

# DISASTER RECOVERY

Adjusters International Disaster Recovery Consulting — FEMA recovery issues for decision-makers and leaders **TODAY**

## Loss Measurement



### EDITOR'S NOTE

Following up the first issue of *Disaster Recovery Today*, which focused on pre-disaster planning, this issue will detail step two of the nine-step process: *Loss Measurement*. Accurately measuring your losses in a timely fashion will set the foundation of your financial recovery.

The following is a recap of the nine-step process identified by Adjusters International to respond to a declared disaster.

1. Develop a management approach
2. Loss measurement
3. Categorize your losses
4. Determine eligibility
5. Develop a rebuilding plan
6. Develop a funding approach
7. Implement the plan
8. Final inspection and closeout
9. Audit process

Please contact us with any comments or suggestions for future issues.

—Sheila E. Salvatore, Editor

### A careful approach will ensure a successful financial recovery

By Jeff Shaw

The foundation of a successful financial recovery following a catastrophic event is an accurate and timely measurement of loss. From the initial stages of cleanup through the rebuilding process, an applicant is faced with the daunting task of determining and proving their loss to both their insurer and relief granting agencies such as FEMA.

During the planning phase discussed in the previous edition of *Disaster Recovery Today*, it is important to assign personnel with the ability to begin such documentation from “zero-hour”.<sup>1</sup> It is equally important to ensure that these personnel have the support of participating departments on a daily basis. Trying to recreate portions of a loss several weeks or even months after

<sup>1</sup> If an organization does not have personnel on staff to fill these positions, it may be necessary to use outside consultants and/or professionals.



an event is not only frustrating, but may not fulfill requirements of the insurers or FEMA. With this in mind, we will discuss each portion of the recovery and the proper techniques for estimating and/or documenting the loss.

We will focus on major loss elements including those that are not considered directly eligible for FEMA funding since they are insured. We will also discuss the calculations that will be made to allocate insurance proceeds, to ensure that reductions are only made on that insurance that corresponds to FEMA eligible losses.

### **Emergency Costs**

Emergency Costs are the first to be incurred and generally are the first to be reimbursed. Activities ranging from damage prevention to emergency cleanup are handled quickly and generally without regard to record-keeping.

When possible, an organization can prepare for these costs during the emergency planning phase by pre-selecting contractors to perform specific activities such as clean-up and debris removal. This approach serves multiple purposes by allowing the costs to be captured and invoiced by the contractor, freeing staff to focus on day-to-day operations and allowing an applicant sufficient time to procure such services in accordance with FEMA policy found in Part 13 of CFR 44. While FEMA is generally more flexible during the emergency period, the applicants' costs are often challenged as a result of inappropriate contracting methods and/or costs that appear unreasonable.



Regardless of who performs these activities, it is imperative to begin keeping accurate records. If a contractor is being used, they should be monitored to ensure they are performing within contract parameters. If staff is being used they need to consistently document what they are doing, where they are doing

it and for how long. While these measures may appear onerous, they are necessary for a successful financial recovery.

Along with accurate records, applicants need to begin making a photo-diary of the ongoing response. Whether video or stills, this method of record-keeping



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will become vital in proving the need for what was done, along with proof of an item's existence that may have been thrown away. As a rule of thumb, all activities should be photographed before, during and after as part of the documentation.

### **Activities falling under Emergency Costs may include:**

- ▶ Loss mitigation measures (sandbagging, pumping water, etc.)
- ▶ Emergency debris removal
- ▶ Temporary relocation costs
- ▶ Emergency equipment purchases or rentals
- ▶ Emergency transportation costs
- ▶ Emergency communication costs
- ▶ EOC activities
- ▶ Outreach activities

Since these activities are either ongoing or completed, an applicant will be able to prove these loss elements with records of actual costs. An applicant needs to maintain such items as:

- ▶ Timesheets, payroll documents, etc., for staff members
- ▶ Contracts, invoices and payment information
- ▶ Leases, rental records, etc.
- ▶ Before and after inventories if available
- ▶ Equipment logs

- ▶ Volunteer logs
- ▶ Outside agency assistance records
- ▶ Records of disposition of hazardous items or materials

By definition, emergency costs are incurred when an applicant is under some measure of duress and often times hard to document in a suitable fashion. FEMA and insurers, however, require an accurate demonstration of these costs in order for restitution or reimbursement; thus any measures that can be implemented for a smooth compilation of related records will greatly enhance and expedite this portion of your recovery.

### **Equipment/Stock:**

One of the most difficult and time-consuming segments of claim preparation is that involving property and equipment. Both

FEMA and the insurer will want to know what was lost, when was it purchased, for how much and the current replacement cost.

Ideally an organization has an established inventory control system for capitalized items valued at or above a certain amount. With this in hand, a post-loss inventory can be conducted and compared to establish the basis for loss. This, in tandem with any photo-documentation for the larger items and any department head inventories for the non-capitalized items, such as consumables, should be sufficient.

In many cases, however, an inventory system is not available or it is not properly maintained. In this instance, an organization is forced to compile a complete listing of the items being claimed by conducting a physical inventory of the lost items. Where possible, photos should be used to support the list. In cases where items have been removed (for safety or mitigation), or completely destroyed, it will be necessary for each department to compile a list from memory and to augment it with any available support





documentation. In extraordinary cases, a modeling system may need to be used.

When developing inventories from memory, solicit help from those most familiar with the area. An assistant may have a better idea of an office's contents than the supervisor who occupies it.

In addition, organizations must also track items taken from stock being used during the recovery. Again an inventory control system is the recommended approach,

but at the very least a day-to-day logging system should be implemented.

Regardless of how the inventory is generated, at a minimum it should contain:

- ▶ Item description
- ▶ Make and model number
- ▶ Date purchased
- ▶ Purchase amount
- ▶ Replacement item description
- ▶ Make and model number
- ▶ Replacement cost

When pricing equipment and inventory/supply losses, attach any available data such as:

- ▶ Original invoice
- ▶ Inventory system entry
- ▶ Pricing tools
- ▶ Catalogue entry
- ▶ Written quotes
- ▶ Name and phone number of provider (for telephone quotes)
- ▶ Web address
- ▶ Photographs

### ***Blanket Policy***

While not directly reimbursable from FEMA, business interruption insurance plays a very important role in an organization's financial recovery and in any FEMA reimbursement calculation.

If an insurance recovery includes reimbursement for lost revenues under a blanket policy, e.g. lost revenues for a damaged municipal parking garage that is damaged; then the amount paid for the lost

**With regards to property and equipment losses, both FEMA and your insurer will want to know what was lost, when was it purchased, for how much, and today's current replacement cost.**





## When assessing damages to buildings or other items (FEMA defines these as a “facility”), an applicant needs to approach the task in three phases: As it was; as it has to be; and as we want it to be.

revenue needs to be separated from the property portions of the claim, before the insurance recovery amount is deducted from the FEMA grant covering the property damage.

### ***Building/Other Physical Damages***

When assessing damages to buildings or other items (FEMA defines these as a “facility”), an applicant needs to approach the

task in three phases: As it was, as it has to be, and as we want it to be.

#### ***“As It Was”***

The basis of all claims (regardless of whether or not insurance applies) is “as it was”. What was there immediately prior to the event will first be evaluated. Ideally an applicant will have a set of plans, drawings or at the very least photo-documentation that

pre-dates the triggering event. In addition, maintenance records, documentation of changes that occurred after the original data was compiled and any other related data should be available for review. It is recommended that an applicant not provide their original documents but rather copies and that they be aware that documents provided could at a later date be subject to a FOIA (Freedom of Information Act)



request made to FEMA. If the documents provide sensitive data, it is recommended that discussions commence immediately and that accommodations be made. In some instances, FEMA has asked an applicant to stamp sensitive materials with “not subject to FOIA requests”, based on their internal policies and regulations.

### **“As It Has To Be”**

Due to code compliance issues such as ADA (Americans with Disabilities Act), floodplain management (Executive Order 11988), NFPA 101 Life Safety Code etc., an applicant must also demonstrate “what it has to be”. What is allowable varies per insurance policies and is also subject to FEMA scrutiny.

Building codes and local standards may be used to allow the funding of a repair to a damaged facility as long as specific criteria is met, as follows:

- ▶ The code of standards apply to the type of repair or restoration required
- ▶ Be appropriate to the pre-disaster use
- ▶ Be in writing and formally adopted before project approval or be a legal federal or state requirement applicable to the type of restoration
- ▶ Apply uniformly to all similar types of facilities within the jurisdiction of the owner of the facility
- ▶ Must have been enforced during the time it was in effect

Additionally, only the portions of the facility affected by the event qualify for this additional reimbursement.

## **Although loss compilation may seem onerous, the better the loss is documented the better chance of a successful reimbursement, in the least amount of time.**

### **“As We Want It To Be”**

An applicant may want to upgrade or completely change a facility based on current needs. FEMA has various programs that allow for these changes which will be further outlined in future articles that include:

- ▶ Improved Projects
- ▶ Alternate Projects
- ▶ Section 406 Hazard Mitigation
- ▶ Section 404 Hazard Mitigation

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Although the loss compilation may seem onerous, the better the loss is documented the better chance of a successful reimbursement, in the least amount of time. As discussed in the preceding issue of *Disaster Recovery Today*, any measures that can be undertaken pre-loss will greatly reduce the time associated with completing the above tasks after an event.

In the next issue of *Disaster Recovery Today* we will focus on how FEMA categorizes loss elements and the strategies for applicants to employ during project development.



Jeff Shaw  
Adjusters International





**O**ne of the most significant risks an applicant faces when dealing with FEMA is using improper procurement procedures. The penalty could be a complete disallowance of associated project costs.

Contracts must be of reasonable cost, generally must be competitively bid and must comply with Federal, State, and local procurement standards. FEMA finds four methods of procurement acceptable. Each is described below.<sup>1</sup>

### Small Purchase Procedures

Small purchase procurement is an informal method for securing services or supplies, that do not cost more than \$100,000, by obtaining several price quotes from different sources.

### Sealed Bids

Sealed bid procurement is a formal method where bids are publicly advertised and solicited and the contract is awarded to the bidder whose proposal is the lowest in price. This method is the preferred method for procuring construction contracts.

### Competitive Proposals

Competitive procurement is a method similar to sealed bid

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procurement in which contracts are awarded on the basis of contractor qualifications instead of price (this method is used for procuring architectural or engineering professional services).

### Noncompetitive Proposals

Noncompetitive procurement is a method whereby a proposal is received from only one source. Noncompetitive proposals should be used only when the award of a contract is not feasible under small purchase procedures, sealed bids, or competitive proposals, and one of the following circumstances apply:

- ▶ The item is available only from a single source;
- ▶ There is an emergency requirement that will not permit a delay;
- ▶ FEMA authorizes noncompetitive proposals; or

- ▶ Solicitation from a number of sources has been attempted, and availability is determined to be inadequate.

FEMA provides reimbursement for three types of contracts.

They are:

- ▶ Lump sum contracts for work within a prescribed boundary with a clearly defined scope and a total price;
- ▶ Unit price contracts for work done on an item-by-item basis with cost determined per unit; and
- ▶ Cost plus fixed fee contracts, which are either lump sum or unit price contracts with a fixed contractor fee added into the price.

Time and materials contracts should be avoided, but may be allowed for work that is necessary



## FEMA FACTS: Contracts Continued...

immediately after the disaster when a clear scope of work cannot be developed.

Applicants must carefully monitor and document contractor expenses. A cost ceiling or not to exceed provision must be included in the contract. If a time and materials contract has been used, the applicant should contact the State to ensure proper guidelines are followed. Cost plus a percentage of cost contracts and contracts contingent on FEMA reimbursement are not eligible.

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## FEMA provides reimbursement for three types of contracts: Lump sum contracts, unit price contracts and cost plus fixed fee contracts.



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