THE ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007

APA
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, 2007 found:

- proper recording and reporting of all transactions, in all material respects, in the Authority's financial system;

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

- an area where the Authority could improve internal controls and its operations, but we do not consider this area to be a material weakness; and

- no instances of noncompliance or other matters required to be reported under Government Auditing Standards, however we noted future funding issues that the Authority's Board should address.

Update on Prior Year Findings and Future Issues

In the last two years in responding to our audits, the Board and management have worked together to develop a Strategic Plan and Board governance manual, and increase the volume and amount of outstanding loans. The increase in loans comes from the Authority's new marketing plan, which involved branding itself as the NewWell Fund.

The Board and management have taken significant steps to move the organization forward and the movement raises a series of new challenges that the Authority must face. The Authority, in positioning itself to increase loan demand, must consider the long term financial implications of its strategies to help ensure it does not adversely affect its long term financial position.

<u>Develop a Business Plan</u>

The Authority is operating without plans to address the increased demand for services caused by its new marketing plan. Because of the increased demand, we project that the Authority could use more than $350,000 of the Assistive Technology Loan Fund (Fund) to cover operating expenses (see table on page 2) over the next three years.

We therefore recommend that the Board and the Authority develop a business plan that addresses operations and financial sustainability to ensure that the Authority can continue to provide services in the future. The plan should document the Board's long-term forecast of the Authority's financial position along with thresholds that the Board can use as benchmarks to evaluate future performance. Additionally, the plan should take into consideration the effects that future increases in operational expenses will have on the amount of funds that are available for providing services.

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AUDIT FINDINGS AND RECOMMENDATIONS

Update on Prior Year Findings and Future Issues

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In developing a business plan, the Board should require management to explore multiple options so that the Board can make an informed decision on the future of the Authority. One of many options the Board can consider in its efforts to lower administrative expenses is to restructure its agreement with its banking partner, so that the partner provides all program loans with the Board using, to the extent possible, investment earnings to offset any losses the partner may have related to program loans. If the Board is able to restructure its loans and eliminate the Authority's overhead associated with providing the direct loans, the Commonwealth and the Board should consider moving any remaining operations to another agency to obtain possible cost reductions through economies of scale. This option has the potential to decrease administrative costs, while at the same time providing more loan money for individuals.

The Authority’s Cash Activity, Actual Fiscal Year 2007, Project Fiscal Years 2008 through 2010

	2007	2008	2009	2010
Beginning balance, cash and investments	$11,355,776	$11,424,118	$11,315,000	$11,219,000
Cash and investment earnings	574,509	457,000	452,000	449,000
Direct loan repayments	162,616	206,000	207,000	212,000
Total cash inflows	737,125	663,000	659,000	661,000
Payroll and benefits	251,064	315,000	321,000	327,000
Direct loans awarded	223,830	312,000	241,000	312,000
General and administrative	81,831	82,000	83,000	84,000
Children's Hospital payments	46,200	20,000	57,500	57,500
Loan fees and grants	41,946	30,000	30,000	30,000
Marketing	12,619	8,000	8,000	8,000
Consulting and professional fees	3,729	5,000	5,000	5,000
Total cash outlays	661,219	772,000	745,500	823,500
Increase (decrease) in cash	75,906	(109,000)	(86,500)	(162,500)
Ending balance, cash and investments	$11,424,118	$11,315,000	$11,219,000	$11,056,500

Sources: Projections based on historical trends and known management decisions

Notify Loan Committee of Loan Write-offs

The Loan Committee was not aware of the Authority’s actual default rate on direct loans. The Authority’s procedures dictate that the fiscal director write-off all loans which are in default by 210 days and inform the Board only when there is an exception to the 210-day rule. Since, there are very few exceptions to the 210-day write-off rule; the fiscal director did not report most write-offs to the Loan Committee, which is comprised of Board members and Authority employees.

The Authority earns about five percent interest on its direct loans. However, since 2001, about 13 percent of total loans issued have resulted in default. The net result, which the Loan Committee should be aware of, is that about eight percent of the funds used for past direct loans will never return.

We believe that the fiscal director should report all write-offs to the Loan Committee and to the Board. The actual default rate is one of the most reliable performance measures available to the Loan Committee. This information will allow the Loan Committee to review specific case files and determine if any markers exist that indicate applicants with increased rates of default. This information will provide the Loan Committee with an additional tool that may decrease the default rate for future loans. Managing the default rate on loans is one of the Authority’s keys to ensuring its sustainability and long-term viability.

AUTHORITY HIGHLIGHTS

History

The Authority provides alternative funding resources for Virginians with disabilities to acquire assistive technology that can enhance and improve their independence and quality of life. The Authority helps eligible applicants obtain low-interest loans for a variety of assistive technology. This includes loans for wheelchairs, motorized scooters, 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 meet this objective, the Authority manages the Assistive Technology Loan Fund (Fund). The Fund consists primarily of federal funds awarded or passed through to the Authority, in addition to a small percentage of donations and gifts. The General Assembly created the Authority's Board of Directors (Board) to ensure the Authority achieved its mission and managed the Fund with an eye toward maintaining a balance between maximizing the amount of citizens the program serves and sustaining the fund into perpetuity.

Prior to 2006, the Authority was not under the purview of the Auditor of Public Accounts but was required to receive an external audit. The Authority employed a private Certified Public Accounting firm between 2002 and 2005 to perform its audits. In fiscal 2006, the General Assembly amended the Code of Virginia to place the Authority within the administration's Secretary of Health and Human Resources. The 2006 legislation also stated that the Board must submit an annual financial report to both the Governor and the General Assembly. Additionally, the legislation required the Auditor of Public Accounts to audit the Authority's books and accounts, and any loan fund the Authority administers or manages, annually.

Recent Changes

During fiscal 2007, the Authority and its Board made several changes to improve both internal controls and the Authority's ability to meet its mission. The Board extended the contract of the Authority's Executive Director and the Authority revised its fiscal policies and procedures. Collaboratively, the Board and the Authority developed a Board Governance Manual, Authority Bylaws, and strategic goals and objectives, including a marketing initiative to re-brand the Authority as the NewWell Fund. The Board considers the Authority's ability to re-brand itself as the NewWell Fund key to the strategic plan's success and the centerpiece of the Authority's marketing plan. The Board believes that the marketing initiatives will enable the Authority to increase the amount of clients it serves and sustain the Fund into perpetuity.

Financial Operations

As stated above, the Authority provides alternative financing options for Virginians with disabilities to purchase assistive technology. The Authority works with SunTrust Banks Inc. (SunTrust) to achieve this mission. There are three options for eligible clients; SunTrust non-guaranteed loans with an interest rate buy down, SunTrust guaranteed loans with an interest rate buy down, or direct loans issued by the Authority (less than $10,000 per loan).

Initially, the Authority sends loan applications for amounts more than $10,000 to SunTrust. SunTrust reviews the application and determines if the applicant meets their standard criteria for a loan. If the client is eligible, SunTrust issues a non-guaranteed loan (a loan that the Authority does not guarantee). However, these loans required the Authority pay a fee to SunTrust, $3,225 for home equity loans or $727 all for other non-guaranteed loans, to buy down the interest rate on the loan. The Authority amended its contract with SunTrust in fiscal 2008 to lower the buy down fees for all loans to $400. The following table details the benefit received by the Authority's consumers resulting from the buy down fee paid to SunTrust.

Interest Rate Buy Down by Loan Type

Loan Type	Reduction of Interest
Non-Guaranteed Loans	
New auto	2.00%
Used auto	2.25%
Unsecured	3.75%
Equity	0.75%
Guaranteed Loans	
New auto	2.50%
Used auto	3.50%
Unsecured	5.50%
Equity	1.25%

Source: Loan Fund and Guarantee Agreement between the Authority and SunTrust

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, review all applications rejected by SunTrust and determine if the applicant warrants a guaranteed loan. If the loan committee decides to guarantee the loan, the Authority pays the fee to buy down the interest rate and deposits 50 percent of the loan amount in their account with SunTrust. However, if the client defaults on a guaranteed loan with SunTrust, the Authority is responsible for the full default amount. The original agreement with SunTrust required the Authority was required to maintain at SunTrust 50 percent of the value of all guaranteed loans plus $37,500. SunTrust, per the amended agreement, now requires the Authority to maintain only 30 percent of the value of its guaranteed loans on hand, and eliminated the $37,500 base.

The loan committee reviews all loan applications for less then $10,000. Using criteria approved by the Board, the committee determines if the applicant qualifies for a direct loan from the Authority. The interest rate charged by the Authority (currently five percent) on direct loans has historically been below normal market rates. Loans are available with longer terms to reduce monthly payments.

The Authority uses the Fund to finance its direct loans and operations, including the interest rate buy down fees, the amount on-hand at SunTrust, and administrative expenses. The Fund consists primarily of federal funds awarded or passed through to the Authority. Compliance with the federal awards requires the Authority to maintain the Fund program into perpetuity. The Board established an ad hoc committee to study the permanence of the Fund and develop a sustainability plan for the Authority.

The Fund's sustainability relies heavily on the Authority's ability to maintain a balance between the interest it earns on its investments and its operational expenses. The following schedule shows the status of the Authority's funds at the end of fiscal year 2007.

Year-End Balances

ASSETS	
Cash	$11,424,118
Net loan receivables	438,506
Other assets	42,322
Total assets	11,904,946
LIABILITIES	
Unpaid award to Children's Hospital of Richmond	135,062
Unpaid Consumer Services Fund awards	39,923
Accounts payable (accrued expenses)	26,297
Total liabilities	201,282
NET ASSETS	
Opening balance	11,554,772
Net revenue	148,912
Total net assets	$11,703,684

Source: The Authority's 2007 Statement of Assets and Liabilities

As of fiscal year end 2007, the Authority's cash balance totaled $11.4 million. The Authority maintains most its cash in Local Government Investment Pool accounts. Cash balances earned about five percent ($574,509) in interest revenue in fiscal 2007. This amount is critical to the Authority's sustainability as interest revenue is currently the Authority's only source of funding to cover operating expenses, including payroll and the default amount of direct loans. The Authority also reported net loan receivables of $438,506 at fiscal year end, which is the Authority's only other significant asset.

The following tables detail the Authority's funding sources and expenses in fiscal 2007.

Funding Sources – Fiscal 2007

Interest revenue on cash balances	$ 574,509
Consumer Services Fund	473,394
Interest and late fee income - direct loans	9,915
Total Funding Sources	$1,057,818

Source: The Authority's 2007 Statement of Revenue and Expenses

The Authority's primary sources of funding in fiscal 2007 were interest income, $574,509, and Consumer Services Fund transfers of $473,394. Combined, these two items accounted for 98 percent of the Authority's funding. However, Consumer Services Fund transfers represent funds received from the Department of Rehabilitative Services for administering the Consumer Services Fund grant program. The Department of Rehabilitative Services discontinued this grant program in 2008. The Consumer Services

Fund was a source of last resort funding for consumers not eligible for any type of loan, either through traditional means or through the Authority.

Expenses – Fiscal 2007

	Fiscal 2007
Consumer Services Fund and Department of Housing and Community Development grants	$412,578
Payroll and benefits	251,064
Loan loss	56,415
Payments to Children's Hospital of Richmond	46,201
General and administrative	45,791
Loan services	44,992
Rent	43,833
Marketing expense	12,619
Consulting and professional fees	3,729
Total expenses	$917,222

Source: The Authority's 2007 Statement of Revenue and Expenses

About 72 percent of the Authority's expenses were Consumer Service Fund grants, and payroll and benefits for the Authority's employees. The discontinuation of the Consumer Service Fund will eliminate its associated expenses in future years. However, funding for the Consumer Service Fund supplemented the administrative and payroll expenses for one staff person at the Authority, who was the Consumer Service Fund administrator. In an effort to retain the employee, the Board redefined this employee's work responsibilities in fiscal 2008 to include marketing and application processing for assistive technology loans. The Fund will now support 100 percent of the administrative and payroll expenses for this employee.

The Authority's other significant expenses were contractual obligations, losses on direct loans, loan service costs, administrative costs, and rent. Combined, these categories account for 25.8 percent of fiscal 2007 expenses.

In fiscal 2004, the Authority used $250,000 in funding it received from Children's Hospital of Richmond to receive a three-to-one match in federal funding. In return for the use of these funds, the Authority agreed to award the Children's Hospital $375,000 in assistive technology grants. In fiscal 2007, the Children's Hospital completed construction and purchases for an assistive technology lab, for which the Authority provided $46,200 in grant funds. As of fiscal year end 2007, the Authority had about $135,000 in outstanding grant awards to the Children's Hospital.

Loan losses stem from defaults on the Authority's direct loans and the guaranteed loans through SunTrust. The default rate for all loans issued between 2001 and 2007 is about 13 percent. The 13 percent rate is based on the amount of funds defaulted on and not the number of loans. The Department increased the maximum amount for direct loans from $3,000 to $10,000 between fiscal 2004 and 2007. As a result, the default percentage could shift higher if larger, more recent loans, default.

Alternatively, loans issued through SunTrust, either guaranteed or non-guaranteed, do not generate any new revenue or assets for the Authority. Additionally, these loans require a $400 interest rate buy down fee. However, the Authority relies on their relationship with SunTrust to reach and serve more consumers than it could by itself. Without a banking partner, the Authority would loan out additional funds from its cash and investments. This would reduce investment income, and with operating expenses at their current level, would quickly deplete the Authority's funds.

Management made a strategic decision in fiscal 2007 to increase the loan amount for direct loans. This strategy should result in an increased issuance of direct loans. The Authority and the Board must monitor this strategy carefully. Increasing loan approvals too quickly without lowering the default rate may deplete the Fund. Conversely, if the Authority manages the default rate on direct loans more efficiently, and increases the number of direct loans, the Authority could see an increase in direct loan repayments, and a decrease in operating expenses associated with the interest rate buy-down fee paid to SunTrust.

Over 86 percent of loan service expenses are payments to SunTrust to buy down interest rates for consumers. Administrative costs include payments for liability insurance, equipment, travel, supplies, communication expenses, etc.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

April 16, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Assistive Technology Loan Fund Authority** (Authority) for the year ended June 30 2007. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. 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, review the adequacy of the Authority's internal controls, 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 along with its Board have 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 and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control 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
Budgetary process
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 and regulations. 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 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.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance. However, we noted certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Authority has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on April 16, 2008. Management's response has been included at the end of this report.

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

AUDITOR OF PUBLIC ACCOUNTS

GDS:clj

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April 29, 2008

Mr. Walter J. Kucharski
Auditor of Public Accounts
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101 N. 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Assistive Technology Loan Fund Authority (the Authority) / NewWell Fund appreciates the opportunity to respond to the recommendations contained in the audit report issued by your office for our fiscal year ended June 30, 2007.

Develop a Business Plan

The Authority will develop a Business Plan to identify specific operations and financial functions which will provide guidance to the Board on future program sustainability. At its April 24, 2008 meeting, the Board assigned this task to the Finance Committee. The Committee will work to produce a plan, for full Board approval, that will evaluate and define financial goals and thresholds for use by the Board in projecting and measuring specific strategic planning efforts. The Committee will also initiate the creation of an investment plan for the purpose of maximizing earnings on our principal. Executive Management will consider various cost saving scenarios for the Authority, including collaboration with outside entities or agencies, and general administrative cost reduction measures.

Notify Loan Committee of Loan Write-offs

The Authority supports the recommendation to provide regular reports to the Loan Review Committee and the Board regarding delinquent loans, defaults and write-offs, a process which in fact began with the Board meeting held on April 24, 2008. The Authority agrees that evaluation of this data could help identify specific characteristics to guide the Loan Committee in their decision making process. Since the inception of new duties being assigned for late payment notification improvements in collections have been significant. It is anticipated that by providing delinquent loan data to the Loan Review Committee, in combination with consistently applied collection procedures, there will be a decrease in the default rate.

It is the intention of the management, staff and Board of the Authority to develop the Business Plan and provide regular delinquent loan reports as stated to ensure that the recommendations of the Auditor of Public accounts referenced herein are adopted within the next fiscal year.

Respectfully Submitted,

Joseph F. Wallace

Joseph F. Wallace, Ph.D.
Executive Director

AUTHORITY OFFICIALS

Assistive Technology Loan Fund Authority

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Executive Director

Board of Directors

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Chairwoman

Ms. Robin Jefferson, C.P.A.
Treasurer

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Designee for the
Secretary of Health and Human Resources

Mr. Juan Martinez
Mr. Dean Bonney
Ms. Linda Harris
Mr. Michael Haydon
Ms. Amy Henley
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Mr. Ronald Lanier
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