U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20416

AUDIT RELATED MEMORANDUM

Issue Date:
January 30, 1997

Number: 7-6-H-007-005

TO: Robert J. Moffitt
Associate Administrator
Office of Surety Guarantees

Peter L. McClintock

FROM: Peter L. McClintock
Assistant Inspector General for Auditing

SUBJECT: SBA Form 994, "Application for Surety Bond Guarantee Assistance"

We are currently auditing Fidelity and Deposit Company of Maryland (F&D), a participant in SBA's Preferred Surety Bond guarantee program. During the audit, we found a need for further guidance to the preferred sureties on the submission of SBA Form 994, "Application for Surety Bond Guarantee Assistance." SBA Standard Operating Procedure 50-45 states that an application for an SBA-guaranteed bond is made by the applicant to a surety on SBA Form 994. SBA uses the information contained in the Form 994 (i.e., type of business, affiliates, gross receipts, anticipated project start date, subcontractors, previous SBA bonds, SBA debts, payments to surety, certification of data, and so forth) to determine whether to approve the surety bond guarantee application.

We noted that, since March 1996, F&D has not required contractors to complete the SBA Form 994 in its entirety for SBA bond guarantee. An F&D official stated that, for the initial bond, the only information required on Form 994 was the certification by the contractor and the amount of subcontracting. He also informed us that F&D had been advised that other preferred sureties were not completing any portion of Form 994. F&D's view was based on a memorandum, dated March 1, 1996, from the Associate Administrator, Office of Surety Guarantees (AA/OSG), which stated ". . . the surety must obtain with the initial request, Form 994 with only the certification portions completed and signed by the contractor. An alternative means can be used on subsequent requests; however, each separate bond application must be documented with the amount of work that will be subcontracted. . . ." On November 20, 1996, you informed us that a

completed Form 994 should be submitted for the initial bond and an alternative means can be used by the sureties for subsequent applications.

RECOMMENDATION

We recommend that the Associate Administrator, Office of Surety Guarantees, provide clarification to preferred sureties that SBA Form 994 should be completed in its entirety for the initial surety bond guarantees and if an alternative form is used for subsequent applications, it should require similar information and certification as the SBA Form 994.

SBA MANAGEMENT'S RESPONSE

The AA/OSG agreed with our finding and recommendation and on January 27, 1997, provided clarification to preferred sureties. The AA/OSG letter to preferred sureties is included as Attachment 1.

EVALUATION OF SBA MANAGEMENT'S RESPONSE

The action taken by the AA/OSG was responsive to our recommendation.

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The finding included in this report is the conclusion of the Office of Inspector General's Auditing Division based on testing of the auditee's operation. **The finding and recommendation are subject to review, management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please sign the attached SBA Form 1824, Recommendation Action Sheet. Should you or your staff have any questions, please contact Victor R. Ruiz, Director, Headquarters Operations, at (202) 205-7204.

Attachments

ATTACHMENT 1

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: January 27,1997

TO: Preferred Surety Bond (PSB) Companies

FROM: Robert J. Moffitt
Associate Administrator
Office of Surety Guarantees

SUBJ: Guidance on Regulations and Policy for the PSB Program

I have been advised by the Officer of Inspector General's Auditing Division that there is some confusion concerning what information and documentation should be collected from Principals applying for Surety Bonds under the SBA PSB Program.

The following policy guidance is provided and replaces previous guidance:

SBA Form 994 "Application for Surety Bond Guarantee Assistance". PSB Sureties should ensure that this form is completed by the Principal and the Surety in its entirely for initial surety bond guarantees. In subsequent applications from the same Principal, an alternative form may be used but it must require the same information and certifications as the SBA Form 994. It is noted that at least one PSB Surety has determined that it is easier to just use the SBA Form 994 for all bond applications. Such forms need not be submitted to SBA but must be kept on file for the term of each bond plus any additional time required to settle any claims of the Surety for reimbursement from SBA and to attempt salvage or other recovery, plus an additional three years. Please refer to 13 CFR 115.21(b) for the requirements for the maintenance of records.

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