

May 1992

# SMALL BUSINESS

## SBA Needs to Improve Administrative Practices for Disaster Operations



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RELEASED

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**Resources, Community, and  
Economic Development Division****B-242801****May 7, 1992****The Honorable Dale Bumpers  
Chairman, Committee on Small Business  
United States Senate****Dear Mr. Chairman:**

**This report responds to your request that we examine certain administrative practices used by the Small Business Administration (SBA) in Puerto Rico and the U.S. Virgin Islands following Hurricane Hugo. Shortly after Hugo struck the islands on September 17-18, 1989, SBA established temporary offices in Puerto Rico and on St. Thomas and St. Croix in the U.S. Virgin Islands to help home and business owners obtain disaster assistance loans.**

**Your request cited a number of allegations of improper administrative practices, including inappropriate hiring practices related to temporary employees and the improper reimbursement of employee travel expenses. As a result of these allegations and Committee concerns about the timeliness of disaster assistance, you asked that we specifically determine (1) whether SBA's waiver of an automatic reduction in the amount of per diem paid to temporary SBA employees on temporary duty in the islands was handled properly, (2) whether SBA employees should report, for federal income tax purposes, any per diem received in excess of their actual expenses, (3) whether a legislated 6-month limit on the employment of temporary disaster personnel was complied with, (4) how long it took SBA to obtain disaster assistance loan checks from the Department of the Treasury, and (5) the status of actions SBA proposed to take as a result of its own investigation and evaluation of certain personnel practices that occurred on the islands following the Hugo disaster.**

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**Results in Brief**

**SBA standard operating procedures, which implement Federal Travel Regulations (FTR), state that the per diem paid to temporary SBA employees who work at a single disaster location for more than 90 days should be reduced to 60 percent of the maximum rate unless a higher rate is justified. We found that SBA's justification of the waiver used by Hugo disaster employees did not document that the employees could not obtain lodging and/or meals at reduced costs, in part because SBA did not have information on what the temporary employees had to spend for lodging, meals, and other subsistence items. In addition, during the 11 months that**

the waiver was used, SBA did not review the waiver justification to determine if it should have been adjusted or discontinued. Such a review was not required by SBA's procedures, but SBA subsequently agreed that a review should have been made.

According to the Internal Revenue Service, federal government employees on official business travel, including SBA employees assigned to disaster operations, are not required to report per diem received in excess of their actual travel expenses as taxable income on their federal tax returns.

SBA complied with the provision of the law that limits temporary employees to 6 months of per diem for work on any single disaster declaration. However, to comply with the law, a number of temporary employees were either released or transferred to other disaster areas, even though work remained for them at their original location. According to SBA, these actions caused inefficiencies. That is, the work flow (processing of disaster loans) was disrupted, and the replacement employees had to work overtime to complete the work.

To reduce the time required for SBA to obtain a disaster loan check from the Department of the Treasury, SBA took several actions during the Hurricane Hugo disaster assistance operations. According to SBA officials, these actions reduced the check acquisition process by 3 to 4 days. To further improve the timeliness of the financial assistance it provides to disaster victims, SBA is currently studying the feasibility of requesting check-writing authority from the Treasury.

In investigating employee complaints, SBA identified a number of problems that contributed to improper personnel practices that occurred during the Hugo operation. These problems included an insufficient number of adequately trained employees and the lack of forms and manuals. SBA has completed or is undertaking several actions to correct these problems.

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## Background

During September and October 1989, the United States experienced two of the worst natural disasters in its history—Hurricane Hugo and the Loma Prieta Earthquake in California. Hurricane Hugo was one of the most devastating and costly hurricanes ever to strike the United States and its territories. It struck the U.S. Virgin Islands on September 17, 1989, with winds in excess of 140 miles per hour. After passing directly over St. Croix and Puerto Rico, the storm hit the coast of South Carolina and then continued through North Carolina. About a month later, on October 17,

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1989, the Loma Prieta Earthquake struck northern California. It measured 7.1 on the Richter scale—the strongest earthquake to strike the San Francisco Bay area since 1906.

After Hurricane Hugo and the Loma Prieta Earthquake, federal, state, and local agencies faced extraordinary challenges to provide the services and supplies needed to help those affected by the disasters and to rebuild housing, businesses, and public facilities. Hurricane Hugo caused severe damage to many private facilities, and the public infrastructure was nearly destroyed in some areas. On St. Croix, for example, almost all power and telephone lines were toppled, the water and sewage systems stopped operating, and virtually all means of communications were inoperable. Nevertheless, SBA—the federal government's primary disaster-relief lending agency—was able to begin operations almost immediately after Hugo hit. Ultimately, in fiscal year 1990 SBA approved 17,717 disaster loans (\$270.2 million) for Hurricane Hugo victims in Puerto Rico and the U.S. Virgin Islands. (See app. I for data on SBA's disaster loan activity for fiscal years 1985-91, including a breakout for Hurricane Hugo.)

SBA's Area 1 Disaster Area Office (DAO) in Niagara Falls, New York, is responsible for disaster assistance for U.S. possessions in the Caribbean. When the Hugo disaster occurred, the Area 1 office included 1 permanent employee (the office director) and 15 cadre employees. Cadre employees usually work full time and have benefits similar to those permanent employees have, but they can be placed in a nonduty status if there is insufficient work and/or funds.

After Hugo struck in September 1989, temporary Disaster Field Offices (DFO) were established in Puerto Rico and on the islands of St. Thomas and St. Croix in the Virgin Islands to process disaster loan applications. The few permanent/cadre employees who were sent to the DFOs were supplemented by 450 local hires and about 90 temporary employees who were hired on the mainland and sent to the islands. In addition to earning their salaries, employees who were sent to the islands were paid per diem at rates established in accordance with federal travel regulations—up to \$194 a day. (App. II shows the number of employees assigned to SBA's disaster operations in the islands between Sept. 1989 and Dec. 1991.)

According to data supplied by SBA, employee salary and travel-related expenses for the Hurricane Hugo disaster operations in Puerto Rico and the U.S. Virgin Islands totaled \$23.7 million as of December 7, 1991. (App. III provides a breakout of this total by island and by type of expense.)

## Justification to Waive Per Diem Reduction Was Not Substantiated or Updated

In justifying the waiver of an automatic reduction in per diem, SBA did not document that temporary employees assigned to the same duty location over 90 days could not obtain lodging and/or meals at reduced costs. In addition, during the 11 months the waiver was being used, SBA did not review the waiver justification to determine if the subsistence costs associated with long-term stays in Puerto Rico and/or the U.S. Virgin Islands had changed sufficiently to warrant either discontinuing the waiver or adjusting the per diem rates allowed by the waiver.

Section 301-7.12(b) of the FTR (41 C.F.R. part 301) states that per diem rates should be reduced for travel assignments involving extended periods if the travelers are able to obtain lodging and/or meals at reduced costs. According to paragraph 35.g(2) of SBA's Standard Operating Procedure (SOP) for travel (SOP 20 11 3), which implements the FTR provision, the per diem paid to temporary disaster assistance employees shall be reduced to 60 percent of the maximum per diem allowed after they have been at a single temporary duty location for 90 days, and the per diem paid to permanent/cadre employees may also be reduced. However, the SOP allows for a partial or total waiver of the automatic reduction if higher per diem rates are deemed to be needed and are justified. (App. IV describes the per diem rules in effect for Puerto Rico and the U.S. Virgin Islands during the Hugo operation.)

According to the SBA SOP, (1) the automatic reduction in per diem may be waived only on a case-by-case basis, (2) the higher per diem rate established in the waiver may not exceed the maximum per diem rate, and (3) the waiver must provide justification that the higher rates are necessary. The SOP does not, however, specifically provide for the type or amount of documentation required to justify the higher rate. In addition, the SOP does not state how often, or under what circumstances, the need for the waiver should be reviewed.

During the Hugo disaster, 114 SBA employees on temporary duty in the islands were assigned to a single duty location for more than 90 consecutive days. Seventy-one were temporary employees subject to the automatic reduction in per diem after 90 days. However, since all 71 were allowed to use the waiver, they received the maximum per diem amount allowed by the FTR, which ranged from a low of \$133 per day during the nontourist season in Puerto Rico to a high of \$194 per day during the tourist season in the U.S. Virgin Islands. As a result, the 71 temporary employees received about \$323,000 more than they would have if their per

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diem had been reduced in accordance with SBA's travel SOP. The amounts of additional per diem received ranged from \$310 to \$12,873 per employee.

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## Waiver Justification Was Not Substantiated

All SBA temporary employees working in the islands who were subject to the automatic reduction in per diem used the same waiver. This waiver, approved by the Director of the Area 1 DAO in December 1989, gave three reasons to justify maintaining the maximum per diem rates. First, the cost of lodging reportedly ranged from \$100 to \$120 per day in Puerto Rico and from \$140 to \$180 per day in the Virgin Islands, and lodging was scarce because of the damage caused by the hurricane and the beginning of the busy tourist season. Second, the cost of meals reportedly averaged \$50 to \$80 per day, including three dinners per week in better-quality restaurants and the rest of the meals in lower-quality restaurants. Third, the cost of laundry and dry cleaning reportedly totaled about \$25 to \$30 per week. The waiver justification also states that if the per diem were reduced, employees would have to find lodging farther from the work site and, as a result, fewer employees would be able to carpool. Each additional car rental would reportedly have cost SBA an additional \$700-\$1,000 per month. SBA did not, however, document the costs associated with lodging, meals, laundry and dry cleaning, or the number of additional rental cars needed. (See app. V for a facsimile of the waiver used by Hugo employees.)

When asked what documentation existed to support the costs quoted in the waiver, Area 1 officials, including the Director and Deputy Director, said that none existed. They said the costs quoted in the waiver were arrived at during discussions among the SBA officials in charge of disaster operations on the three islands. No determination was made concerning how much individual employees were actually paying for lodging, meals, and laundry/dry cleaning or how much the hotels and apartments being used by SBA employees were actually charging. The only document provided to us was a copy of a Virgin Islands newsletter that gave room rates for many of the hotels, apartments, and condominiums located in the Virgin Islands for the 1989-90 winter (peak tourist) season. The rates quoted in the newsletter ranged between \$25 and \$650 per day. In reviewing employee travel vouchers, we noted only one receipt for lodging (none were required) from an employee who had paid \$65 per day for lodging in San Juan, Puerto Rico.

SBA headquarters and Disaster Area 1 officials said that it was difficult for employees to obtain lower rates normally associated with long-term stays because (1) it was difficult to find places that would agree to long-term

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stays/rates, (2) many employees did not know how long they would be working at a location, and (3) employees were sometimes told to leave their lodgings when the tourist season began or when the buildings were closed for repairs.

Documentation is an important element of an agency's system of internal controls. The objectives of internal control systems are to reasonably ensure that (1) an agency's obligations and costs comply with applicable law; (2) all agency assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (3) revenues and expenditures applicable to agency operations are recorded and accounted for properly. GAO's Standards for Internal Controls in the Federal Government defines the minimum level of quality acceptable for the internal control systems of federal agencies. One of GAO's specific standards states that all transactions and other significant events are to be clearly documented and that the documentation is to be readily available for examination. As of April 1, 1992, SBA's process for approving waivers of automatic per diem reductions did not meet this standard. However, SBA had drafted a revision to its SOP that would, if issued, require the necessary documentation.

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### Waiver Justification Was Not Updated

Area 1 officials did not review the waiver justification to determine if the costs used to justify the waiver had changed sufficiently to warrant discontinuing or adjusting the waiver. The same waiver was used from the date the first temporary employee completed 90 days at a single location, in December 1989, until the last temporary employee subject to the reduction in per diem departed the islands, in November 1990. Area 1 officials said that they were too busy to review employee subsistence costs to determine whether the waiver used by Hugo operation employees should have been adjusted or rescinded. During that time period, however, the published per diem rates changed several times, the busy tourist season came and went, and the cost of long-term lodging may also have been affected as lodgings damaged by the hurricane were repaired and returned to use. (See app. VI for per diem rates in effect during the Hurricane Hugo operation.)

SBA's instructions covering the use of waivers do not discuss when, or under what circumstances, waivers should be reviewed. However, in August 1991, after our initial inquiries on SBA's waiver procedures, the Acting Assistant Administrator for Disaster Assistance sent the DAO Directors a memorandum stating that waivers should be reviewed when

per diem reimbursement rates change and that waiver justifications must be tailored to circumstances of time and place. That is, separate waiver justifications should have been prepared for each island and should have been reviewed when the per diem rates changed. However, the memorandum did not indicate that waivers should be reassessed when changes, such as the reopening of disaster-damaged facilities, occur that might affect costs associated with long-term assignments.

## Per Diem Amounts That Exceed Employee Costs Are Not Taxable

In a letter to GAO dated January 8, 1992, the Internal Revenue Service (IRS) said that federal government employees on official business travel are not required to report per diem moneys received in excess of their actual subsistence expenses as taxable income on their federal income tax return. According to the IRS,

if any employee of the federal government, while temporarily away from home on official travel status, receives a reimbursement allowance that (1) does not exceed the Federal per diem rate for the particular locality, and (2) is paid only for those days (or portion thereof) the employee is on actual travel status, then the amount of actual expenses incurred by the employee is immaterial. No portion of the reimbursement is to be included in income or reported on Form W-2.

(A copy of the letter from IRS explaining its position appears as app. VII.)

## SBA Transferred or Released Temporary Employees to Comply With Legislative Limitation

SBA complied with section 5(b)(8) of the Small Business Act (P.L. 85-536), as amended, which states that temporary employees shall not be reimbursed for per diem expenses beyond 6 months in connection with any single disaster declaration. To comply, however, SBA found it necessary to either release or transfer some temporary employees to other disaster declarations when work for which they were qualified remained to be done at their current location. SBA released or transferred 29 temporary employees to comply with the law.

- Nine employees were transferred from Puerto Rico to one of the Virgin Islands, or vice versa, when they reached or neared the 6-month limit. Since the President issued separate disaster declarations for Puerto Rico and the U.S. Virgin Islands, these transfers enabled SBA to retain these employees and still comply with the law.
- Five employees were assigned to other disaster offices on the mainland.
- Fifteen employees either resigned or were released as they approached the 6-month limit.

An SBA Disaster Personnel Office official said that these 29 employees resigned or were transferred or released solely because of the 6-month legal limitation and that work for which they were qualified remained to be done. The Disaster Personnel Office Director also said that several of the temporary employees from the continental United States, who were released because of the 6-month limit, were rehired as local employees. This removed the employees from per diem status and thus allowed them to continue working at the same disaster office.

SBA officials believe that the 6-month limit can be useful but, in some instances, the limit inhibits SBA's ability to make the best possible use of employees. According to the Acting Assistant Administrator for Disaster Assistance, it would be beneficial if SBA were able to waive the 6-month limitation for major disasters occurring outside the continental United States. He said that because much of the loan processing for these disasters is performed at the disaster site, SBA sometimes would like to keep employees at the site for more than 6 months. However, because the legislation does not take this into account, employees sometimes must be transferred or released from a location where they are still needed. According to SBA, the work load of the transferred and released Hugo employees had to be assumed by new or different employees, and these replacement employees had to work overtime to perform the same work load, at least until they became familiar with their new jobs.

SBA's Director of Disaster Personnel said that the 6-month limitation encourages a manager to see that required work is performed quickly and provides managers an incentive to train and advance local hires. The Director also said that without the limitation supervisors might try to keep per diem employees working longer at the expense of non-per-diem (local-hire) employees.

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## **SBA Efforts Reduced Time Needed to Obtain Checks From Treasury**

Because key SBA records (e.g., the DFO's check registers) were incomplete, we could not determine the average number of days it took SBA offices in Puerto Rico and the U.S. Virgin Islands to obtain disaster assistance loan checks from the Department of the Treasury. However, according to SBA officials, soon after the Hugo disaster operations got under way, SBA determined that it was taking too long to obtain loan checks from the Department of Treasury. As a result, SBA took actions that, according to headquarters officials, reduced the time from 7 to 10 days when SBA's Hugo disaster assistance operation began to 3 to 7 days after the SBA actions.

One of the actions taken by SBA headquarters was to convince Treasury to switch its check-processing point from San Francisco, California, to Birmingham, Alabama, which was closer and had a faster check-processing time. Other actions included (1) letting SBA's Financial Operations Office in Denver order checks from the Treasury based on a fax-transmitted copy of the check order form rather than waiting for the signed, original copy of the form to be received from the islands through the mail; (2) using expedited mail to deliver the disbursement tapes from SBA to Treasury; and (3) temporarily using an Office of the Comptroller disbursing officer at the disaster site to expedite Treasury schedule certifications.

To further improve its ability to get loan checks to victims quickly, as of March 1992 SBA was studying the feasibility of requesting check-writing authority from the Treasury. SBA officials said that disaster victims often become upset when they are asked to sign a loan note and then are told to wait a week or longer for the first check. The report on this study, including recommendations, is to be presented to the SBA Administrator by the end of fiscal year 1992. (More information on SBA's check-writing study can be found in app. VIII.)

## **Actions Taken to Address Improper Personnel Practices Are Progressing**

Disaster assistance employees assigned to the islands—particularly the temporary employees hired in the U.S. Virgin Islands—made numerous complaints about certain SBA hiring, supervision, promotion, and pay practices that they considered inappropriate. As a result, SBA initiated internal studies, which found that many of the complaints were valid. For example, the SBA studies found, among other things, that (1) SBA had too few cadre staff to properly train and supervise the large number of new temporary employees that were hired, (2) SBA had assigned supervisory responsibilities to employees who had little or no supervisory experience and training, and (3) SBA did not have an adequate supply of up-to-date personnel forms and operating procedures during the Hugo disaster operation.

To address the problems identified in its studies, SBA has undertaken and/or completed the following corrective actions. To increase the number of cadre employees, SBA increased the number of cadre authorized in the DAOS—from 140 to 204 nationwide and from 35 to 49 in the Area 1 office. SBA has also begun hiring cadre employees to fill the authorized positions—Area 1 had 30 cadre on board as of December 31, 1991, versus 15 when Hurricane Hugo struck the islands. To improve the cadre's ability

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to provide adequate leadership and deal with problems resulting from a mix of employees from different cultures, SBA has revised its leadership training course and developed a new training course, and related training materials, on managing cultural diversity. To ensure an adequate supply of personnel forms and operating procedures, SBA has (1) placed enough forms in a climate-controlled storage facility in Puerto Rico to open up and run a disaster operation for several weeks and (2) put together kits that personnel specialists can take to any disaster location. These kits contain a lap top computer with printer, a modem with fax capabilities, and computer disks containing position qualification standards and descriptions and pertinent sections of the Federal Personnel Manual and SBA's Standard Operating Procedures.

SBA officials said that they had not established any target dates for when the remainder of the authorized cadre would be hired or when the training of the staff would be completed. (The major findings, conclusions, and recommendations resulting from these investigations and evaluations are discussed in app. IX.)

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## Conclusions

During the Hugo disaster operation, some of SBA's administrative practices involving hiring, supervision, promotion, and pay were inappropriately handled. SBA recognized these problems and has undertaken/completed a number of corrective actions that, if fully implemented, should prevent and/or alleviate a recurrence of these problems. These actions include hiring additional cadre staff and providing them with necessary equipment and supplies and better training. However, SBA still has one deficiency that needs to be corrected. Specifically, SBA procedures for issuing waivers of the automatic reduction in per diem paid to temporary disaster employees do not include documentation and periodic review requirements.

In addition, because of the Small Business Act's 6-month limit on paying per diem to temporary disaster employees, SBA had to release or transfer some employees to other disaster locations before their work was completed. Since the work load of these employees had to be assumed by new or different employees, the work flow was disrupted and the SBA work force became less efficient, at least until the replacement employees became familiar with their new jobs.

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## Recommendations

We recommend that the SBA Administrator direct the SBA Comptroller to amend SBA's Standard Operating Procedure for travel to (1) require that

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subsistence costs and any other factors used to justify waivers of the automatic reduction in per diem be fully documented and (2) include guidance on when waivers should be reviewed to determine if and when they should be adjusted or discontinued.

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## Matter for Congressional Consideration

If SBA is to optimize its use of temporary employees assisting victims of major disasters outside the continental United States, the Congress may wish to consider amending the Small Business Act to allow the SBA Administrator the discretion to waive, on a case-by-case (person-by-person) basis, the provision that limits to 6 months the length of time per diem can be paid to a temporary disaster employee for any one disaster. Such waiver authority could enhance the federal government's efforts to assist disaster victims by permitting SBA to keep experienced employees at a disaster location when there is an overriding need to do so. Any such legislation should require SBA to develop criteria that would be used to justify such a waiver.

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## Agency Comments

We discussed this report with officials from SBA's Office of Disaster Assistance and Office of the Comptroller, who generally agreed with its findings, conclusions, and recommendations. However, these officials believed that the report should acknowledge the enormity of the task that confronted SBA in the islands and the extreme, adverse conditions under which the SBA employees had to work. For example, even simple amenities such as electricity, drinkable/running water, food, and housing were either inadequate or unavailable.

The SBA officials also provided us with a draft revision to SBA's travel SOP that would require that costs used to justify per diem reduction waivers be documented and reviewed periodically. If SBA were to issue a revision containing these requirements, it would satisfy our recommendation involving per diem reduction waivers.

SBA's comments and suggested revisions have been incorporated where appropriate. However, as agreed with your office, we did not obtain written agency comments.

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We conducted our review between April 1991 and March 1992 in accordance with generally accepted government auditing standards. The information presented in this report was obtained from (1) our review of

pertinent legislation, regulations, and procedures; (2) our analysis of SBA disaster assistance program records; (3) interviews with officials from SBA, the Federal Emergency Management Agency, and the Farmers Home Administration; and (4) an opinion obtained from the Internal Revenue Service. Details of the objectives, scope, and methodology of this review are presented in appendix X.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days after the date of this letter. At that time we will provide copies of the report to the Administrator, SBA, and the Director, Office of Management and Budget. We will also make copies available to others upon request.

This report was prepared under the direction of Judy England-Joseph, Director, Housing and Community Development Issues, who can be reached at (202) 275-5525. Major contributors to this report are listed in appendix XI.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

J. Dexter Peach  
Assistant Comptroller General



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**Abbreviations**

DAO	disaster area office
DFO	disaster field office
FEMA	Federal Emergency Management Agency
FMFIA	Federal Managers' Financial Integrity Act
FmHA	Farmers Home Administration
FTR	Federal Travel Regulation
GAO	General Accounting Office
IRS	Internal Revenue Service
SBA	Small Business Administration
SF	standard form
SOP	Standard Operating Procedure



# SBA Disaster Loan Activity, 1985-91

Dollars in millions

Fiscal year	SBA disaster loans	
	Number	Amount
1991	11,123	\$ 381.1
1990	47,885 <sup>a</sup>	1,240.9 <sup>a</sup>
1989	5,330	146.7
1988	13,463	245.7
1987	10,218	207.7
1986	22,938	517.0
1985	7,789	318.3

Source: Small Business Administration, Office of the Comptroller.

<sup>a</sup>SBA's Office of Disaster Assistance reported that 41,772 loans, valued at over \$1 billion, were approved for victims of the Hurricane Hugo and Loma Prieta Earthquake disasters in fiscal year 1990. Hurricane Hugo victims in Puerto Rico received 12,122 loans amounting to \$115.6 million, and victims in the U.S. Virgin Islands received 5,595 loans valued at \$154.6 million.

# Staffing of Disaster Assistance Operations in Puerto Rico and the U.S. Virgin Islands, September 1989-December 1991

As of date	Number of employees on board*			Total
	Puerto Rico	St. Thomas	St. Croix	
9/15/89	2 (-)	-	-	2
10/15/89	131 (46)	35 (12)	25 (9)	191
11/16/89	259 (47)	87 (22)	63 (11)	409
12/18/89	334 (56)	99 (23)	81 (14)	514
1/15/90	361 (64)	112 (36)	102 (38)	575
2/15/90	369 (67)	128 (44)	98 (41)	595
3/15/90	286 (45)	111 (31)	101 (54)	498
4/16/90	222 (30)	85 (18)	96 (40)	403
5/15/90	143 (18)	71 (19)	90 (32)	304
6/15/90	129 (14)	51 (10)	71 (12)	250
7/16/90	88 (6)	44 (8)	52 (11)	184
8/15/90	72 (5)	34 (5)	43 (3)	149
9/15/90	66 (4)	41 (10)	48 (11)	155
10/15/90	65 (5)	39 (8)	48 (11)	152
11/15/90	32 (2)	11 (4)	11 (2)	54
12/15/90	30 (1)	8 (-)	9 (-)	47
1/15/91	30 (-)	7 (-)	11 (2)	48
2/15/91	28 (-)	7 (-)	7 (-)	42
3/15/91	20 (1)	7 (-)	5 (-)	32
4/15/91	12 (-)	8 (-)	4 (-)	24
5/15/91	11 (-)	-	1 (-)	12
6/15/91	10 (-)	-	1 (-)	11
7/15/91	5 (-)	-	-	5
8/15/91	4 (-)	-	-	4
9/15/91	4 (-)	-	-	4
10/15/91	4 (-)	-	-	4
11/15/91	4 (-)	-	-	4
12/15/91	2 (-)	-	-	2

\*Numbers in parenthesis are the number of employees hired in the continental United States and being paid per diem by SBA.

# SBA Employee Salary and Travel Expenses for Hurricane Hugo Disaster Operations in Puerto Rico and the U.S. Virgin Islands

<b>Expense</b>	<b>Puerto Rico</b>	<b>St. Thomas</b>	<b>St. Croix</b>	<b>Total</b>
Salaries, regular time	\$7,811,011	\$2,763,060	\$2,754,401	\$13,328,472
Salaries, overtime	2,535,036	843,370	833,058	4,261,434
Per diem and transportation	1,979,768	1,307,279	1,718,059	5,005,106
Car rentals	*	*	*	1,126,210
<b>Total</b>	<b>\$12,325,815</b>	<b>\$4,913,679</b>	<b>\$5,355,518</b>	<b>\$23,721,222</b>

\*Cost of car rentals paid for by purchase order was not broken down by island.

The amounts shown as salaries and overtime are for all SBA employees who worked on the disaster program in the islands, including employees hired locally. SBA was unable to provide a breakout of the amounts applicable solely to per diem and/or transportation. The amounts shown as per diem/transportation include amounts reimbursed for gas, parking, taxis, telephone calls to home, car rentals not paid for by purchase order, and air fares both to and from the mainland and between the islands.

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# Per Diem Rules for Puerto Rico and the U.S. Virgin Islands

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The official travel of SBA employees is governed by the general rules applicable to civilian employees of government agencies contained in the Federal Travel Regulation (FTR) (41 C.F.R. part 301) and SBA's Standard Operating Procedure (SOP) for employee travel (SOP 20 11 3). The FTR also prescribes the maximum per diem rate that agencies may reimburse employees on official business travel. Per diem is defined as a locality-based maximum daily limit for the reimbursement of lodging, meals, and incidental subsistence expenses. Lodging expenses include expenses for overnight sleeping facilities and personal use of the room during the daytime, but they exclude expenses for accommodations on common carriers such as airplanes, buses, and trains. Meals expenses include expenses for breakfast, lunch, and dinner, including taxes and service charges, but they exclude expenses for alcoholic beverages and entertainment. Incidental expenses include fees and tips to waiters, waitresses, baggage carriers, bellhops, and hotel maids and the cost of laundering and pressing clothes.

On December 1, 1990, the travel reimbursement procedures applicable to federal employees on temporary duty at noncontinental U.S. locations, such as Puerto Rico and the U.S. Virgin Islands, were changed to a lodging-plus system similar to that used for continental U.S. locations. Under the lodging-plus system, employees are reimbursed for the actual cost of lodging up to a maximum amount set in the FTR, for which the employee must submit a receipt as evidence of the cost. However, during the period before December 1990, when SBA had large numbers of employees in the islands working on the Hugo disaster, employees were reimbursed at a single set rate that covered lodging, meals, and incidental subsistence expenses. Under the single-set-rate system, neither the FTR nor SBA's travel SOP required employees to submit receipts to substantiate their lodging costs.

# Facsimile of SBA's Waiver of Automatic Reduction in Per Diem

## **"Justification to Waive 60% Per Diem Reduction After 90 Days"**

"Subject employee is assigned to temporary travel duty for Hurricane Hugo in Puerto Rico and/or the U.S. Virgin Islands. A waiver of per diem reduction to 60% of the prescribed rate after 90 day stay is warranted in this case for the following reasons:

"1. Available lodging is scarce and expensive. The busy tourist season is picking up at this point after the Hurricane and continues through May 15th. Many rooms are pre-booked and employees are having to move constantly. Many hotels have reduced rooms available due to hurricane damages.

"In Puerto Rico hotel rooms average between \$100 and \$120 per day and are still very difficult to book at this reduced government rate due to pre-bookings by tourists who are paying full rate. Security considerations (personal safety in high crime area) further restrict acceptable alternatives. Travelers are able to obtain short term apartment rentals at premium rates only. There are substantial security deposits for these apartments as well as for electric, water, phone and television services. The availability of such lodging is sporadic and employees are forced to move frequently from place to place, including back into hotels.

"In the Virgin Islands hotel rooms are at a premium and costs are escalating to between \$140 and \$180 per day. A substantial portion of the hotels sustained major damages and rooms are scarce. As the hotel industry is trying to induce tourists back to the islands, they will not hold or guarantee any rooms for government employees. There is a critical shortage of other available housing due to the number of people left homeless from the disaster. All lodging is obtained at premium prices.

"2. Meals and services in these high tourist areas are understandably high priced and average anywhere from \$50 to \$80 per day. This includes breakfast and lunch expense at low to moderate priced restaurants, as well as approximately three dinners per week at better quality restaurants which tend to be very costly. The balance of meals are presumed to be at lower cost restaurants which are still more expensive than their stateside comparatives.

"Laundry and dry cleaning run approximately \$25 to \$30 per week. Again, premium prices are charged for these services in a high rate tourist area.

"3. We are now experiencing difficulty in obtaining additional rental vehicles for employee transportation. We have started car-pooling

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**Appendix V  
Facsimile of SBA's Waiver of Automatic  
Reduction in Per Diem**

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employees who reside in close locations. A reduction in per diem rate for certain temporary employees will effect [sic] this balance and will likely be offset by increased rental car costs to the agency at rates ranging from \$700 to \$1,000 per month per vehicle.

"4. Finally, all employees on these assignments are working long hours under extreme pressure and arduous working conditions. In addition there are cultural and language barriers to contend with. Travelers are incurring very high living expenses in a crowded and high rate tourist area, particularly as we enter into the busy holiday and tourist season. A reduction in the rate would pose a hardship and is therefore hereby waived."

# Per Diem Rates for Puerto Rico and the U.S. Virgin Islands

The per diem rates in effect for employees on temporary duty assignments to SBA disaster assistance offices in Puerto Rico and the U.S. Virgin Islands during SBA's Hurricane Hugo disaster operation were as follows.

<b>Location</b>	<b>Period</b>	<b>Rate</b>
San Juan, Puerto Rico	May 16, 1989, to Dec. 15, 1989	\$133
	Dec. 16, 1989, to May 15, 1990	163
	May 16, 1990, to July 31, 1990	133
	Aug. 1, 1990, to Dec. 14, 1990	150
St. Thomas and St. Croix, U.S. Virgin Islands	May 1, 1989, to Nov. 30, 1989	144
	Dec. 1, 1989, to Feb. 28, 1990	180
	Mar. 1, 1990, to Apr. 30, 1990	194
	May 1, 1990, to Nov. 30, 1990	158

# Letter From Internal Revenue Service Regarding the Reporting of Per Diem as Income

**Internal Revenue Service**

**Department of the Treasury**

Washington, DC 20224

United States General  
Accounting Office  
Resources, Community, and  
Economic Development Division  
Washington, DC 20548

Person to Contact:

Leonard H. Friedman  
Telephone Number:

(202) 566-4486  
Refer Reply to:

CC:IT&A:02 - TR-45-2168-91

Date: **JAN - 8 1992**

Attn: Mr. James R. Yeager  
Assistant Director

Dear Sir or Madam:

This is in reply to your letter of November 13, 1991, addressed to Mr. Jerry Kulasik, Assistant Director, Internal Audit Division, which was forwarded to this office for our consideration and reply.

Your letter concerns employees of the Small Business Administration (SBA) who were sent to the U.S. Virgin Islands and Puerto Rico in September 1989 to provide disaster assistance to the local population. Due to the temporary nature of their assignments these employees received per diem reimbursements for their living expenses.

The per diem received by the SBA employees was established pursuant to the Federal Travel Regulations, 41 C.F.R. 301, and the SBA's Standard Operating Procedure. During the period October 1989 through November 1990 the travel reimbursement rate for the SBA employees ranged from \$133 per day during the non-tourist season in Puerto Rico to \$194 per day during the tourist season in the Virgin Islands.

Allegations have been made that the SBA employees received per diem reimbursements far in excess of their actual expenses, and the propriety of this has been questioned. You ask whether employees of the federal government are required to report such excess amounts on their federal tax returns.

Section 162(a)(2) of the Internal Revenue Code allows a deduction for all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including traveling expenses (including amounts expended for meals and lodging other than amounts which are lavish or extravagant under the circumstances) while away from home in pursuit of a trade or business. Section 1.162-2 of the Income Tax Regulations provides that traveling expenses include travel fares, meals and lodging, and expenses incident to travel.

**Appendix VII  
Letter From Internal Revenue Service  
Regarding the Reporting of Per Diem as  
Income**

Section 274(d) of the Code provides, in part, that no deduction shall be allowed under section 162 for any traveling expense (including meals and lodging while away from home), unless the taxpayer substantiates by adequate records or by sufficient evidence corroborating the taxpayer's own statement (A) the amount of such expense or other item, (B) the time and place of the travel, and (C) the business purpose of the expense. Because the only issue under consideration is the amount of the reimbursement, we assume that conditions (B) and (C) have been met and we shall refrain from addressing those conditions.

Section 1.274-5T(g) of the temporary regulations, in part, grants the Commissioner the authority to prescribe rules relating to reimbursement arrangements or per diem allowances for ordinary and necessary expenses paid or incurred while traveling away from home. Pursuant to this grant of authority, the Commissioner may prescribe rules under which such arrangements or allowances, if in accordance with reasonable business practice, will be regarded (1) as equivalent to substantiation, by adequate records or other sufficient evidence, of the amount of such travel expenses for purposes of section 1.274-5T(c), and (2) as satisfying the requirements of an adequate accounting to the employer of the amount of such travel expenses for purposes of section 1.274-5T(f).

The federal per diem rate is equal to the sum of the federal lodging expense rate and the Federal meal and incidental expense (M&IE) rate for the locality of travel. Each of these rates for a particular locality in the continental United States ("CONUS") is set forth in Appendix A of 41 C.F.R., chapter 301. The rates for a particular nonforeign locality outside the continental United States ("OCONUS"), and for a particular foreign OCONUS locality, is established by the Secretary of Defense and the Secretary of State, respectively.

If an employer pays a per diem allowance in lieu of reimbursing actual expenses for lodging, meal, and incidental expenses incurred or to be incurred by an employee for travel away from home, the amount of the expenses that is deemed substantiated for each calendar day (or portion thereof) is equal to the lesser of the per diem allowance for such day or the amount computed at the federal per diem rate for the locality of travel for such day.

Accordingly, if an employee of the federal government, while temporarily away from home on official travel status, receives a reimbursement allowance that (1) does not exceed the Federal per diem rate for the particular locality, and (2) is paid only for those days (or portion thereof) the employee is on actual travel status, then the amount of actual expenses incurred by the

**Appendix VII  
Letter From Internal Revenue Service  
Regarding the Reporting of Per Diem as  
Income**

employee is immaterial. No portion of the reimbursement is includible in income or reported on Form W-2.

We hope the above information is responsive to your inquiry. If we can be of further assistance in this matter, please do not hesitate to contact Leonard Friedman of my office at (202) 566-4486.

Sincerely yours,

Assistant Chief Counsel  
(Income Tax & Accounting)

By 

Robert A. Berkovsky  
Chief, Branch 2

# Considerations Given by SBA to Requesting Check-Writing Authority

According to the Acting Assistant Administrator for Disaster Assistance and the Acting Counsel for the Area 1 DAO, check-writing authority would help both SBA and the borrowers. They said that if SBA were able to write its own checks, a check could be given to the borrower at the time he/she signs the loan-closing documents. This would eliminate the time and costs associated with ordering the checks and arranging for their delivery to the borrowers. Borrowers would receive the loan check when they signed the loan note and thus would not have to wait for a check ordered from Treasury.

SBA considered requesting check-writing authority for the Puerto Rico and Virgin Islands DFOs during the Hugo disaster assistance operation. However, according to the Director of Financial Management, Office of the Comptroller, this option was rejected because SBA officials believed that the time and expense of establishing a checking-writing operation outweighed the potential benefits; they were also concerned about the internal controls that would be needed. The time and expense factors include ordering/purchasing equipment and supplies, hiring/training personnel, and developing check-writing rules and procedures.

When we completed our audit work in March 1992, SBA's Disaster Assistance Division's Operations Office was directing a study to determine the feasibility of acquiring check-writing authority for disaster operations. The results of this study, along with recommendations, are to be presented to the SBA Administrator by the end of fiscal year 1992.

The federal government has two other agencies with major disaster assistance programs, the Federal Emergency Management Agency (FEMA) and the Farmers Home Administration (FmHA). FmHA does not have check-writing authority, but FEMA does. FEMA obtained check-writing authority for its temporary housing program from the Department of the Treasury in July 1987. In September 1991 FEMA's Deputy Accounting Officer, Office of the Comptroller, said that FEMA had written about 210,000 checks without any fraud or abuse problems.

# SBA Investigations and Evaluations of Personnel Practices Relating to the Hurricane Hugo Disaster Operation

We identified five internal SBA investigations and evaluations that addressed SBA personnel practices in the islands. The Deputy Regional Administrator of SBA's Chicago Regional Office performed a management review of the entire Hurricane Hugo operation in the islands, SBA personnel performed three interrelated investigations of employee complaints, and personnel from all four Disaster Area Offices were asked to participate in a self-evaluation/critique of the Hurricane Hugo and Loma Prieta Earthquake disaster operations.

Following is a brief description of each of the SBA studies, including a summary of the studies' findings and recommendations that pertain to SBA personnel practices. The descriptions are followed by a discussion of the corrective actions that SBA has taken and plans to take.

## Management Review of SBA's Disaster Operation in the Islands

The Deputy Regional Administrator's report, submitted to SBA on March 5, 1990, addressed SBA's overall response to the Hurricane Hugo disaster in the islands, a portion of which involved SBA's personnel practices. The report's overall conclusion was that the cadre concept of servicing disasters held up well. However, difficulties arose because the disaster operation was not staffed adequately and standardization of practices had not proceeded far enough to permit easy shifting of personnel between DAOS. The report's major personnel-related findings and recommendations were as follows.

**1. Finding:** SBA had an insufficient number of trained cadre staff in its field offices to adequately support two major disaster operations (Hurricane Hugo and the Loma Prieta Earthquake). As a result, more hiring occurred than necessary to make up for the lack of readily available cadre.

**Recommendation:** Cadre staffing, training, experience, and cross-training must be high at all times.

**2. Finding:** In Puerto Rico and the Virgin Islands, there was a need for someone capable of establishing two full-service disaster operations simultaneously. The cadre available had experience with disaster operations, but not at the level needed to respond to this large operation.

**Recommendation:** Redefine the role of the Deputy Area Director.

**3.Finding:** In setting up the disaster operations in Puerto Rico and the Virgin Islands, supervisory cadre had to rely on nonsupervisory staff to supervise and organize the disaster operations.

**Recommendation:** Develop an operations manual that can be used as a guide for the least experienced cadre member.

**4.Finding:** In Puerto Rico and the Virgin Islands, materials needed to train local hires and other noncadre personnel were assembled locally.

**Recommendation:** Develop a training manual for use in training noncadre personnel.

**5.Finding:** Equipment and supplies stored in Puerto Rico following the previous disaster operation were not usable. Supplies were found ruined, forms were obsolete, and the equipment was inadequate.

**Recommendation:** Make arrangements to provide adequate storage facilities for equipment and supplies.

**6.Finding:** Computer systems, data input forms, and loss verification forms used by employees brought in from other disaster area offices differed, causing problems. With the interchange of staff between area offices, basic to the cadre concept, there is a need for standardization.

**Recommendation:** Standardize practices, forms, and computer systems used by the four disaster area offices.

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## **Investigations of Employee Complaints in the U.S. Virgin Islands**

Complaints made by SBA disaster employees in the U.S. Virgin Islands were investigated by (1) the Area Counsel from the Area 2 DAO (Atlanta), (2) a team of two personnel specialists (one from the Area 4 DAO and the other from SBA headquarters), and (3) a personnel specialist from SBA's Office of Disaster Personnel. The personnel specialist from the Office of Disaster Personnel prepared a draft synopsis entitled Personnel Issues in the Virgin Islands, dated August 16, 1990. However, no final report was ever issued.

In reporting on the initial investigation, the DAO 2 Area Counsel concluded that communication between management and employees needed to be improved and that there appeared to be a growing rift between employees from the islands and those from the mainland. He also reported that employees regularly asserted that no one explained very much about SBA's

grading procedure. Therefore, he suggested that SBA review the Standard Form (SF) 171s (Application for Federal Employment) of employees who so requested and, after review, take appropriate action where indicated.

Next, SBA sent a two-person personnel review team to gather information and examine personnel issues raised by the Virgin Island employees. Between April 21 and April 28, 1990, the team conducted 64 confidential employee interviews, of which about 75 percent were with local hires and 25 percent with mainland hires. The primary issues perceived by the employees were

- promotions for local hires;
- lack of consistency in applying Office of Personnel Management job qualification standards;
- disparate hiring practices for local and mainland hires;
- inconsistency in applying employee attendance and conduct standards;
- payroll problems; and
- lack of, or inconsistencies in, personnel information.

On the basis of information obtained during the 63 interviews, on May 14, 1990, a personnel management specialist was sent from SBA headquarters to the Virgin Islands for 2 months to clarify, resolve, or alleviate those personnel issues that might be having an effect on productivity and morale. The personnel specialist reported that the first three issues were related. While some of the local hires felt there had been an inconsistent application of the qualification standards, resulting in the mainland hires being brought in at higher grade levels, others merely felt that they should have been hired at a higher grade level and had requested an additional review of their qualifications.

The personnel specialist concluded that there had been differences in how the grade level of new hires was determined. The qualifications of employees hired through a National Hire Program, run out of SBA headquarters, were accepted at face value. On the other hand, the skill levels of the locals were scrutinized, and apparently only the locals had to provide work samples. Those employees who felt they met the qualification requirements for a higher graded position were asked to complete a new SF 171 providing more detailed information on their qualifications. In some cases, it became evident that the employee met the qualifications requirements for the higher graded position but had failed to provide sufficient information on the first SF 171. On the basis of satisfactory performance and supervisory recommendation, most of these

employees were promoted. Employees who did not meet the qualification requirements for promotion were provided an explanation.

The specialist also reported that some supervisors had been more lenient than others in applying employee attendance and conduct standards, causing some employees great concern. As a result, the specialist held discussions with the supervisors to stress the need for consistency throughout the office. The supervisors then met with their employees to ensure that all employees understood that SBA's written standards would apply to all future situations.

According to the specialist, there were three major causes for the payroll problems: the use of regular, first-class mail for paychecks; direct deposits made to banks without electronic transfer capabilities; and the lack of local electronic time and attendance transmission capability. Actions were taken to address each of these problems.

The causes for the lack of, or inconsistencies in, personnel information were determined to be three-fold: the initial decision that one personnel specialist would be able to service both Puerto Rico and the U.S. Virgin Islands; a lack of available personnel specialists agencywide when it was determined that more than one was required; and the supervisors' and managers' limited knowledge of personnel laws and regulations. To address this problem for future disasters, the Office of Disaster Personnel has added a second personnel specialist to its staff whose primary function will be to respond to situations where a personnel specialist is needed on-site for extended periods of time. In addition, the Office of Disaster Assistance and Office of Disaster Personnel undertook a review of their supervisory training programs.

On the basis of his reviews, the specialist concluded that the primary problems identified dealt with communication. That is, the new employees had less knowledge of SBA's processes and procedures than expected and SBA did not ensure that all employees adequately understood them. The draft report said that SBA would address this problem by developing a job applicant information package and a briefing book for temporary disaster assistance employees that would explain the full range of SBA's personnel program.

## Self-Evaluation of SBA's Response to Hurricane Hugo and the Loma Prieta Earthquake

On August 21, 1990, the Acting Assistant Administrator for Disaster Assistance sent a memorandum to all Disaster Area Office directors and all disaster assistance employees announcing that a self-evaluation of SBA's response to the Hurricane Hugo and the Loma Prieta Earthquake was being undertaken. The Deputy Area Director for Area 4 DAO was given responsibility for taking the information provided by all the DAOs and preparing the final report.

The self-evaluation focused on SBA's delivery of assistance to the disaster victims. However, according to the May 21, 1991, memorandum that transmitted the final report on the self-evaluation, inadequate cadre staffing had a very significant impact on most of the important issues raised in the report. The report concluded that the level of cadre staff had proved to be too small to train and supervise the hundreds of newly hired temporary employees that were required. As a result, work quality suffered in all departments and DAOs, and program delivery time suffered greatly. The major personnel-related issues discussed in this report, including the report's recommendations, follow.

**1. Issue:** Inadequate cadre staffing. The cadre plus all of the experienced temporary employees then on board were not enough to accomplish SBA's mission during the Hugo/Loma Prieta disasters. SBA was "using newly hired temporary employees in lead or supervisory capacities, and almost all regular production case work was performed by newly hired temps who were minimally trained and supervised."

**Recommendation:** The number of cadre positions available should be doubled.

**2. Issue:** Depletion of cadre staff in one DAO to cover inadequate staffing levels of another DAO. When Hurricane Hugo hit, most of the Area 4 cadre were reassigned to Area 1; some were assigned to Area 2. A month later when the earthquake hit, Area 2 immediately released all the Area 4 employees, but Area 1 retained its Area 4 employees because it was understaffed. As a result, Area 4 staffing was insufficient to do what staff otherwise would have been capable of doing.

**Recommendation:** SBA establish a policy that cadre positions never be allowed to remain vacant for extended periods of time and that out-of-Area employees be automatically rotated every 90 days unless otherwise agreed upon by the area office from which they came.

**3. Issue: Long-term overtime.** The need for significant overtime immediately following a major disaster is recognized. However, long-term overtime becomes counterproductive and employees tend to be less effective as a result of fatigue. Increased use of sick leave, low morale, and increased personnel turnover are other commonly reported results of insufficient staff and excessive overtime.

**Recommendation:** Increase cadre staff and avoid issuing premature staff reduction requirements to the field offices.

**4. Issue: Inadequate cadre leadership development program.** New and experienced cadre members alike were thrust into supervisory and management roles on the basis of emergency need rather than employee preparedness. Most were well-trained, excellent performers in their normal roles as technical or clerical staff. However, it soon became evident that many of the cadre employees had little or no previous experience in providing training, nor did they have adequate training or knowledge in basic supervisory and leadership skills. As a result, when they were used as trainers/supervisors, program delivery and quality of work suffered greatly.

**Recommendation:** SBA establish and fund an aggressive cadre development program that would identify and develop cadre members who could be used interchangeably between area offices (when necessary) in key management positions, such as department head, administrative officer, and personnel specialist. Another purpose would be to promote better consistency between area offices, i.e., uniform approaches to disaster assistance delivery nationwide.

**5. Issue: SBA's primary disaster lending manual was outdated, making training difficult.** Because the last major update of the manual (SOP 50 30 2) was in 1984, trainers had to prepare training materials that incorporated 7 years of numbered memorandums, SBA notices, internal memorandums, and telephone instructions.

**Recommendation:** SBA complete its update of the manual and distribute revisions to the field as they occur.

**6. Issue: The personnel function was adversely affected by insufficient cadre staff.** When Hugo struck, the personnel staffs of the DAOS were mostly reduced to one personnel specialist and a clerk. Area 1's personnel specialist was inexperienced, having been hired several weeks before

Hugo struck. When a large disaster occurs, at least two experienced personnel specialists are needed to deal with ongoing work and the immediate problem of hiring new employees.

Recommendation: Each DAO should be assigned two personnel specialists and one clerk.

7.Issue: The legal function was adversely affected by insufficient cadre staff. When Hugo struck, Area 1's legal staff was too small to provide any meaningful contribution to legal operations in Puerto Rico and the Virgin Islands. In the early stages of the Hugo effort, the only legal section able to help was Area 4's, and this was done at great sacrifice to that area's own operations. For months, the most qualified person available to organize and run legal operations in the Virgin Islands was a paralegal from Area 4.

Recommendation: The core staff of the legal departments in the four DAOS should be maintained at the level necessary to provide continuity when one or two employees resign.

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## Status of Actions Being Taken to Correct Deficiencies Noted in the Studies

The SBA-initiated investigations and evaluations attributed the personnel-related problems primarily to the lack of a sufficient number of trained cadre employees and an inadequate supply of up-to-date personnel forms and manuals. Following is a description of SBA's actions to correct these deficiencies.

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### SBA Efforts to Increase Number of Cadre Employees

The SBA studies concluded that there were too few cadre staff to (1) properly train and supervise the large number of new temporary hires; (2) perform complex work requiring experienced staff; and (3) perform personnel work, such as hiring and grading new employees. As a result, program delivery and quality of work suffered greatly during Hurricane Hugo operations. To address this deficiency, SBA has increased the number of cadre authorized and has begun hiring new employees.

When Hurricane Hugo struck Puerto Rico and the U.S. Virgin Islands in September 1989, the Area 1 office was authorized 35 cadre but had only 15 on board because the office was preparing to move from Fairlawn, New Jersey, to Niagara Falls, New York, and paying moving expenses for new employees was not considered efficient. In addition, SBA officials said that a larger number of cadre had not been needed since there had been no large disasters in Area 1 in recent years.

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**Appendix IX  
SBA Investigations and Evaluations of  
Personnel Practices Relating to the  
Hurricane Hugo Disaster Operation**

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In February 1990 the Deputy Assistant Administrator for Disaster Assistance requested that the nationwide ceiling for disaster cadre be increased from 140 to 204. The justification for the increase stated that the cadre is the core group looked to for (1) hiring and training new temporary employees, reviewing their work, and ensuring that appropriate administrative procedures and internal controls are observed and (2) processing the large and complex loan cases. The justification also stated that 64 additional cadre would have made a substantial difference in the quality and speed of SBA's response to the Hurricane Hugo disaster, as well as to other disasters. On June 14, 1990, SBA increased the nationwide ceiling for disaster assistance cadre staffing from 140 to 204 and the Area 1 office ceiling from 35 to 49.

The number of cadre actually employed by Area 1 increased from 7 to 30 during calendar year 1991. According to the Area 1 Director, the 19 unfilled cadre staff positions will be filled as soon as enough qualified individuals are identified to announce the positions.

SBA officials said that they had not established any target dates for when the remainder of the authorized cadre would be hired or when the training of the staff would be completed. In addition, the Area 1 Director said that it takes about 4 to 5 years of job experience and training to produce highly qualified cadre.

To remedy the lack of personnel specialists available to accomplish start-up and ongoing recruitment and other personnel operations, SBA has added a second personnel specialist to its headquarters staff. This individual will be available to go to the site of any major disaster, such as Hugo, to help the area office hire temporary employees.

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**SBA Efforts to Improve  
Disaster Employee  
Training**

SBA has revised or developed new training courses and materials to address problems identified in the investigations and evaluations of the Hugo disaster assistance operation, and employees are beginning to attend these new/revised courses.

The SBA investigations/evaluations concluded that many of the problems identified with the Hurricane Hugo disaster operation arose because new employees were trained/supervised by inadequately trained personnel and because employees from different cultures had problems communicating with each other.

SBA began giving a revised, week-long leadership training course in August 1990. This course addresses decision-making and interpersonal relations skills. SBA plans to give this course to 60 employees in fiscal year 1992, including all cadre who had not taken the old course.

As of September 1991 SBA's Disaster Personnel Office was in the process of developing a program to train all employees to work successfully with locally hired personnel whose cultures differ from those of employees from the mainland United States. One part of this training involves the presentation of a series of video tapes intended to help employees manage cultural diversity. In fiscal year 1992 a personnel specialist from SBA headquarters will instruct personnel from each DAO how to teach this course. A second part of this training involves the development of written materials intended to aid mainland employees in understanding and working more productively with people of different cultures, with separate documents being prepared for each culture (e.g., Puerto Rico, Virgin Islands, and American Samoa). SBA's Disaster Personnel Office plans to complete these materials by October 1, 1992.

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### **SBA Efforts to Ensure Adequate Supply of Forms and Manuals**

SBA's studies found that the lack of up-to-date forms and operating procedures, including the basic lending SOP, caused incorrect or insufficient personnel information to be available and inefficiencies in determining proper operating procedures. SBA has completed most of the actions recommended to ensure an adequate supply of personnel forms and instructions.

The Area 1 Director said that as of May 1, 1991, enough forms were stored in a climate-controlled storage facility in Puerto Rico to open up and run a disaster operation for several weeks. A kit has also been developed so that personnel specialists going to any disaster location will have a computer and software containing all the personnel instructions (e.g., job qualification standards, position descriptions, and pertinent sections of the Federal Personnel Manual and SBA's Standard Operating Procedures) needed to immediately begin hiring new employees and perform other personnel-related duties. In addition, a manual has been developed for all temporary disaster employees that covers many of the personnel issues that were the source of confusion and ill will during the Hugo disaster assistance operation in Puerto Rico and the U.S. Virgin Islands (i.e., SBA's policies on hiring, promotions, leave, and supervision).

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**Appendix IX  
SBA Investigations and Evaluations of  
Personnel Practices Relating to the  
Hurricane Hugo Disaster Operation**

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As of March 1992 SBA had not revised its SOP on Operations as recommended. The last major update to this SOP, which is used in many phases of loan-making operations, was in 1984. The studies of SBA's Hurricane Hugo operations found that using this manual, with its many revisions, was time consuming and made training difficult. The Assistant Administrator for Disaster Assistance said that corrections to the manual are needed, but because of work on other higher priority areas, staff has not been available to update it.

# Objectives, Scope, and Methodology

A letter from the Chairman, Senate Committee on Small Business, asked GAO to examine allegations that he had received concerning several Small Business Administration personnel practices. These allegations pertained specifically to SBA employees assigned to SBA's disaster operations in Puerto Rico and the U.S. Virgin Islands following Hurricane Hugo. On the basis of that letter and subsequent discussions with the Chairman's office, our specific review objectives were to determine

- whether SBA's waiver of an automatic reduction in the amount of per diem paid to SBA employees on temporary duty in the islands was handled properly;
- whether SBA employees should report, for federal income tax purposes, any per diem received in excess of their actual expenses;
- whether a legislated 6-month limit on the employment of temporary disaster personnel was complied with;
- how many days it took SBA to obtain disaster assistance loan checks from the Department of the Treasury; and
- the status of actions SBA had proposed to take to address certain deficient personnel practices, including inconsistencies in the hiring, promotion, and supervision of temporary employees.

To determine whether the waiver of the automatic reduction in per diem was handled properly, we (1) obtained and examined laws, regulations, and agency procedures and documents relating to the waiver and (2) interviewed appropriate SBA officials. To determine whether SBA employees on temporary duty should have reported to the IRS any excess income resulting from per diem reimbursements, we examined applicable laws and tax cases and requested an IRS opinion.

To determine whether SBA complied with the 6-month limit on the employment of temporary personnel, we (1) examined applicable laws, regulations, and agency procedures, (2) obtained and examined relevant agency records, (3) researched congressional intent regarding the applicable legislation, and (4) interviewed SBA officials for their views on the legislative limit.

To determine the status of actions being taken by SBA to correct personnel practices which it had determined to be deficient, we (1) obtained and examined relevant agency documents and (2) interviewed appropriate agency officials.

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**Appendix X  
Objectives, Scope, and Methodology**

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**We attempted to determine the number of days it took SBA to obtain disaster assistance loan checks from the Treasury by obtaining and examining data from SBA's disaster loan records. However, we determined that SBA's check registers and other pertinent records did not include sufficient data for us to make a reliable determination. Therefore, your office agreed that we would obtain these data by interviewing appropriate agency officials.**

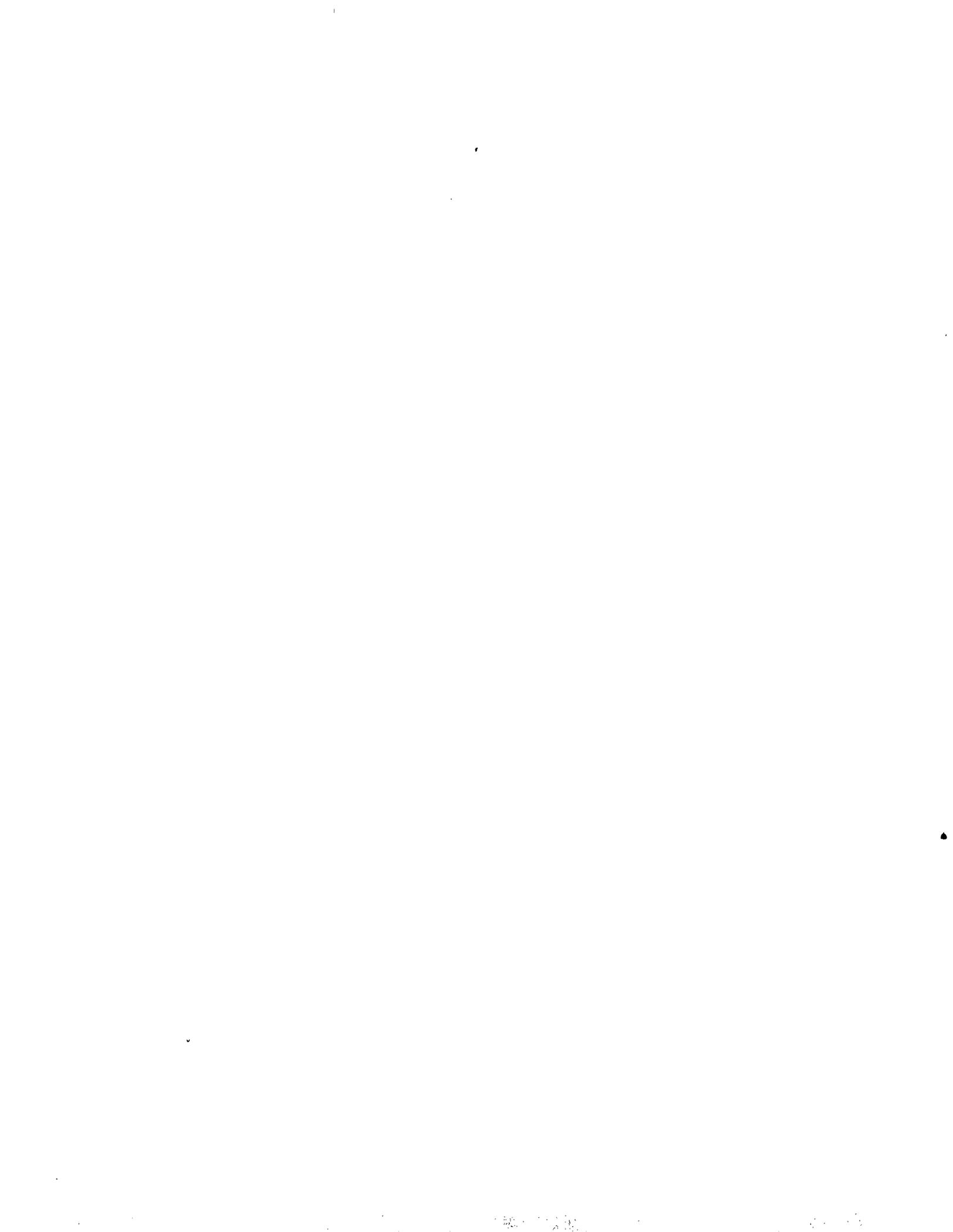
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# Major Contributors to This Report

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Leigh E. Cowing, Evaluator-in-Charge  
Larkin K. Jennings, Staff Evaluator



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**Ordering Information**

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