

Memorandum  
City of Springfield  
Internal Auditor

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**TO:** Mayor Robert Stephens and Members of the City Council  
**FROM:** Kristy Bork, Internal Auditor  
**Date:** September 21, 2012  
**RE:** Small Business Development Loan – Loan Approval Process Follow-up

In accordance with the Internal Auditor’s policies, the Auditor is to monitor the implementation of audit recommendations and report back to the Finance and Administration Committee. Follow-up timing is based on the Audit Rating System. “The Small Business Development Loan – Loan Approval Process” audit received a yellow rating on objective one and a green rating on objective two. Objective one requires a six-to-nine-month follow-up from the report date of February 2, 2012, while objective two does not require follow-up. Below is a recap of Opportunities for Improvement (OFI) under objective one and Auditor follow-up procedures performed and conclusions reached about each OFI.

**Opportunity for Improvement 1.a:**

The Loan Committee should develop policies and procedures to strengthen background checks on loan applicants, including, but not limited to, adding questions on the loan application about applicants’ previous criminal background and formalizing how, when, and to what extent background checks are completed.

**Follow-Up:**

The Auditor reviewed two business incentive loan files, which were approved by Loan Committee in the summer of 2012. The Auditor noted that both loan files had expanded background checks completed prior to the Loan Committee’s approval of the loan. The expanded documentation included a “Criminal Background Disclosure” form that was filled out by the applicant and attached to the application, as well as expanded background checks that were performed by staff.

As follow-up to the audit, the Loan Committee performed an extensive review of all application and loan documents, the Auditor noted the two loan files reviewed included these newly reviewed documents. It appears the Loan Committee developed appropriate procedures to question the applicants' previous criminal background. No additional follow-up is considered necessary.

**Opportunity for Improvement 1.b:**

When a loan applicant is known to be on probation, the Loan Officer and Committee should review the applicant's terms of probation prior to approving the loan.

**Follow-up:**

The Loan Committee has not received any loan applications, since the audit, in which the applicant was on probation. See follow-up on finding 1.a above. Based on expanded background check procedures, it appears that the loan committee has developed better controls for reviewing prior legal history of applicants. No additional follow-up is considered necessary.

**Opportunity for Improvement 1.c:**

Loan Officers should properly verify and follow-up on personal financial information, especially when the Loan Officer is aware of missing information.

**Follow-up:**

As previously noted, the Auditor reviewed two Business Incentive Loan files while performing follow-up procedures. The Auditor noted no issues or concerns with the financial information obtained by the Loan Officer during the loan application process. No additional follow-up is considered necessary.

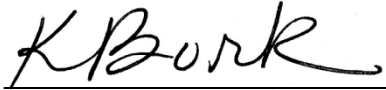
**Opportunity for Improvement 1.d:**

When the loan applicant(s) are being screened, and the business is reliant upon a liquor license, the Loan Officer and Licensing should clearly communicate all background information and decisions to one another.

**Follow-up:**

The Licensing Division of the Finance Department developed new notification letters to send out to liquor license applicants. The letter more clearly states that Licensing has approved the premise for a liquor license. Additionally, the letter notes "additional requirements must be met before a City liquor license may be issued." It appears there

is better communication efforts related to liquor licenses and the loan application process. No additional follow-up is considered necessary.

A handwritten signature in black ink that reads "KBork". The letters are cursive and connected. The signature is positioned above a horizontal line.

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Kristy Bork, CPA

cc: Greg Burris

Fred Marty

Colin Quigley