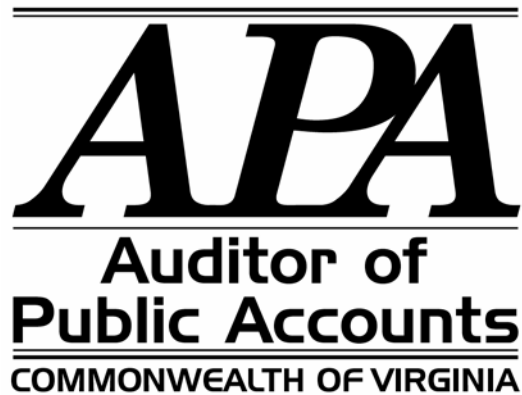


**SPECIAL REVIEW OF
THE ASSISTIVE TECHNOLOGY
LOAN FUND AUTHORITY**

DECEMBER 2005



REVIEW SUMMARY

We completed a special review of questionable items at the Assistive Technology Loan Fund Authority (Authority) at the request of the Chairman and Treasurer of the Assistive Technology Loan Fund Authority (Board) and the Department of Rehabilitative Services (Department). We believe that questionable items and other matters that came to attention during our special review do not warrant further investigation. However, we recommend, for selected questionable items, that the Authority consult legal counsel to attempt recovery of funds. We also believe that questionable items were the result of the Authority lacking governance and oversight from the Board. We found that the Board did not hold the Executive Director accountable nor demand sufficient information to manage the affairs of the Authority.

We recommend that the Authority should be an agency of the executive branch of government within the Secretary of Health and Human Resources. We also recommend that the Authority should have an annual audit requirement. We believe that both of these recommendations will provide the Authority with greater governance and oversight.

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SPECIAL REVIEW OF THE AUTHORITY

In October 2005, our office received a letter from the Department of Rehabilitative Services (Department) concerning discovery of circumstances suggesting a possibility of questionable items at the Assistive Technology Loan Fund Authority (Authority). At the request of the Chairman and Treasurer of the Assistive Technology Loan Fund Authority Board (Board) and the Department, our office completed a special review of the Authority's policies and procedures, controls, and selected transactions.

During our review, we found that the Board lacked governance and did not provide oversight of the Authority's management. These two items, combined with the management's attitude towards internal controls at the Authority, created an environment of poor internal controls and questionable items.

Throughout this report, we are referring to the Executive Director, who worked with the Authority from its inception until September 2005. The Board has hired a new Executive Director; we will refer to him as the Current Executive Director.

Authority Overview

The General Assembly created the Authority in 1995 as an independent political subdivision. The Authority's statutory mission is to "provide assistance with loans and in the purchase of assistive technology equipment, or other equipment, which enable persons with disabilities to become more independent or more productive members of the community with an improved quality of life."

Board of Directors

The Board has the full statutory responsibility of what the Code of Virginia refers to in Section 2.2-2100 as a supervisory board. These Boards have responsibility "...for agency operations including approval of requests for appropriations. A supervisory board, commission, or council appoints the agency director and ensures that the agency director complies with all board and statutory directives. The agency director is subordinate to the board."

The Board consists of 12 members: the Secretary of Health and Human Resources or his designee; an employee of the Woodrow Wilson Rehabilitation Center; an experienced consumer lender; a certified public accountant; two persons with investment finance experience; and six persons with a range of disabilities. The Governor appoints the 10 citizen members subject to the General Assembly's confirmation.

Programs

The Authority makes low-interest loans directly or indirectly through its banking partner to help eligible applicants obtain the assistive technology so they can become more independent. Eligibility for these low-interest loans requires applicants be Virginia residents with a disability or have a family member who has a disability. Small businesses or not-for-profit organizations can also meet the eligibility requirement if the entity demonstrates that it will use the loan to acquire assistive technology to employ or retain one or more persons with disabilities, or make structural modifications consistent with the Americans with Disabilities Act.

The Authority and its banking partner provide loans at interest rates below the market rate. Borrowers do not have to make a down payment on the loan and also receive a longer loan term than those

typically available on loans. The Authority uses its banking partner for loans over \$4,000; the Authority makes loans under this amount directly to borrowers.

The Authority's banking partner offers lowered interest rates because the Authority will buy-down the interest rate and/or guarantee certain loans held by its banking partner. The maximum amount the Authority will spend to buy-down the interest rate on a loan is \$3,225. The Authority's current agreement with its banking partner, SunTrust, requires that the Authority hold investments equal to 50 percent of the loans held by SunTrust plus \$37,500 as collateral at SunTrust.

Organizational History of the Authority

When the General Assembly created the Authority and the Board, the Department of Rehabilitative Services provided the staffing and daily management of the Authority. The Authority received an initial appropriation of \$500,000 from the General Assembly in 1996. During fiscal 2000, the Department transferred \$462,251 in state funding to the Authority. In March 2000, the General Assembly gave the Authority a one-time appropriation of \$400,000.

Starting in October 2000, the Authority started receiving federal funds, which the Department awarded. Between fiscal 2002 and 2005 the Authority received approximately \$7.5 million in federal funds. A majority of the federal funds remain unexpended because the grants only allow the Authority to use a small portion for operations and all remaining funds are either collateral in perpetuity or placed in a revolving loan fund.

As of November 1, 2002, the Authority assumed full responsibility for its staffing, daily management, and development of internal controls. The Board continued to have full responsibility for providing governance to the Authority.

Financial Summary

Review of the 2002 compiled financial statements, the 2003 and 2004 audited financial statements, and the unaudited 2005 trial balance shows the following.

Revenue:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Federal grants	\$2,324,511	\$ -	\$3,599,473	\$3,945,356
Appropriations & transfers		54,000	597,405	1,097,394
Donations	-	-	400,000	-
Interest income on direct loans	2,719	3,338	2,391	1,845
Investment earnings	<u>89,128</u>	<u>65,006</u>	<u>68,853</u>	<u>253,233</u>
Total revenue	<u>\$2,416,358</u>	<u>\$ 122,344</u>	<u>\$4,668,122</u>	<u>\$5,297,828</u>

Expenditures:

Personnel	\$ -	\$ 75,494	\$ 196,052	\$ 258,295
Contractual obligations	-	-	188,880	222,118
CSF & DHCD awards	-	127,172	140,831	306,996
Interest rate buy-downs	44,254	58,337	55,386	72,645
Discount on zero interest loans	-	-	11,065	-
Marketing	-	5,096	100,522	219,057
Loan losses	-	181,232	95,963	8,341
Professional fees	30,715	26,590	43,717	108,738
Rent	-	-	-	34,537
Other	<u>14,379</u>	<u>35,341</u>	<u>62,999</u>	<u>116,757</u>
Total expenses	<u>\$ 89,348</u>	<u>\$ 509,262</u>	<u>\$ 895,415</u>	<u>\$1,347,484</u>
Excess (Deficiency) of revenues over expenditures	<u>\$2,327,010</u>	<u>\$ (386,918)</u>	<u>\$3,772,707</u>	<u>\$3,950,343</u>

Loan Information:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Number of direct loans outstanding as of June 30	48	59	96
Gross direct loans & notes receivable purchased from banking partner	\$174,652	\$204,374	\$366,830
Allowance for loans & notes receivable	95,010	79,766	46,960
Allowance as percent of loans & notes receivable	54.4%	39.0%	12.8%
Net loans & notes receivable outstanding	79,642	113,631	308,893
Loan loss write-offs	181,232	95,963	8,341

Objectives and Scope of Our Review

We reviewed the questionable items brought to our attention by the Board and the Department and evaluated the Authority's policies and procedures, controls, and transactions from November 2002 through June 2005. Our review starts with November 2002 because at this time the Authority separated from the Department and assumed full responsibility for its operations.

Our review procedures included inquiries of appropriate personnel of the Department and the Authority, Board members, inspection of documents, records, loan agreements, federal grants, Board minutes, audit reports, and applicable sections of the Code of Virginia.

Criteria Used in our Review

Given that funds used by the Authority are considered public funds, we evaluated the questionable items using the following criteria:

1. Did the transaction violate the Code of Virginia, Federal Grant Agreements, or State Purchasing guidelines?
2. Was there any evidence that employees of the Authority personally benefited from these transactions?

Questionable Items

The Board ended the Authority's Executive Director's employment after an unfavorable audit report brought the questionable items listed below and discussed on the following pages to the Board's attention in September 2005.

- \$5,000 paid to establish a separate foundation for which the Executive Director and other related parties serve as Directors.
- \$8,000 to cover closing costs of an acquaintance of the Executive Director (the person does not appear to qualify for any of the programs offered by the Authority).
- \$38,000 in estimated delayed cash flows from loan remittances not being sent out.
- \$1,000 for a double payment caused by advancing funds to an employee that has not been paid back.
- \$219,000 spent for advertising the Authority.
- \$4,664 to cover the cost of a trip to Florida for which there is no documentation or record of attendance at the conference.

We reviewed the questionable items listed above and others that came to our attention. These questionable items are described in the following selection, entitled "Findings."

Findings

Establish a Separate Foundation

In June 2003, the Executive Director created a foundation, the Americans with Disabilities Loan Fund (Foundation), with the Authority's general funds. The charter for the foundation states that the organization will serve as a fund-raising and educational branch of the Authority. However, the Office of Attorney General had previously advised the Executive Director, in a letter dated July 28, 1998, not to establish a separate fundraising entity since the Authority already had these capabilities.

The Executive Director authorized and endorsed a check for \$5,000 dated June 3, 2003 to provide start-up funds for the newly established entity. The Board minutes indicate that the Executive Director informed the Board about the Foundation on September 4, 2003.

When the Board questioned the Executive Director about the status of the Foundation during the September 29, 2005 Board meeting, the Executive Director stated that Foundation had been terminated. However, we found that the State Corporation Commission considers the Foundation to be in good standing and submitted an annual report dated August 24, 2005. The State Corporation Commission provided information that the registered agent resigned on August 25, 2005. Therefore, unless the Foundation gets a new registered agent before December 29, 2005, the State Corporation Commission will terminate the Foundation.

The Authority should attempt to get both an account of the use of the \$5,000 and try to recover unspent funds. Since there is no indication that any individual personally benefited from the establishment of the Foundation, we believe there is not reason to pursue this matter further. However, this incident does indicate that the Board needs to take greater actions to oversee management and also authorize the use of Authority funds.

Recover Closing Costs

In March of 2003, the Authority received a loan application requesting \$663,866 of which \$337,786 would create an accessible addition to the applicant's home. The remaining funds would pay off the applicant's other existing debt, including credit cards and a first mortgage. The Authority, as required by law, forwarded the application to their banking partner for evaluation. The bank partner denied the application for the full amount citing a lack of equity in the home and would only offer \$100,000.

There is no documentation showing that the applicant requested the loan for \$100,000 or any other type of assistance from the Authority. However, on August 27, 2003 the Executive Director wired \$8,000 to an attorney representing the applicant to pay closing costs on a construction loan for the applicant's home. Further, someone recorded the disbursement as an "Administrative Cost" and there is no record whether the recipient got either a grant or loan.

Paying for closing costs is not a program provided by the Authority. We cannot establish a financial relationship between the Executive Director and recipient that would benefit anyone other than the recipient.

Since the payment was not for any program within the Authority, the Board should consult legal counsel to attempt recovery of these funds. Legal counsel should determine if either or both of these parties are financial responsible for this transaction and attempt recovery from either or both parties.

Management of Consumer Loan Program

The Authority directly makes loans to individuals for assistive technology. In the direct loan program, Authority staff assesses the individual's need, determines the amount of the loans, pays the individual, and makes collection on the outstanding balance.

From May 2003 to March 2005, the Authority did not mail monthly statements to any of the direct loan borrowers. Additionally for borrowers, who did make installment loan payments, the Lending Specialist apparently placed their payments in an unlocked drawer and did not deposit the funds in a timely manner. This delay in deposits resulted in some amounts remaining undeposited for up to four months. These delays occurred in seven of the last nine months of calendar 2004.

The Lending Specialist and Executive Director had direct responsibility for the direct loan program including the collection and depositing of funds. As a result of not mailing statements or depositing checks, there was a \$38,000 delayed cash inflow from loan funds.

This program is one of the Authority's primary programs. We and Authority's staff have not determined if these actions will affect the collectibility of any of the affected loans.

Double Payroll Amount

The Authority used a Payroll Administrator to prepare and process payroll and all related reports. Both the Lending Specialist and the Executive Director had authorization to contact the Authority's Payroll Administrator to process payroll transactions.

On October 14, 2003, a day before the direct deposit of payroll into staff accounts, someone contacted the Payroll Administrator by phone and requested a manual check in lieu of a direct deposit for the Lending Specialist. The Payroll Administrator issued a manual check to Lending Specialist and attempted to recover the funds from the direct deposit by issuing a reversal order.

The Payroll Administrator did not successfully withdraw the funds from the bank since they were not available. The Payroll Administrator then debited the Authority on October 20th for the funds paid to the Lending Specialist.

The Authority coded this transaction as payroll taxes. During this period, no one performed any reconciliations or other reviews of transactions or accounts. Due to poor internal controls caused by improper segregation of duties, we cannot determine who requested the manual paycheck or coded the transaction as payroll taxes.

When the auditors found the problem they informed the Board and the Authority's management. The Authority has taken action to recover this money.

Purchase of Advertising

The Executive Director entered into advertising contracts in which the Authority purchased \$170,007 of prime airtime on the major networks to promote the Authority's programs. Although the contracts represented the Authority's largest expense, the Board was unaware of these contracts.

Additionally, there is no documentation that any of the Authority's employees followed the Public Procurement Act in making this purchase. This matter came to the Board's attention, when an individual filed a Freedom of Information Act (FOIA) request for information about the advertising campaign, because the commercials included the Lieutenant Governor. The Executive Director requested the Lieutenant Governor's participation in this campaign.

After learning of the FOIA request, the Board immediately questioned the advertising's effectiveness and stopped the campaign. There is no indication that the Lieutenant Governor was aware of any of the issues related to this procurement.

Conference Travel

The Authority's travel policy requires documentation and approval for travel expenses. However, the policy does not address approval requirements for any expenses by management. We reviewed the expenses incurred and compared them to the Authority's travel policy.

The Authority paid \$4,664 for the Executive Director and Lending Specialist to attend a conference in Orlando, Florida. We determined that they stayed at the conference hotel during the meeting and the expenses appear reasonable. We found documentation for most expenses, except for a \$177 airfare ticket and a \$199 car rental. Though there is no documentation supporting their attendance at the meeting, the nature of the meeting did not necessarily provide attendance information.

Lodging	\$2,098
Registration fees	1,535
Airfare	436
Meals & rental car	<u>595</u>
Total	<u>\$4,664</u>

Other Matters

During our review, we encountered several questionable business practices conducted by the Authority. We believe that while these practices are not illegal, they place the Board, the Authority, and the Commonwealth at risk.

While the Authority started establishing internal controls, performing regular and systematic reconciliations, supervisory reviews, and documenting all transactions, a number of the issue on the following pages also require the Board and the current management to address. The lack of policies and procedures and oversight has contributed to these matters.

Bank Consulting Fees

From fiscal 2002 until fiscal 2005, the Authority paid \$130,000 in bank consulting fees to a former Board Member, who resigned from the Board in May 1999. We can find no documentation that the Authority used the Public Procurement Act to obtain these services, which are not considered professional services under the Act. We can also find no documentation that the Board participated in the method of selection or monitoring of the contract.

Contract payments occurred in accordance with three separate agreements, and other than providing information, the other deliverables include the Telework and Alternative Financing Program loan manuals. The banking consultant also served as an officer of the ADLF Foundation formed by the Executive Director.

While it appears that the Authority violated the Public Procurement Act in obtaining these services, the consultant did deliver the materials requested, although, no other vendor disputed the procurement of services. Since the consultant was not a member of the Board when receiving the contract, there does not appear to be a technical Conflict of Interest issue. Again the lack of policies and procedures and oversight by the Board raises questions as whether the Authority should have contracted with a former Board member in this manner.

Financing of Matching Funds

Most the federal grants that the Authority receives require a matching component. The federal government requires the entity receiving a grant to put up some amount of money to spend with the federal money. As an example, for an entity to receive \$75,000 from the federal government must agree to spend \$25,000, therefore making \$100,000 available for the program. Typically, the federal government does not restrict the source of matching funds, but does require that the entity spend the money concurrently with the federal funding.

Virginia Housing Development Authority Loan

During fiscal year 2004, the Authority received a \$500,000 interest free loan from the Virginia Housing Development Authority (VHDA). This loan requires the Authority to make monthly payments of \$3,787.88 starting May 2008 and allows the Authority to prepay the loan in part or full.

The Authority used this loan as matching funds for a federal grant to make loans. However, as part of the grant agreement with the Federal Government, the Authority cannot use any of the loan repayment to pay off the VHDA loan, but must place all funds in a separate account, which must be used to make new loans. Currently, the Board plans to return the loans proceeds to VHDA.

Crippled Children's Hospital

The Hospital contributed "in-match" funds of \$250,000 to the Authority backed by an agreement whereby the Authority will make "available to the Hospital a grant \$250,000 plus 50 percent or \$375,000." Recently, the Hospital submitted a letter requesting payment for \$52,389.25 supported by a single page of vendor names and dollar amounts but no additional actual invoices.

The Board needs to review the methods it uses to raise funds to match federal grants. Improperly matching federal funds can result not only in a liability similar to the loan with VHDA, but can also put at risk owing the federal government all of the grant money. If the federal agency making the grant finds that the entity did not adequately or appropriately meet the matching requirement, they can ask for all of their money back regardless if properly spent on the program.

Management of Loans Guarantees

During fiscal years 2003 and 2004, the Authority purchased from its banking partner \$277,195 in loans considered uncollectible. Until the recent audit in September 2005, the Board was unaware of the disposition of these loans.

Although the Authority guarantees the loans, they reserve the right after purchase from the banking partner to independently attempt collection to minimize the loss. Since the Authority has monitored this activity they have only recently started collection efforts.

Reasonableness of Fixed Asset Purchases

The Authority purchased \$38,878 of teleconferencing equipment without following the Public Procurement Act, examining exist state contracts available to them through the Department of General Services or availability of both state and commercial rental services for teleconferencing. The Board and management are now questioning the business necessity of this equipment, which has received minimal use since its acquisition in February 2005.

Lack of Segregation of Duties

The Executive Director had responsibility for signing checks, approving invoices, and making purchases. As stated earlier there were no reconciliations before the hiring of a Finance Director in October of 2004. In preparation for audits, the Finance Director completed reconciliations of bank accounts retroactive to July 1, 2003. In addition, the Executive Director and the Lending Specialist had unrestricted access to the authority's financial accounting system, Quickbooks.

The Board Treasurer, recognizing that the lack of segregation of duties was problematic, requested that he become a required dual-signature on all checks. The Executive Director rejected this request and contacted the Attorney General to clarify the responsibilities of the board treasurer. The Attorney General's office notified the Executive Director in a letter dated July 14, 2005 that:

According to the Code of Virginia and the Board's bylaws (Article II § 2.4) that all powers, rights, and duties of the Authority shall be exercised by the Board of Directors. The letter indicates that the board has the final authority regarding any and all matters, including signatory requirements.

Lack of External Oversight

The Authority is currently an independent organization, which solely relies on the Board exercising its responsibility of oversight to have any type of review. Since becoming independent of the Department, the Authority has had no external review of its operations nor has met its legal and statutory responsibility of having an audit of its federal grants or its reports to the General Assembly.

The Department, as an agent for the federal granting agency, required and forced the Authority to have an audit for fiscal 2003 and 2004. This audit found numerous problems, the most serious of which are part of this report.

Conclusion

Overall, we feel that these findings and questionable items do not appear criminal. However these transactions result from a lack of Board governance and oversight, not holding the Executive Director accountable, and not demanding sufficient information to manage the affairs of the Authority.

We have found positive improvements in internal controls and documentation during fiscal 2005. The Authority has prepared written policies and procedures for loans, travel, and employees. In early 2005, the Authority implemented a fiscal procedure's manual to cover areas such as: mail and deliveries, cash receipts, cash disbursements, payroll and benefits, fixed assets, processing of loans, and general and administrative transactions. Access to QuickBooks is presently restricted to the Authority's Finance Director; the Program Administrator is now restricted to a read-only access. In June 2005, the fiscal staff prepared a fiscal 2006 detailed operating budget and the Board of Directors has approved it, a task not performed in previous years. Also, as an interim measure the present Board's Treasurer has started reviewing transactions and co-signing checks.

RECOMMENDATIONS

Although there have been a number of positive actions taken by the Board, the Current Executive Director, and the staff we still have reservations concerning the on-going independent nature of the Authority. We believe that the Authority should be an agency of the executive branch of government within the Secretary of Health and Human Resources. We believe the agency can operate similar to the Virginia Small Business Financing Authority in the Secretary of Commerce and Trade. In addition to on-going oversight, the placement will give the Authority, and more importantly the Board, the opportunity to use potentially another entity to assume its administrative functions, freeing staff to concentrate on program delivery.

We also believe that external oversight is essential for any public entity handling public funds. Therefore, we believe that the Authority should have an annual audit requirement, and not depend on the Department to initiate the requirement because of federal grants.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 9, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Assistive Technology Loan
Fund Authority Board

We have conducted a special review of selected questionable items of the Assistive Technology Loan Fund Authority (Authority). The review was a result of a request from the Authority's Board and Management. We believe that none of the matters in this report are criminal.

The report makes certain recommendations for improving the governance and oversight of the Authority. Since the Authority and Board have started to address many of the issues in this report, our recommendations focus on possible changes to the Code of Virginia to improve the governance and oversight of the Authority.

EXIT CONFERENCE

We discussed this report with the management and representatives of the Board at an exit conference held on December 15, 2005. Management's response is included at the end of this report.

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 and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

GDS:aom
aom:40



COMMONWEALTH of VIRGINIA

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December 15, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
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Richmond, Virginia 23219

Dear Mr. Kucharski:

The Virginia Assistive Technology Loan Fund Authority (Authority) appreciates the opportunity to respond to the findings and recommendations contained in your special review issued in December 2005.

It should be noted that the Authority was created in 1995 as a result of a strong advocacy movement by persons with disabilities from across Virginia. The purpose was to develop a new and flexible loan financing mechanism to assist in the acquisition of assistive technology. A conscious decision was made to establish an Authority, versus a state agency, to provide an entity which could receive both public and private funds that would remain the exclusive property of the organization. This has proven to be an effective organizational model as demonstrated by the multiple federal grant awards and the investments made in the program by the private sector. It currently is the largest organization of its kind in the country.

The Authority's Board of Directors (Board) has experienced significant turnover (fifty percent since summer 2005) with the current administration and would like to emphasize that the issues identified in this audit report reflect the activities and lack of oversight from a founding Board and past Executive Director who were appointed in previous administrations. Further, the Board respectfully disagrees with the recommendation that it should be an agency of the executive branch of government within the Secretary of Health and Human Resources. This is not to say that additional governance and oversight functions could not be performed

outside of the Authority, but to raise the organization to the level of a state agency is deemed by the Authority to be unnecessary.

Presented below are the Authority's comments and responses to the specified findings identified within your report.

Authority Overview and History (pages 1 & 2)

For the sake of clarity, the Authority would remind users of this report it has always had and continues to have a small staff. Until fiscal year 2005 the Authority had never had a dedicated accountant on staff, and once hiring one at that time, a system of internal controls began being put in place, and is continually refined. Until July 1, 2005 the position of Board Treasurer had historically been, according to the former Executive Director, a "ceremonial" position. That was permanently changed on July 1, 2005 with the appointment of the new and current treasurer, whose position is now one of significant oversight and constructive involvement. The new Treasurer's duties include but are not limited to approval and signature on all invoices received and checks issued, review and approval of all purchase orders, and review of bank reconciliations and payroll records. Also on July 1, 2005 a new Chair was appointed, and four long term Board members were replaced, thus resulting in a very different Board composition with a fresh outlook. Finally, the Authority wishes to make it clear that the special review performed by the Auditor of Public Accounts that is the subject of this report was initiated at the request of the new Treasurer, the new Chairwoman, as well as the Department of Rehabilitative Services.

Authority Response to Establish a Separate Foundation (page 4)

The Authority provided to the field agents from the Auditor of Public Accounts office the all documentation available as to the use of the \$5,000 start up funds authorized by the previous Executive Director and Board. Of that \$5,000, over \$3,799 was disbursed by the former Executive Director to an accounting firm for start up filings, \$500 to the U.S. Treasury, \$75 to the Treasurer of the Commonwealth for 501(c)(3) annual registration fees (FY 03 – FY 05), and an additional \$325 was paid to Leslie Argenta . The remaining \$300 is on account First Market Bank. It is the intent of the current Board not to enlist a new registered agent which should result in the termination of the Foundation effective December 29, 2005. The new Executive Director will confirm this with the State Corporation Commission on that same date. The Authority intends to discuss recovery with the Attorney General's office.

Authority Response to Recover Closing Costs (page 5)

The Board is working with the Assistant Attorney General for legal advice on action steps towards recovery of the \$8,000 closing costs paid to the individual

by the previous Executive Director. The payment of these funds has been determined to not be a loan payment, as no promissory note exists. The Board intends to pursue recovery of these funds from the individual.

Authority Response to Management of Consumer Loan Program (pages 5 & 6)

From inception through 2004 the former Executive Director and the former Lending Specialist were responsible for the management of the direct loan portfolio. As mentioned in the report the former Lending Specialist would receive checks, a number of which were eventually determined to be either very delinquently deposited or not deposited at all. The result of these poor practices and a general lack of internal controls at that time led to there being seven individual months in calendar 2004 where no deposits were made to the Authority's accounts at all. When these practices were disclosed to the Board by the new Financial Director, the Board took the swift and decisive action of immediately calling for the resignation of the Lending Specialist.

Since early 2005, the direct loan program has been very strictly managed by the new Financial Director. Many effective controls have been put into place relating to the entire cash receipts cycle, including, but not limited to, detailed logging of incoming mail, logging of all checks on a separate check log, copying of checks received, prompt depositing of checks received, and timely detailed posting of deposits to both the loan servicing software and general ledger. All controls were put in place with proper segregation of duties and complete accuracy of recording in mind, and both tenets are well served. At present 80% of our loan holders are current, with those not current being referred to our collections agent. Given the current stringent controls in place, the unfortunate problem described in this section could not be repeated.

Authority Response to Double Payroll Amount (page 6)

On 12/15/05, following a review from the Attorney General's Office and the delayed receipt of required documentation from a third party, a demand letter was mailed to the individual in question by certified and regular mail, as well as by hand delivery. The Authority expects re-payment of this double payment amount by the prescribed deadline of 12/30/05. Internal controls have been in place for some time that would prevent this sort of thing from happening.

Authority Response to Purchase of Advertising (page 6)

Effective as of the 10/13/05 Board meeting, the Authority marketing plan has been eliminated and is currently in the process of being re-evaluated from a budget, scope, and delivery perspective. It should be noted that the Marketing expenditures from July 2005 through October 2005 were included in the fiscal

year 2006 budget approved by the Board in June 2005, and are fully documented.

Authority Response to Conference Travel (pages 6 & 7)

As stated in the report, the Authority requires documentation of travel expenditures, and prior approval of all travel, policies which are strictly enforced at present, but were not in the past.

Authority Response to Bank Consulting Fees (page 7)

The payments of bank consulting fees to a previous Board member were raised as a concern due to lack of documentation regarding the method of selection and monitoring of their performance. There was no documentation of Board participation or use of Public Procurement Act procedures in the decision to hire this consultant. The Authority has received an opinion from the Assistant Attorney General regarding its responsibilities under the Public Procurement Act which states, "The Assistive Technology Loan Fund Authority was created as a public body and as a political subdivision of the Commonwealth. §51.5-54(B). The Virginia Public Procurement Act, §§ 2.2-4300 through 2.2-4377, sets forth rules applicable to the award of contracts by public bodies. The Assistive Technology Loan Fund Authority is a "public body" for purposes of the Act and therefore subject to the Act."

The ATLFA will follow all Public Procurement Act procedures when pursuing all goods and services in the future.

Authority Response to Financing of Matching Funds (pages 7 & 8)

Virginia Housing Development Authority Loan --The current agreement with VHDA and the Authority states the matching funds from the VHDA be considered a loan to the Authority as stated in the signed agreement and promissory note. The purpose of these funds is to assist qualified borrowers in acquiring and owning manufactured housing with universal design to promote accessibility and visitability for persons with disabilities. The Board has received an opinion from the Rehabilitation Services Administration (RSA), the federal administering agency of this grant program regarding appropriate use of matching funds. The opinion states, "earmarking match funds and dedicating them only for particular types of loans is not consistent with the Assistive Technology Act. Obtaining match funds as a loan rather than as a gift is problematic. While obtaining match funds as a loan is not prohibited under the AT Act, repaying the loan is complicated because the match funds are considered principal that, once given, must be available to support the AFP. So, funds from the AFP account cannot be used to repay the loan; you would have to repay the loan with some other source of funds not related to the AFP."

These concerns regarding “earmarking” of match funds and lack of other sources of funds to repay the VHDA loan will result in the Authority giving VHDA 30 days advance notice to terminate the existing agreement.

Crippled Children’s Hospital – All federal matching requirements have been met with the existing agreement with Children’s Hospital. The Authority’s new Executive Director will work with the Hospital to ensure appropriate billing and continued collaboration.

Authority Response to Management of Loan Guarantees (page 8)

The Authority acknowledges that historically the purchase of notes for loans considered uncollectible was not well managed. This was due to lack of oversight and accounting from the previous Executive Director and Program Specialist staff. Current practices involve the Authority notifying the individual upon learning from SunTrust of slow or no payments. Consumer counseling is available and options are then offered to the consumer including loan restructuring or rescue payments. Ultimately, if the loan continues to be in arrears, the Authority will purchase the loan from SunTrust using guarantee funds and consider repossession if appropriate.

Authority Response to Reasonableness of Fixed Asset Purchases (page 8)

The Board will be discussing the future of the equipment in question and will make a determination on either developing a plan for its continued use or disposition.

Authority Response to Lack of Segregation of Duties (pages 8 & 9)

As mentioned throughout this letter of response, the Authority has put in place a system of internal controls which currently provide, in our opinion, a satisfactory degree of segregation of duties and by extension assurance as to the propriety and proper documentation of the cash receipts and disbursements of the Authority. Given its small size, the Authority has implemented controls in an effort to maximize separation, and recognizes the important role the Board can play towards that end. The increased oversight since July 1, 2005 provided by the new Treasurer has been instrumental in strengthening our internal controls.

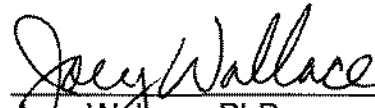
Authority Response to Lack of External Oversight (page 9)

We agree that in the past the Authority did not have sufficient oversight from the former Board. With the staffing changes over the past year and the changes in the Board membership, great and genuine increase in oversight and accountability has emerged, which has been a very welcome development.

The Authority would like to clarify the fact that we have indeed now met our legal and statutory responsibilities, as all required filings with the state, federal government and audit obligations are currently up to date. It should be noted that the fiscal year 2005 audit field work is complete, and the final report is expected to be presented at the January 2006 Board meeting.

Finally, the Authority would like to comment on the statement in the draft report issued to us stating on page 9 that *"the Department...forced the Authority to have an audit for fiscal 2003 and 2004"*. The Authority agreed that the Department did compel the Authority to have the 2003 and 2004 audits, which were indeed in arrears. The current Board, however, approved and in fact very much desired the commencement of the fiscal 2005 audit, which they approved during their meeting held October 13, 2005. The work began on that audit the very next week. It is the intention and fully recognized duty of the Authority and the current Board to engage an independent auditor to perform a timely, annual audit each year. The Board plans to codify this intention at its January 2006 meeting.

Respectfully submitted,


Joey Wallace, PhD
Executive Director

AGENCY OFFICIALS AND BOARD MEMBERS

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

Joey Wallace, PH.D.
Acting Executive Director

BOARD MEMBERS

Amy Odhner
Chair

David B. Robinson, C.P.A.
Treasurer

Dean Bonney	Susan Klein
Gary Guengerich	Ronald Lanier
Linda Harris	Richard Luck
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Thomas Hock	Norman Walker