# ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

## REPORT ON AUDIT

## FOR THE YEAR ENDED

## JUNE 30, 2012

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

# AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority (Authority) for the year ended June 30, 2012, found:

- proper recording and reporting of all transactions, in all material respects, in the Authority's financial system;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- the Authority has taken adequate corrective action with respect to the audit findings reported in the prior year.

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# AUTHORITY HIGHLIGHTS

## Organizational Background

The Assistive Technology Loan Fund Authority (Authority) provides loans to Virginians of all ages with disabilities for assistive technology devices, services, and telework related purposes. The goal of the program is to create affordable means by which Virginians with disabilities can enhance their independence, achieve their employment goals, and remain active and contributing members of their communities.

The Authority helps eligible applicants obtain low-interest loans for a variety of assistive technologies. This includes loans for modified and adapted vehicles, motorized scooters and wheelchairs, Braille equipment, hearing aids, low vision aids, communication systems, environmental control devices, building and home modifications for accessibility, and telecommunication devices for the deaf.

To do this, the Authority manages the Assistive Technology Loan Fund (Fund). This revolving loan fund consists of federal funds awarded and passed through to the Authority in previous years in addition to a small percentage of donations and gifts. The General Assembly created the Board of Directors (Board) to ensure the Authority achieves its mission and manages the Fund into perpetuity, while maximizing the number of disabled Virginians served.

## Overview of Services

The Authority works with SunTrust Banks Inc. (SunTrust) to achieve its mission. There are three options for eligible clients: two managed externally and one managed internally. They include the following: SunTrust non-guaranteed loans with an interest rate buy down, SunTrust guaranteed loans with an interest rate buy down, and direct loans issued by the Authority (less than $22,500 per loan). In January 2013, the Board raised the maximum value of the direct loans to $30,000, but will consider applications for higher amounts.

### Services Managed Externally

The Authority sends loan applications for amounts more than their maximum direct loan amount to SunTrust. SunTrust reviews the application and determines if the applicant meets their standard loan criteria. If the client is eligible, SunTrust issues a non-guaranteed loan, which ends the Authority's relationship with the applicant. However, the Authority does pay a flat fee of $400 to SunTrust to buy down the interest rate on the non-guaranteed loan.

SunTrust notifies the Authority when an applicant does not meet their standard loan criteria. The loan committee, which includes the Authority's Executive Director and members of the Board, reviews all applications rejected by SunTrust and determines if the applicant warrants a guaranteed loan. The maximum loan amount the Authority will guarantee is $30,000. If the loan committee decides to guarantee the loan, the Authority pays the interest buy-down fee of $400, as done with the standard loan, and deposits 30 percent of the loan value in their account with SunTrust.

SunTrust requires the Authority to maintain 30 percent of the value of its guaranteed loans in a money market account, which offsets SunTrust's risk from issuing a loan that does not meet

SunTrust's standard loan criteria. The board requires that this account include $20,000 above SunTrust's requirements as added protection against defaults.

If a client defaults on a guaranteed loan, the Authority becomes responsible for the full default amount. Typically, when a default occurs the Authority will restructure the loan as a direct loan, which we discuss further below, to ensure the borrower continues to realize the program's benefits.

Services Managed Internally

For its direct loans, the Authority charges an interest rate that historically is below normal market rates and is currently five percent. To further reduce the monthly payment due by the citizen, the Authority also provides a longer repayment term than is usually available from other financing sources. With the exception of vehicle loans, these extended loan terms typically mirror the life of the product.

The Board's loan committee reviews all loan applications for less than the maximum direct loan amount. Using criteria approved by the Board, the loan committee determines if the applicant qualifies for a direct loan from the Authority.

Loan Program Statistics

During fiscal year 2012, the Authority received over 200 applications for loans, which resulted in the establishment of 91 new loans; this dropped from 116 and 119 in fiscal years 2011 and 2010 respectively. The following tables provide details regarding the additions to each of the Authority's loan programs during the fiscal year as well their balances at the end of the fiscal year.

**New Loans During Fiscal Year 2012**

| Loan Type | Count | Loan Value | Average Loan Amount |
|---|---|---|---|
| New loans held by SunTrust | 9 | $ 256,186 | $28,465 |
| New loans held by SunTrust, guaranteed by the Authority | 4 | $ 106,824 | $26,706 |
| Direct loans by the Authority | 78 | $ 649,924 | $ 8,332 |
| **Total New Loans** | **91** | **$1,012,934** | **$11,131** |

*Source: Downhome Loans System*

**Total Loans Held by the Authority and SunTrust at June 30, 2012**

| Total Loan Portfolio | Count | Average Loan Value |
|---|---|---|
| $3,115,915 | 371 | $8,398 |

*Source: Downhome Loans System*

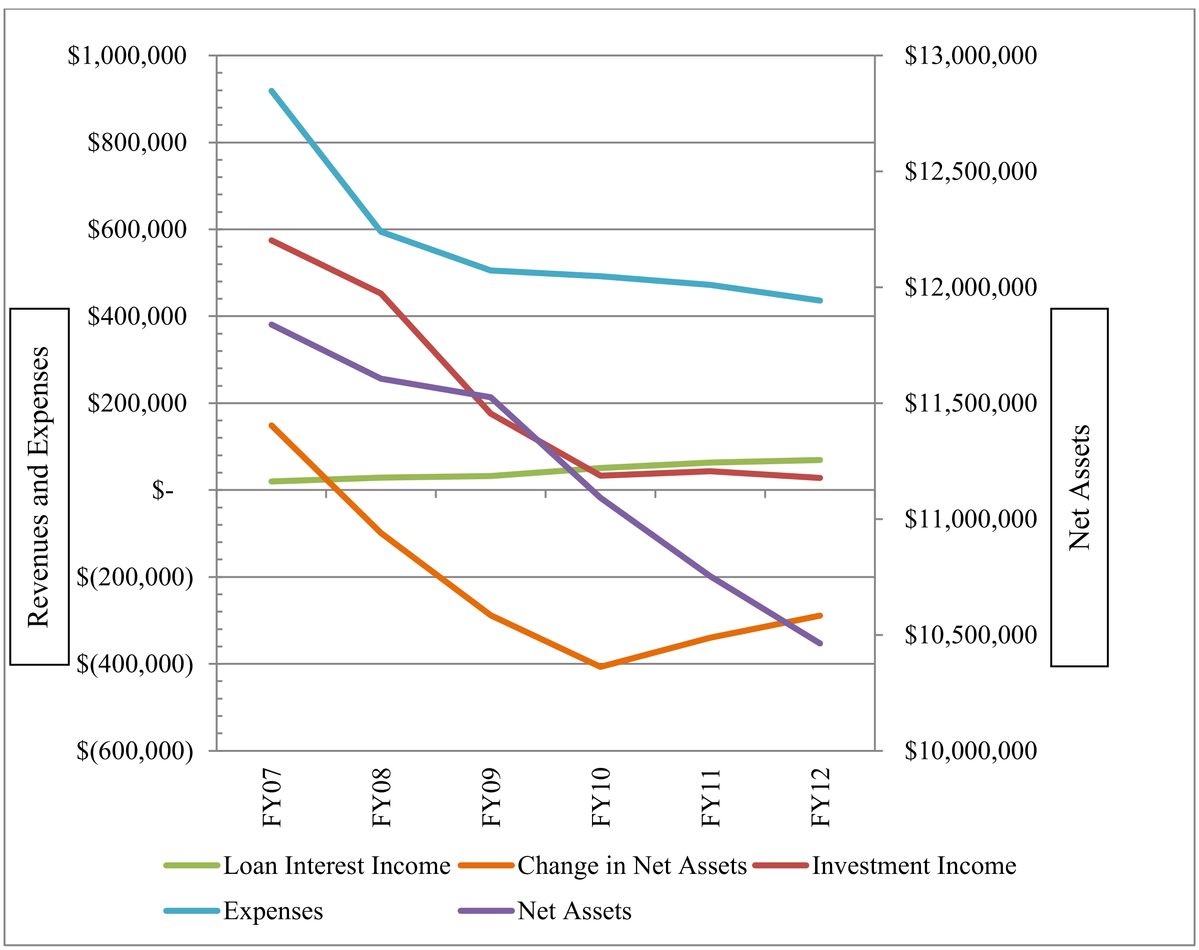
Loan Losses

Loan losses stem from defaults on the Authority's direct loans and the guaranteed loans through SunTrust. The Authority's policy requires write-off of loans when they are more than 180 days delinquent. However due to the mission of the organization, the Authority strives not to write-off loans and began offering loan modifications to recipients where possible during fiscal year 2011. The amount of Authority's loan write-offs as a result of credit loss or death of the loan recipient dropped from nearly $55,000 in fiscal year 2011 to $22,023 in fiscal year 2012. At June 30, 2012, their loss allowance for the remaining direct loans was $74,889.

Financial Operations

The Authority uses the income and principal of the Fund to finance its direct loans and operations, including paying the interest rate buy down fees, posting the collateral required for guaranteed loans at SunTrust, and administrative expenses. The Fund's principal consists primarily of federal funds awarded or passed through to the Authority in prior years. Compliance with the federal awards requires the Authority to maintain the Fund program into perpetuity.

The Fund's sustainability relies heavily on the Authority's ability to maintain a balance between the interest it earns on its investments and loans, which remain its primary sources of income, its operational expenses, and its mission to serve Virginians with disabilities. Since its inception, the Authority has struggled to successfully realize this balance, and the significant decline in investment income since fiscal year 2009 has impacted the Authority's income and available net assets as reflected below.



The Authority relies heavily on the performance of its investments, which has declined significantly over the past five years; therefore, reducing available net assets by $289,235 in fiscal year 2012. Although interest income from loans has slowly been increasing and expenses have decreased over the past five years, this increase is not sufficient to make up for the lost investment income, leading to an annual deficit (decline of Change in Net Assets).

During fiscal year 2012, the Board set some additional goals and operational modifications to improve performance and build on the fiscal policy changes implemented in recent years. The new goals and operations modifications include:

- Promoting the Authority's programs through awareness and marketing through channels like social media, non-profit marketing consultants, Disabilities Commission meetings, community outreach, and donor meetings.

- Implementing development and fundraising for the Consumer Service Grant Program by continuing to pursue state funding, creating a fundraising structure, and developing advocacy and events to raise funds and awareness and become recognized by the Commonwealth Virginia Campaign, and United Way to help fundraising efforts.

- Maintaining and strengthening operations by reviewing the loan process to consider indexing loan rates, raising credit requirements to lower default rates, developing strategic metrics, performing post loan surveys, implementing ACH and card based payment options, and creating a continuity plan.

- Considering a higher volume of direct loans with higher loan limits to generate more loan interest income.

These changes, in addition to the changes made in fiscal year 2011, will take some time to positively impact the Authority's cash flows. The Board will need to remain vigilant in monitoring the fund's balances, to ensure they can sustain the fund into perpetuity. The Board will also need to consider the quality of their income projections, if the investment vehicles in which they participate continue to provide limited returns.

The following schedule shows the Authority's budget and actual results for fiscal year 2012 with fiscal year 2011 actual results for comparison.

| | 2012 Budget | 2012 Actual | 2011 Actual |
|---|---|---|---|
| Revenues | | | |
| Grant Revenue | $ 25,000 | $ 50,000 | $ 26,127 |
| Loan Interest and Fees | 56,000 | 69,279 | 62,918 |
| Investment Income | 47,000 | 27,707 | 43,337 |
| Total Revenues | 128,000 | 146,986 | 132,382 |
| Expenses | | | |
| Grants and Awards | 25,000 | 47,462 | 37 |
| Loan Services | 21,400 | 7,762 | 19,318 |
| Payroll | 253,908 | 221,622 | 266,336 |
| Administrative Expenses | 156,400 | 122,989 | 117,297 |
| Marketing Expenses | 6,900 | 10,649 | 8,729 |
| Loan Losses and Write-offs | 60,000 | 25,737 | 60,288 |
| Total Expenses | 523,608 | 436,221 | 472,005 |
| Net Expenses over Revenues | ($ 395,608) | ($ 289,235) | ($ 339,623) |

*Source: The Authority's financial system*

The final schedule below reflects the Fund's year-end balances as of June 30, 2012, and 2011.

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Cash | | |
| Unrestricted | $ 9,002,860 | $ 9,303,925 |
| Restricted | 162,637 | 219,761 |
| Total Cash | 9,165,497 | 9,523,686 |
| Prepaid Expenses | - | 7,025 |
| Loans Receivable | | |
| (net of allowance of $74,889 for FY12) | 1,300,607 | 1,224,767 |
| Capital Assets (net) | 2,814 | 8,805 |
| Total Assets | 10,468,918 | 10,764,283 |
| Liabilities | | |
| Accounts Payable and Accrued Expenses | 5,649 | 11,779 |
| Net Assets | $10,463,269 | $ 10,752,504 |

*Source: The Authority's financial system*

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218


April 3, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the Assistive Technology Loan Fund Authority (Authority) for the year ended June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Authority's accounting system and to review policies, procedures, and oversight of the loan portfolio including provisions for reviewing individual loan status and follow through. Additionally, our objectives were to determine the adequacy of the Authority's internal controls, to test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Board oversight and strategic planning
Awarding of grants and loans
Cash receipting and collections of loan receivables
Write-off of loan receivables
Payroll expenses and other disbursements
Application controls

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Authority's operations. We tested transactions and performed analytical procedures, including budgetary and trend analysis.

Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in its financial system. The Authority records its financial transactions on the accrual basis of accounting, which is the basis of accounting generally accepted in the United States of America. The financial information presented in this report came directly from the Authority's financial system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority has taken adequate corrective action with respect to audit findings reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management on April 22, 2013.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

BOARD MEMEBERS
As of June 30, 2012