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Report to Congressional Committees

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SMALL BUSINESS

Information on Participation in SBA's Bonding Activities

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Resources, Community, and
Economic Development Division

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March 24, 1994

The Honorable Dale L. Bumpers
Chairman
The Honorable Larry Pressler
Ranking Minority Member
Committee on Small Business
United States Senate

The Honorable John J. LaFalce
Chairman
The Honorable Jan Meyers
Ranking Minority Member
Committee on Small Business
House of Representatives

The Small Business Administration's (SBA) Preferred Surety Bond Guarantee (PSB) Program allows approved insurance companies to issue SBA-guaranteed surety bonds without SBA's prior approval of individual bonds. Surety bonds ensure that a contract will be completed, and suppliers and workers paid, should the contractor fail to perform the contract. The program is designed to encourage large insurance companies (commonly referred to as standard sureties) to issue SBA-guaranteed bonds and in turn increase the access to surety bonds by small businesses owned and operated by minorities and other disadvantaged individuals. SBA also guarantees bonds under the Surety Bond Guarantee (SBG) Program, established in 1971, which requires SBA's approval of the bonds before issuance.

The Congress initially authorized the PSB program as a pilot in 1988 and extended this authorization in 1990 until September 30, 1994. The 1990 legislation required GAO to report on whether, during fiscal years 1991 through 1993, the PSB program (1) increased standard sureties' participation in SBA's bonding activities (which occurs under both the PSB and SBG programs) and (2) expanded minority-owned businesses' access to SBA-guaranteed bonds. In addressing the first issue, we also agreed to provide information on SBA's losses on guaranteed bonds, the types of entities (e.g., federal, state, and local governments) requiring the bonds, and the number of bonds and value of contracts guaranteed by SBA, along with the regional distribution of these bonds.

Results in Brief

The PSB program has increased standard sureties' participation in SBA's bonding activities. During fiscal years 1991 through 1993, standard sureties in the PSB program accounted for about 9 percent of the bonds and 13 percent of the contract dollars guaranteed by SBA. By comparison, during fiscal years 1987 through 1989, standard sureties accounted for less than 1 percent of the bonds and the contract dollars guaranteed. In total, SBA guaranteed bonds on contracts valued at $3.1 billion during fiscal years 1991 through 1993, with the PSB program accounting for $391 million of these contract dollars.

Three standard sureties, two of which are affiliated companies, issued 85 percent of the bonds guaranteed under the PSB program. One of these three companies accounted for 65 percent of the bonds guaranteed. However, half of the 14 standard sureties approved for the program as of March 1994 received approval during 1993, suggesting a broadening of interest in the program.

The impact on minority firms is unclear. Firms designated as minority-owned accounted for 18 percent of all SBA-guaranteed bonds issued during fiscal years 1991 through 1993, compared to 15 percent during fiscal years 1987 through 1989. However, the large number of firms whose minority or nonminority status is unknown, particularly in the 1987 through 1989 period, creates uncertainty about what the true extent of minority firms' participation has been and whether such participation has increased.

Background

Bonding is a three-party agreement whereby the surety guarantees the owner or agency issuing a contract that the contractor or subcontractor will perform the contract. There are three types of surety bonds—bid, performance, and payment. A bid bond ensures that the bidder will not withdraw its bid within the time period specified for acceptance and, if its bid is accepted, will enter into a written contract and will furnish any additional bonds required. A performance bond ensures that if the contractor or subcontractor does not complete the work, the surety will either pay to complete it or pay up to 100 percent of the penal amount of the contract. A payment bond guarantees that subcontractors, suppliers, and employees will be paid for the work performed and/or materials provided under a contract.

Most surety bonds apply to construction contracts. Federal law requires performance and payment bonds on federal construction contracts over

$25,000. Most states and many local governments also require contractors to obtain bonding. Contractors may, in turn, require firms they subcontract with to obtain bonding. According to 1987 census data (the latest available), minority-owned firms constitute about 7 percent of all firms in the construction industry.

Under the PSB and SBG programs,[1] SBA, by guaranteeing part of the bond, assumes a portion of the surety's liability in the event the contractor or subcontractor defaults on the contract. Under both programs, SBA guarantees bonds for construction and other contracts of up to $1.25 million. Under the PSB program, SBA can guarantee up to 70 percent of the loss on contracts. Under the SBG program, SBA can guarantee up to 80 percent of the loss. However, under the SBG program, the guarantee can be up to 90 percent of the loss on contracts (1) with a value of $100,000 or less or (2) awarded to small businesses owned and controlled by socially and economically disadvantaged individuals.

Initially, most of the surety bonds guaranteed by SBA were underwritten and issued by standard sureties. Standard sureties also handle most of the bonds not guaranteed by SBA and provide other services such as property and casualty insurance. There are also specialty sureties, which devote most of their business to SBA-guaranteed bonds, but also issue bonds outside SBA's program to smaller firms.

In the mid-1980s, SBA faced two problems. First, standard sureties were leaving the SBG program because, among other things, they were required to submit each bond application to SBA for review and approval. Second, small businesses, especially those owned and operated by minorities, reported difficulty in obtaining surety bonds. To encourage standard sureties to again issue SBA-guaranteed bonds and, at the same time, expand the opportunities for minority-owned businesses to obtain these bonds, the Congress passed the Small Business Administration Reauthorization and Amendments Act of 1988, establishing the PSB program on a pilot basis. The PSB program differs from the SBG program in that under this pilot, standard sureties whose surety bond underwriting, administration, and claims procedures are approved by SBA are allowed to issue, monitor, and service guaranteed surety bonds without SBA's prior approval. (See app. I for additional details on the PSB program's requirements.)

[1]Within the surety industry, the SBG program is commonly referred to as the "prior approval" program, while the PSB program, being SBA's second bond program, is often referred to as the "plan B" program.

The 1988 legislation establishing the PSB program also required GAO to report to the Congress on the program's progress. Because the first bonds were not guaranteed under the PSB program until fiscal year 1991, our 1991 report[2] discussed the status of the program and provided information on SBA's surety bonding activities under the SBG program for fiscal years 1987 through 1989, which could be used as baseline data for future analyses. In November 1990, the Congress passed the Small Business Administration Reauthorization and Amendments Act of 1990, extending the PSB program until September 30, 1994, and mandating GAO to report on it.

Standard Sureties' Participation Has Increased

Standard sureties' participation in SBA's bonding activities has increased. Standard sureties in the PSB program accounted for 9 percent of all bonds and 13 percent of the contract dollars guaranteed by SBA during fiscal years 1991 through 1993. In contrast, standard sureties accounted for less than 1 percent of both the bonds and contract dollars guaranteed by SBA during fiscal years 1987 through 1989. In fiscal year 1993 alone, standard sureties in the PSB program accounted for 15 percent of the bonds and 20 percent of the contract dollars guaranteed by SBA.

One surety, Fidelity and Deposit Company of Maryland, accounted for much of the activity under the PSB program during fiscal years 1991 through 1993. As shown in table 1, this surety issued 65 percent of the bonds guaranteed. According to Fidelity and Deposit officials, the company was well positioned to take advantage of the program because it concentrated on small and medium- sized contractors; as a result, it aggressively marketed the program to its broker network. Two other affiliated sureties—United States Fidelity and Guaranty Company, and Fidelity and Guaranty Insurance Company—accounted for 20 percent of the bonds guaranteed under the program.

[2]Small Business: Information on and Improvements Needed to Surety Bond Guarantee Programs (GAO/RCED-91-99, Apr. 23, 1991).

Table 1: Standard Sureties Participating in PSB Program

Standard surety	Parent company	Date of SBA's approval	Percentage of bonds issued in FY 1991-93[a]	Percentage of contract dollars guaranteed in FY 1991-93[b]
Fidelity and Deposit Company of Maryland	Fidelity & Deposit Group	May 1990	65.0	66.3
Fidelity and Guaranty Insurance Company[c] United States Fidelity and Guaranty Company[c]	United States Fidelity and Guaranty Group	Mar. 1991	20.1	17.1
The Standard Fire Insurance Company	Aetna Life and Casualty Company Group	June 1990	7.8	11.2
Continental Casualty Company	CNA Insurance Companies	Nov. 1992	5.0	3.6
First National Insurance Company of America	SAFECO Insurance Companies	Nov. 1992	1.9	1.6
SAFECO Insurance Company of America	SAFECO Insurance Companies	Nov. 1992	0	0
American Casualty Company of Reading, Pennsylvania	CNA Insurance Companies	Feb. 1993	0.2	0.1
Farmington Casualty Company	Aetna Life and Casualty Company Group	Mar. 1993	0.2	0.1
Fireman's Insurance Company of Newark, New Jersey	Continental Insurance Companies	Jan. 1993	0	0
The St. Paul Guardian Insurance Company	The St. Paul Companies, Incorporated	Aug. 1993	0	0
The Explorer Insurance Company	ICW Group of San Diego, California	Dec. 1993	[d]	[d]
The Insurance Company of the West	ICW Group of San Diego, California	Dec. 1993	[d]	[d]
Great American Insurance Company	American Financial Insurance Group of Cincinnati, Ohio	Dec. 1993	[d]	[d]
Total			**100.0[e]**	**100.0**

[a]The total number of bonds issued was 1,995.

[b]The total value of the contracts guaranteed was $391 million.

[c]These two sureties are covered by one SBA agreement and guarantee authority. SBA's information system does not distinguish which surety issued the bonds.

[d]The surety was not approved for the program until fiscal year 1994.

[e]Column does not add to 100.0 because of rounding.

Source: SBA Office of Surety Guarantees.

Fidelity and Deposit was the first surety approved for the PSB program. As of March 1994, 14 sureties have been approved, 7 of them in 1993.

At the time the PSB program was enacted, concern was expressed that it would simply shift firms from the SBG program to the PSB program. This does not appear to be the case. Nearly 88 percent of the contractors receiving bonding under the PSB program had not, in the recent past, received an SBA-guaranteed bond.[3] Surety officials indicated that the large number of new firms in the PSB program reflects high turnover in the industry and differences in the marketing network that standard and specialty sureties rely on. Standard sureties generally sell bonds through independent brokers that work with multiple sureties, submitting bonds to the sureties for underwriting. Specialty sureties sell bonds through managing general agents that have underwriting authority and normally work exclusively with one surety.

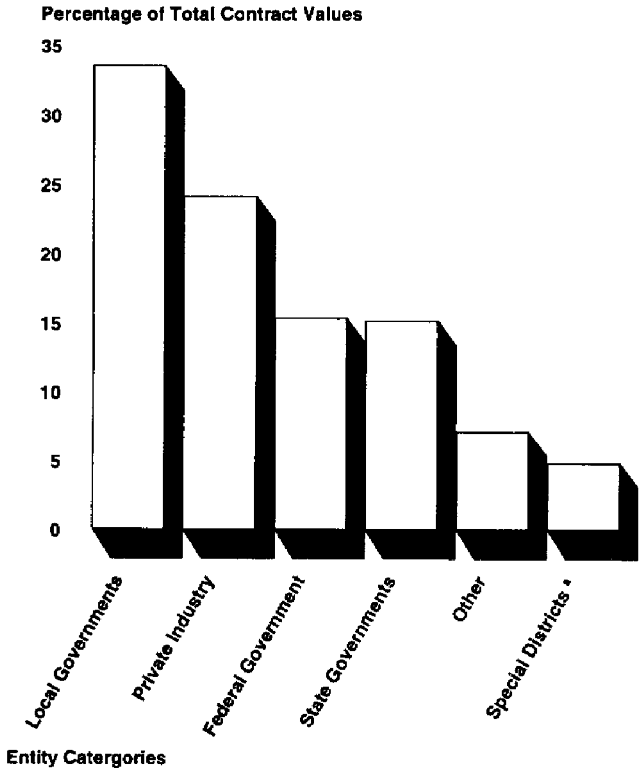
Losses under the PSB program have been lower than those experienced under the SBG program. For bonds issued under the PSB program during fiscal years 1991 through 1993, SBA paid out about $1.1 million in losses, for an overall loss rate of 0.43 percent.[4] By comparison, under the SBG program during this same period, SBA paid out $18.8 million, for an overall loss rate of 0.87 percent. SBA officials believe that the lower loss rate for the PSB program reflects the sureties' reluctance, with a 70-percent guarantee, to underwrite the riskier bonds. Surety officials also explained that they concentrate on firms with growth potential.

The PSB program guaranteed bonds primarily for contracts awarded by public sector entities. As shown in figure 1, local government contracts accounted for the largest share of the total contract dollars. Federal contracts accounted for a much smaller share, although it should be noted that under some federal programs, such as Transportation's federally assisted highway program, contracts are awarded by state and local governments. Private sector contracts accounted for 18 percent of the bonds and 24 percent of the contract dollars guaranteed.

[3]SBA provided data that we used to compare the firms receiving bonding under the PSB program to those firms that had received bonds under the SBG program since 1988.

[4]Normally, SBA calculates the loss rate for a fiscal year by taking the dollars paid in losses during the year (regardless of the bond issuance date) as a percentage of SBA's share of the bonds guaranteed during that year. However, in order to compare the PSB program's and SBG program's loss rates, we asked SBA to compute loss rates based solely on the bonds issued during fiscal years 1991 through 1993.

Figure 1: Entities Awarding Contracts With Guarantees Under the PSB Program, Fiscal Years 1991 Through 1993



[a]Public entities other than federal, state, or local governments, such as school districts or sewer districts.

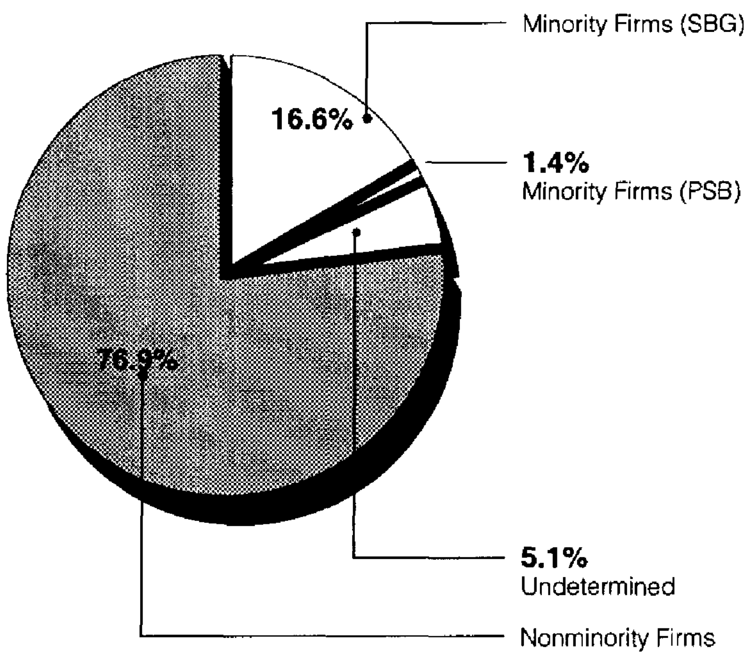
This pattern does not differ substantially from that of the SBG program. Local governments accounted for the largest share of the contract dollars guaranteed under this program (28 percent), followed by the federal government (22 percent), private industry (21 percent), state governments (11 percent), and special districts (10 percent).

Despite the growth in standard sureties' participation in SBA's bonding activities, the overall number of bonds guaranteed declined sharply. For fiscal years 1987 through 1989, SBA guaranteed a total of 33,408 bonds on contracts valued at $3.9 billion. For fiscal years 1991 through 1993, SBA guaranteed 21,517 bonds on contracts valued at about $3.1 billion, a 36-percent decrease in the number of bonds and a 21-percent decrease in the contract dollars guaranteed.[5] SBA and surety officials attributed this decline to the downturn in the economy that sharply affected the construction industry. In addition to reducing contract spending, this downturn has led larger contractors to compete for smaller contracts. Officials also pointed to the growth in the number of sureties willing to bond small contractors without a government guarantee.

Data on Minority Participation Are Inconclusive

During fiscal years 1991 through 1993, SBA guaranteed at least 3,876 bonds for minority-owned firms—293 bonds under the PSB program and 3,583 bonds under the SBG program. As shown in figure 2, this represented 18 percent of the bonds (and 21 percent of the contract dollars) guaranteed by SBA. In addition to the firms designated as minority-owned, there were 1,087 firms classified as "undetermined"; that is, their minority or nonminority status was unknown. (See app. III for additional details.)

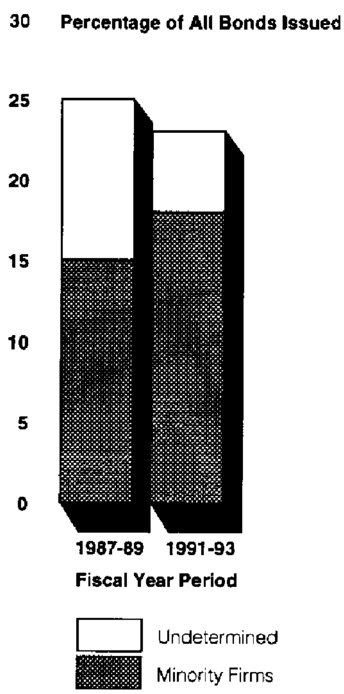
Figure 2: Percentage of SBA-Guaranteed Bonds Issued to Minority-Owned Firms, Fiscal Years 1991 Through 1993



[5]SBA guaranteed 1,995 bonds on contracts valued at $391 million under the PSB program and 19,522 bonds on contracts valued at $2.7 billion under the SBG program. See app. II for data on the regional distribution of these bonds.

Figure 3 compares the proportion of bonds issued to minority-owned firms during fiscal years 1991 through 1993 with the proportion issued to minority-owned firms during fiscal years 1987 through 1989. Although the minimum percentage going to minority-owned firms increased from 15 to 18 percent, the number of firms whose status as a minority or nonminority business was undetermined leads to ambiguity in the data. For fiscal years 1987 through 1989, 10 percent of all bonds went to firms whose status was unknown. As a result, the proportion of bonds going to minority-owned firms could have ranged from 15 to 25 percent during that period. Thus, the proportion of bonds going to minority-owned firms could have been as high as 25 percent in the base period (fiscal years 1987 through 1989) and as low as 18 percent during fiscal years 1991 through 1993. SBA and surety officials believe that most of the firms whose status was undetermined were nonminority businesses. The officials cite the higher guarantee rate for minorities in the SBG program and heightened public concern over minorities' access to bonding as incentives for identifying those firms that are minority-owned.

Figure 3: Percentage of SBA-Guaranteed Bonds Issued to Minority-Owned Firms, Fiscal Years 1987 Through 1989, 1991 Through 1993



During fiscal years 1991 through 1993, the number of firms whose minority/nonminority status was undetermined dropped to 5 percent, down from 10 percent during fiscal years 1987 through 1989. Beginning in 1991, in response to a recommendation in our 1991 report, SBA took action designed to address the problem of undetermined status. In July 1991, SBA issued interim procedures instructing that when an application does not contain a minority classification code, SBA regional offices are to attempt to determine the firm's classification by actions such as contacting the surety or the firm directly. SBA regional offices were also directed to document their attempts to identify the minority/nonminority classification and, if needed, to justify an undetermined classification in the firm's file.

Conclusions

The PSB program has facilitated standard sureties' increased participation in SBA's bonding activities. While a large share of the bonding activities is accounted for by three sureties, a number of sureties have received approval for the program over the past year, suggesting a broadening of interest in the program. The PSB program has experienced a lower loss rate than the SBG program.

The impact of the program on minority-owned firms is unclear. While firms classified as minority-owned firms received a higher share of SBA-guaranteed bonds during fiscal years 1991 through 1993 than was the case during fiscal years 1987 through 1989, the number of firms whose minority/nonminority status was unknown creates uncertainty as to the true extent of minorities' use of SBA-guaranteed bonds.

Scope and Methodology

We conducted our review from June 1993 through February 1994 in accordance with generally accepted government auditing standards. Our analysis of SBA's bonding activities for fiscal years 1991 through 1993 relied on data contained in SBA's management information system. Our assessment of the reliability of data in this system, which disclosed several weaknesses, is contained in our 1991 report. (See app. IV.) We also relied on our 1991 report for data on bonding activities during fiscal years 1987 through 1989. As in our 1991 report, the analysis for this report covers only performance and payment bonds. To understand the significance and implications of these data, we interviewed SBA and surety association officials. We also talked with the sureties accounting for much of the bonding activity, as well as large sureties that were not participating in the program. We also reviewed legislation, regulations, and procedures pertaining to SBA's guarantee programs. Prior GAO reports on surety bonding are identified in appendix IV.

Agency Comments

We discussed the report with SBA's Assistant Administrator for Surety Guarantees, who generally agreed with the facts presented. We incorporated SBA's suggested revisions where appropriate. However, as agreed, we did not obtain written agency comments on this report.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 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 also will make copies available to others upon request.

Please contact me on (202) 512-7631 if you or your staff have any questions about this report. Major contributors to this report are listed in appendix V.

Judy England-Joseph

Judy A. England-Joseph
Director, Housing and Community
Development Issues

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Abbreviations

GAO	General Accounting Office
PSB	preferred surety bond guarantee
SBA	Small Business Administration
SBG	surety bond guarantee

The Preferred Surety Bond Guarantee Program's Requirements

The Small Business Administration's (SBA) regulations require that to be eligible to participate in the Preferred Surety Bond Guarantee (PSB) Program, a surety must be listed on the U.S. Treasury Department's list of companies that are eligible to issue bonds for federal procurement contracts and must have an underwriting authority of at least $1.25 million. The surety must then be deemed eligible by SBA to participate specifically in the PSB program. In determining if a surety is eligible, SBA requires, among other things, (1) an agreement that the surety will not charge small businesses more than the advisory premiums set by the Surety Association of America,[6] (2) a determination that premium income from contract bonds guaranteed by any government agency—federal, state, or local—does not exceed one-quarter of the surety's total income from contract bond premiums, (3) an assurance that underwriting authority for SBA-guaranteed bonds will be limited to employees of the surety company, and (4) an assurance that final settlement authority for claims under the PSB program will be restricted to employees of the surety's permanent claims department who are satisfactory to SBA.

Once a surety is deemed eligible to participate in the PSB program, it signs a PSB agreement with SBA. Included in the agreement are restrictions placed upon the surety that include prohibitions against (1) participating in SBA's Surety Bond Guarantee (SBG) program while it is participating in the PSB program—affiliates of the surety are also prohibited from participating in the SBG program—and (2) reducing its liability on a guaranteed bond through any type of agreement. The PSB agreement also specifies the standard surety's responsibilities, including (1) electronically transferring information to SBA within 10 business days of a bond's issuance and (2) obtaining job status reports from the owner or agency issuing the contract.

The surety is required to share with SBA the premium paid by the contractor. The surety retains 80 percent of the premium, and SBA receives the remaining 20 percent. In addition to its portion of the premium, SBA also receives from the contractor a fee of $6 per thousand dollars of the contract or bond amount.

SBA can guarantee a bond for a construction or other contract of up to $1.25 million if (1) the bond is required to obtain the contract, (2) the firm requesting the bond had average annual gross receipts that did not exceed

[6]Because the Surety Association of America no longer sets advisory premium rates, SBA currently limits sureties to the rates in the last premium schedule set by the association. SBA plans to modify its regulation concerning premium rates.

$3.5 million during the preceding 3 years, and (3) the firm is unable to obtain a bond without the SBA guarantee.

SBA sets a limit on the dollar amount of surety bond guarantees that the surety may have outstanding at any one time. This limit is based on the surety's anticipated bonding activity and can be adjusted at any time. As of September 30, 1993, the maximum authority granted to standard sureties in the PSB program ranged from a low of $1 million to a high of $115 million.

Regional Distribution of SBA-Guaranteed Bonds, Fiscal Years 1991 Through 1993

		Percentage of			
SBA regional office	States and territories included in region	Bonds under PSB program	Contract dollars under PSB program	All SBA-guaranteed bonds	All SBA-guaranteed contract dollars
Boston	Massachusetts, Maine, New Hampshire, Connecticut, Vermont, Rhode Island	10.6	6.7	9.0	5.7
New York	New York, New Jersey, Puerto Rico, Virgin Islands	2.0	0.7	1.2	0.8
Philadelphia	Maryland, West Virginia, Pennsylvania, Virginia, District of Columbia, Delaware	5.9	2.8	4.7	4.0
Atlanta	Alabama, North Carolina, South Carolina, Georgia, Mississippi, Florida, Kentucky, Tennessee	24.9	16.4	26.9	20.1
Chicago	Illinois, Ohio, Minnesota, Indiana, Wisconsin, Michigan	19.1	21.0	13.9	15.0
Dallas	Texas, New Mexico, Arkanasas, Louisiana, Oklahoma	15.8	15.2	21.5	16.6
Kansas City	Iowa, Kansas, Nebraska, Missouri	13.1	15.7	12.8	12.9
Denver	Colorado, Utah, North Dakota, South Dakota, Montana, Wyoming	2.5	13.3	2.8	17.3
San Francisco	California, Nevada, Arizona, Hawaii, Gaum	4.2	4.4	4.3	4.2
Seattle	Washington, Alaska, Idaho, Oregon	1.9	3.9	3.0	3.4
Total[a]		**100.0**	**100.0**	**100.0**	**100.0**

[a]Percentages sometimes do not add to 100 percent because of rounding.

Distribution of SBA-Guaranteed Bonds Among Minority and Nonminority Firms, Fiscal Years 1991 Through 1993

	SBA-guaranteed bonds					
	Under the PSB program		Under the SBG program		Under both programs	
Ownership of firm	**Number**	**Percentage**	**Number**	**Percentage**	**Number**	**Percentage**
Black	90	4.5	1,620	8.3	1,710	7.9
Puerto Rican	10	0.5	84	0.4	94	0.4
Indian	57	2.9	430	2.2	487	2.3
Hispanic	82	4.1	878	4.5	960	4.5
Asian	46	2.3	530	2.7	576	2.7
Eskimo	4	0.2	10	0.1	14	0.1
Multigroup	4	0.2	31	0.2	35	0.2
Subtotal	**293**	**14.7**	**3,583**	**18.4**	**3,876**	**18.0**
Nonminority	1,679	84.2	14,875	76.2	16,554	76.9
Undetermined	23	1.2	1,064	5.5	1,087	5.1
Total[a]	**1,995**	**100.0**	**19,522**	**100.0**	**21,517**	**100.0**

[a]Percentages sometimes do not add to 100 percent because of rounding.

Prior GAO Reports on SBA's Surety Bond Programs

Surety Bond Waiver Program (GAO/NSIAD-93-255R, Aug. 24, 1993).

This report, mandated by the conference report on the National Defense Authorization Act for Fiscal Years 1992 and 1993 (P.L. 102-190), reviewed the implementation of a test program that allowed the Department of Defense to award construction contracts to small and disadvantaged businesses without requiring the submission of performance and payment surety bonds. We found that (1) SBA and the Defense Department used their waiver authority to exempt only 9 contracts between fiscal year 1992 and June 30, 1993, despite the test program's congressional goal that 30 contracts per year be awarded with the exemptions; (2) Army officials did not follow regulations and procedures when using the waiver authority; and (3) Defense Department officials did not believe the waivers were necessary.

Small Business: Use of the Surety Bond Waiver Has Been Limited (GAO/RCED-92-166, July 7, 1992).

This report provided information on SBA's Surety Bond Waiver Program, including its implementation and impact on SBA's 8(a) program, which is designed to assist small businesses owned and controlled by socially and economically disadvantaged individuals. This report, covering fiscal years 1989 through 1991, was required by the conference report on the National Defense Authorization Act of 1990 and 1991.

We found that (1) the use of surety bond waivers was limited by legislation requiring SBA to select 8(a) program participants recommended by the procuring agencies; (2) the Defense Department did not meet its congressional goal for issuing contracts with surety bond waivers for fiscal years 1990 and 1991; (3) delays in revisions of Federal Acquisition Regulations may have resulted in fewer opportunities for using these waivers for Defense Department contracts; (4) the potential use of the waivers could not be determined because SBA and Defense Department field offices did not collect the data needed; (5) SBA had not provided to the responsible field staff training on issuing waivers; and (6) SBA conducted limited relevant outreach efforts.

Construction Contracts: Individual Sureties Had No Defaults on Fiscal Year 1991 Contracts (GAO/GGD-92-69, Apr. 1, 1992).

The Treasury, Postal Service, and General Government Appropriations Act of 1991 required GAO to assess contractors' use of individual sureties to meet bonding requirements on federal contracts and the related default rate. (An individual surety is a person, as distinguished from a business entity, who is liable for the amount of the bond obligation.) For fiscal year 1991, we found that (1) contractors used individual sureties for about 1 percent of the federal construction contracts requiring bonding; (2) individual sureties bonded about 2 percent of such contracts that were awarded to minority firms; (3) none of the prime contractors defaulted on federal construction contracts that had been bonded by individual sureties; and (4) it was too early to determine the effects of February 1990 changes to the Federal Acquisition Regulations intended to curtail abuses by individual sureties.

Small Business: Information on and Improvements Needed to Surety Bond Guarantee Programs (GAO/RCED-91-99, Apr. 23, 1991).

In response to a request by the Chairmen, Senate and House Committees on Small Business, and requirements of the Small Business Administration Reauthorization and Amendments Act of 1988, we provided information, for fiscal years 1987 through 1989, on (1) SBA's SBG program and (2) the status of SBA's pilot PSB program. Regarding the SBG program, we found that 33,408 bonds were awarded with SBA guarantees. We calculated that (1) local governments' contracts had the largest percentage of bonds, (2) minority firms received about 15 percent of the bonds, and (3) standard sureties accounted for less than 1 percent of SBA guaranteed bonds. In assessing the reliability of SBA's data base, we found weaknesses involving (1) guidance to field staff on procedures to follow when minority codes are missing, (2) documentation instructions for entries made to the data base, (3) procedures to be used for verifying entries into the data base, and (4) instructions for categorizing the types of entities issuing contracts that require bond guarantees. We recommended that SBA address these weaknesses in a planned update of the surety bond standard operating procedures. As of mid-January 1994, SBA had not issued these procedures but had issued interim procedures regarding actions to be taken to identify missing minority codes. Regarding the PSB program, we found that as of February 1991, over 2 years after legislation authorizing the pilot program, only two sureties were approved for the program and only one had issued SBA-guaranteed bonds.

Small Business: Individual Sureties Used to Support Federal Construction Contract Bonds (GAO/RCED-90-28FS, Oct. 3, 1989).

As required by the conference report on the Small Business Administration Reauthorization and Amendments Act of 1988, we provided information about (1) small businesses' use of individual sureties for construction contracts and the types of losses on the bonds these sureties issued and (2) GAO's bid protest decisions involving individual sureties. We found that (1) aggregate data did not exist on either the use of individual sureties or the losses on the bonds they issued because federal agencies contracting for much of the government's construction and the associations representing construction contractors did not routinely collect such data. We also found that the number of GAO's bid protest decisions had increased from 6 in calendar year 1987 to 23 in the first 6 months of calendar year 1989.

Surety Bond Guarantee Program: Small Business Administration's Actions on Prior Program Recommendations (GAO/RCED-86-183BR, Sept. 18, 1986).

In response to an October 17, 1985, request from the Chairmen and other Members of the Senate and House Committees on Small Business, we reviewed SBA's implementation of previous recommendations by us and SBA's Inspector General to improve the management of the SBG program, including SBA's underwriting and claims processes and automated program information system. We found that SBA had implemented recommendations relating to issuing new underwriting guidelines and had developed a procedure to calculate a loss ratio for the program comparable to the procedure used in the private sector. We also found that SBA was in the process of developing an automated management information system. According to SBA officials, other recommendations were not being implemented because, among other reasons, actions the agency had already taken were similar to those recommended.

SBA's Progress in Implementing the Public Law 95-507 Subcontracting and Surety Bond Waiver Provisions Has Been Limited (GAO/CED-81-151, Sept. 18, 1981).

As required by Public Law 95-507 (Oct. 24, 1978), we reviewed actions taken by SBA and the Presidential Advisory Committee to promote subcontracting as a means of developing small and small disadvantaged businesses, and SBA's implementation of the surety bond waiver provision of the law. We found that the Presidential Advisory Committee focused on federal subcontracting rather than subcontracting by the private sector, though P.L. 95-507 intended to promote the latter, and that SBA's actions were limited to agreements with four corporations that resulted in only two subcontracts. We also found that SBA had not implemented the surety bond waiver provision of P.L. 95-507.

Status Report on Small and Small Minority Business Subcontracting and Waiver of Surety Bonding for 8(a) Firms (GAO/CED-80-130, Aug. 20, 1980).

Public Law 95-507 required GAO to review SBA's actions encouraging large businesses to subcontract with small and small minority firms. We found that SBA's implementation of the program was impeded by delays in creating a presidentially appointed committee, which was to assist SBA in this task; a lack of specific functions and goals for the committee; and the committee's focus on federal contracting. There was also a delay in implementing the surety bond waiver provision because proposed rules and regulations were not published and because there was confusion over which SBA Associate Administrator had responsibility for administering the provision.

Surety Bond Guarantee Program: Significant Changes Are Needed in Its Management (GAO/CED-80-34, Dec. 27, 1979).

At the request of the Chairman, Senate Select Committee on Small Business, we reviewed SBA's SBG program. We found that SBA's management of the program was unsatisfactory for the following reasons. First, bond guarantees were often based on unreliable underwriting data and superficial reviews. Second, SBA and the surety companies made little effort to minimize losses resulting from contract defaults. Third, the program did not graduate a significant number of contractors into the private surety bonding market. Finally, SBA was not providing managerial assistance to contractors bonded under the program.

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