DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Review of FEMA's Use of Proceeds From the Sales of Emergency Housing Units

OIG-08-23

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U.S. Department of Homeland Security
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Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibility to promote economy, efficiency, and effectiveness within the department.

This report addresses the strengths and weaknesses of the Federal Emergency Management Agency's (FEMA) use of proceeds from the sales of emergency housing units. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and analyses of applicable documents.

The recommendations herein have been developed according to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Richard L. Skinner

Richard L. Skinner
Inspector General

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Abbreviations

DHS	Department of Homeland Security
EHU	Emergency Housing Unit
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
GSA	General Services Administration
IFMIS	Integrated Financial Management Information System
OIG	Office of Inspector General

Executive Summary

Starting in fiscal year 2005, and continuing through early 2007, Federal Emergency Management Agency (FEMA) officials used funds received from the sale of used travel trailers and mobile homes to partially finance the operations of a dozen Emergency Housing Unit (EHU) sites in seven states. However, more than $13.5 million of the sales proceeds were expended for ineligible purchases. This occurred because FEMA program officials failed to ensure that the EHU expenditures met General Services Administration (GSA) regulations on the use of sales proceeds.

Proceeds from the sale of government property are restricted-use funds that can be used for the purchase of a select group of replacement type items within a specified time. GSA regulations specify conditions that must be met in order to participate in the program, and if not met, an agency must return proceeds to the United States Treasury.

FEMA officials used approximately one half of the sales proceeds, or about $13.5 million, on ineligible expenditures including (1) contracts to support and equip storage sites, (2) replenishment of purchase card accounts, and (3) travel expenses. These purchases generally represented operating expenses of the EHU sites, but were ineligible expenditures under GSA regulations. Because of the unbudgeted nature of these funds and the need for better oversight and control, unnecessary and uneconomical purchases were made.

FEMA requested this review in early 2007 and FEMA's Disaster Finance Center initiated its own detailed review concurrently. The Disaster Finance Center review, completed in June 2007, concluded that most of the sales proceeds were used for ineligible purposes or not used within prescribed timeframes. The Disaster Finance Center recommended that appropriate fund account adjustments be made and that improperly used funds be returned to the U.S. Treasury. We concur with the Disaster Finance Center recommendations and make additional recommendations to prevent misuse in the future.

Background

In the aftermath of the 2004 and 2005 hurricane seasons, FEMA purchased more than 230,000[1] travel trailers and mobile homes at a cost of about $2.9 billion to temporarily shelter displaced disaster victims. As these victims have vacated temporary housing over time, FEMA moved the used trailers and mobile homes to EHU sites for cleaning, repair, refurbishing, and an assessment of each unit to determine whether to retain it for future use, or to sell the unit through the GSA. As shown below, during fiscal years (FYs) 2005 and 2006, and the first 7 months of 2007, FEMA received more than $43 million in proceeds from GSA, mostly from the sale of emergency housing units.

Proceeds to FEMA From GSA Sales	
Year	**Amount**
2005	$25,973,295
2006	11,352,116
2007	6,018,208
Total	$43,343,6199

GSA transferred sales proceeds to FEMA where the funds were placed in the Disaster Relief Fund Account 5011SR, *GSA Sales and Returns - Emergency Housing Units*. The Disaster Finance Center recorded the receipt of sales proceeds from GSA in a suspense account and distributed them to the 5011SR account based on the program office's certification and approval. The Logistics Management Directorate[2] managed the emergency housing program and determined what housing units were to be sold and what replacement items were to be purchased. Correspondence between the Office of the Chief Financial Officer, the Office of Chief Counsel, and the Logistics Management Directorate addressed program expenditures and the need to limit purchases to qualifying replacement "like items." Documentation we reviewed indicated that these offices understood the GSA restrictions on the use of sales proceeds and the requirement to return the proceeds of unused funds to Treasury.

Applicable Laws and Regulations

The Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act, 42 U.S.C. 5121 et seq.) and applicable sections of the Federal Management Regulation dealing with the exchange/sale authority, allow FEMA to use proceeds from the sale of trailers and mobile homes, but only for certain types of expenditures. While proceeds from the sale of government property generally must be returned to the Treasury as miscellaneous receipts, there are two exceptions that apply to the sale of FEMA-owned travel trailers and mobile homes.

[1] FEMA was unable to provide an accurate count and dollar value; this is an estimate.
[2] Formerly the Response Division/Logistics Branch, now the Logistics Management Directorate since the FEMA reorganization of March 2007.

The Stafford Act allows the sale of FEMA-owned housing units to the occupants of those units when the occupants lack permanent housing. In such cases, the proceeds from the sales are to be deposited in the appropriate Disaster Relief Fund account. However, this particular exception does not apply to the funds in question in this report.

Housing units that are not sold to occupants or re-used can be made available to governmental or voluntary organizations for housing disaster victims or can be sold. Units that are sold on the open market could be sold by FEMA, but the sale must be conducted according to Federal Management Regulations, promulgated by GSA. As a matter of general practice, FEMA housing units are sold to the general public through auctions conducted by GSA with FEMA retaining the proceeds under the exchange/sale authority specified in the regulations. Under this authority, a federal agency may sell “personal property,” i.e., property other than “real property,” and use the funds received for the acquisition of similar personal property.

The exchange/sale authority provides that an agency can expend sales receipts only when all of the following conditions are met:

1. The property exchanged or sold is similar to the property acquired. “Similar” property is defined as items that are identical, or designed and constructed for the same purpose, or constitute parts or containers for similar end items, or fall within a single Federal Supply Classification group of property;

2. The property exchanged or sold is not surplus, and the agency has a continuing need for that type of property;

3. The number of items acquired must equal the number of items exchanged or sold, with certain exceptions allowed;

4. The property exchanged or sold was not acquired for the principal purpose of being exchanged or sold; and

5. Proper documentation is maintained.

Proceeds from sales not meeting the above criteria must be deposited as miscellaneous receipts in the Treasury. In addition, funds not appropriately expended for eligible items by the end of the fiscal year following the fiscal year in which the property was sold are forfeited and must also be turned over to the Treasury.

GSA regulations allow certain other expenses to be reimbursed from exchange/sale funds, including costs for the care and handling of the property being sold prior to being turned over to the buyer. In our draft report, we allowed that certain indirect costs could be considered as eligible expenses under the GSA regulations. However, the GSA regulations are somewhat ambiguous, and thus subject to interpretation. FEMA has decided that the EHU-related expenditures should be budgeted for as part of EHU site operation costs, rather than funded by exchange/sale proceeds. We agree with this decision.

Based on GSA regulations, the following items are eligible for purchase or reimbursement using the 5011SR account funds generated as a result of sales of FEMA-owned travel trailers and mobile homes:

1. Any property that can be considered as identical, such as another travel trailer or mobile home.

2. Any property that meets the similarity test by being a member of the same Federal Supply Classification Group. Under the same Federal Supply Classification Group 23 as "house trailers" are passenger motor vehicles, trucks and truck tractors, all complete trailers, and motorcycles, motor scooters and bicycles.

The use of 5011SR account funds for any other purposes would be the equivalent of charging expenditures to the wrong appropriation. Federal statute (31 U.S.C. 1301(a)) requires that "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." Charging authorized items to the wrong federal funds source or charging unauthorized items to any federal funds source is therefore prohibited.

Results of Review

Contrary to GSA exchange/sale authority regulations, FEMA used trailer and mobile home sales proceeds to purchase ineligible items. Instead of using the proceeds (recorded in the 5011SR account) to replace housing or to procure similar items, the money was spent for items such as improvements to leased property, funding EHU site operations, and purchasing automotive and office supplies. The Logistics Management Directorate awarded $23.4 million in contracts, of which $12.2 million went for services or items not allowed for by GSA's exchange/sale authority. In addition, $1.3 million in credit card purchases were inappropriately paid for using proceeds from the sale of trailers and mobile homes. FEMA officials need to account for all of these ineligible items, de-obligate and re-obligate monies so these expenditures are funded with appropriate sources, and return to the Treasury all exchange sales authority receipts that have not been appropriately expended in the allowable period of time. FEMA also needs to establish controls and provide oversight regarding the use of sales proceeds to ensure that only eligible items are procured and that such eligible procurements are necessary.

How the Situation Arose

Even allowing for the hectic situation that ensued in the aftermath of the 2004 and 2005 hurricanes, FEMA officials at all levels did not take appropriate action to ensure that proceeds from the sale of trailers and mobile homes were properly used. Inadequate management control over the exchange/sale function gave rise to the use of these funds for ineligible purposes.

Prior to 2004, FEMA did not extensively use GSA's exchange/sale authority. In 2004, FEMA purchased about 24,000 travel trailers to shelter the victims of hurricanes Charley, Frances, Ivan, and Jeanne. As these travel trailers were being vacated and returned to FEMA, Hurricanes Katrina, Rita, and Wilma struck.

The immediate task facing FEMA's Logistics Management Directorate in 2005 was to establish the EHU storage sites to store, clean, and refurbish the thousands of travel trailers that were returned after being used by victims of the 2004 Florida hurricanes. As the 2005 hurricanes struck, FEMA placed orders for more than 200,000 trailers and mobile homes, and needed EHU sites to stage them until the transitional housing locations could be established to accommodate the displaced victims. Within 2 months after Katrina, FEMA had established 12 EHU sites in 7 states. It was in this environment that tens of millions of dollars of unbudgeted funds were streaming into FEMA from GSA. While funds were recorded by the Disaster Finance Center and made available to the Logistics Management Directorate, the subsequent use of the funds received little oversight from FEMA management.

The Direct Disaster Relief Funds associated with the 2004 and 2005 hurricanes covered the initial expenses of the EHU sites. Those funds were limited to eligible expenses directly linked to assisting disaster victims in the particular states where the disasters were declared, and were only available while the disaster declaration was in force. By the end of 2005, disaster operations were winding-down and disaster relief funds were no longer available to cover expenses of storing units for possible future disasters.

The unplanned expense of leasing and preparing the 12 sites left Logistics with a FY 2006 budget shortfall. In October 2005, Logistics Management Directorate officials in FEMA headquarters requested additional funds to cover the unanticipated costs of the EHU sites for the remainder of FY 2006. This request was elevated to FEMA's acting Director of Operations who, in November 2005, established a *strategic oversight steering group* consisting of membership from the Logistics Management Directorate, the Chief Financial Officer, the Chief Procurement Officer, the Facilities Management Branch, and other program offices, in coordination with appropriate field elements. While the group was to provide centralized funding and procurement management for the EHU sites, it never met, the acting Director of Operations left the agency, and the issue was not addressed by his successor.

With mounting EHU site costs, inability to access the disaster relief funds, and an insufficient budget, the logistics officials began funding the EHU site operations with 5011SR account funds. Instead of using the 5011SR account funds to acquire replacement "like" items, the Logistics Management Directorate broadened its interpretation of the GSA definition requiring the acquisition of "like" replacement items to include almost all the costs of operating the EHU sites.

During the course of our review, FEMA drafted a policy paper, "*Disposal of Temporary Housing Units,"* which, in part, re-stated the law and applicable regulations dealing with the exchange/sale authority. However, FEMA has yet to issue implementing guidance and procedures dealing with the management of such proceeds.

Ineligible Expenditures

Between October 2004 and March 2007, EHU officials used about $23.4 million in 5011SR account funds to pay for contract services and purchases. Fifteen contracts totaling $11.2 million were let for eligible items such as motor vehicles and trailers of various types. However, as described below, $12.2 million was used for contracts not eligible for such funding.

- Thirty service contracts totaling $4,100,666 were awarded for such things as tree-removal, guard services, and temporary labor services.

- Thirty-two contracts with expenditures totaling $2,922,656 were awarded to provide tools or equipment, such as automotive supplies, metal fabrication, and sign-making equipment.

- Two contracts totaling $69,710 were awarded for office equipment.

- Fourteen contracts totaling $1,724,646 were awarded for EHU site preparation and site improvements.

- Fourteen contracts totaling $617,856 were awarded to provide water and electrical services to EHU.

- Three contracts totaling $8,227 were for travel-related services.

- Six contracts totaling $714,178 were for travel trailers and mobile home parts and equipment to include tires, fire extinguishers, and mattresses, items that are not technically eligible for the use of 5011SR account funds. The Logistics Management Directorate might have been able to obtain a waiver from GSA for the purchase of these items had they requested one.

- Eight contracts provided miscellaneous items and services such as permits, fees, and package delivery services. Contract payments totaling $2,062,032 were ineligible for a variety of reasons.

In addition, proceeds in the 5011SR account funded 15 credit cards. These cards were used to charge more than $1.3 million in purchases during the period under review. We were able to obtain records accounting for approximately 75% of the spending and determined that almost none of the purchases were eligible for funding with exchange/sale authority funds. Among the ineligible credit card purchases we identified were more than $100,000 in purchases for crushed rock at the Frostburg, Maryland EHU site; $20,560 for FEMA and DHS decals and banners; $9,000 for 10 global positioning navigation devices; and $7,098 for a "shrink-wrap" machine that was sent to FEMA's Caribbean Division in Puerto Rico.

Logistics Management Directorate officials spent $16,127 for travel voucher reimbursements during the period under review. Exchange/sale authority funds were used for local travel expenses and for travel of headquarters officials to field offices and field office officials' travel to headquarters. Funds were also used for training-related expenses. None of these expenditures met the criteria for eligible uses of exchange/sale authority funds.

In total, and as summarized below, $13.5 million of the sales proceeds were used for ineligible expenditures.

	Eligible Expenses	Ineligible Expenditures	Total Expenditures
Contracts Funded	$11.2 million	$12.2 million	$23.4 million
Credit Cards Funded	<$25,000	$1.3 million	$1.3 million
Travel Funded	0	$16,000	$16,000
Totals	$11.2 million	$13.5 million	$24.7 million

Other Questionable Expenditures

In addition to the items that were ineligible under GSA regulations, FEMA logistics officials purchased several eligible items that were excessive in that they contained unnecessary, expensive features. For example, logistics officials purchased six sport utility vehicles with luxury packages that included navigation systems, leather seats, DVD video players, and high-end stereos. FEMA did not purchase these vehicles "off-the-lot" but rather placed an order that specified the options package. Passenger cars and light trucks are classified in the same Federal Supply Classification category as travel trailers, and thus could be considered eligible, under certain circumstances. However, logistics officials could have purchased standard models that would have been more appropriate for the purposes for which they were intended. Instead of buying standard models for about $36,860 each, logistics officials ordered fully equipped models costing $49,248 each.

Since fieldwork began on this review, formaldehyde was detected in some of the FEMA travel trailers, and the sales of those units have been halted. This situation will result in increased inventories of returned units, and until this issue is resolved, FEMA will incur transportation, storage, security, and other expenses on the stored units.

Conclusions and Recommendations

FEMA officials did not implement an appropriate system of controls over the exchange/sale authority funds generated by the sales of travel trailers and mobile homes or establish an adequate and effective budgetary process for the Logistics Management Directorate's EHU sites. Logistics officials spent exchange/sale funds on a wide range of equipment and expenditures for the EHU sites. More than half of the expenditures they made were for ineligible items. In total, logistics officials used contracts and credit cards to expend more than $13.5 million in 5011SR account funds on items and services not eligible for purchase with such exchange/sale authority funds. All of these inappropriate expenditures must now be de-obligated and re-obligated using appropriate funding. The Disaster Finance Center at Mount Weather, Virginia, has already started this process. The transaction dates of all of these 5011SR account funds will need to be determined and all of the sales receipts that have passed the end of the fiscal year following the fiscal year in which they were generated will need to be deposited in the Treasury miscellaneous receipts account. At the end of FY 2007, all of the funds that were received in FY 2006 must be returned to the Treasury.

In addition, FEMA officials need to take appropriate steps to prevent the misuse of such funds in the future. Since expenditures of these exchange/sale authority funds were halted in January 2007, GSA has auctioned thousands of additional travel trailers and mobile homes generating millions of dollars in available revenue and thousands of travel trailers and mobile homes are in the system and could be sold in the future. FEMA officials need to develop and implement an adequate system of controls over the planning for and use of the exchange/sale authority funds that will be available for future use. In addition, FEMA should develop and issue policies and standard operating procedures governing the use of 5011SR account funds.

The conclusions in this report are consistent with those of the Disaster Finance Center team that also reviewed the expenditures made under this program. Although we have not seen the Disaster Finance Center's final report[3] and recommendations, the initial draft indicates they will be similar to the recommendations we offer below.

We recommend that the Administrator, FEMA:

1. De-obligate all ineligible expenditures for contracts, purchase cards, and travel–related expenses made with 5011SR account funds, and re-obligate the expenditures using appropriate fund sources.

2. Return all exchange/sale authority funds to the Treasury that are proceeds for property sold in fiscal year 2006, or earlier.

3. Establish a system to track all remaining exchange/sale authority funds and all future receipts so they can be returned to the Treasury at the end of the fiscal year following the fiscal year in which the property was sold if the funds are not properly used within prescribed time frames.

4. Issue a written directive governing FEMA's use of exchange/sale authority funds to only be used to reimburse for eligible items and only after an appropriate review of each expenditure.

5. Direct that any actions that are not clearly allowable be undertaken only after a waiver or "deviation" has been reviewed and approved by GSA officials.

Management Comments and OIG Analysis

As indicated in the management responses to our October 2007 draft report, (see Appendix B) FEMA has concurred with each of the five OIG recommendations and has agreed to notify OIG concerning the agency's actions taken or planned to implement the recommendations by February 11, 2008. We consider all of the recommendations resolved because of the proposed

[3] At the time of our review, the Disaster Finance Center had not issued their report, but did provide a draft to our office.

steps to implement them, and will close recommendations as corrective actions are implemented.

FEMA also provided technical comments that suggested language changes to more clearly present the issues. We appreciate this assistance, and have taken into consideration each of the technical comments.

This review was conducted in response to a request from the FEMA Deputy Administrator. In keeping with that request, the objectives of our review were to determine what exchange/sale authority funds were available to the EHU unit, what expenditures were made with such funds, and which expenditures were and were not eligible for using such funds. We also sought to determine why funds might have been used incorrectly, what steps need to be taken to provide corrective action for past ineligible expenditures, and how to prevent inappropriate uses of exchange/sale authority funds in the future.

The scope of our review included all expenditures of Account 5011SR - *GSA Sales and Returns - Emergency Housing Units* made during fiscal years 2005, 2006, and 2007. The records and expenditures we reviewed were through March 8, 2007. A "freeze" on the use of 5011SR account funds was in place by that date and the only expenditures that were made after March 8, 2007, were to pay vendors whose payments from prior obligations were overdue. Those few post-March 8, 2007, expenditures are not within the scope of our review.

We reviewed Disaster Finance Center files for each of the contracts funded with 5011SR account funds during the applicable time frame. Expenditures for the contracts reviewed totaled $23,370,519.

We also reviewed all available supporting documentation for the $1,311,848 that funded government purchase cards that were used for EHU expenditures. We were able to obtain records showing the details of $976,848 in expenditures under 12 of 15 purchase card accounts. FEMA was unable to provide the records for three purchase card accounts. One individual responsible for one of the purchase card accounts totaling $300,000 told us that in the immediate aftermath of Hurricanes Katrina and Rita, he was not able to maintain an expenditure log due to operational demands.

We obtained and reviewed the travel vouchers totaling $8,555 of the $16,127 in travel expenses. The remaining travel vouchers could not be located.

We interviewed responsible officials from pertinent FEMA offices including the Office of the Chief Financial Officer and its Disaster Finance Center, the Logistics Management Directorate and its Emergency Housing Unit, and the Office of the Chief Counsel concerning the appropriate uses of exchange/sale authority funds and the uses that were made of such funds by the EHU. We also interviewed GSA officials concerning the purposes and applicable rules and regulations of the exchange/sale authority program.

We conducted fieldwork in Washington, D.C. and at the Disaster Finance Center, Mt. Weather, Virginia. We conducted our review from May 2007 to

August 2007 under the authority of the Inspector General Act of 1978, as amended, and according to Generally Accepted Government Auditing Standards for performance audits. However, the analysis of 5011SR account funds expenditures was based on data contained in the FEMA Integrated Financial Management Information System (IFMIS) database. Our review did not include a test of the validity and reliability of the IFMIS data nor an evaluation of the effectiveness of controls over the system that produced the relied-upon data.

U.S. Department of Homeland Security
Washington, DC 20472

FEMA

December 11, 2007

MEMORANDUM FOR: Matt Jadacki
Deputy Inspector General
Office of Disaster Assistance Oversight

FROM: Marko Bourne, Director
Office of Policy and Program Analysis

SUBJECT: *Response to Draft Inspector General Report: Review of FEMA's Use of Proceeds From the Sales of Emergency Housing Units*

This responds to your memorandum requesting FEMA's comments on the subject Draft Report. We sincerely appreciate the opportunity to respond to the draft report. The attached document provides FEMA's response to your five recommendations, as well as technical comments.

Please accept our thanks for the opportunity to respond to the draft report and to work with the Office of the Inspector General during this engagement. As FEMA works toward refining its programs, the Office of the Inspector General's independent analysis of program performance greatly benefits our ability to continuously improve our activities. We look forward to continuing this partnership in the future.

Questions concerning specific comments should be addressed to Brad Shefka, FEMA GAO/OIG Liaison, at 202-646-1308.

Attachment:
FEMA Response to Draft Report

FEMA Response to the Department of Homeland Security Office of Inspector General Draft Report
Review of FEMA's Use of Proceeds from the Sales of Emergency Housing Units

General Comment: The Federal Emergency Management Agency would like to emphasize that the funds received from the sale of used travel trailers and mobile homes were used specifically for what they were originally obligated for – that is, the proceeds were used for disaster relief and emergency assistance.

RESPONSE TO RECOMMENDATIONS

RECOMMENDATION #1: De-obligate all ineligible expenditures for contracts, purchase cards, and travel-related expenses made with 5011SR account funds, and re-obligate the expenditures using appropriate fund sources.

RESPONSE:
We concur with the recommendation. FEMA will de-obligate all ineligible expenditures for contracts, purchase cards, and travel-related expenses, totaling $13,555,699, made with 5011SR account funds, and re-obligate the expenditures using appropriate fund sources. FEMA will advise OIG within 60 days of the actions taken or planned to implement this recommendation, including target completion dates for any planned actions.

RECOMMENDATION #2: Return all exchange/sale authority funds to the Treasury that are proceeds for property sold in fiscal year 2006, or earlier.

RESPONSE:
We concur with the recommendation. FEMA will return all exchange/sale authority funds, totaling $26,856,751 of 5011SR account exchange/sales proceeds not used during their period of availability, to Treasury for property sold in fiscal year 2006, or earlier. Note that the amount to be returned to the Treasury includes the disallowed expenditures mention above in recommendation one. FEMA will advise OIG within 60 days of the actions taken or planned to implement this recommendation, including target completion dates for any planned actions.

RECOMMENDATION #3: Establish a system to track all remaining exchange/sale authority funds and all future receipts so they can be returned to the Treasury at the end of the fiscal year following the fiscal year in which the property was sold if the funds are not properly used within prescribed time frames.

RESPONSE:
We concur with the recommendation. FEMA will establish a system to track all remaining exchange/sale authority funds and all future receipts so they can be returned to the Treasury at the end of the fiscal year following the fiscal year in which the property was sold if the funds are not properly used within prescribed time frames. FEMA will

advise OIG within 60 days of the actions taken or planned to implement this recommendation, including target completion dates for any planned actions.

RECOMMENDATION #4: Issue a written directive governing FEMA's use of exchange/sale authority funds to only be used to reimburse for eligible items and only after an appropriate review of each expenditure.

RESPONSE:
We concur with the recommendation. FEMA is currently drafting processes and procedures in an effort to comply with this recommendation. FEMA will advise OIG within 60 days of the actions taken or planned to implement this recommendation, including target completion dates for any planned actions.

RECOMMENDATION #5: Direct that any actions that are not clearly allowable be undertaken only after a waiver or "deviation" has been reviewed and approved by GSA officials.

RESPONSE:
We concur with the recommendation. FEMA will advise OIG within 60 days of the actions taken or planned to implement this recommendation, including target completion dates for any planned actions.

TECHNICAL COMMENTS

FEMA technical comments on the draft report follow:

Page 2, 2nd paragraph, 2nd sentence: The Disaster Finance Center managed this account and made the sales proceeds available to the program office to partially fund EHU site operations **should be changed to read: The Disaster Finance Center recorded the receipt of sales proceeds from GSA in a suspense account and distributed them to the 5011SR account based on the program office's certification and approval.**

Page 4, 1st paragraph states that GSA regulations allow certain other expenses to be reimbursed from exchange/sale funds. For example, agencies are allowed to be reimbursed for "that portion of sales proceeds equal to the direct costs and reasonably related indirect costs incurred in selling personal property" 40 CFR 102-38.295(a). **The referenced guidance refers specifically to the sale of surplus property. We do not feel that the referenced GSA guidance is clear on allowing the use of exchange/sale proceeds to cover the cost of care and handling of the property being sold. Under the GSA exchange/sale authority, personal property sold cannot be excess or surplus according to 40 CFR 102-39.50(b). Property under this provision is being sold because it is to be replaced and because there is a continuing need for similar property. Care and handling costs should be budgeted for as part of EHU site operations costs.**

Page 4, 1st paragraph states that … since GSA regulations provide that agencies may not sell any "property that is dangerous to public health or safety without first rendering such property innocuous or providing for adequate safeguards as part of the exchange/sale," (40 CFR 102-39.45(g)) the costs of inspecting and cleaning units prior to sale are allowable direct and indirect costs in the selling of the property. **Again we do not feel the GSA guidance is clear on allowing the use of exchange/sale proceeds to cover such costs. We believe these costs should be budgeted for as part of EHU site operations costs.**

Page 4, 2nd paragraph, item 3 **should be deleted. As mentioned above, GSA regulations are not clear that exchange/sale proceeds may be used for the costs mentioned. Costs for care and handling of personal property are a responsibility of the selling agency until the property is removed by the buyer; however, the regulations are silent on the source of funds to pay for these costs. Proceeds from exchange/sales are to be used to offset the cost of replacement items. We feel "care and handling" costs should be included as part of budgeted EHU site operations costs.**

Page 7, last paragraph, **we do not believe the purchases (less than $25,000) of cleaning supplies that could be used to prepare travel trailers and mobile homes for sale were eligible for funding with exchange/sale authority funds. Such costs should be budgeted for as part of EHU site operations costs.**

Gina Smith, Director, Disaster Assistance, Operations & Logistics Division
Don Norman, Senior Auditor
John Meenan, Senior Auditor

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