

# Newsletter

## INTRODUCTION

This issue's topic is an overview of how the **Gulf Oil Spill and the 2010 Hurricane Season** may impact potential Business Interruption Claims. Our past newsletters include the steps and procedures necessary to calculate the Loss of Income (Business Interruption) and can be downloaded from our website at [www.sanderfordcpa.com](http://www.sanderfordcpa.com)

## OUR FIRM

**Sanderford & Associates, P.A.** is celebrating fourteen years of doing business in the Tampa Bay area. Our practice is limited to forensic accounting services for the insurance industry including but not limited to the verification of insurance claims, loss measurement calculations and expert testimony. Additional information is available at [www.sanderfordcpa.com](http://www.sanderfordcpa.com)

## GULF OIL SPILL & UPCOMING HURRICANE SEASON

Many questions arise when contemplating what happens if you have a tropical storm or hurricane prior to the cleanup of the oil spill in the Gulf of Mexico. This has the potential to be the most costly disaster that most of us will ever experience. As we all know Hurricane Season is here and it becomes very active in late July / early August and peaks around Labor Day weekend. The Oil Slick continues even with the cleanup efforts at sea not to mention the crude oil under the water. It appears that the oil spill will not be cleaned up before the peak of the 2010 hurricane season arrives in the Gulf of Mexico. Wind currents have played a large role on where the oil slick is heading. I think that we can all agree that the precautions, booms etc., that are in place are no match for a hurricane. The big question is if we have a hurricane that pushes the oil spill onto shore how will that affect the measurement of Property Losses, Flood Damage, Wind Damage and Oil Damage? How will you allocate the property damage between the three causes of loss? Will the property claims be paid and then subrogated against BP Petroleum? Also how will the oil damage impact the period of restoration for business interruption losses? The obvious answer to these questions is that the oil spill and the related damages are the responsibility of BP Petroleum. However, separating the affects of flood damage, wind damage and oil damage will be difficult at best. Historically, the flood damage has been measured based on the water line. Will we use the oil line and water line to exclude damage not related to wind? Will the EPA be involved with the debris removal and disposal? How will the period of restoration for business interruption be determined? The period of restoration related to the wind damage will be affected by the oil damage to some degree even though these issues may be excluded under the policy. Additional time will be needed for debris removal and cleanup as I would anticipate the EPA being involved. Permits to rebuild may also be delayed. Trying to identify the additional time period (additional period of restoration) that will be related to the oil damage cleanup will be difficult at best as construction delays can occur with a typical disaster before factoring in oil spill issues. Another area of concern is how will the likely net profit or (loss) be calculated with the →

affects of the oil spill already occurring in some industries. Furthermore, how long will the current trends continue in these industries during your period of restoration? Will the total business interruption loss be allocated on some basis with BP petroleum or will we try to isolate loss of income related only to the wind damage? I would anticipate that the period of restoration will be a major issue if the potential disaster occurs as all parties involved will have their opinions and will make them known. Also the trends leading up to the wind losses will be an issue as well as how long those trends would continue. If we have a hurricane in the Gulf of Mexico before the oil spill is cleaned up we will face many issues that we have not faced on this scale before. It may be beneficial to address how you will handle some of these issues before they arise.

**SUMMARY**

The records listed are not intended to be all-inclusive. The insured may not maintain some of these types of records. Furthermore, additional types of records may be available and the insured may call them by a difference name. The business interruption loss is only as accurate of the records relied upon in the loss calculation.

The financial records that are utilized for business interruption calculations are as follows:

**Sales / Revenues**

1. Sales & Use Tax Returns
2. Daily Sales Reports
3. Bank Statements (Deposits)
4. Income Statements (Profit or Loss Statements)

**Cost of Sales & Gross Profit**

1. Federal Income Tax Return
2. Year Ended Income Statement (Profit or Loss)
3. Year to Date Income Statement (Profit or Loss)
4. General Ledger

**Operating Expenses & Net Income or (Loss)**

1. Federal Income Tax Return
2. Year Ended Income Statement (Profit or Loss)
3. Year to Date Income Statement (Profit or Loss)
4. Payroll Journals
5. General Ledger

**Continuing Expenses & Actual Gross Profit Earned**

1. Monthly Income Statements (Profit or Loss)
2. General Ledger
3. Payroll Journals
4. Canceled Checks and Bank Statements
5. Receipts & Invoices

**OUR SERVICES**

**Business Income Loss**

- Net Income or (Loss) & Continuing Expenses
- Gross Earnings less Noncontinuing Expenses
- Loss of Rental Income
- Extra Expenses Verification
- Coinsurance Analysis

**Property Damage**

- Business Personal Property

**Inventory / Stock Loss**

- Out of Sight Inventory Measurements
- Price Testing Verification & Obsolescence Analysis
- Physical Inventory Counts
- Automatic Seasonal Increase Analysis

**Employee Dishonesty**

**Litigation Consulting**

**Expert Testimony**

**Third Party Liability**

- Personal Injury
- Wrongful Death
- Loss of Income / Earnings Verification

**Environmental Claims**

- Measurement & Verification

**Arson & Fraud**

- Financial Conditional Analysis (Motive)