ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2010 AND JUNE 30, 2011

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority (Authority) for the years ended June 30, 2010 and 2011 found:

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

- an area where the Authority could improve internal controls and its operations,

- an instance of non-compliance or other matters required to be reported under Government Auditing Standards; and

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

-T A B L E   O F   C O N T E N T S-

AUDIT FINDINGS AND RECOMMENDATIONS

Enhance Employee Handbook and Employment Contracts

The Authority's Employee Handbook and individual employment contracts do not sufficiently address the Board of Directors' (Board) position on employee performance and reporting of Conflicts of Interest, External Employment, Working Hours and Leave, and Reporting and Approving Work Locations other than the Office. During the past year, the Board changed the Executive Director position from a contractor employed by another organization to an employee of the Board.

Due to the contractual arrangements with the other organization, the consulting contract did not address many of the fundamental expectations found in an employment contract. Employment contracts normally address Board set performance expectations along with any specific terms or conditions of employment unique to the individual or organization. Additionally, it is not uncommon that an organization reference within an individual's employment contract that terms not specifically address will comply with the organization's Employee Handbook.

Therefore, the Authority's Employee Handbook should include well documented policies that effectively communicate to all staff the Board's expectations. Employment contracts should, address situations or circumstances unique to the individual or not specifically covered in the Authority's Employee Handbook.

The Board should work with the staff to enhance the Employee Handbook and work with legal counsel review and amend employment contract to address issues not specially covered in the Employee Handbook.

Improve Password Management

The Assistive Technology Loan Fund Authority (Authority) does not require password changes or password complexity techniques to access sensitive data on their internal systems in accordance with the Commonwealth's information security standard, SEC 501-06. By not requiring periodic password changes and complex passwords to systems containing sensitive data, the Authority places their information systems at risk of having sensitive financial and customer data compromised. We recommend the Authority implement and follow policies and procedures to be in compliance with the Commonwealth's information security standards for their critical internal systems.

AUTHORITY HIGHLIGHTS

Organizational Background

The ATLFA/NewWell Fund provides loans to Virginians with disabilities of all ages for assistive technology devices or services, and telework related purposes. The goal of the program is to create an 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 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 do this, the Authority manages the Assistive Technology Loan Fund (Fund). This revolving loan fund consists of federal funds awarded or 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 citizens 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, or direct loans issued by the Authority (less than $15,000 per loan). At the April 2011 Board meeting, the Board raised the maximum value of these direct loans to $22,500.

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 criteria for a loan. 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 to SunTrust of $400 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, review all applications rejected by SunTrust and determine 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. At June 30, 2010, the balance in this account was $224,951.15, covering 31.5 percent of the $712,597.34 guaranteed loan balance outstanding at SunTrust. At June 30, 2011, the balance in this account was $219,761.46 covering 39.7 percent of the $552,929.04 guaranteed loan balance outstanding at SunTrust.

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 to ensure the citizen continues to realize the program's benefits. Below, we discuss the Authority's management of their Direct Loans.

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 term for their loans than is usually available from other financing sources. With the exception of an automobile loan, these extended loan terms typically mirror the life of the purchased 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 years 2010 and 2011, the Authority received over 400 applications for loans, which resulted in the establishment of 116 and 119 new loans respectively. The following tables provide details regarding the additions to each of the Authority's loan programs during each fiscal year as well their balances at the end of the fiscal year.

New Loans during Fiscal year 2010

Loan Type	Count	Loan Value	Average Loan Amount
New loans held by SunTrust	15	$ 402,220	$26,815
New loans held by SunTrust, guaranteed by the Authority	9	211,257	23,473
Direct loans* by the Authority	92	628,689	6,834
Total New Loans	**116**	**$1,242,166**	**$10,708**

Source: Downhome Loans

* The direct loans include five Guaranteed SunTrust loans restructured into direct loans, totaling $49,696 and averaging $9,939 in value at June 30, 2010.

Total Loans Held by the Authority and SunTrust at June 30, 2010

Total Loan Portfolio	Count	Average Loan Value
$5,642,073	393	$14,356

Source: Downhome Loans

New Loans during Fiscal year 2011

Loan Type	Count	Loan Value	Average Loan Amount
New loans held by SunTrust	18	$567,725	$31,540
New loans held by SunTrust, guaranteed by the Authority	10	$233,364	$23,336
Direct loans by the Authority	91	$645,416	$7,092
Total New Loans	**119**	**$1,446,505**	**$12,156**

Source: Downhome Loans

* The direct loans include one Guaranteed SunTrust loan restructured into a direct loan, valued at $9,219 at June 30, 2011.

Total Loans Held by the Authority and SunTrust at June 30, 2011

Total Loan Portfolio	Count	Average Loan Value
$3,386,428	380	$8,912

Source: Downhome Loans

Loan Losses

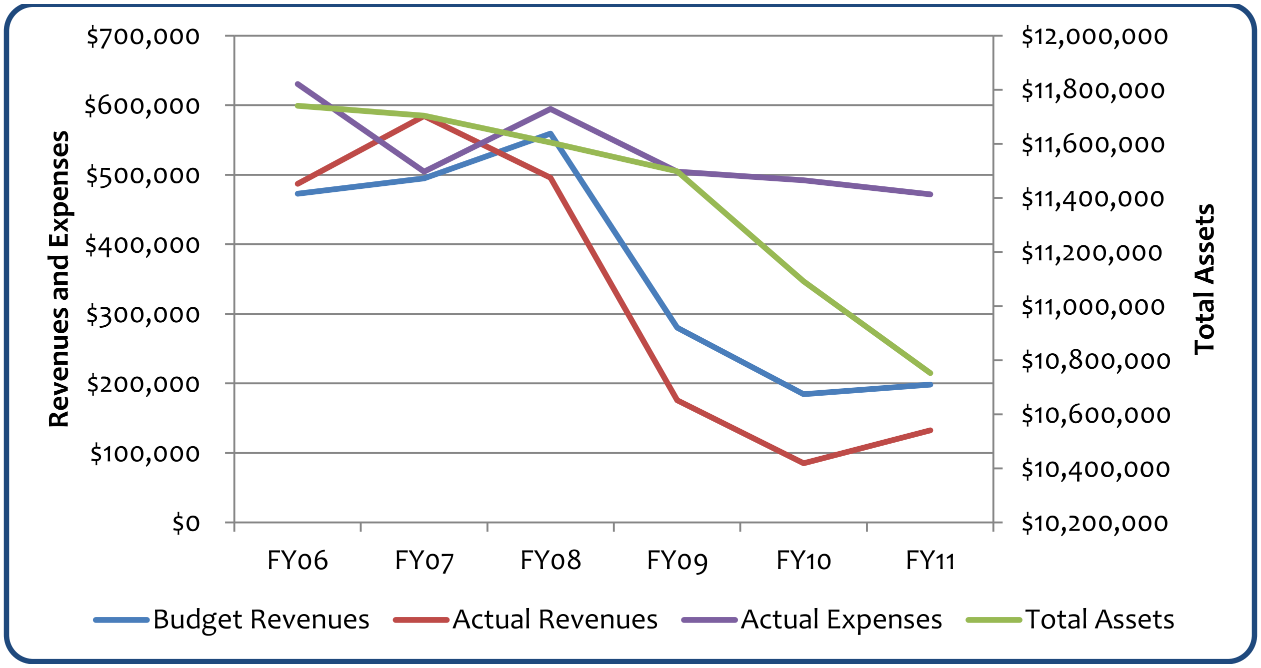
Loan losses stem from defaults on the Authority's direct loans and the guaranteed loans through SunTrust. The Authority's policy requires write-off of loans, if they are more than 180 days delinquent. However, due to the mission of the organization the Authority strives not to write-off loans if at all possible. During fiscal year 2010, the Authority actually wrote off almost $47,000 in loans due to the credit loss or death of the loan recipient and at June 30, 2010, their loss allowance for the remaining direct loans was $60,511.

Therefore, in July 2010, to minimize defaults the Authority modified how they monitor and manage their delinquent loans, offering loan modifications to the recipients where possible. In addition to better assess their anticipated cash flows; the Authority increased their direct loan loss allowance from three to five percent of the total outstanding principle for direct loans. During fiscal year 2011, the Authority actually wrote off almost $55,000 in loans due to the credit loss or death of the loan recipient and at June 30, 2011, their loss allowance for the remaining direct loans was $64,548.

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, the amount on-hand 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, which remains its primary source of income, its operational expenses, and its mission to serve the disabled. 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 maintenance of principal as reflected below.



While expenses over the past five years have remained relatively stable, at the end of fiscal year 2010, the Fund's weak investment performance and continuing operational expenses caused the fund's total assets to decline by just over $400,000. Likewise, the fund's total assets declined in fiscal year 2011 by almost $340,000.

During fiscal year 2010 and 2011, the Board initiated several changes to their fiscal policies in an effort to improve its long-term sustainability. These changes include the following.

- Revisions to their investment approach and policies in January of 2010, moving a significant amount of their funds from the Local Government Investment Pool (LGIP) into Certificate of Deposit Account Registry Service (CDARS). While the CDARS are performing slightly better than the LGIP, the overall health of the investment market has impacted the level of interest earned by the Fund.

- Adoption of a financial projection model in January 2011, as recommended in previous audits, to help guide the Board and Authority in assessing the various factors impacting their cash flows, as well as identifying opportunities to adjust aspects of their loan program to improve those cash flows. This model supported the increase in the maximum direct loan amount previously discussed as well as an increase in the number of loans issued.

- Expansion of loan monitoring, counseling and modification activities in July 2010 to help loan recipients stay current with their loans.

- Modification to the Authority's direct loan allowance for doubtful accounts calculation as discussed above, to better plan for the impact of loan defaults on their available funds.

These changes 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 years 2010 and 2011, highlighting the impact of some of their policy decisions as well as the continued negative cash flow for the organization.

	Budget 2010	Results 2010	Budget 2011	Results 2011
Funding sources				
Grant Income	-	-	-	$25,127
Interest revenue on cash balances	142,905	32,887	116,207	43,337
Interest, late fee and other income – direct loans	41,700	52,490	82,184	63,918
Total funding sources	184,605	85,377	198,391	132,382
Expenses				
Payroll and benefits	273,620	255,201	266,270	266,336
Loan loss	39,700	70,970	64,495	60,288
Loan services	12,400	11,468	12,950	19,318
Payments to Children's Hospital of Richmond	53,800	53,800	-	-
Continuous Charges - DRS, VITA, rent	54,200	51,951	56,205	53,638
General and administrative	47,039	33,752	47,484	44,349
Marketing, consulting and professional fees	23,800	14,907	23,800	28,076
Total expenses	504,559	492,049	471,204	472,005
Net revenue	($319,954)	($406,672)	($272,813)	($339,623)

Source: The Authority

The final schedule below reflects the Fund's year-end balances as of June 30, 2010 and 2011.

	2010		2011	
ASSETS				
Cash		$ 9,931,212		$ 9,523,686
Loan receivables	$1,215,813		$1,297,571	
Allowance for loan loss				
Guaranteed loans	(5,598)		(6,604)	
Direct loans	(60,511)	-	(64,548)	-
Net loan receivables		1,149,704		1,226,419
Unamortized discount zero percent loans		(4,266)		(1,652)
Other assets		22,756		15,830
Total assets		11,099,406		10,764,283
LIABILITIES				
Accounts payable (accrued expenses)		7,279		11,779
Total liabilities		7,279		11,779
NET ASSETS				
Opening balance		11,498,799		11,092,127
Net revenue		(406,672)		(339,623)
Total net assets		$11,092,127		$10,752,504

Source: The Authority

Commonwealth of Virginia
Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 10, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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 years ended June 30, 2010 and June 30, 2011. 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, to review loan policies and procedures and oversight of the loan portfolio including provisions for reviewing individual loan status and follow through. Additionally, our objectives were to also determine the adequacy of the Authority's internal controls, to test compliance with applicable laws and regulations, and review corrective actions of audit findings for 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 and regulations.

We gained an understanding of the overall internal controls, 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 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 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 certain matters involving internal control and its operation and compliance with applicable laws and regulations 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 three 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 August 31, 2011. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

JBS/clj

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September 6, 2011

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Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
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Dear Mr. Kucharski:

The Assistive Technology Loan Fund Authority (the Authority) appreciates the opportunity to respond to the recommendations contained in the audit report issued by your office for FY 2010 and 2011.

Enhance Employee Handbook and Employment Contracts

The Executive Director and staff of the Authority will recommend guidelines to the board of directors for inclusion in the Employee Handbook that explicitly address employee performance evaluation requirements and the obligation of Authority staff to disclose any potential conflicts of interest or external employment. Also, the ED will present to the Board a model ED employment contract that addresses current deficiencies related to external employment, incapacitation due to illness, and leave with or without pay. Finally, the guidelines regarding exceptions to standard office hours and work locations for all Authority employees will be specified in the Board governance manual.

Improve Password Management

The Authority will develop a policy on password protection based on the IT Information Security Standard (SEC501-01), which will identify specific timeline change requirements and letter, number, and character requirements designed to mitigate the risk to each of our databases. Password protection has been implemented on the NewWell Fund loan database.

Respectfully Submitted,

Joseph Wallace

Joseph F. Wallace, Ph.D.
Executive Director

The ATLFA mission is to facilitate favorable credit financing of assistive technology for Virginians with disabilities.

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

BOARD MEMEBERS
As of June 30, 2011