

**THE ASSISTIVE TECHNOLOGY
LOAN FUND AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009**



AUDIT SUMMARY

Our audit of the Assistive Technology Loan Fund Authority (Authority) for the year ended June 30, 2009 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 non-compliance or other matters required to be reported under Government Auditing Standards.

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AUDIT FINDINGS AND RECOMMENDATIONS

Update on Prior Year Findings and Future Issues

In response to our audits, the Board of Directors (Board) and management have worked together to develop a Business Plan that attempts to address operations and financial sustainability. Our review of the Authority's business plan determined that this document does significantly address many of our concerns from last year.

Although the business plan provides the Board and management with a general direction, the business plan does not adequately address operations and financial sustainability to ensure that the Authority can continue to provide services in the future. Therefore, we have suggested that the Board and management continue to refine the plan to address this issue of sustainability.

The Authority has taken the appropriate steps to report the Authority's funds to the Department of Treasury as public funds, which is now being included in the total public deposits in accordance with the Virginia Security for Public Deposits Act.

Enhance Loan Monitoring Processes

The Board has established a Loan Committee to provide oversight to the lending and write off process. Currently the Loan Committee is receiving delinquency reports; however, there are several enhancements to this process which, we believe, would assist both the Loan Committee and the Board in its understanding of the status of the Authority's loan portfolio.

The current policy states that the Authority will write off all loans over 180 days delinquent. The Authority's policy does not factor in the unique repayment cycle to appropriately address delinquency. Many loan holders have extraneous circumstances, such as financial hardships or medical conditions that create hardships, that bar regular repayments. The current policy does not address how to appropriately identify when a loan repayment occurs with exceptions or when a loan is actually not recoverable and delinquent.

Being able to identify between a loan in repayment status with exceptions and a loan that is non-recoverable will allow the Authority to more appropriately write-off non-recoverable loans earlier. Therefore, the Authority should revise the policy to address if and when a loan is non-recoverable so that appropriate write-offs can occur, while taking into account the Authority's unique nature of loan repayments.

Additionally, the Authority should also improve their reporting of delinquent loans to the Board, which incorporates the changes proposed in determining when loans are ready for write off, to also provide an estimate of additional loans that have the potential to become delinquent. Currently the Authority uses a historical average of defaults; however, this approach does not anticipate economic conditions and does not provide the Board with the ability to question and periodically re-evaluate the Board's policies on granting credit.

We believe implementing these changes will provide information on the making and collecting of loans and will help to evaluate these policies. These changes also allow the Board, Loan Committee, and management more information on evaluating their financial risks.

Enhance Business Plan

While we commend the Board and management on the development of the Authority's Business Plan, this plan projects that the Authority will have an operating deficit for at least the next five years. Additionally, the plan makes certain assumptions about how the Authority will grow the program, which includes outreach and other actions. The development of the Business Plan is the first component of a continuous cycle of performance measurement.

The first part of the performance measurement cycle is the development of a plan with clear financial and program objectives. The second part of the performance cycle is a comparison of actual results against the plan with analysis of successes, failures, and achievements. The third part is the revision to the business plan resulting from the outcomes of the second part of the cycle.

The Board and management need to incorporate this three part approach to their business planning cycle. We also believe that the Board and management need to determine, if and when, the Authority will become self-sufficient and will have the ability to support itself. If the Board and management do not believe that this objective is possible, we believe that the Board and management need to discuss this conclusion with the Secretary of Health and Human Resources. The Board also needs to consider this factor when it develops budgets and future plans to ensure that the Board does not incur unnecessary or inappropriate administrative costs.

AUTHORITY HIGHLIGHTS

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 creditworthy Virginians 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 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.

Services

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 \$15,000 per loan).

The Authority sends loan applications for amounts more than \$15,000 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, which the Authority does not guarantee. However, the Authority pays a flat fee to SunTrust of \$400 to buy down the interest rate on the 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. If the loan committee decides to guarantee the loan, the Authority pays the interest buy down fee of \$400 and deposits 30 percent of the loan amount in their account with SunTrust, up to \$30,000. However, if the client defaults on a guaranteed loan, the Authority is responsible for the full default amount; the Authority will then restructure the loan as a Direct Loan issued through the Authority. SunTrust requires the Authority to maintain 30 percent of the value of its guaranteed loans on hand in a Money Market Account.

The loan committee reviews all loan applications for less than \$15,000. 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. The Authority is proposing to increase the interest rate in fiscal year 2011 to six percent for secured loans and eight percent for unsecured loans. Loans are available with longer terms to reduce monthly payments.

During fiscal year 2009, the Authority received 206 applications for loans, which resulted in an establishment of 94 new loans. The following table provides details on the Authority's loan program during fiscal year 2009.

Loan Type	Count	Amount	Average Amount
New Direct Loans issued by the Authority	75	\$547,122	\$ 7,295
New Guaranteed SunTrust restructured to Direct loans	5	68,617	13,723
New loans held by SunTrust and guaranteed by the Authority	9	204,585	22,732
New loans held by SunTrust but not guaranteed by the Authority	5	139,267	27,853
Total New loans held by the Authority and SunTrust	94	\$959,591	\$10,208

Source: The Authority

Loan losses stem from defaults on the Authority's direct loans and the guaranteed loans through SunTrust. Direct loan receivables totaled \$940,051 and of this balance, approximately \$131,000 is 180 days delinquent but not yet written off. This delinquent balance equals approximately 14 percent of the principal balances.

The Authority's current process of projecting loan write-offs is three percent of the outstanding principal balance, and therefore projects a total direct loan loss of \$28,202 in fiscal year 2009. In fiscal year 2010, the Authority has changed their direct loan loss percentage from three to five percent of the total outstanding principle direct loan balance, which is still substantially less than the \$131,000 over 180 days old.

Loans issued through SunTrust, either guaranteed or non-guaranteed, do not generate any revenue or assets for the Authority. 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.

Financial Operations

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 Authority's budget and actual results for fiscal year 2009, along with year-end balances, and its budget for fiscal year 2010.

	<u>Original Budget 2009</u>	<u>Final Budget 2009</u>	<u>Actual Results 2009</u>	<u>Original Budget 2010</u>
Funding sources				
Interest revenue on cash balances	\$ 280,000	\$ 280,000	\$ 175,742	\$ 142,905
Interest, late fee and other income – direct loans	25,000	25,000	38,148	41,700
Grant Income – Veteran's Association	-	-	2,500	-
Consumer Services Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total funding sources	<u>305,000</u>	<u>305,000</u>	<u>216,390</u>	<u>184,605</u>
Expenses				
Payroll and benefits	276,600	276,600	277,393	273,620
Loan loss	75,000	75,000	48,386	39,700
Loan services	55,400	55,400	10,492	12,400
Payments to Children's Hospital of Richmond	35,000	35,000	36,132	53,800
DRS Contractual and VITA	7,800	7,800	6,591	10,700
Rent	45,000	45,000	47,952	43,500
General and administrative	45,250	45,250	39,889	47,039
Furniture and equipment	1,000	1,000	-	-
Loss on equipment disposal	-	-	3,040	-
Marketing	100,000	100,000	27,436	19,800
Consumer Services Fund Grant	-	-	-	-
Consulting and professional fees	<u>1,150</u>	<u>1,150</u>	<u>7,658</u>	<u>4,000</u>
Total expenses	<u>642,200</u>	<u>642,200</u>	<u>504,969</u>	<u>504,559</u>
Net revenue	<u>\$(337,200)</u>	<u>\$(337,200)</u>	<u>\$(288,579)</u>	<u>\$(319,954)</u>

Source: The Authority

Year-End Balances

ASSETS

Cash		\$10,596,591
Loan receivables	952,668	
Allowance for loan loss		
Guaranteed loans	(11,343)	
Direct loans	<u>(28,202)</u>	
Net loan receivables		<u>913,123</u>
Unamortized discount zero percent loans		(8,761)
Other assets		<u>24,437</u>
Total assets		<u>11,525,390</u>

LIABILITIES

Accounts payable (accrued expenses)	<u>26,591</u>
Total liabilities	<u>26,591</u>

NET ASSETS

Unrestricted net assets – Board Designated Current Value	53,800
Opening balance	11,733,578
Net revenue	<u>(288,579)</u>
Total net assets	<u>\$11,498,799</u>

Source: The Authority's 2009 Statement of Assets and Liabilities



Walter J. Kucharski, Auditor

Commonwealth of Virginia

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

January 25, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable M. Kirkland Cox
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, 2009. 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 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
- Awarding of grants and loans
- Budgetary process
- 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. We confirmed year-end bank account balances with outside parties.

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.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that we consider necessary to be reported to management. However, we noted two issues involving internal controls and their operations that require management's attention and corrective action. This issue is 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 February 9, 2010. 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 the Board, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

WJK:clj

February 4, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
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, 2009.

Enhance Loan Monitoring Process

The Authority will revise the existing policy on delinquencies that outlines late payments by time frames (i.e., 60, 90, 120 days) and the specific intervention made to bring the loan holder back into payment status. The results of that contact will be documented for determination on repayment status due to exception, or deemed non-recoverable for loan write off. Action has been taken with the Virginia Department of Taxation Debt Collection Set Off program to recover outstanding funds. The Board will consider reducing its write off threshold from 180 days.

Staff will continue to report on the current status of all delinquent loans to the Loan Committee on a monthly basis. Additionally, all Board meetings will have a separate agenda item under the Financial Report section for Delinquency Reporting. This will provide a regular report of all delinquent loans by late payment time frames allowing for determination of re-payment trends and potential write offs. Policies on Authority underwriting criteria will be adjusted based upon the current and projected delinquencies.

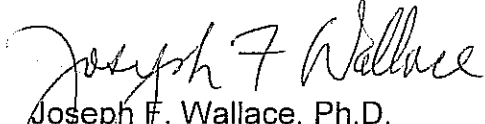
Enhance Business Plan

The Authority will develop a Financial Performance Plan to support the existing Business Plan. The goal of the Financial Plan is to build a self sustaining loan program that will ensure permanence of the fund. A regular review of financial strategies and measurements against projected performance will be conducted by the Board for continuous Business Plan revision. This information will be used

Providing Hope for a New Tomorrow

in developing the annual budget and making every effort to ensure that the Board does not incur unnecessary or inappropriate administrative costs.

Respectfully Submitted,


Joseph F. Wallace, Ph.D.
Executive Director

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

Dr. Joey Wallace
Executive Director

Board of Directors

Ms. Linda W. Harris
Chairperson

Amy Odhner
Treasurer

Mr. Juan Martinez
Vice-Chairperson

Ronald L. Lanier
Designee for the
Secretary of Health and Human Resources

The Honorable Marilyn Tavenner
Serves at the pleasure of the Governor

Barbara Ostrander
Serves at the pleasure of the Governor

Mr. Dean Bonney
Mr. Mitch Wesolowski
Ms. Robin L. Jefferson
Mr. Michael Haydon
Mr. Thomas Hock
Ms. Susan Klein
Ms. Sevelia Allen