

REVIEW OF:

Emergency Management BC's Financial Management

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Executive Summary

Natural disasters are increasing in both frequency and severity in British Columbia. Emergencies and disasters have cost the Government of British Columbia (Province) more than \$3.3 billion over the last ten years. Emergency Management British Columbia’s (EMBC) purpose is to enhance safety for individuals and communities through integrated emergency preparedness, response, recovery and mitigation. EMBC is responsible for leading the management of large, provincial level emergencies and disasters and for providing support to local authorities. Prompt coordination by the Province enhances public safety and reduces property damage and economic loss from actual or imminent emergencies or disasters.

In the event of a large-scale natural disaster, the federal government provides financial assistance to provincial and territorial governments through its Disaster Financial Assistance Arrangements (DFAA) program.

<hr/> <div>Spending Mandate</div>	EMBC must meet its objectives and responsibilities within the funding and powers provided by the Legislative Assembly of British Columbia. EMBC receives its funding through two Voted appropriations, as well as a statutory appropriation under the <i>Emergency Program Act</i> . Overlapping language in EMBC’s Vote descriptions and the broad nature of the <i>Emergency Program Act</i> have led to inconsistency in how EMBC’s costs were spent. There were instances where EMBC, when faced with budget pressures, transferred expenditures between Votes and the statutory appropriation.
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<hr/> <div>Financial Practices and Controls</div>	To help fulfill its mandate, EMBC purchases equipment, supplies, and services as well as provides financial supports to enhance the safety of citizens and communities. Over the last five years, EMBC has faced a significant increase in the volume of financial transactions related to disaster events and has used auxiliary staff and staff borrowed from other ministries to help offset this additional work. The high volume of transactions and the use of auxiliary and borrowed staff increases the risk of errors. There are opportunities for EMBC to strengthen some of its financial practices and controls particularly around directly awarded contracts, purchase of capital assets and payment processing.
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Maximizing
Disaster Financial
Assistance
Arrangements
Reimbursements

Over the last ten years, approximately \$1.2 billion of the Province's costs are expected to be shared with the federal government through DFAA, with the federal government contributing about \$840 million. Our analysis of EMBC's historic claims determined that EMBC was not maximizing the amount it was able to claim from the DFAA program. Several areas were identified where EMBC could increase its use of DFAA:

- the Province has not requested mitigative enhancement funding to improve British Columbia's infrastructure to reduce or eliminate the impact of future disasters;
- EMBC has not claimed eligible Emergency Social Service costs related to wildfires; and
- EMBC has not pursued eligible costs associated with a significant third-party agreement.

Ensuring all eligible expenses are included would result in an increased reimbursement from the federal government and decrease the financial burden on the Province.

As the cost of recovering from disaster events can be incurred over several years, EMBC has five years to submit a DFAA claim. The DFAA guidelines provide the option to request payments prior to submitting the final claim. EMBC takes an average of 29 months to request an interim payment. Our analysis found that EMBC would be in a position to request an interim payment 17 months earlier.

The DFAA guidelines allow EMBC to make requests for interim payment based on projected event costs. Projected event costs are costs incurred to date plus forecasted future costs. EMBC makes interim requests based on costs incurred to date and does not include forecasted future costs. Had EMBC included forecasted future costs in its requests, the Province would have received up to an additional \$75 million in interim payments, rather than waiting to receive these funds through their final claim.

Governance and
Oversight

EMBC has a broad mandate to deliver the full range of emergency management services within the province. This requires strong governance and oversight. There is opportunity for EMBC to strengthen a number of strategic and governance matters. As a result of turnover within the organization, there has been some uncertainty in strategic level oversight. There is also multiple ministries involved in making significant response and recovery decisions. A multi-ministry oversight committee would help facilitate decision-making more strategically across ministries. EMBC should conduct its own strategic exercise to establish key goals and objectives and ensure that it plans for the financial capacity, training and information systems it needs to meet the demands of its workload.

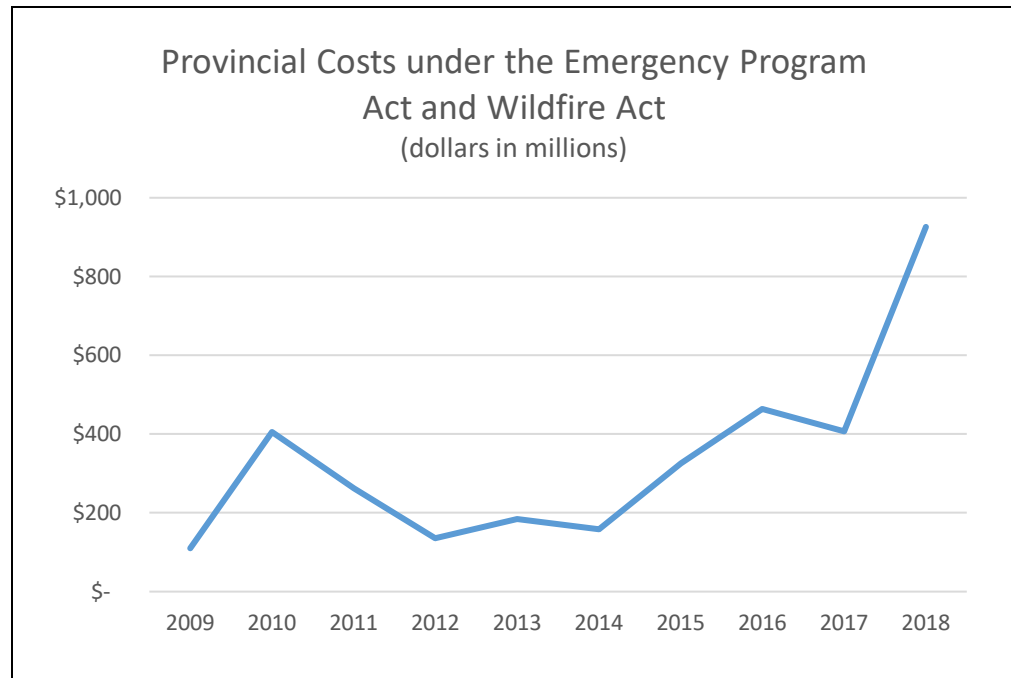
We would like to thank the management and staff at the Ministry of Public Safety and Solicitor General, in particular within Emergency Management British Columbia, who participated in and contributed to this review for their cooperation and assistance.



Stephen A. Ward, CPA, CA, CIA
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Introduction

Emergencies and disasters have cost the Government of British Columbia (Province) over \$3.3 billion during the last ten years, as shown in the chart below. As the frequency and magnitude of disasters increase, so do costs. Over the last three years the Province has incurred about \$1.8 billion in disaster related costs with \$925 million incurred in 2018 alone.



Source: Public Accounts Consolidated Revenue Fund Supplementary Schedules

Emergency Management British Columbia (EMBC) is responsible for leading the management of provincial level emergencies and disasters and supporting other authorities within their areas of jurisdiction. EMBC was formed in 2006 to be the lead coordinating agency in the Province for all emergency management activities. EMBC's purpose is to enhance safety for individuals and communities through integrated emergency preparedness, response, recovery and mitigation. Prompt coordination by the Province enhances public safety and reduces property damage and economic loss from actual or imminent emergencies or disasters.

In BC, managing disasters is guided by the *Emergency Program Act (EPA)*. The *EPA* was introduced in 1993 and forms the legislative framework for the management of disasters and emergencies in the Province. Since that time, best practices in the field of emergency management have evolved, and disaster events have become more common and severe. EMBC has been tasked with modernizing the *EPA* to incorporate this changing landscape of emergency management.

The updated legislation will include consideration of the United Nations' Sendai Framework for Disaster Risk Reduction. This framework places responsibility on each country to reduce disaster risk. A key policy tool for reducing disaster risk is through the application of mitigation funding that would allow the Province to rebuild damaged or lost infrastructure to a condition better than simply replacing it to pre-disaster condition.

In addition to its provincial coordination role, EMBC also provides financial support to local governments, farm operations, small businesses, individuals and not-for-profit organizations when a disaster occurs.

In the event of a large-scale natural disaster, the federal government provides financial assistance to provincial and territorial governments through its Disaster Financial Assistance Arrangements (DFAA) program. The DFAA program supports provinces and territories when disaster costs place a significant burden on the provincial economy and exceed what provincial or territorial governments may reasonably be expected to bear on their own.

Between 2009 and 2018 the Province incurred approximately \$1.2 billion of DFAA eligible costs, of which about \$840 million will be reimbursed through the federal government's DFAA program.

Purpose

The purpose of this review was to establish whether disaster response and recovery costs were being appropriately managed and DFAA cost recoveries from the federal government were reasonable.

The review evaluated and, as appropriate, made recommendations relating to the following:

- determining whether costs were appropriately managed before, during and after emergencies and disasters; and
- determining whether DFAA was claimed appropriately to ensure all eligible costs were recovered from the federal government.

Our approach included:

- conducting interviews with key management and staff across EMBC, and other relevant ministries and organizations;
- judgemental sampling and analyzing data provided by EMBC;
- reviewing legislation and policies; and
- reviewing information provided by other assurance providers.

The review was conducted by Internal Audit & Advisory Services, Ministry of Finance and fieldwork was completed in April 2019.

1.0 Spending Mandate

The Legislative Assembly of BC approves government's spending each year through the *Supply Act*. All government expenditures must be authorized by either an appropriation through the *Supply Act* or through a specific provision in another statute. Ministry appropriations are referred to as Votes and are summarized annually in the Estimates publication. The Votes in the Estimates are the details of that fiscal year's appropriations for each ministry. The Vote descriptions provide the framework for legislative control of government spending, since funds can only be expended for the purposes stated in the Estimates.

1.1 Funding Allocation

EMBC's activities are funded through two Votes and a statutory appropriation. In 2018/19, EMBC was allocated:

- \$17 million in the Ministry's Operations Vote (Operations Vote);
- \$15 million for the Emergency Program Act Vote (EPA Vote); and
- a **statutory appropriation** in the EPA Vote which allows EMBC to make payments from the **Consolidated Revenue Fund** to meet its responsibilities under the *EPA*.

A **statutory appropriation** is authorization to access public money as part of an Act (other than a *Supply Act*). A statutory appropriation does not have a defined budget.

The **Consolidated Revenue Fund** is the fund into which all public money other than trust funds must be paid.

EMBC undertakes a wide range of activities to meet its mandate. Some activities, such as those that help the Province and local governments prepare for an event, can be planned for based on need, risk, and government's financial priorities. Other activities, particularly those occurring during a disaster event and shortly after, require immediate access to a source of funds that, if overly restrictive, would have a negative impact on the well-being of people and communities. After the event, the recovery of lost and damaged infrastructure and the associated cost of restoring them may be ongoing for many years.

Each ministry responsible for disaster response and recovery incurs the costs from their annual budget. When event costs are significant enough to be eligible for cost-sharing with the federal government, ministries will transfer eligible costs to EMBC. EMBC will then use the *EPA's* statutory appropriation to pay for those costs.

We expected EMBC to clearly delineate its varied responsibilities with its sources of available funding to ensure that expenditures are used for the purposes intended. We found the two Vote descriptions contain overlapping language and the *EPA* gives broad responsibilities. This has led to inconsistencies in how preparedness, response, and recovery activities were funded.

We also found that EMBC transferred costs between its two Votes and statutory appropriation to address budgetary constraints. In 2017/18, EMBC transferred the costs of program activities and staffing from the Operations Vote to the *EPA* Vote to meet budgetary constraints. Further, in 2018/19 EMBC transferred expenditures from the *EPA* Vote to the statutory appropriation because of higher than expected costs. As a result, costs for preparedness activities were incurred in both Votes as well as the statutory appropriation in the 2018/19 fiscal year.

Transferring expenditures between Votes and a statutory appropriation negates the intended purpose and controls inherent within an appropriation. This risk increases when expenditures are incurred through a statutory appropriation as there are no budgetary constraints.

There is an opportunity for EMBC to clarify its current Vote structure including whether:

- preparedness activities should be paid through one appropriation with an established budget for that purpose;
- expenditures through the statutory appropriation should be reserved for costs to address an imminent need such as responding to and the short-term recovery from, a flood or fire; and
- multi-year recovery activities, which can be planned and budgeted for, should be paid through an appropriation with an established budget for that purpose.

In areas where requirements are unclear, or have overlapping purposes, EMBC could establish policies to further clarify how it will spend from each of its Votes and its statutory appropriation.

Recommendation:

- (1) EMBC should ensure its legislation, Vote descriptions and policy have clearly established the source and distinct purpose of funding.**

1.2 Disaster Financial Assistance Payments

Under the *EPA*, the Minister of Public Safety and Solicitor General (PSSG) may provide disaster financial assistance in accordance with the Compensation and Disaster Financial Assistance Regulation (Regulation). The Regulation sets out the criteria for providing disaster financial assistance to local governments, businesses, non-profits, and individuals. The Minister of PSSG has delegated the power to administer disaster financial assistance to EMBC.

We expected EMBC to have a process in place to ensure disaster financial assistance payments are made in accordance with the relevant acts, regulations, Treasury Board directives, and government policies.

Under the Regulation, EMBC can provide disaster financial assistance to local governments for their response and recovery costs. While EMBC's current practice is to fund local government recovery costs under the Regulation, they fund the local government response costs directly from the Consolidated Revenue Fund (through the *EPA's* statutory appropriation).

Our review of legislation indicates that disaster financial assistance should not be paid out of the Consolidated Revenue Fund. In the Regulation, response costs are included as disaster financial assistance. By paying all response costs directly through the *EPA's* statutory appropriation, EMBC is bypassing the regulation and may not be in compliance with the *EPA*.

Recommendation:

- (2) EMBC should ensure disaster financial assistance payments are made under the appropriate authority.**

1.3 Accountability for Spending under the *Emergency Program Act*

Provincial emergencies require significant involvement from other ministries including the Ministry of Transportation and Infrastructure for flooding and the Ministry of Forests, Lands, Natural Resources Operations and Rural Development from wildfires. Response and recovery costs are initially covered through each ministry's annual budget. However, when the federal government has authorized assistance, EMBC's practice is to accept the transfer of eligible costs incurred by other ministries under its statutory appropriation in anticipation of a future claim for reimbursement.

In 2018/19, EMBC implemented a Memorandum of Understanding (MOU) with ministries that incur eligible expenses under DFAA guidelines. The intention of the MOU is to reduce EMBC's workload when managing DFAA claims on behalf of ministries and to help hold ministries accountable for the claim's accuracy. EMBC accepts these costs under its statutory appropriation upon receiving written assurance that the ministry has:

- claimed only eligible costs;
- established sufficient internal controls; and
- retained the necessary records required to meet the federal audit.

While EMBC has the responsibility for all spending under the *EPA*, including costs transferred by other ministries, it has not established sufficient controls to ensure that transferred costs are appropriate. By not scrutinizing whether these costs are appropriate, there is a risk that EMBC is accepting ineligible costs or costs that are not authorized by the *EPA*.

Recommendation:

- (3) EMBC should ensure it has appropriate oversight over all costs accepted under its statutory appropriation.**

2.0 Financial Practices and Controls

To help fulfill its mandate EMBC purchases equipment, supplies and services as well as provides financial supports to enhance the safety of citizens and communities. For example, EMBC may acquire geotechnical services, purchase flood control assets or pay the response and recovery costs of local governments.

Over the last five years, EMBC has faced a significant increase in the volume of financial transactions related to disaster events. During periods of high volume, EMBC uses auxiliary and borrowed staff to help offset the additional work. This creates a heightened risk of errors. The review assessed EMBC's financial practices and controls to determine whether funds were being managed and used appropriately. We identified opportunities for EMBC to strengthen these areas.

2.1 Payment Processing

EMBC reimburses eligible response and recovery costs of local governments, First Nations, private citizens, Emergency Social Service vendors, and Not-for-Profit organizations to help reduce the economic and social impacts of emergencies and disasters.

Local governments make claims to be reimbursed for eligible response and recovery costs they have incurred during a disaster. We identified deficiencies in this process that resulted in a number of incorrect payments, such as:

- insufficient documentation was available to review the claim's accuracy before payments were processed;
- payments were not regularly reviewed by a peer, supervisor or manager before being paid;
- EMBC staff receiving and authorizing expenses did not sufficiently review supporting documentation to ensure expenses were appropriate; and
- inconsistent naming conventions were used when inputting claims to the Corporate Financial System resulting in the system not being able to identify duplicate payments.

The most significant impact of the deficiencies that we identified was related to duplicate payments. A sample identified \$982,000 worth of duplicate payments made to local governments between 2017/18 and 2018/19. These have been brought to EMBC's attention and management has advised that requests for repayment have been made for all duplicate payments, and some have been repaid.

We found that there are insufficient controls to prevent local governments from submitting invoices multiple times, resulting in duplicate payments. EMBC has established a process for certain payments that allows them to pre-approve expenses. The documentation of pre-approval allows EMBC to match a local government's invoices to the pre-approved expenses. This match and review process helps reduce the risk of duplicate payments and promotes cost management. However, there are currently a large volume of costs submitted by local governments that fall outside of this process. EMBC should implement this matching process for all significant expenses to reduce the risk of future errors.

Recommendation:

- (4) EMBC should strengthen its financial practices and controls to reduce the risk of payment processing errors.**

2.2 Procurement Processes

EMBC will issue Invitations to Quote to acquire goods and services through an open and transparent process. However, when a disaster occurs and there is no time to complete a

competitive process, EMBC has the option to use an Emergency Purchase Order (EPO) to directly acquire the goods or services. For example, in 2017, EMBC purchased an additional 2.8 million sandbags and other flood control assets through EPOs.

An **Invitation to Quote** is used when the only evaluation criterion is price. The award must go to the lowest-priced qualified bidder.

Government policy allows EPOs "when extraordinary deadlines have pre-empted the ability to access the normal acquisition processes for goods and services." When a ministry determines it is essential to proceed with an EPO, a written explanation of the need for an emergency purchase must be kept on record and be available when requested.

A sample of emergency purchases identified that financial practices and controls were not always adhered to. The review identified instances where EPOs had no written explanation to justify an emergency purchase, and instances where EPOs were used without the need to meet an extraordinary deadline.

Our review also assessed the cost of purchasing through Invitation to Quotes compared with purchasing through EPOs. We found that EMBC paid a 50% premium when purchasing sandbags through EPOs compared to the price paid through Invitation to Quotes. EMBC should use a competitive process, as opposed to EPOs, whenever possible to promote fairness, value-for-money, transparency and accountability in purchasing.

An option to reduce the need for EPOs would be to establish fixed price contracts prior to emergency periods. This would allow EMBC to engage in an open and transparent process, reduce price volatility, and ensure goods or services are readily available during a disaster.

EMBC is aware of these issues and has recently hired a procurement specialist.

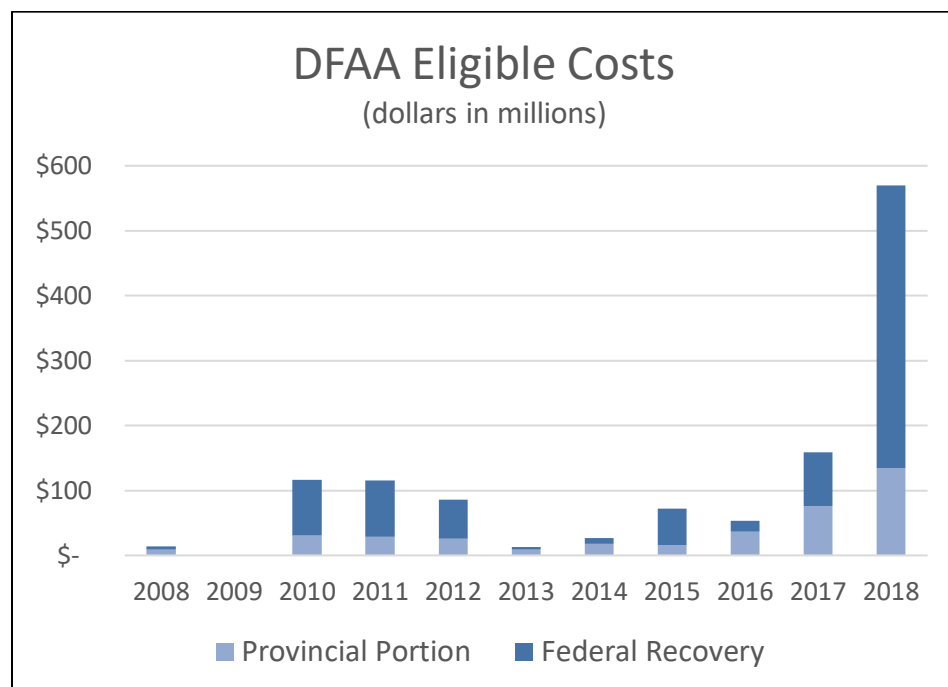
2.3 Capital Asset Purchases

During the 2017/18 and 2018/19 flood-events EMBC purchased Tiger Dams, a reusable alternative to sandbags, for \$6.4 million. These dams were purchased under the statutory appropriation and were recorded as an expenditure on the understanding that they were not re-usable. We enquired with EMBC staff and determined that Tiger Dams have a useful life in excess of five years, which means that they should be recorded as an asset rather than an expenditure. By purchasing capital assets through the statutory appropriation instead of the PSSG's capital budget, it negates the intent of having a capital budget. EMBC should ensure that it applies sufficient diligence over the nature of its purchases to ensure appropriate accounting treatment and budget approval.

3.0 Maximizing Disaster Financial Assistance Arrangements Reimbursements

The DFAA program supports provinces with the costs of dealing with a disaster. The DFAA program has established guidelines for cost-sharing with provinces based on population thresholds and eligible costs incurred. Eligible costs include evacuation costs, providing the necessities of life, restoring public works and infrastructure, as well as replacing or repairing essential personal property of individuals, small businesses and farms. Provinces may also claim mitigative enhancement costs to repair and rebuild projects to reduce future vulnerability.

Over the last ten years, BC has had at least one large-scale natural disaster every year except in 2009. Approximately \$1.2 billion of costs were incurred during this time, with the federal government contributing about \$840 million, as shown in the chart below.

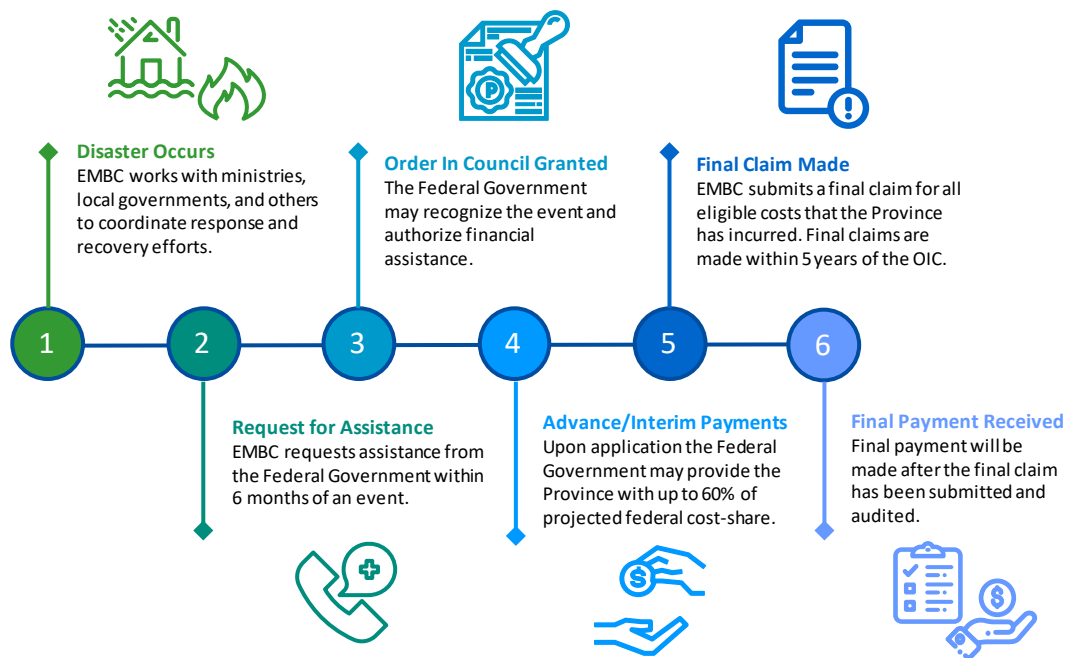


Source: EMBC

The review compared the DFAA categories with those areas that EMBC has claimed reimbursement for to ensure that EMBC was maximizing the amount it claimed from the federal government. The review also assessed EMBC's payment request process to determine whether EMBC was requesting reimbursement as early as practical.

3.1 Claims Process

To recognize an event, the Minister of PSSG or the Premier of BC must formally make a request to the federal government within six months of the event. If the request is approved, the federal government issues an Order in Council to authorize the provision of federal assistance based on the general eligibility criteria set out in the DFAA guidelines. The following diagram illustrates the DFAA claims process.



Source: EMBC and DFAA Guidelines

Once EMBC identifies an event is likely to qualify for DFAA, it will notify the ministries involved in the response and recovery to track costs and retain supporting documentation. After the federal government provides authorization through an Order in Council, EMBC has five years to submit its final DFAA claim for reimbursement. Prior to making its final claim, EMBC may request advanced and interim payments based on projected event costs.

Advance Payment Requests

The DFAA guidelines allow provinces to make claims for reimbursement within the first year of an event, known as advance payment requests. To receive an advance payment, the Province must make a request within the first 12 months following an event, with supporting documentation detailing actual and projected event costs. The Province can receive advance payments of up to 50% of the projected federal cost-share.

Our review found that of the 15 DFAA events since 2008, EMBC has requested one advance payment. It is good financial practice to maximize cash flow by recovering funds as quickly as possible. Requesting advance payments would provide the Province with funds several years earlier to help offset the initial costs of an event.

Interim Payment
Requests

The DFAA guidelines allow provinces to request interim payments based on an estimate of the total projected event costs. For interim payments, we expected that EMBC would make a request for reimbursement as early as practical. Our review found that EMBC makes a request for an interim payment, on average, 29 months after an event. One reason for this extended timeline is that EMBC does not request an interim payment until they have validated actual costs incurred to date.

Provinces can receive up to 60% of the federal portion of projected event costs through an interim payment. Projected event costs include costs incurred to date plus forecasted future costs. Historically, EMBC has made requests for interim payment based on costs incurred to date but has not included forecasted future costs.

EMBC has not included forecasted future costs in its interim claims because it is concerned about the accuracy of its forecasts and the potential that the Province might be required to repay a portion of funding received. However, the 60% DFAA interim payment cap already incorporates this potential, as it allows a 40% margin of error. An analysis of claims between 2009 and 2016 found that, on average, EMBC's projected event costs varied by 12% at the fiscal year-end subsequent to the event. This means that EMBC has reasonable estimates of projected costs 12 months after an event and EMBC could request an interim payment about 17 months earlier.

Had EMBC chosen to make interim payment requests based on costs incurred to date and forecasted future costs, it would have resulted in the Province receiving up to an additional \$75 million in its interim payments, rather than waiting to receive these funds through their final claim.

Accuracy of
Final Claim

EMBC must submit a final DFAA claim on behalf of the Province within five years of the federal Order in Council. To do this, EMBC and ministries compile their costs and retain supporting documentation for each eligible event. Prior to submitting a final claim, EMBC or the ministry that incurred the costs determine whether the costs are supported by appropriate documentation. A review of five federally audited claims showed that EMBC has a 96% claim acceptance rate.

Part of this success is a result of removing expenses that do not have sufficient documentation. For example, a review of a 2012 DFAA event claim found that EMBC removed approximately \$286,000 (5%) from the claim because of insufficient documentation.

EMBC faces significant challenges with the large volume of expenses requiring review after each event and insufficient staffing to complete the work in a timely manner. At the time of this review, EMBC was validating expenses related to the 2016 DFAA events. The lag between when the initial costs were incurred, and their validation hinders EMBC's ability to follow up on any missing documentation, even though the expenses may have been eligible.

Recommendations:

- (5) EMBC should make advanced and interim payment requests based on projected event costs as early as practical.**
- (6) EMBC should understand the root cause of why expenses are removed from claims and implement appropriate practices to ensure claims only exclude ineligible costs.**

3.2 Claim Maximization

This review analyzed a sample of EMBC's historic claims to ensure that EMBC was maximizing the amount it was able to claim through the DFAA program. The review identified areas where EMBC could submit more of the Province's costs for reimbursement. Ensuring all eligible expenses are pursued would result in an increased reimbursement from the federal government.

Mitigative Enhancement Costs

The Government of Canada and the Province of British Columbia have adopted the United Nations' Sendai Framework on Disaster Risk Reduction as the guiding approach for disaster risk reduction. A component of the Sendai framework involves rebuilding damaged or destroyed infrastructure to a higher standard in order to reduce or eliminate the impacts of subsequent disasters.

"Mitigation is the most effective approach to reduce costs associated with disaster recovery. The evaluation found that mitigation can improve disaster resilience of Canadian communities and reduce financial burden from future disasters."

Public Safety Canada, 2017

The DFAA guidelines allow for mitigative enhancements intended to reduce the impact of future disasters as part of reimbursing eligible recovery costs. Between 2008 and 2017, the DFAA guidelines allowed provinces and territories to add 15% of a project's estimated cost of repair to make mitigative enhancements. For example, if a culvert needs to be replaced, the province could be reimbursed up to 15% extra to build a larger culvert to mitigate against future vulnerability. In 2017, the guidelines were revised from a project by project basis to an event basis where 15% of a province's total eligible recovery costs (less administrative and engineering costs) may be applied against one or more recovery projects. This means that the Province is no longer restricted to 15% of the repair or replacement costs of a single project but can use its discretion to allocate any portion of the available event mitigation funding to any project or combination of projects.

An analysis of claims since 2008 indicates that the Province has not made a claim for mitigation. EMBC anticipates that it will request DFAA cost-sharing of approximately \$4 million for mitigation costs resulting from the 2016 floods but has no further plans to request mitigation costs for other events at the time of this review.

Given an approximately \$380 million estimate of total DFAA recovery costs between 2009 and 2018, there remains a significant opportunity for the Province to leverage funding from the federal government to make mitigative enhancements. If the Province had pursued mitigative enhancements of \$52 million, about \$45 million would have been eligible for reimbursement. For recovery projects that are not yet completed, there remains an opportunity for the Province to consider utilizing mitigation cost-sharing. Our review estimates that the Province could still invest \$30 million in mitigative recovery projects from 2016-2019 disaster events and receive \$26 million back from the federal government.

In addition to mitigative enhancements, DFAA also allows for innovative recovery solutions. These are any solutions, including new construction or relocation of existing infrastructure, that would reduce or prevent the recurrence of damages. Examples include:

- relocating a road;
- constructing a new bridge in a different location;
- development relocation to less disaster-prone areas; or
- buy-out and permanent removal of structures on vulnerable properties that were damaged during an event.

EMBC has not made use of DFAA's innovative recovery solutions. Combining mitigation funding with innovative recovery solutions would allow the Province to implement solutions that prevent the reoccurrence of similar types of damage, reducing the impact of future disasters.

Emergency
Social Services
Costs

During a disaster, there may be instances where part or all of a community needs to evacuate until the danger has passed. In these situations, the Province provides funding for ESS to those displaced from their homes. This may include payments for temporary accommodation, food, clothing, rescue and transportation, and other social services. The DFAA guidelines allow for ESS expenses paid by the Province to be reimbursed as long as they are not generally insurable. For example, when individual homeowners are evacuated, their home insurance may provide reimbursement for some of these costs. The DFAA guidelines only permit claims for the portion of ESS costs that are not covered by insurance.

EMBC advised that it includes ESS costs for flood events in its DFAA claims but does not include wildfire events because insurance is generally available. DFAA guidelines allow ESS costs to be claimed where insurance was not available or does not cover the full extent of the damages. For example, during the 2009 wildfires, the Province incurred about \$2.2 million in ESS costs. When these costs were claimed through the DFAA program, they were denied because they lacked supporting documentation to demonstrate that the ESS costs were not insurable. To demonstrate eligibility, the federal government suggested that EMBC survey private insurers to establish maximum coverages. Any provincially paid costs over this amount may be DFAA eligible.

Given that the Province incurred about \$18 million in 2017/18 and \$5 million in 2018/19 in wildfire ESS costs, there remains a significant portion of ESS that may be eligible under DFAA guidelines.

Third-Party
Contract Costs

During the 2017 wildfire season, EMBC entered into an agreement with a third-party organization to support displaced citizens. EMBC provided \$100 million to this organization to fund a variety of response and recovery activities. We expected that EMBC would structure third-party contracts to ensure that DFAA eligible costs are supported and later claimed.

A review of the agreement indicated that some of the response and recovery activities met DFAA eligibility requirements and therefore could be reimbursable. At the time of this review, it was unclear whether EMBC would include these costs in a DFAA claim, or whether there would be sufficient documentation available to claim these costs.

As part of this review, we enquired with the federal government about the eligibility of the activities performed by the third-party organization. The federal government confirmed that most of the activities would be eligible as long as the Province has appropriate documentation to demonstrate these activities have been both provided and paid for. Given the significant dollar amount involved and the likelihood for eligibility, there remains opportunity for EMBC to work with the third-party to obtain necessary documentation for inclusion in the final claim.

Recommendations:

- (7) EMBC should determine how best to utilize the DFAA mitigation enhancement and innovative recovery solutions in making future recovery decisions.**
- (8) EMBC should determine a cost-benefit threshold for claiming Emergency Social Services costs and ensure claims are submitted when they meet the threshold.**
- (9) EMBC should structure third-party contracts in order to maximize the Province's DFAA reimbursement opportunities.**

3.3 Revenue Recognition

Revenue recognition is an accounting principle that is used to identify when revenue should be recorded. Currently, the Province and the BC Auditor General have differing opinions about when revenue should be recorded for DFAA. In 2017/18, this difference in opinion resulted in a \$251 million proposed adjustment by the BC Auditor General to recognize revenue, which the Province subsequently recorded.

DFAA funding is received from the federal government as an advance, interim or final claim. The current policy of the provincial government is to recognize revenue when a claim is filed. Since costs are generally incurred over a five-year period, this means that revenue is recognized several years after the related costs are incurred. Since 2012, the BC Auditor General has recommended that DFAA revenue be recorded when a federal Order in Council has authorized the event and as eligible costs are incurred.

Public Sector Accounting Standards require revenue to be recorded by a recipient government once:

- a transfer is authorized; and
- when all eligibility criteria have been met.

Our analysis concluded that a transfer is authorized when the federal government issues an Order in Council and all eligibility criteria are met once eligible costs are incurred. On this basis, for all events with an Order in Council, an annual accrual to record revenue would be made in the year that the related eligible costs are incurred.

As part of this review, we analyzed the supporting documentation for the \$251 million adjustment. Our analysis determined that the adjustment included costs incurred to date as well as forecasted costs but should have only included costs incurred to date. This resulted in an overstatement of revenue by \$51 million in fiscal 2017/18.

Recommendation:

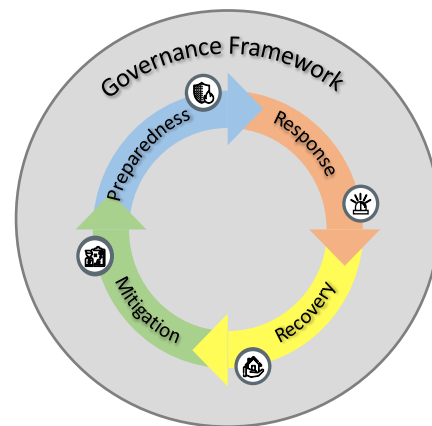
⁽¹⁰⁾ EMBC should work with the Comptroller General to review the accounting policy for revenue recognition of DFAA.

4.0 Governance and Oversight

Governance refers to the organizational structures and processes that are necessary to direct and control the activities of the organization and help ensure that intended outcomes are defined and achieved. Good governance builds accountability and is the foundation that helps ensure an organization achieves its objectives. During this review a number of strategic and governance matters were identified that EMBC could strengthen.

4.1 Strategic Oversight

EMBC has a broad mandate to deliver a full range of emergency management services and advice to citizens, local governments and other ministries. To deliver its emergency management mandate, we expected that EMBC would have a well-defined oversight framework that outlines the various roles and responsibilities for strategic-level oversight and decision making.



The review found that there has been significant turnover within the organization leading to some uncertainty in strategic level oversight related to significant response and recovery decisions. Further, key ministries involved in DFAA claims do not effectively coordinate their efforts or decision making, particularly over recovery decisions. EMBC has already begun to make changes through a recent reorganization and expansion of their leadership team.

Given the complexities of a broad mandate, the multiple ministries responsible for making response and recovery decisions, as well as the potential for targeting mitigation and other opportunities, a multi-ministry oversight committee would help facilitate decision-making. This would also help ensure decisions are being made strategically across ministries.

Recommendation:

(11) EMBC should lead the establishment of a strategic oversight committee responsible for making key response and recovery decisions.

4.2 Training and Resources

The volume of EMBC's financial transactions fluctuate through the year depending on the extent of ongoing emergency response and recovery activities. Over the last three years, disaster costs and the corresponding volume of transactions have grown significantly. To help compensate for the volume of transactions, EMBC hires auxiliary staff and borrows financial staff from other ministries. Throughout this busy period it is important that EMBC maintains effective financial oversight and that staff receive appropriate training and support.

EMBC advised that it requires additional financial capacity in its regional offices. There are opportunities to strengthen EMBC's financial capacity by ensuring staff in the regions are sufficiently trained and to strengthen regional financial practices and controls. In 2018, EMBC developed a resource request for this purpose but were unsuccessful at securing the necessary funding.

The review also identified a need for training regarding the DFAA guidelines. Currently, individual ministries are expected to understand the DFAA guidelines and eligibility criteria. Given the complexities of the guidelines, ministries would benefit from EMBC providing guidance on the administration and eligibility of DFAA. Under EMBC's agreement with ministries, EMBC is to coordinate annual DFAA training and inter-ministry workshops. Enquiries with staff within the ministries demonstrated a mixed level of understanding regarding the DFAA guidelines. If those involved with preparing DFAA claim files are not provided with sufficient training or oversight, there is an increased risk that claim items may be missed or rejected.

Recommendation:

(12) EMBC should ensure that staff are adequately trained to fulfil their roles and responsibilities.

4.3 Information Management

Appropriate information management is essential to good financial practices and controls. EMBC and the ministries involved with responding to and recovering from a disaster event, process a significant volume of financial transactions each year. Our review identified opportunities to improve records management relating to the accounts payable process and the storage and retrieval of DFAA documentation.

Ministries are expected to use the suite of corporate financial systems available to them in processing financial information. To meet the information and documentation needs of their program, ministries also, at times, require a records management system to store and retrieve supporting documentation.

EMBC's accounts payable processing is heavily manual. Once payments are processed, invoices are photocopied and the originals are stored in a batch box with a copy being kept in a task box. Fully utilizing the government's corporate financial system with the supporting documentation being stored in an electronic records management system, would make it easier for EMBC to retrieve supporting invoices. Coding invoices by task number would also allow for an easier and more accurate way for operations to summarize expenses by task number.

EMBC expressed an interest reviewing its utilization of its financial system and whether it is sufficient to meet the financial and documentation requirements of both government policy and the DFAA program. EMBC also advised that they are in the process of streamlining their ESS process and moving it from a paper-based to an online program.

Recommendation:

- (13) EMBC should review its utilization of government's corporate financial and records management systems to ensure they fully meet their financial and documentation requirements and supplement with other systems if needed.**

4.4 Measuring Performance

An important part of good governance and oversight involves setting organizational goals and objectives where progress can be measured. With goals and objectives in place, relevant key performance indicators can be set to measure how well the organization is achieving its intended results. Establishing an annual report with organization goals, objectives and key performance measures is a common and transparent way for organizations to set out what it intends to achieve.

PSSG is responsible for EMBC and have published a service plan. However, given the size and scope of PSSG, EMBC has limited profile within that service plan. There is opportunity for EMBC to conduct its own strategic exercise to establish key short, medium and long-term goals and objectives. This will enable EMBC to develop key performance indicators to measure, monitor and report on the organizations progress.

Recommendation:

⁽¹⁴⁾ EMBC should develop clear goals and objectives, and monitor its progress using key performance indicators.

Appendix 1 – Summary of Recommendations

1	EMBC should ensure its legislation, Vote descriptions and policy have clearly established the source and distinct purpose of funding.
2	EMBC should ensure disaster financial assistance payments are made under the appropriate authority.
3	EMBC should ensure it has appropriate oversight over all costs accepted under its statutory appropriation.
4	EMBC should strengthen its financial practices and controls to reduce the risk of payment processing errors.
5	EMBC should make advanced and interim payment requests based on projected event costs as early as practical.
6	EMBC should understand the root cause of why expenses are removed from claims and implement appropriate practices to ensure claims only exclude ineligible costs.
7	EMBC should determine how best to utilize the DFAA mitigation enhancement and innovative recovery solutions in making future recovery decisions.
8	EMBC should determine a cost-benefit threshold for claiming Emergency Social Services costs and ensure claims are submitted when they meet the threshold.
9	EMBC should structure third-party contracts in order to maximize the Province's DFAA reimbursement opportunities.
10	EMBC should work with the Comptroller General to review the accounting policy for revenue recognition of DFAA.
11	EMBC should lead the establishment of a strategic oversight committee responsible for making key response and recovery decisions.
12	EMBC should ensure that staff are adequately trained to fulfil their roles and responsibilities.
13	EMBC should review its utilization of government's corporate financial and records management systems to ensure they fully meet their financial and documentation requirements and supplement with other systems if needed.
14	EMBC should develop clear goals and objectives, and monitor its progress using key performance indicators.