Department of Homeland Security
Office of Inspector General

FEMA Could Realize Millions in Savings by Strengthening Policies and Internal Controls Over Grant Funding for Permanently Relocated Damaged Facilities

OIG-14-91-D

May 2014

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

MAY 6 2014

MEMORANDUM FOR: Joseph L. Nimmich
Associate Administrator
Office of Response and Recovery
Federal Emergency Management Agency

FROM: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *FEMA Could Realize Millions in Savings by Strengthening Policies and Internal Controls Over Grant Funding for Permanently Relocated Damaged Facilities*

Attached for your information is our final report, *FEMA Could Realize Millions in Savings by Strengthening Policies and Internal Controls Over Grant Funding for Permanently Relocated Damaged Facilities*. We incorporated the formal comments from the Associate Administrator, Office of Policy and Program Analysis in the final report.

The report contains two recommendations aimed at improving oversight of Public Assistance funding provided for permanently relocated facilities. FEMA concurred with all recommendations. Based on information provided in FEMA's response to the draft report, we consider recommendations #1 and #2 as open and resolved.

Once FEMA has fully implemented the recommendations, please submit a formal closeout request to us within 30 days so that we may close the recommendations. The request should be accompanied by evidence of completion of agreed upon corrective actions and of the disposition of any monetary amounts. Please email a signed PDF copy of all responses and closeout requests to OIGEMOFollowup@oig.dhs.gov.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Tonda L. Hadley, Deputy Assistant Inspector General for Audit Services, Office of Emergency Management Oversight, at (214) 436-5200.

Attachment

Table of Contents

Appendixes

Abbreviations

CFR	Code of Federal Regulations
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
NFI	Notice of Federal Interest
OIG	Office of Inspector General

Executive Summary

The *Robert T. Stafford Disaster Relief and Emergency Assistance Act,* as amended, provides Federal assistance to State and local governments to alleviate the suffering and damage that result from disasters for both public and private losses. Further, 44 Code of Federal Regulations, allows the Federal Emergency Management Agency (FEMA) Regional Administrators to approve funding for and require restoration of a destroyed facility at a new location when meeting certain requirements.

The objective of the audit was to determine the efficiency and effectiveness of FEMA policies and procedures concerning disaster grant costs associated with permanently relocated facilities. Specifically, we determined whether (1) FEMA's present policies and procedures effectively address how FEMA should use program income to offset permanently relocated facility costs; and (2) internal controls were in place to identify when applicants receive program income to offset permanently relocated facility costs. The audit included a review of costs for permanently relocated damaged facilities in Mississippi and Louisiana for Hurricane Katrina and in Texas for Hurricane Ike.

FEMA could realize millions of dollars in cost savings by strengthening its policies, procedures, and internal controls over Public Assistance grant funding provided for permanently relocated damaged facilities. Specifically, our audit determined that FEMA's present policies and procedures do not effectively address how FEMA should use program income to offset permanently relocated facility costs. For example, such a revised policy could have saved an estimated $17.8 million in project costs for the 30 projects that we reviewed in Mississippi. Also, internal controls were not in place to determine when applicants received program income to offset permanently relocated facility costs. Therefore, FEMA should strengthen its policies, procedures, and internal controls over permanently relocated facilities to (1) use program income effectively to offset permanently relocated facility costs and (2) determine when program income is incurred to offset permanently relocated facility costs.

Our two recommendations call for FEMA to initiate improvements that, when implemented, should help strengthen program management, internal controls, and oversight of Public Assistance funding provided for permanently relocated facilities.

Background

FEMA's *Public Assistance Guide* (FEMA 322, October 1999, p. 31) addresses permanent relocation of damaged facilities. According to the guide, an applicable Federal, State, or local standard, such as a floodplain management regulation, may require that a damaged facility be relocated away from a hazardous area. FEMA may also require such relocations if the facility is subject to repetitive heavy damage because of its location. In either case, FEMA will provide assistance for the relocation project only if it is cost effective and not barred by any other FEMA regulations or policies. Eligible costs of a relocation project include:

- demolition and removal of the old facility;
- land acquisition;
- construction of the new facility, including compliance with environmental requirements; and
- construction of ancillary facilities, such as roads and utilities.

To determine cost effectiveness, FEMA measures benefits in terms of the damage prevented by moving away from the hazardous location. Generally, the project will only be cost effective if the damage is severe enough that the facility qualifies for replacement.

Also, 44 Code of Federal Regulations (CFR) 206.226(g) authorizes the FEMA Regional Administrator to approve funding for and require restoration of a destroyed facility at a new location. When the Regional Administrator requires relocation, FEMA will not provide future funding for repair or replacement of a facility at the original site, except for those facilities that facilitate an open space use in accordance with 44 CFR Part 9.

According to FEMA Permanent Relocation Fact Sheet 9580.102, FEMA will reduce the amount of funding for the relocated project by the net proceeds from the sale of the damaged facilities if the applicant sells the original property when the subgrant is open. The applicant's proceeds derived from the sale of the land, buildings, or ancillary structures on which the damaged facility was originally located will not impact the funding of the reconstruction of the actual damaged facility at the new site. However, it will offset the permanent relocation costs associated with land acquisition and the construction of ancillary facilities such as roads and utilities. This recognizes that the ancillary facilities at the original location have a real dollar value that is included in the sale price of the damaged facility's property.

For example, if FEMA provides a total of $400,000 in funding to acquire new land and construct the ancillary facilities necessary to make the relocated facility operational (not including construction costs of the actual facility itself), and the applicant sells the land on which the damaged facility was originally located for $750,000, the applicant will reimburse FEMA $400,000. The applicant would be able to keep the incremental difference in cost, which in this case would be $350,000.

In 2012, FEMA responded to a request from the Mississippi Emergency Management Agency for an interpretation of program income derived from the lease or rental of a facility that FEMA funded for repair or replacement under the Public Assistance program. FEMA stated that after closeout of a project has occurred, a subgrantee does not have to reimburse FEMA for any income generated from the sale or lease of the property unless the subgrantee purchased the real property with grant funds. For large projects, closeout occurs after the applicant completes the approved work; the grantee submits an accounting and certification of the costs; and FEMA reviews, validates, and prepares the final reconciliation report for the large project.

Results of Audit

FEMA could realize millions of dollars in cost savings by strengthening its policies, procedures, and internal controls over Public Assistance grant funding provided for permanently relocated damaged facilities. Specifically—

- FEMA policies and procedures did not effectively address how FEMA should use program income to offset permanently relocated damaged facility costs; thereby, potentially increasing costs to permanently relocate damaged facilities by an estimated $17.8 million; and
- FEMA does not have internal controls to determine when applicants receive program income so that it can use the income to offset permanently relocated facility costs.

Permanently Relocated Facility Costs

FEMA's current policies and procedures do not effectively address how FEMA should use program income to offset permanently relocated damaged facility costs; thereby, potentially increasing costs to permanently relocate damaged facilities by an estimated $17.8 million. According to 44 CFR 13.31(c)(2), if the grant is still active, the net proceeds from a sale may be offset against the original cost of the property. FEMA Permanent Relocation Fact Sheet 9580.102 states that while the subgrant is open, FEMA will reduce the grant for the relocated facility by the net proceeds from the sale of the property. In other words, this means that if an applicant receives program income from the sale or lease of vacated property for which FEMA provided funding for land and ancillary costs at another location, and that project is closed, the applicant can retain all the proceeds. However, there is a need for consensus among FEMA and State personnel on when program income should be used to offset project costs. We asked FEMA Headquarters and field Public Assistance personnel and State emergency management personnel at what time should program income be used to offset project costs of a relocated facility and/or ancillary facilities. Their responses ranged from—

- when the project is closed (such as completing a single building for a city/school district/police department, etc.), to
- when all the projects of an applicant are closed (such as completing all the building and repair work for a city/school district/police department, etc.), to
- when the State grant is closed (all the work for all the projects within a State for a specific disaster are closed).

For example, FEMA recently informed an applicant that it could keep any monies received from the lease or sale of the vacated property when it closes a single project. In our opinion, allowing the applicant to keep the proceeds from property that FEMA paid to replace provides the applicant unearned income that FEMA should use to offset the cost to repair and rebuild communities after a disaster.

Finally, some Federal grant-making agencies use a Notice of Federal Interest (NFI) as a form of lien on real property acquired or improved with Federal grant funds.[1] This means that facilities or land acquired with grant funds may not be mortgaged, used as collateral, or sold, or otherwise transferred to another party, without written permission of the responsible Government official. The NFI protects the government's interest in the property and the purpose for which the agency awarded the funds. FEMA could use a NFI or a similar legal agreement to alert them when program income is derived from vacated damaged facilities.

Potential Savings Associated With 30 Mississippi Projects

We reviewed 30 permanently relocated facilities in Mississippi damaged by Hurricane Katrina. FEMA provided $64.4 million—$7.5 million for new land acquisitions and $56.9 million for ancillaries—to relocate the 30 damaged facilities. The value of these vacated or damaged properties, based on county tax assessors' estimates after Katrina, is approximately $27.4 million. If the applicants had sold these 30 properties before project closeout for their estimated values, FEMA would have received about $17.8 million to offset project costs (see appendix C).

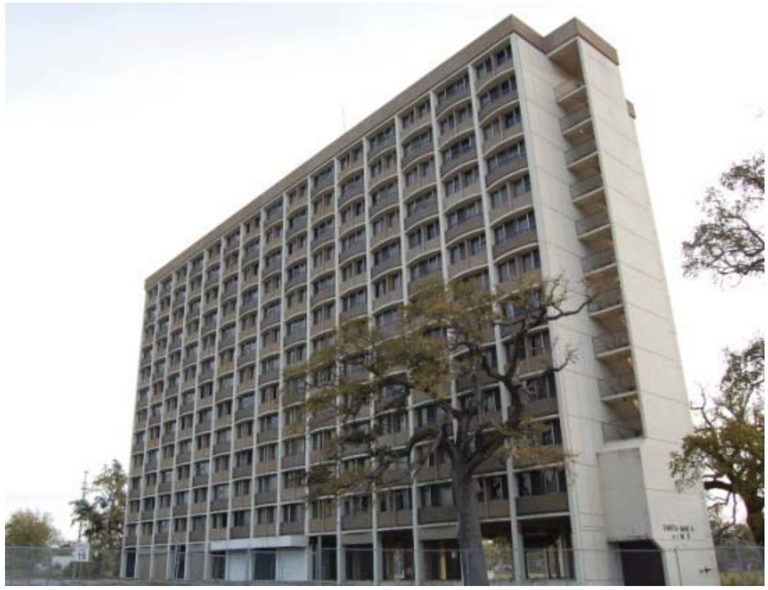
[1] NFI, April 10, 1996, Department of Health and Human Services, grant number 03-H-000, 315-13 to Delmarva Rural Ministries, Inc.

According to current FEMA guidance, if the applicant sells the damaged vacated property before the project is closed, FEMA must offset the net sales proceeds against the costs for the purchase of a new site plus the associated ancillary costs for the new site. If the applicant waits until the project is closed, it can retain all proceeds from the sale or lease of the vacated property without any offset (reduction) to the costs FEMA incurred on the relocated site. Our review of the 30 relocated properties revealed that, in the cases where FEMA paid for new land and ancillaries, none of the applicants sold the damaged properties before project closeout of the new project. Therefore, FEMA will not be able to use the estimated $17.8 million to offset the $64.4 million paid for the purchase of new land and related ancillaries. In our opinion, program income should be used to offset FEMA-incurred cost regardless of when the applicant realizes the income. This simplifies the process, allows the applicant to participate in the program income in a timely manner, and allows the revitalization of damaged facilities potentially producing needed revenue for a recovering community. Although our review included only 30 relocated facilities, FEMA's interpretation of regulations, policies, and procedures concerning when program income can be used to offset relocation expenses affects all future funding that FEMA provides for relocated facilities. Therefore, if FEMA changed its policies to allow FEMA to participate in program income regardless of when income occurs, FEMA could reduce its cost to operate the Disaster Relief Fund.

Catholic Charities Housing Case Example

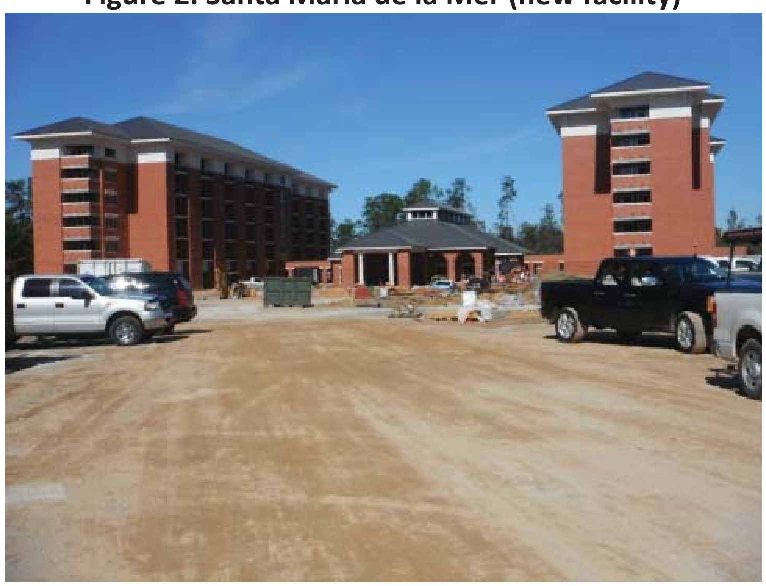
For example, in Biloxi, Mississippi, Catholic Charities Housing, a not-for-profit organization, owned the Santa Maria de la Mer apartment building. Santa Maria de la Mer is a low-income senior citizen apartment building damaged by Hurricane Katrina (figure 1). FEMA provided $23.7 million funding to construct a facility at a new location and approximately $5.5 million for land and ancillary costs at the new site (figure 2). The 2012 assessed value of the old building and property was $5.9 million. Under present policies, if Catholic Charities Housing sells the building and property at the old site for the assessed value of $5.9 million prior to project closure, FEMA would receive $5.5 million to offset the $5.5 million that FEMA obligated to acquire the land and ancillaries to build the new apartment building, and the applicant could keep the remaining $400,000. However, if Catholic Charities Housing sells the property after FEMA closes out the project, FEMA will allow the applicant to keep the estimated $5.9 million sales proceeds without any offset to the project. Hurricane Katrina occurred in 2005, 8 years ago, and the applicant has not disposed of the vacated property. Catholic Charities Housing completed the new project in June 2013. Therefore, when FEMA officially closes the project, according to the guidance FEMA recently provided an applicant, FEMA cannot use any future proceeds from the sale of the damaged property to offset new property relocation costs.

Figure 1. Santa Maria de la Mer (damaged facility)



Source: OIG site visit (March 21, 2013)

Figure 2. Santa Maria de la Mer (new facility)



Source: OIG site visit (December 19, 2012)

FEMA's policy of allowing applicants to benefit from income received on vacated land after closeout also delays the revitalization of damaged facilities, potentially taking away needed revenue for a recovering community. For example, Catholic Charities Housing's Santa Maria de la Mer property sits near several beachfront hotels and casinos along the Biloxi, Mississippi, Gulf Coast, making the property prime real estate for commercial development. If the applicant had leased or sold the property and converted it to commercial use, such as a hotel, the property would have generated sales and property tax revenue that Biloxi could have used to either reduce taxes or make other improvements to the community. Using past sales and property tax revenue from a hotel in the same area of similar size, we estimate that the property could have generated approximately $700,000 annually in tax revenue.

Conclusion

FEMA's current policies and procedures do not effectively address how FEMA should use program income to offset permanently relocated damaged facility costs, thereby potentially increasing costs to permanently relocate damaged facilities by an estimated $17.8 million. Further, our discussions with FEMA headquarters and field personnel and State emergency management personnel revealed that a disagreement exists as to when program income results from the sale or rental of permanently damaged facilities. None of the interpretations effectively maximize the use of program income to offset costs for permanently relocated damaged facilities. If FEMA revises its policies and procedures to require applicants to report income derived from the sale or rental of permanently damaged facilities (regardless of when they receive the income), FEMA could potentially offset millions of dollars in project costs. For example, such a revised policy could have saved an estimated $17.8 million in project costs for the 30 projects that we reviewed in Mississippi for this report.

Recommendation

We recommend that the Associate Administrator, Office of Response and Recovery:

Recommendation #1:

Review the current policy on when FEMA will participate in program income and (1) determine the best time within the grant cycle to end the program income requirement (project closeout, or FEMA-State Agreement Closeout); and (2) research the viability of placing a lien on or Notice of Federal Interest on properties when FEMA pays to permanently relocate damaged facilities.

Management Comments and OIG Analysis

FEMA concurred with recommendation #1. FEMA said that it will review its procedure to determine the most appropriate time in the program grant cycle to end the program income requirement, namely whether it should end at project closeout, at applicant closeout, or at closure of the FEMA-State Agreement. Also, FEMA will conduct additional research and analyze whether it has authority to utilize such mechanisms as part of the program income requirement, including the imposition of an NFI or similar arrangement, on facilities where no FEMA funds were provided (i.e., abandoned facilities and properties). FEMA will also analyze the legal framework required to implement such actions. Additionally, FEMA will research the statutory and regulatory authorities of other Federal agencies that use NFIs and the feasibility of FEMA using them as part of the Public Assistance Program, including any associated tracking requirements or other costs for implementing such an approach. FEMA expects to complete these actions by February 5, 2015. We have included FEMA's response in its entirety in appendix B of this report.

We concur with FEMA's planned actions. This recommendation will remain open and resolved until FEMA provides supporting documentation that it has completed all planned actions.

Program Income Internal Controls

FEMA did not have effective internal controls to determine when applicants earn program income so that it could use the income to offset permanently relocated facility costs. 44 CFR 13.31(c)(2) and FEMA Permanent Relocation Fact Sheet 9580.102 allow FEMA to use the net proceeds from the sale of damaged property to offset the cost of new property. However, the regulation and policy do not establish any internal controls to assist FEMA in identifying when applicants earn program income. We discussed our concerns with FEMA Public Assistance personnel and asked how FEMA determines whether an applicant receives program income either before or during the closeout process. They informed us that FEMA's closeout process did not contain any procedures designed to identify income generated from damaged property. FEMA officials said that, while they do inspect the old and new sites, the main purpose of the inspections was to determine whether the applicant completed the FEMA-funded relocation project.

We reviewed FEMA Standard Operating Procedure 9570.14 that addresses the Grant Closeout Process. This procedure did not contain any requirement for the reviewer to confirm whether the applicant received any income on vacated real property. Therefore, because FEMA has no tracking or monitoring system to identify program income and FEMA relies on the applicant to inform FEMA of any income it realized on a vacated property, there are no effective controls to determine when applicants earn program income. For example, FEMA did not know that the Gulfport, Mississippi School District (an applicant from Hurricane Katrina) received $50,000 from leasing the Eastward Community Education and Technology property that it vacated when FEMA funded a relocated project for land and ancillary expenses.

Some Federal grant-making agencies use an NFI as a form of lien on property acquired or improved with Federal grant funds. Grantees or subgrantees must file the NFI at the time of acquisition or before construction. The NFI protects the government's interest in the property and the purpose for which the agency awarded the funds. Agencies may also require the deed for such property to include appropriate wording to protect the government's interest. FEMA could use the NFI or a similar legal agreement as an internal control to alert them when program income is derived from vacated damaged facilities.

Conclusion

FEMA does not have internal controls to determine when applicants receive program income so that FEMA can use it to offset permanently relocated facility costs. FEMA officials could not provide any policies and procedures or evidence of internal controls in place that would alert them when applicants earned/generated program income from the sale and/or rental of damaged facilities. Instead, FEMA relied on the applicants to notify them when damaged properties produced program income. In one instance, an applicant received $50,000 of lease income on damaged facilities without FEMA's knowledge before project closeout. However, FEMA was unaware of the program income because it did not have controls in place to track program income.

Recommendation

We recommend that the Associate Administrator, Office of Response and Recovery:

Recommendation #2:

Develop internal controls to ensure that applicants report program income from vacated facilities to offset project costs when FEMA funds the land and/or ancillary facilities to relocate the original facility.

Management Comments and OIG Analysis

FEMA concurred with recommendation #2. FEMA stated that it will disseminate additional guidance emphasizing the program income reporting requirement so that FEMA consistently and properly handles this requirement as part of the existing closeout procedures. FEMA expects to complete this action by October 5, 2015. We have included FEMA's response in its entirety in appendix B of this report.

We concur with FEMA's planned action. This recommendation will remain open and resolved until FEMA provides supporting documentation that it has completed all planned actions.

Appendix A
Objectives, Scope, and Methodology

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 responsibilities to promote economy, efficiency, and effectiveness within the Department.

The objective of the audit was to determine the efficiency and effectiveness of FEMA policies and procedures and internal controls for disaster grant costs associated with permanently relocated facilities. Specifically, we determined whether (1) present policies and procedures effectively address how FEMA should use program income to offset permanent relocation facility costs; and (2) proper internal controls were in place to identify when applicants incurred program income to offset permanently relocated facility costs.

To accomplish our objective, we performed the following:

- Reviewed FEMA policies and procedures on permanent relocation projects and reviewed FEMA guidance, procedures, and practices on program income.
- Interviewed FEMA officials in FEMA Headquarters, FEMA Regions IV and VI as well as FEMA area offices including the Mississippi and Louisiana Recovery Offices, and interviewed Mississippi Emergency Management Agency personnel.
- Obtained data from FEMA offices on permanently relocated projects including land acquisitions, site work, and ancillary costs.
- Evaluated FEMA's tracking and monitoring efforts on facilities that FEMA relocated to new locations.
- Reviewed FEMA's closeout procedures to determine whether it provided specific guidance for potential land sales of vacated properties when FEMA funded either land, site work, or ancillary work at another location.
- Met with county tax assessors to obtain property values and legal documents applicable to vacated properties when FEMA provided funding for land and or ancillary facilities at another location. Appendix C lists property values for vacated/old site properties based on the county tax assessors' assessed values.

Our audit scope included permanently relocated damaged facilities associated with Hurricane Katrina in Louisiana and Mississippi, and Hurricane Ike in Texas.

We conducted this performance audit between June 2012 and August 2013 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

Appendix B
Management Comments to the Draft Report

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

FEMA

FEB 1 2 2014

MEMORANDUM FOR: John V. Kelly
Assistant Inspector General
Office of Emergency Management Oversight
Office of Inspector General

FROM: for David J. Kaufman
Associate Administrator
Office of Policy and Program Analysis

SUBJECT: FEMA's Response to Draft Report for OIG Project 12-140-EMO-FEMA "FEMA Could Realize Millions in Savings by Strengthening Policies and Internal Controls over Grant Funding for Permanently Relocated Damaged Facilities"

Thank you for the opportunity to respond to the Draft Report for OIG Project 12-140-EMO-FEMA "FEMA Could Realize Millions in Savings by Strengthening Policies and Internal Controls Over Grant Funding for Permanently Relocated Damaged Facilities". The Federal Emergency Management Agency (FEMA) appreciated the opportunity to meet with the Department of Homeland Security Office of Inspector General (OIG) to discuss the draft report and FEMA's responses to the recommendations.

Based on these discussions, FEMA acknowledges that the OIG is revising Recommendation #1 to read: *"Review the current policy on when FEMA will participate in project income and 1) determine the best time within the grant cycle to end the program income requirement (project closeout; applicant closeout; or FEMA-State Agreement Closeout); and 2) research the viability of placing a lien on or Notice of Federal Interest (NFI) on properties when FEMA pays to permanently relocate damaged facilities".*

As indicated in the OIG's report, FEMA's current procedure is to reduce Public Assistance (PA) grant funding by the amount of program income received by an applicant that is directly generated by a grant-supported activity, pursuant to 44 CFR 13.25. FEMA applies this requirement during the grant period. Once the grant period has ended, an applicant no longer has the obligation to report program income or reimburse FEMA any income generated by the grant supported activity, including the sale or lease of property. It should be noted that none of the projects listed in Appendix C have had final project closeout at this time. Therefore, if any of the applicants listed in Appendix C generate program income before the grant period ends, FEMA has the ability to reduce the applicant's grant funding as appropriate pursuant to 44 CFR 13.25. This regulation aligns with FEMA's responsibility to ensure sound use of federal funds by reducing assistance when program income occurs while the grant period is open. As FEMA

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agrees with the OIG as to the principles of sound financial stewardship and fiscal reporting practices contained in the Draft Report's recommendations, FEMA concurs with the recommendations to review FEMA's current procedure on program income and issue additional guidance emphasizing the program income requirement.

OIG Recommendation #1: Review the current policy on when FEMA will participate in project income and 1) determine the best time within the grant cycle to end the program income requirement (project closeout; applicant closeout; or FEMA-State Agreement Closeout); and 2) research the viability of placing a lien on or NFI on properties when FEMA pays to permanently relocate damaged facilities.

Response: Concur: FEMA agrees with the OIG that identifying income generated from vacated property and/or facilities following a FEMA funded permanent relocation project is appropriate. FEMA will review its procedure to determine the most appropriate time in the program grant cycle to end the program income requirement, namely whether it should end at project closeout, at applicant closeout, or at closure of the FEMA-State Agreement.

The OIG also recommended that FEMA consider the use of a NFI as a form of lien on property acquired or improved with Federal grant funds, or a similar document, as an internal control to alert FEMA when program income is derived from vacated damaged facilities. The OIG cites an example of a form of lien utilized by the U.S. Department of Health and Human Services (HHS) as part of one of its grant programs. FEMA currently does not have the regulatory authority to use NFIs, such as outlined in the HHS regulations. Further, the circumstances of program income associated with related projects in the FEMA PA Program may differ from the implementation of the HHS grant program, and it is uncertain whether FEMA has the statutory authority to promulgate such regulations.

FEMA will conduct additional research and analyze whether it has authority to utilize such mechanisms as part of the program income requirement, including the imposition of a NFI or similar arrangement, on facilities where no FEMA funds were provided (i.e., abandoned facilities and properties). FEMA will also analyze the legal framework required to implement such actions. Additionally, FEMA will research the statutory and regulatory authorities of other Federal agencies that use NFIs, and the feasibility of their use by FEMA as part of the PA Program, including any associated tracking requirements or other costs for implementing such an approach.

FEMA will conduct this review of the PA Program guidance referenced in our response to OIG Recommendation #2. While the comprehensive PA Program guidance review process is a longer timeframe, the review of this issue regarding FEMA's program income procedure will be complete within 12 months.

FEMA requests that this recommendation remain resolved and open pending the completion of the PA Program guidance review.

Estimated Completion Date (ECD): February 5, 2015

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OIG Recommendation #2: Develop internal controls to ensure that applicants report program income from vacated facilities to offset project costs when FEMA funds the land and/or ancillary facilities to relocate the original facility.

Response: Concur: FEMA will disseminate additional guidance emphasizing the program income reporting requirement so that this requirement is consistently and properly handled as part of the existing closeout procedures. FEMA is currently developing a comprehensive PA guide, which is expected to be completed in approximately 20 months and will include program income guidance. Once complete, it will be provided to the OIG. This guidance will reflect the results of the review referenced above and will clarify when the program income requirement applies, whether it is consistent with FEMA's current policy or reflects any changes to the policy. FEMA recently issued an updated version of the PA Program Management and Grant Closeout Standard Operating Procedure (SOP9570.14, December 2013), which includes the requirement for the completion of the Financial Status Report (SF-425) as part of the grant closeout process, and the SF-425 includes a section on reporting of program income.

FEMA requests that this recommendation remain resolved and open pending the completion of the PA Program guidance review.

Estimated Completion Date (ECD): October 5, 2015

Thank you again for the opportunity to comment on OIG-12-140-EMO-FEMA Draft Report "FEMA Could Realize Millions in Saving by Strengthening Policies and Internal Controls Over Grant Funding for Permanent Relocated Damaged Facilities" and for the work that you and your team have done to better inform us throughout this audit so that we may enhance the program's overall effectiveness . Please direct any questions regarding this response to Gary McKeon, FEMA's GAO/OIG Branch Chief Audit Liaison Office at 202-646-1308.

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Appendix C
Schedule of Disaster Grant Costs for Permanently Relocated Damaged Facilities

Applicant	Ancillary-Site Work Project No.	Ancillary-Site Work Cost (New Site)	Land Project No.	Land Cost (New Site)	Estimated Property Value (Old Site)	*Estimated Savings To FEMA
City of Bay St. Louis (Bay Waveland Garden Center)	11141	$92,640	1107	$69,615	$24,000	$24,000
Bay St. Louis School District	11157	3,536,331	11162	93,172	142,400	142,400
Catholic Diocese of Biloxi (St. Claire/Holy Trinity Schools)	11039	1,060,139	N/A	N/A	3,830,000	1,060,139
Diamondhead Water & Sewer District	11012	3,849,000	N/A	N/A	273,948	273,948
Hancock County (Human Services Building)	11242	773,863	11228	838,554	1,321,425	1,321,425
Hancock County (Government Annex)	11214	708,645	11215	432,251	243,490	243,490
Hancock County School District (Gulfview Elementary)	11056	5,034,825	N/A	N/A	800,000	800,000
Hancock County School District (Murphy Elementary)	11010	4,407,636	N/A	N/A	24,304	24,304
Hancock County Wastewater	11027	287,588	11026	62,352	114,400	114,400
St. Stanislaus College Preparatory	11046	2,899,876	N/A	N/A	9,042,711	2,899,876
City of Biloxi (Community Center/Library/Multi-Use Building)	11199	1,168,270	N/A	N/A	642,804	642,804
City of Biloxi (Lighthouse Park & Visitor Center)	11208	770,975	11205	1,114,165	346,403	346,403

Catholic Charities Housing (Santa Maria de la Mer)	11232	4,165,358	11231	1,309,768	5,934,190	5,475,126
Catholic Diocese of Biloxi (St. Paul/St. Vincent DePaul)	10709	3,738,264	N/A	N/A	443,016	443,016
Catholic Diocese of Biloxi (Mercy Cross School/St. Patrick School)	10714	4,250,426	N/A	N/A	832,500	832,500
D 'Iberville Community Club	11234	821,083	N/A	N/A	15,598	15,598
Gulfport School District (Eastward Community)	11049	555,178	11047	409,360	17,595	17,595
City of Gulfport (Fire Station No. 7)	11227	725,864	N/A	N/A	62,475	62,475
City of Gulfport (Charles Walker Community Center)	11143	1,245,161	11129	1,399,476	712,500	712,500
Harrison County (Gulfport Library)	11226	2,287,103	11224	389,253	637,353	637,353
Harrison County School District (D 'Iberville Middle School)	8861	2,717,912	9049	850,654	123,625	123,625
Long Beach School Superintendent (Harper McCaughan Elementary School)	11051	3,837,253	11054	443,149	583,625	583,625
City of Pass Christian (Police & Emergency Operations)	11236	675,784	11237	109,995	32,965	32,965
Pass Christian Public School District (Pass Christian Elementary School Maintenance Building	10913	145,998	N/A	N/A	26,450	26,450
Pass Christian Public School District (Pass Christian Elementary and Middle Schools)	11009	1,069,212	N/A	N/A	234,028	234,028

Jackson County (Mississippi Department of Corrections)	11272	130,798	N/A	N/A	107,340	107,340
Jackson County School District (School Bus & Maintenance Facility)	11170	480,395	N/A	N/A	34,970	34,970
Jackson County School District (St. Martin Upper Elementary & Middle School)	11148	5,073,007	N/A	N/A	130,430	130,430
University of Southern Mississippi (Maintenance Building.)	11270	282,534	N/A	N/A	481,680	282,534
University of Southern Mississippi (Hopkins Building)	11264	133,737	N/A	N/A	159,940	133,737
TOTALS		**$56,924,855**		**$7,521,764**	**$27,376,165**	**$17,779,056**

Source: FEMA and estimated property values from Hancock, Harrison and Jackson County, Mississippi tax assessors' records.

* The estimated savings to FEMA is the smaller of the land cost for the new site plus ancillary site work compared to the estimated property value of the old site.

Appendix D
Major Contributors to This Report

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Appendix E
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