



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

AUDIT REPORT
Issue Date: September 28, 1999
Report Number: 9-26

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

Robert G. Seabrooks

FROM: Robert G. Seabrooks, Assistant Inspector General for Auditing

SUBJECT: Audit of Great American Insurance Company

We completed an audit of Great American Insurance Company (Great American), based in Cincinnati, Ohio. Great American has participated in SBA's Preferred Surety Bond (PSB) Program since December 21, 1993. Preferred sureties are authorized to issue SBA guaranteed bonds without SBA's prior review and approval. As of January 6, 1999, Great American had issued 337 SBA guaranteed bonds valued at approximately \$88 million.

AUDIT OBJECTIVES AND SCOPE

The audit objectives were to determine if Great American (1) complied with policies and procedures in issuing bond guarantees for which claims were paid by SBA (2) claimed only allowable losses and expenses, and (3) remitted fees due SBA timely and accurately. SBA records showed Great American had 31 bonds in default with claims totaling approximately \$1.075 million as of January 6, 1999. We reviewed the 10 bonds with the largest claims, which totaled [FOIA Ex. 4], or 79 percent of the dollar value of all claims by Great American. See Attachment 1 for a listing of the sampled bonds.

Fieldwork was performed from February 1999 through August 1999. We reviewed Great American's underwriting and claims files, interviewed SBA and Great American officials, and reviewed Great American's procedures for the remittance of fees. The audit was conducted in accordance with Government Auditing Standards.

RESULTS OF AUDIT

Great American complied with underwriting policies and procedures, claimed allowable losses and expenses, and remitted accurate and timely fees with two exceptions. SBA should be reimbursed \$1,326 for expenses paid that were unallowable and ensure that Great American implements procedures to reimburse or credit SBA for salvage within 90 days of receipt as required by the regulations.

Unallowable Legal Expenses

For sample number 7, Great American requested reimbursement for legal expenses totaling \$1,326 that were unallowable. Great American incurred the expenses to respond to an allegation [FOIA Exemption 4]. Title 13 CFR 115.16(e) (1998 edition) states that expenses are allowable only if they are specifically allocable to a claim for loss resulting from the breach of the terms of the bonded contract. Great American agreed that the expenses were not allocable.

Untimely Salvage

Great American did not credit SBA for salvage applicable to sample numbers 8 and 9 within the required timeframe. Title 13 CFR 115.17 (1997 edition) requires salvage to be reimbursed or credited to SBA within 90 days of receipt. Great American received salvage on three occasions in 1997 that was not credited to SBA until about one year later. For sample number 8, salvage totaling \$59,712 and \$35,221 was received on December 9, 1997 and December 22, 1997, respectively. Great American, however, did not credit SBA for the salvage until November 19, 1998 and December 15, 1998, respectively. Likewise for sample number 9, Great American received salvage totaling \$10,515 on November 12, 1997, but SBA was not credited for the salvage until December 15, 1998. Great American stated they would now use internal reports to ensure salvage is timely remitted to SBA.

Recommendations:

We recommend the Associate Administrator for Surety Guarantees notify Great American to:

- 1A. Remit \$1,326 to SBA for unallowable legal fees paid under sample number 7.
- 1B. Revise procedures to ensure that SBA is reimbursed or credited for salvage within 90 days of receipt.

Auditee Response

Great American agreed with the findings and stated SBA would be reimbursed for the unallowable legal expenses.

SBA Management's Response

The Associate Administrator for Surety Guarantees concurred with the findings and agreed to implement the recommendations.

Evaluation of Responses

The comments provided by Great American and the Associate Administrator for Surety Guarantees are responsive to the recommendations.

The findings included in this report are the conclusions of the Office of Inspector General's Auditing Division. **The findings and recommendations 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 provide us your proposed management decisions for the recommendations within 80 days on the SBA Form 1824, Recommendation Action Sheet. If you disagree with a recommendation, please provide your reasons in writing.

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Should you or your staff have any questions, please contact Victor R. Ruiz, Director, Business Development Programs Group at (202) 205-7204.

Attachments

SAMPLED BONDS

Sample No.	PSB No.	Great American Bond No.	Contractor Name	Bond Effective Date
1	[FOIA Ex. 4]	[FOIA Ex.4]	[FOIA Ex. 4]	8/28/97
2				8/7/97
3				5/20/97
4				9/4/96
5				6/13/97
6				8/9/95
7				6/10/96
8				5/6/96
9				3/17/97
10				11/14/96

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