DEPARTMENT OF HOMELAND SECURITY
Office of Inspector General

Sales of the Federal Emergency Management Agency Travel Trailers and Mobile Homes

OIG-07-41

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Homeland Security

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MEMORANDUM FOR: R. David Paulison
Administrator
Federal Emergency Management Agency

FROM: Richard L. Skinner
Inspector General

SUBJECT: *Sales of FEMA Travel Trailers and Mobile Homes*
OIG-07-41

The purpose of this memorandum is to advise you of the results of our review of FEMA travel trailer and mobile home sales that took place in 2005 and 2006 in Alabama, Florida, Mississippi, and Texas. Our objectives were to determine whether the sales were at fair and equitable prices, provided the best return for the government, and complied with applicable regulations. We interviewed responsible FEMA officials and reviewed pertinent documents, including a selected sample of sales at: FEMA Headquarters; the Long Term Recovery Office (LTRO) in Orlando, Florida; and the Transitional Recovery Offices (TRO) in Montgomery, Alabama; Biloxi, Mississippi; and Austin, Texas.

Results of Review

FEMA needs a consistent and equitable sales policy for travel trailers and mobile homes. FEMA has sold travel trailers and mobile homes for as little as $1.00 and as much as $20,000. Pricing has not resulted in the best return for the government and has been inequitable to buyers. Because FEMA field offices were using inconsistent pricing practices, FEMA officials in October 2006, directed that sales be placed on hold pending development of a national sales policy. FEMA needs to expedite the development of that policy. This report identifies some of the issues the policy must address.

Background

Section 408 of the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (Stafford Act), as amended, authorizes FEMA to provide direct temporary disaster housing assistance to eligible applicants in a Presidentially declared disaster. These units include mobile homes, travel trailers, and other forms of pre-fabricated housing. The Stafford Act and 44CFR 206.118 authorizes FEMA to sell the units at "fair and equitable prices" to occupants, provided the occupant:

- Lacks permanent housing;
- Agrees to obtain and maintain hazard insurance; and
- Agrees to obtain flood insurance if the unit will be located in a Special Flood Hazard Area.

In addition, FEMA Directive "Direct Housing Sales and Applicant Information Guide" requires that the sales price be based on the original acquisition cost of the unit less an appropriate depreciation for age and use. Further price reductions are authorized if an applicant is unable to pay the established price.

Although FEMA headquarters directed that the sale of travel trailers and mobile homes be placed on hold in October 2006, an exception was made for the Orlando LTRO, which continued selling units. The Biloxi TRO stopped accepting new purchase applications, but continued to process the applications it had received, and the Montgomery TRO placed all sales on hold. At the time of our field visits in late 2006, the Orlando LTRO had sold 288 units, the Montgomery TRO had sold 52 units, the Biloxi TRO had sold 6 units, and the Austin TRO had not sold any.

<u>Pricing the Housing Units</u>

The three field offices used different methods to determine sales prices. The methods were not consistent with FEMA policy, were inequitable in some cases, and did not always result in a fair return in the government's investment.

Rather than using the acquisition cost of a unit as the base price, as required by the FEMA directive, the Orlando LTRO calculated the average cost of each type of unit for each year of purchase and used that as the base price. This averaging method was inequitable in some cases because the features of the units varied considerably. A unit with more features costs more than a unit with fewer features and should logically be priced higher. Basing the price on an average cost, rather than on the actual cost, results in some purchasers getting more for their money and some getting less.

In the next step of the pricing process, Orlando LTRO officials deducted a depreciation allowance from the base price. They based the amount of depreciation on the amount of time that the unit had been in service:

- Unused units were depreciated 10 percent.
- Units leased up to 6 months were depreciated 20 percent.
- Units leased from 6 to 12 months were depreciated 30 percent.
- Units leased from 12 to 18 months were depreciated 40 percent.
- Units leased from 18 to 24 months were depreciated 50 percent.

The other FEMA offices used different systems for determining sales prices. The Biloxi TRO deducted 30 to 40 percent from the acquisition cost of each unit for depreciation if a unit was sold within 18 months, depending on the number of months that the unit was occupied. Once 18 months had passed, they deducted 50 percent for depreciation. The Montgomery TRO, which sold only travel trailers, priced all units at $6,000 and did not deduct for depreciation.

<u>Orlando LTRO Further Reduced Prices and Sold New Units at Used Unit Prices</u>

Under FEMA policy, price reductions are permitted for applicants who are unable to pay the full sales price. Reductions are authorized only when an applicant applies in writing and provides documented proof that two loan companies have turned down their loan application for purchase of the unit. The Orlando LTRO made such price reductions in a number of cases, but could not support these reductions as required under the criteria. Some files did contain loan denials to support the applicant's inability to pay, but some of the denials were from loan institutions that do not provide loans for mobile homes and travel trailers.

Orlando LTRO officials said that they also reduced prices by amounts that FEMA paid to haul, install, and repair the trailers and mobile homes. While reducing the sales price by expenses the applicants paid would have made sense, we question the logic in reducing the sales price by expenses that FEMA paid.

FEMA policies require that travel trailers and mobile homes be sold to current occupants "as is, where is." However, Orlando LTRO officials allowed some occupants of older units to purchase new units at a depreciated price based on the age and use of their old unit. In addition, FEMA either paid the cost of transporting and installing the new units, or reduced the price of the unit by that amount if the occupant paid. These practices not only reduced the sales income to the government, but they were inequitable to those purchasers who were not provided the same opportunity.

Conclusions

Because FEMA has not enforced a nation-wide policy on sales of travel trailers and mobile homes, FEMA officials at several sites have developed their own ad hoc policies and procedures. Under these locally developed policies, some purchasers receive better treatment and prices than do other purchasers, and the government is deprived of a fair return on the sales of these units. It is possible that FEMA sales of travel trailers and mobile homes could dramatically increase in the coming months. FEMA officials need to issue and enforce appropriate policies and procedures concerning such sales.

Recommendations

We recommend that the Administrator, Federal Emergency Management Agency, issue and enforce a nation–wide policy on sales of travel trailers and mobile homes that ensures fair prices and addresses the inequities identified in this report.

We conducted this review under the authority of the Inspector General Act of 1978, as amended, and according to Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

Please advise us within 30 days of the actions taken to implement our recommendations. Should you have any questions, please call me, or your staff may contact Matt Jadacki, Deputy Inspector General for Disaster Assistance Oversight, at (202) 254-4100.

cc: DHS Audit Liaison
FEMA Audit Liaison

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