Who’s on First: FEMA or Insurance? Disaster Recovery Funding Essentials

Jill Powell
Senior Manager
Ernst & Young, LLP
Who’s on First: FEMA or Insurance? Disaster Recovery Funding Essentials

Disaster Planning for California Hospitals
Jill Powell
Ernst & Young, LLP

Learning Objectives

At the end of this session, you will:

1. Identify types of emergency assistance and the funding interactions with commercial insurance
2. Assemble the elements of a strategic plan to secure and spend federal funds for eligible catastrophe purposes
3. Understand the roles of each organization under the National Response and Recovery frameworks and the Stafford Act
Financial Recovery Funding Sources

► Commercial property insurance
► FEMA public assistance
► Other (HUD CDBG-DR, FEMA 404, etc.)

Joplin, Missouri - May 22, 2011
Joplin, Missouri - May 22, 2011 (cont.)

Time: Sunday, May 22, 2011 @ 5:41 PM

Impact: 6 ½ miles long, ¾ mile wide band of destruction

Hospital patients: 183 inpatients
   25 ED patients

Co-workers: 276 working at the hospital

Joplin, Missouri - May 22, 2011 (cont.)

PATIENTS IN THE HOSPITAL: 183 evacuated in 90 minutes

TORNADO VICTIMS NEEDING MEDICAL CARE: 1,000 estimated

CO-WORKERS:
   ► 276 working on Sunday, May 22
   ► 2,097 to account for
   ► 134 lost their homes completely
   ► 224 had damage or losses
COMMUNITY: (update as of 7/20/11)

► 159 deaths – greatest number in six decades; overall eighth worst
► 20% of the city destroyed
► 8,000 homes and apartment buildings destroyed
► 18,000 vehicles were damaged
► $2 billion anticipated insurance claims
► 1,000 businesses destroyed; 500 businesses damaged
► 5,000 employees estimated affected; 3,500 have been kept on payrolls
► 18,000 citizens displaced
► 1,500 awaiting housing, including those in FEMA
Property Insurance

► Building, equipment, supplies, leased/consigned items, employee property
  - *Replacement vs. actual cash value (ACV)*
► Extra expense
► Business interruption

Insurance Claim Leading Practices

► Read the policy
► Assemble a claim team internally and externally
► Set up procedures to capture expenses and lost revenue
► Designate one point of contact with adjuster/insurers
► Manage expectations internally and externally
► Prepare for meetings
► Explain business model and how the losses fit
► Help adjuster set reserve
► Document substantive discussions
► Request cash advances
Top Disputed Items - Insurance

- Scope of rebuild
- Extra expense vs. business decision
- Period of indemnity
- Sales and/or production projections
- Make-up sales and offsets
- Necessarily continuing expenses
- Ordinary payroll coverage
- Idle periods
- Residual value credit
- Timing of settlement

FEMA Public Assistance

- Governed by Stafford Act
- Property only
- Same “design, function and capacity”
- Grantee (State) and Subgrantee relationship
- Pays only after insurance
- Project worksheets
- Procurement considerations
- Force account labor and equipment
- Oversight – Office of Inspector General (OIG) audits
Recordkeeping

Importance of good recordkeeping cannot be over emphasized!!

What matters is not just what is in the initial project worksheet (PW), but what you get to keep at the end of the process.

Project Accounting

Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities.

Accounting for large projects must be on a project-by-project basis.
General Cost Eligibility

- Reasonable and necessary cost to accomplish eligible work
- Complies with federal, state and local law and regulations
- Insurance proceeds, salvage value and purchase discounts must be deducted

Procurement /Contracts

- Reasonable cost
- Competitively bid, with limited exceptions for exigent circumstances
- Must comply with standards

DO NOT USE:

- Debarred contractors
- Cost plus percentage of cost contracts
- Contingency contracts
- Time and materials after 70 hours
**Force Account Costs**
(Employees, equipment and materials of applicant)

- Force account labor
- Force account equipment
- Force account material

**Supporting documents**

**Record retention**

---

**FEMA Public Assistance Leading Practices**

- Review federal and state regs, polices, guidelines, etc.
- Review pre-negotiated, stand-by or regular contracts
- Meet with your state or local oversight officials — get to know them and ask what they look for
- Develop a checklist or “items to be aware of” that you can reference (or just be aware of), especially categories A and B
FEMA Public Assistance Leading Practices (cont.)

► Talk to other entities that have been through the process

► Try to anticipate what questions or documentation you will be asked for later
  - *Try to “guess” what the “second guessers” will be asking*

► Make sure critical support organizations (e.g., procurement, legal, financial) know what to expect and help them prepare

---

### OIG Audit Results

<table>
<thead>
<tr>
<th>Types of Ineligible Work or Cost</th>
<th>Number of Resulting Recommendations</th>
<th>Amount Questioned in DHS OIG Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Contracting Practices</td>
<td>30</td>
<td>$130,245,816</td>
</tr>
<tr>
<td>2. Insurance Issues</td>
<td>3</td>
<td>$83,679,242</td>
</tr>
<tr>
<td>3. Legal Responsibility</td>
<td>2</td>
<td>$7,560,185</td>
</tr>
<tr>
<td>4. Other Ineligible Work/Costs</td>
<td>85</td>
<td>$21,118,786</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>120</strong></td>
<td><strong>$242,604,029</strong></td>
</tr>
</tbody>
</table>
Top Grant Audit Issues

► Duplication of billings
► Reconciliation of billings not performed (incorrect rates for equipment, labor and benefits)
► Questionable costs
► Ineligible expenses, work performed, claimed
► Ineligible contract method used

Top Grant Audit Issues (cont.)

► Failure to follow procurement procedures
► Cost/price analysis not performed
► Did not clearly define required services or performance standards of contractor
► Did not document the basis for the contract award
► Use of non-capped time and material contracts for extended period of time without proper justification
Top FEMA and Insurance Issues

- Duplication of benefits
- Procurement requirements
- Scope of repair differences
- Timing of insurance settlement
- Timing of FEMA recovery
- Combined deductible allocation
- Insurance global settlement allocation
  - *Time element vs. property*
- Insurance requirements post-loss
  - *Commercial availability and exemptions*

Questions?
Thank You!

Jill Powell
Senior Manager
Ernst & Young, LLP

jill.powell@ey.com
312-371-7437