



PCPS Brief – Preparing for Disaster

Welcome to the PCPS Brief — the monthly newsletter that brings together information, news and resources around a particular issue or concern and offers actionable ideas for your practice. This month, PCPS discusses how your firm can work to prepare for disasters.

With another intense hurricane season forecast this summer, it's good for you to know that when disaster strikes — be it natural or manmade, local or regional — your firm must be prepared to quickly address a myriad of issues. As so many practices found necessary last year after Hurricanes Katrina, Rita and Wilma, partners and other senior management are responsible in planning for their employees' safety, for the resumption of operations as soon as possible, and for the maintenance or recovery of their financial situation. By building a formal, written disaster plan, your firm can mitigate and even minimize the toll on its staff, operations, and finances and regain its balance. Below are tips to guide your practice in preparing for catastrophe, whatever form that may take.

According to the California Society of Certified Public Accountants' *Disaster Planning and Recovery Guide*, you basically must remember that creating an effective plan includes these phases of the disaster preparation process:

- Preparedness.
- Response and recovery.
- Evaluation.

Preparedness

As the California society's guide states, the first part of preparedness is for you to understand and assess the potential disasters your practice faces. In doing so, your firm should consider its environment and decide what could go wrong in every possible scenario by conducting a risk impact assessment of threats, vulnerabilities, and exposure to loss. This analysis, discussed in *The Practicing CPA* article "[Planning for Physical Disaster](#)," should range as broadly as possible, including in the following areas:

- Physical risks like fire, tornadoes, hurricanes, flooding, earthquakes, other natural hazards, power outages, security failures, and structural threats.
- Technology-related risks like software or equipment failure, loss of computer or Internet access, telecommunications outages, data loss or corruption, and loss of staff.
- People-related risks like disgruntled employees or ex-employees, sabotage, industrial espionage, labor action, civil unrest, and terrorism.

Such an analysis may enable you to take measures that prevent disaster or at least reduce losses.

The next part of preparedness is to measure the costs of a plan against the benefits that you'll get from a speedier recovery because of your preparation. Not only could your insurance repay some of the losses, but your safety and security improvement costs may lower your insurance costs. Additionally, a review of the insurance for your office and business with your agent may result in better coverage with less risk. To understand and review your coverage, Patricia Schreiber, CPA — whose firm, Schreiber & Schreiber in Metairie, La., was impacted by Hurricane Katrina — makes these recommendations:

- Make sure your coverage includes business interruption insurance. "The business interruption policy proceeds will help to jump-start your business," said Schreiber, who runs her firm with her brother, Gerard.
- Regularly evaluate all policies and be aware of coverage and policy limits. Consider at regular intervals whether policies continue to cover the firm's needs.
- Understand your coverage. Schreiber discovered, for example, that renters can't obtain flood insurance, and flood insurance for property owners doesn't include replacement cost.
- Understand the wording of your policy. In her experience, insurers may have different definitions for such key terms as replacement value and mandatory evacuation.

Keep in mind also that your disaster plan should attempt to reduce the risk of catastrophe caused by human error. Your work environment should be well-maintained and provide adequate security systems. Further, your plan should allow for self-sufficiency for the first 72 hours after a disaster. It is quite likely that power, water, communications and transportation systems may not be available. With your plan, you should be able to restore your practice's services effectively and promptly so that you may help your clients impacted by the disaster.

Response and Recovery

Your firm's disaster plan should include actions to ensure a fast, safe response and recovery. Written instructions in the plan on how to properly proceed, instructions that everyone at your firm clearly understands, are what works for everyone.

"The most important thing when you have a fire — or any disaster — is to have a chain of command," said Michael D. Uiberall, CPA, partner at Watkins Uiberall, PLLC, in Memphis. According to an [article in PCPA](#), the firm suffered a major fire in 2002 but was up and running again within just two days. "By 9 p.m., it was obvious we could not get into the building the next day. The damage was heavy. I could not contact our managing partner, Bill Watkins. Since I was second in charge, I took over." With a chain of command known to everyone at the firm, it should be clear who can make decisions and direct the steps needed for recovery.

A number of other precautions and procedures should be specified in your disaster plan as well, including the following:

- Getting help from the appropriate emergency services, safely closing your offices and evacuating the personnel.

- Assessing damage and controlling the situation.
- Involving community emergency response organizations in planning activities and establishing mutual aid agreements with other businesses.
- Starting and maintaining a list of key contacts, including not only emergency personnel but also your employees and their families, insurance companies, clients, and vendors. You may also want to identify other services and professional resources, such as engineers and restoration specialists. Further, you may want to store this information off-site, in case you can't recover it from your offices. Rusty Roy, CPA, of Roy & O'Connor, CPAs Inc. in Paso Robles, Calif., recommends that you additionally include a few out-of-state contacts in your list (or out-of-region contacts in the case of huge states like California and Texas). Roy's office sustained damage, including the failure of its front wall, in the 6.5-magnitude San Simeon earthquake of December 2003. "The cell phone system collapsed for local calls, but we were still able to call out of the area to contacts who could then call others, such as staff and family members, in our area to relay any information we needed to give," Roy said, adding that it's a good idea to also establish a protocol for identifying where personnel and family members are during an emergency and whether they're safe.
- Identifying and protecting the organization's vital records, including everything concerning clients, staff and insurance policies. Computer backups and off-site storage of important records are essential to a fast and economical recovery. Roy added that your firm's system state (the current environment housing your IT network) should also be backed up so that not only your data but also your system's programs, configurations, applications, etc. can be restored after a catastrophe.
- Maintaining other information, such as all written communications; a resource inventory; and documentation of drills and exercises, along with their critiques.
- Keeping a closet stocked with emergency supplies on the premises. This closet should include water, food, a heat source, a communication source, batteries and flashlights.
- Identifying key Web sites that could help in disaster recovery, such as the [AICPA PCPS Firm Volunteer Center](#) and the [AICPA Disaster Recovery Resources Center](#), both of which affected firms used after last fall's major hurricanes.
- Keeping a disaster response checklist showing all that's needed for a quick recovery. (See attachment, a modified AICPA document.)
- Distributing disaster response information to all employees in the form of wallet cards or other easily accessible means.
- Distributing two copies of your firm's complete disaster plan to all key employees, one copy for home and the other for the office.
- Considering the possible need not only for special emergency funding reserves, which can be critical immediately after a disaster, but also for pre-approved purchase requisitions.

Evaluation

A disaster plan's effectiveness can dramatically decrease if the plan isn't regularly evaluated and updated. The information should be updated at least once annually, with spot checks now and then of the active preventive steps. For instance, staff and management both need to be quizzed on proper response and a formal, regular method of getting necessary information. For more on evaluating your disaster preparation efforts, check out the "[The Best-Laid Plans](#)" in the May 2004 edition of the *Journal of Accountancy*.

The disaster plan must be customized to a practice's size, resources, style of management, regional location, and goals. The pieces and format of the plan can greatly differ according to a firm's size, as well as according to its location, whether in a house, one-story office or skyscraper. Your plan should work solidly and reliably, with easy implementation. At the same time, it should be flexible enough to change with the situation. In the end, your disaster plan will work only if the senior management wholeheartedly commits to and believes in it.

E-mail Us

Please e-mail us at pcps@aicpa.org with feedback on disaster planning efforts that your practice has undertaken. We would love to share your thoughts and ideas with other firms across the nation so that they can learn innovative ways to mitigate the impact of catastrophe so as to resume business quickly.