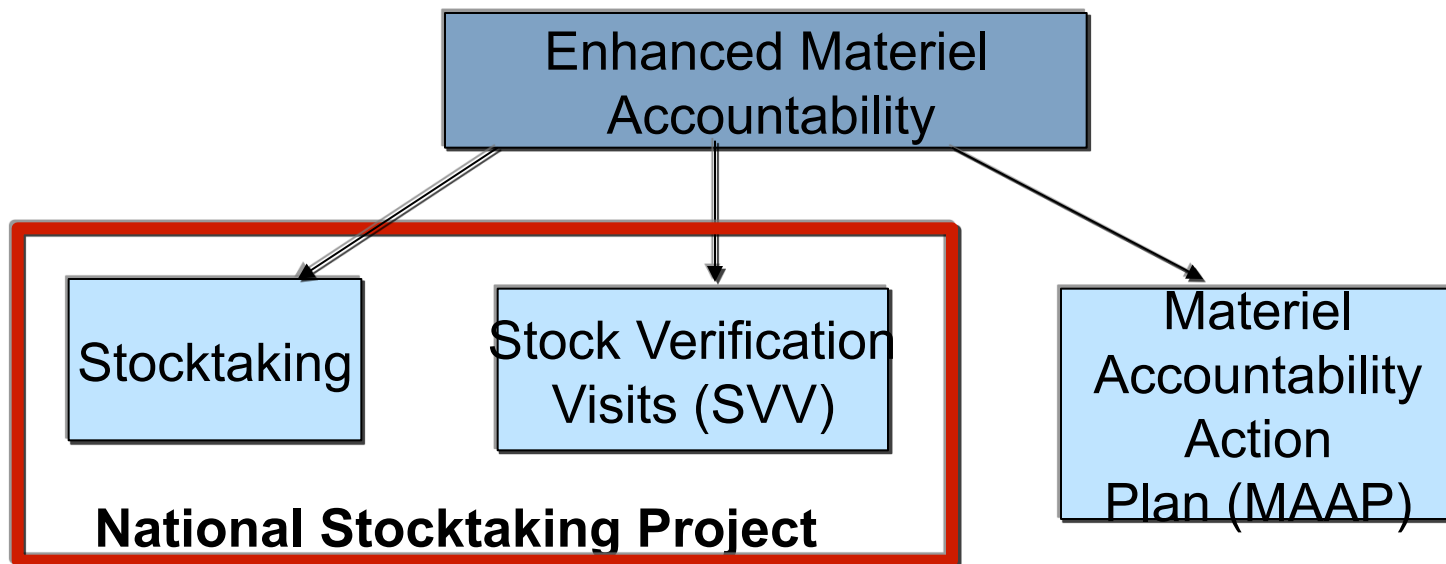
Initiatives

- In order to address these observed shortfalls, DND has many initiatives underway including:
 - National Stocktaking Project (NSP)
 - Inventory Management Modernization and Rationalization Project (IMMRP)
 - Materiel Identification Project (MI)
 - Materiel Pricing Project



National Stocktaking Project (NSP)

The National Stocktaking Project, utilizing contracted support, facilitates better inventory management of DND/CAF materiel. Further, it promotes the accuracy and timely reporting of materiel thus providing better data accuracy in DRMIS, improved operational support and increased compliance with GoC policies and practices.





National Stocktaking Project

Overall DSCO 2 - Stocktaking Summary

NSP Visits	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Total
Visits	17	14	25	25	37	25	143
Line Items Counted	46,809	71,129	98,577	106,903	88,713	78,678	490,809
Value of Materiel Counted	\$410.22 Million	\$1.67 Billion	\$1.05 Billion	\$1.12 Billion	\$1.35 Billion	\$765.28 Million	\$6.37 Billion
Value of Discrepancies Corrected	\$37.56 Million	\$52.95 Million	\$76.21 Million	\$42.47 Million	\$47.68 Million	\$28.38 Million	\$285.25 Million

Stock Verification Visits	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Total
Visits		20	17	23	22	9	91
Line Items Verified		764	805	1,681	1,072	449	4,771
Value of Materiel Verified		\$1.66 Billion	\$1.03 Billion	\$1.26 Billion	\$595.56 Million	\$36.02 Million	\$4.58 Billion
Value of Discrepancies Corrected		\$85.97 Million	\$41.57 Million	\$151.54 Million	\$20.38 Million	\$2.13 Million	\$301.6 Million



Inventory Management Modernization and Rationalization Project (IMMRP)

According to the IMMRP Charter IMMRP was tasked to:

- **Rationalize** dormant and legacy stock;
- **Modernize** materiel management policies;
 - Develop Process Maps
 - Develop metrics, governance and oversight structures;
 - Update training materials; and
 - Create process efficiencies
- In order to fuse the multiple requirements together IMMRP developed a 4 phase plan (next slide)

Contributes to:

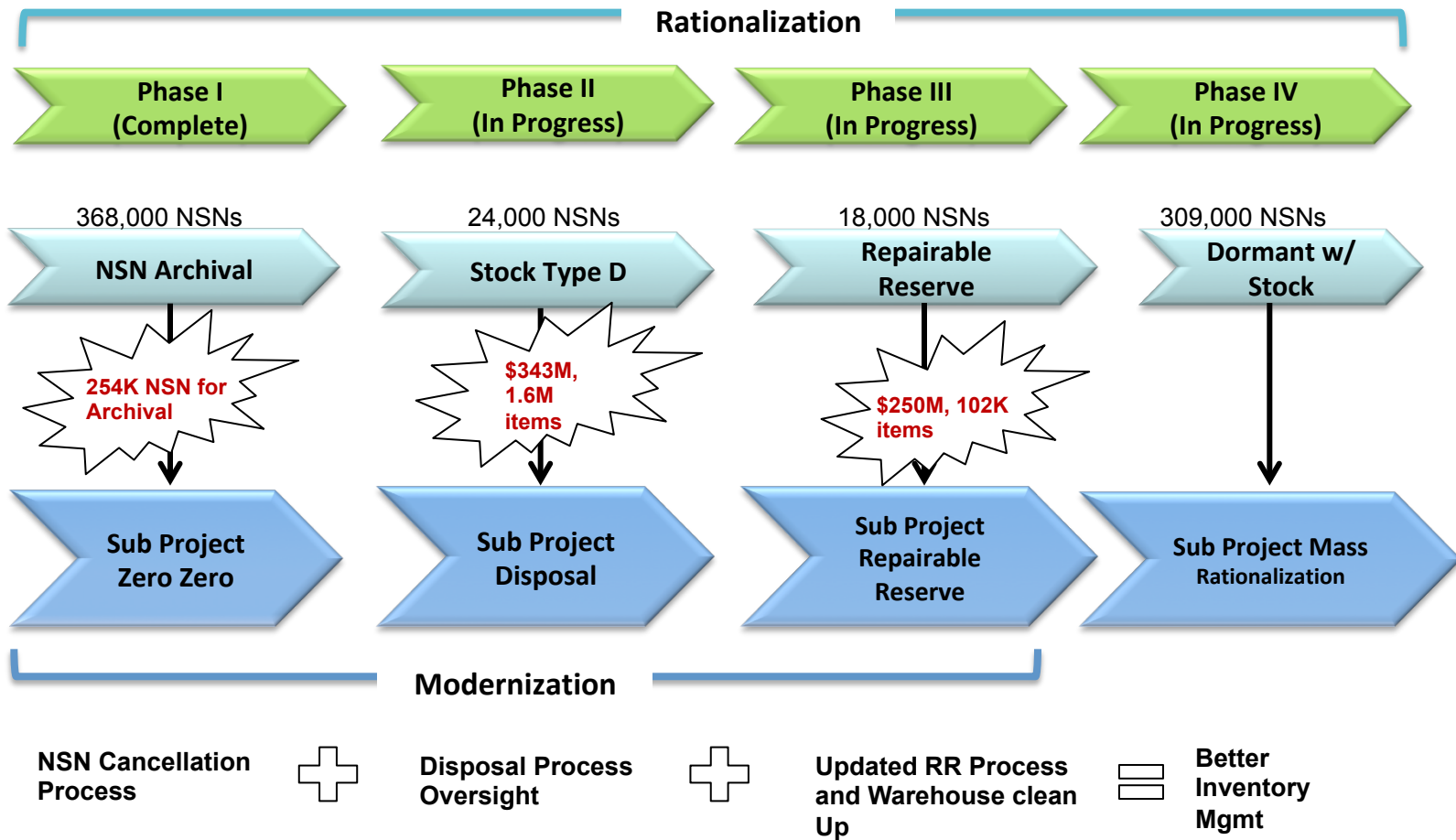
- Policy on Internal Controls
- Inventory Valuation and Accuracy
- Defence Renewal (DR 2.1, 2.2)
- Compliance
- Standing Committee On Public Accounts

Delivers:

- Modernization of Material Management Processes
- Rationalization of Currently Held Inventories
- **Institutionalization of Effects**

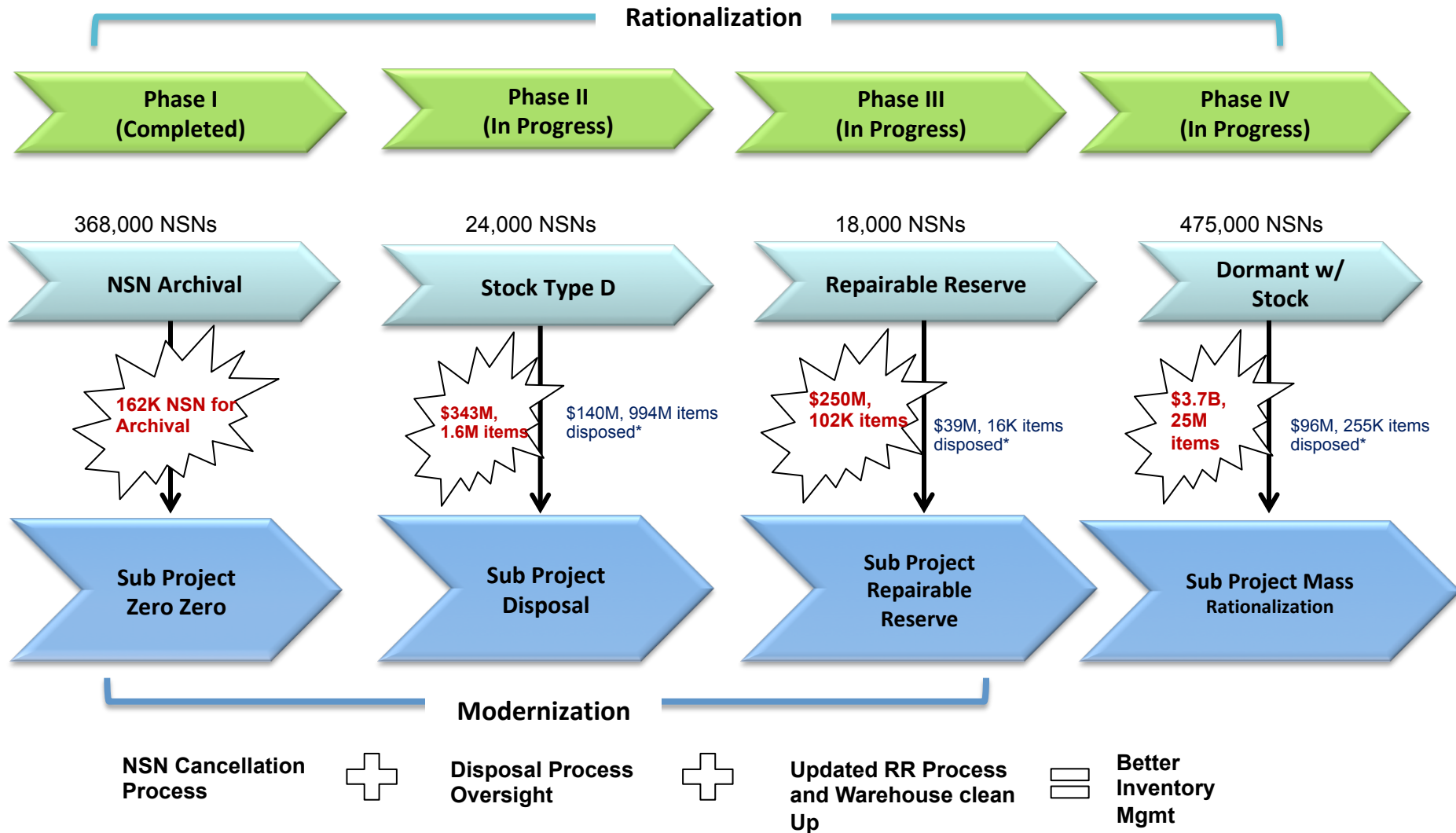


IMMRP Sub-Projects





IMMRP Sub-Projects



*Completed as of 30 Jan 18



Matériel Identification Project

- Matériel Identification (MI) is the process of collecting and recording required information that defines matériel.
- The current MI process is responsible for master data and business process ***misalignment*** in the departmental SAP based ERP (DRMIS), and has created numerous errors & issues
 - **Safety** (*ex. accidents due to uncertified components*)
 - **Readiness** (*ex. fleet availability/reliability reduced due to grounding*)
 - **Financial statement impacts** (*ex. Incorrect cost assignment to assets, lack of traceability*)
 - **Item specific needs not met** (*ex. Ammunition, classified items, raw matériel, medical, food*)
 - **Configuration Management** (*ex. unable to build ERP reference structures*)
 - **Cross reference to publications** (*ex. maintenance/supply misalignment*)
 - **Inability to maintain and control data** (*ex. automated changes from CGCS, level of granularity*)
 - **Manual and/or Duplicate process** (*ex. converting stock prior to use, legacy systems*)
 - **Impacted serialization errors** (*ex. barcoding impacts, asset creation, duplicate records*)
 - **Hindering data exchange with industry** (*ex. data errors*)
 - **Unable to use standard SAP solutions** (*ex. reusable shipping containers*)
 - **Limiting the use of SAP/DRMIS** (*ex. not all fleets using DRMIS*)



Matériel Identification - changes

- New policies to cover identified matériel management differences and policy gaps
 - Focus on integrating complete business needs, vice stock record creation
- Matériel master data cleaning, archiving of unnecessary information
- New SAP module(s) to manage ERP master data creation:
 - New interfaces with user simplification, integrated data quality monitoring and error handling
 - Faster master data generation, changes to legacy IT interfaces
 - New processes to move large volumes data into the ERP
- Leveraging standard SAP as much as possible; removing customization of matériel master records in the ERP
- Leverage parallel requirements to implement supply chain assurance and matériel assurance programs



Material Pricing Project

Material Pricing Project

•The Material Pricing Project is jointly led by Director Supply Chain Operations (DSCO) and Director Financial Control (DFC). The Pricing Project aims at addressing the current pricing weaknesses within the supply chain. This will be done by establishing a joint action plan across departmental stakeholder organizations to identify the existing gaps, develop and implement remediation measures.

Objectives

- To respond to repeated Office of the Auditor General (OAG) observations on inventory valuation by:
 - Completing a full review of material pricing processes and data;
 - Implementing changes to policies, procedures and systems; and
 - Providing clearly defined processes, internal controls, and roles and responsibilities.
 - ***The impact of not executing this project will be continued errors in the Departments Financial Statements and Public Accounts which will result in continued negative observations from the OAG.***



Pricing Gaps

- **Unforecasted Receipts (MIGO 501):** To bring on charge materiel into inventory (DRMIS Materiel management module).
- **Kitting:** The sum of the value of individual elements of a kit does not equal the total value of a kit.
- **Procurement Forecast for Materiel:** Provide a field that can be edited by LCMM.
- **Replacement Cost:** Procedure to be developed for replacement cost (i.e. donations, cannibalization etc.).
- **Bulk Acquisition of Spares:** Develop process and procedures to address bulk acquisition of spares (new and used).
- **DRMIS Price Fields:** Price fields to be reviewed for probable elimination or to be enabled.
- **Training Aids:** Procedure to be developed to determine cost of materiel converted to Training Aids



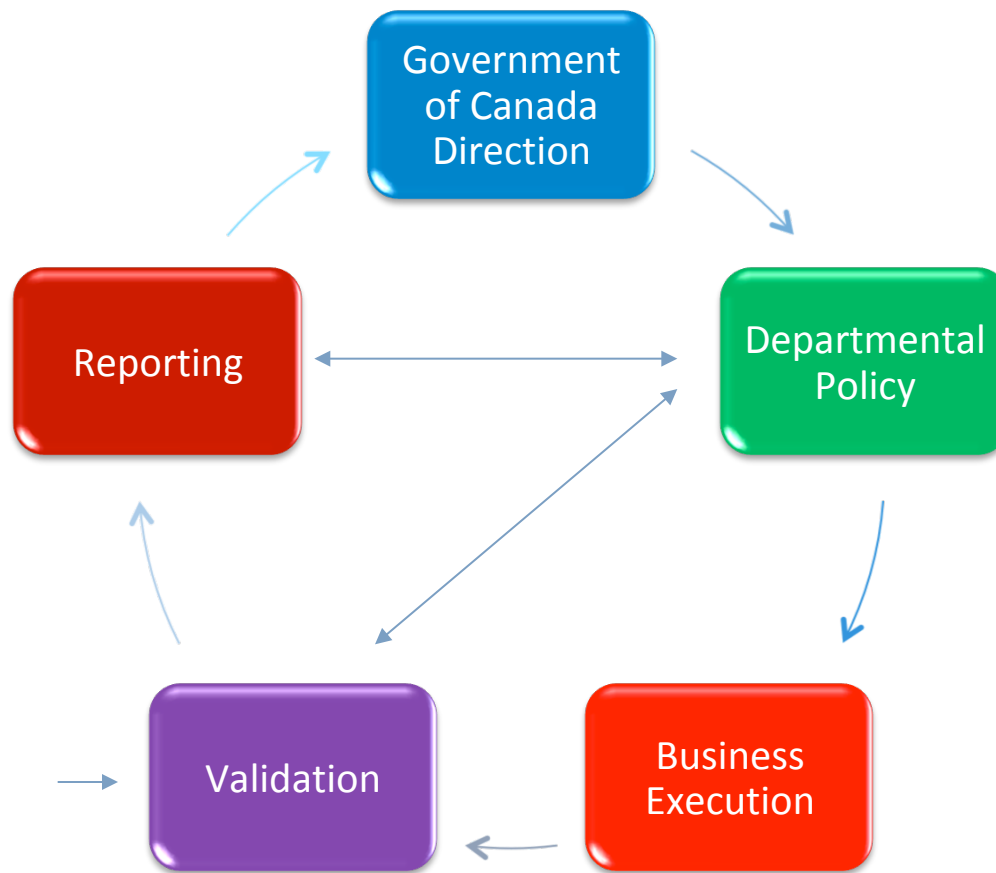
Policy Modernization



TBS Policy
Legislation, Mandate Letters
Strong Secure Engaged

The Cycle

Audits,
MAPs
Financial
Statements



DAODs,
SAM, PAM,
CFTO, MMI

Business Information/
Analytics,
Performance
measures,
Compliance,
Monitoring



In order for the Cycle to work

- Integrated approach to Policy development that includes:
 - Compliance and monitoring
 - Business Intelligence and Analytics
 - Training and knowledge management
 - Systems requirement and capabilities
 - Operations, Engineering, MM, Finance
 - Internal controls
- All of which has to be factored/written into the Policy, Process and Procedures



Business Intelligence and Analytics

- To enhance decision making for the whole organization.
- Organizational culture must support evidence-based decision making.
- All stakeholders must align under one strategy.
- Data is central to all BI/Analytics initiatives. The difficulty of achieving and sustaining accurate data collection is frequently underestimated.
- Time, resources and effort are required to identify and **map** data.
- Much effort is needed to ensure data is used consistently across the organization.



Results of Policy Modernization

- Increased:
 - Data Accuracy
 - Data Validity
 - Materiel Visibility
 - System/User Confidence
 - Ability to identify and correct errors or problems
 - Better balanced work load
- Better and more accurate information for decision making
- Better and more accurate support to operations



In order to continuously prove this:

The DND and the CAF are committed to carrying out all MA&S activities in a manner that:

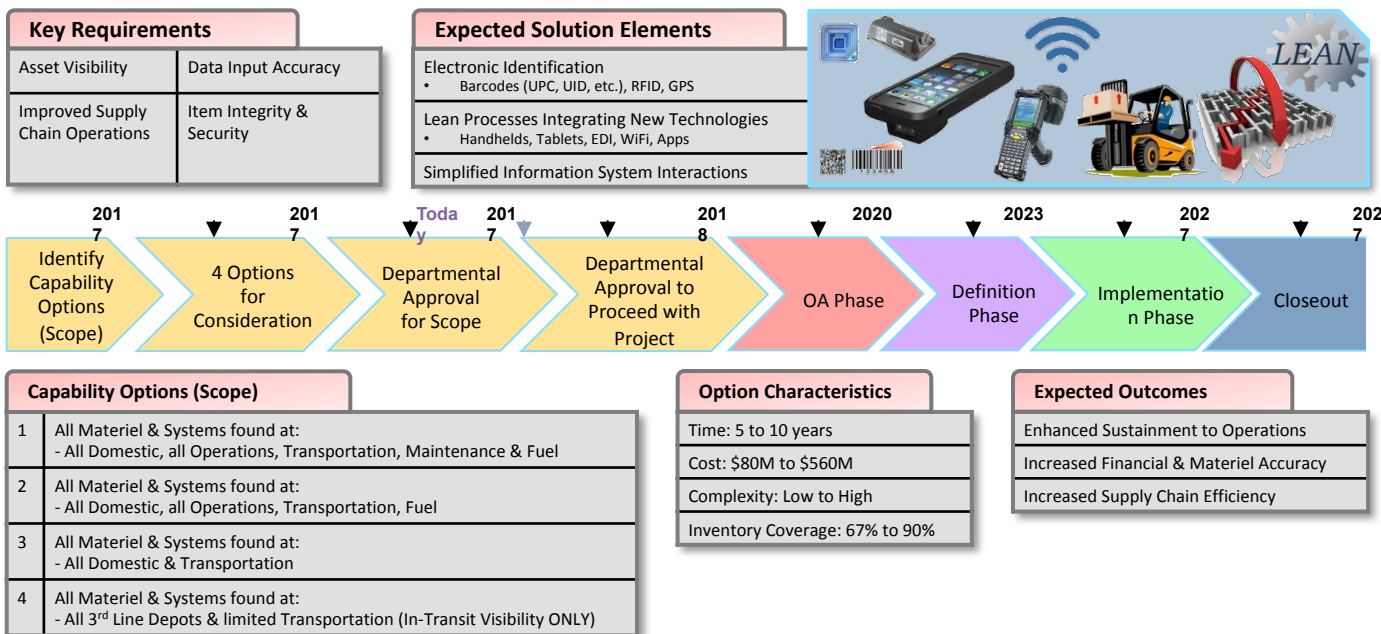
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Other MM Topics of Interest



🍁 Automatic Identification Technology (AIT) Project



\$345 M over 7 years



Questions

