THE ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2008

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, 2008 found:

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

- one matter involving internal control and its operations, the Authority is continuing to take corrective action with respect to the prior year audit finding entitled Develop a Business Plan, and has corrected the prior year audit finding entitled Report Loan Write-offs to the Board; and

- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported under Government Auditing Standards; however, we continue noting future funding issues that the Authority's Board should address.

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AUDIT FINDINGS AND RECOMMENDATIONS

Develop a Business Plan

Essential to the Authority's Board of Directors (Board) and the management's plan to develop a business plan that addresses operations and financial sustainability, was having a Board member with investment experience; however, this Board position remained vacant for most of last year. The Board and management have begun developing a business plan, since the appointment of an individual with investment experience.

To assist the Board and Management' consideration, we again 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.

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.

Future Funding Issues

The Authority is continuing to operate without a business plan that addresses operation and financial sustainability; as a result, the Board is projecting to use more than $300,000 of the Assistive Technology Loan Fund (Fund) to cover operating expenses (see table on page 5) during fiscal year 2010. The Board should move swiftly to adjust the 2010 budget for the Authority to reflect the reality of diminishing resources, specifically, interest revenues.

Collateralize Public Funds

The Authority holds public funds with its banking partner, a qualified public depository; however, the banking partner has not identified the Authority's accounts as public deposits. As a result, the banking partner has not reported the Authority's funds to the Department of the Treasury (Treasury) as public funds and thus the funds are not included in the total public deposits in accordance with the Virginia Security for Public Deposits Act.

By not reporting the Authority's accounts as public deposits, it increases the risk to these funds; if the financial institution defaults, the Authority will lose all monies in the accounts that exceed the FDIC insurance coverage amount. The Authority should advise its banking partner to fully collateralize all accounts with Treasury. This approach will ensure that the Authority recovers its assets in case of a default.

AUTHORITY HIGHLIGHTS

Recent Changes and Challenges

Prior to fiscal 2008, about 47 percent of the Authority's annual funding and expenses related to the Consumer Service Fund, which the state discontinued at the start of fiscal 2008. This resulted in the Board adjusting the Authority's budget and redefining the one staff position that administered the Consumer Service Fund. In fiscal 2008, the Authority supported 100 percent of the administrative and payroll expenses for this employee, who is now responsible for managing the Authority's direct loans.

During fiscal 2008, the Board, because of lower than expected interest revenues, delayed implementing the marketing plan until 2009 or 2010, depending on when interest revenues return to normal. However, the Board made a strategic decision in fiscal 2008 to increase the loan amount for direct loans from $10,000 to $15,000. This strategy should result in an increased issuance of direct loans.

The Authority and the Board must monitor their new direct loan 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.

Services

The Authority provides alternative funding resources for Virginians with disabilities to acquire assistive technologies 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 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. During fiscal 2008, the Authority received 231 applications for loans, which resulted in establishment of 119 new loans. The following table provides details on the Authority's loan program during fiscal 2008.

Loan Type	Count	Amount	Average Amount
New Loans Held by the Authority	64	$298,823	$4,669
New Loans Held by Banking Partner and Guaranteed the Authority	23	$465,664	$20,246
New Loans Held by Banking Partner but not Guaranteed by the Authority	32	$905,422	$28,294
Total New Loans, Held by the Authority and Banking Partner	119	$1,669,909	$14,033

Source: The Authority

To provide these loans, 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 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.

Financial Operations

As stated above, the Authority provides alternative financing options for Virginians with disabilities to purchase assistive technologies. 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 under $15,000 issued by the Authority.

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 2008, along with year-end balances, and its budget for fiscal year 2009.

	Original Budget 2008	Final Budget 2008	Actual Results 2008	Original Budget 2009
Funding sources				
Interest revenue on cash balances	$ 559,000	$559,000	$452,107	$305,000
Interest and late fee income – direct loans	-	-	28,751	-
Consumer Services Fund	473,400	-	15,000	-
Total funding sources	1,032,400	559,000	495,858	305,000
Expenses				
Payroll and benefits	271,700	271,700	267,644	276,600
Loan loss	84,000	84,000	100,525	75,000
Loan services	70,000	70,000	51,241	48,000
Payments to Children's Hospital of Richmond	60,000	60,000	45,130	20,000
Rent	45,100	45,100	44,329	45,000
General and administrative	70,700	70,700	39,665	60,200
Marketing	100,000	100,000	28,559	100,000
Consumer Services Fund Grant	409,400	-	13,650	-
Consulting and professional fees	10,000	10,000	3,998	2,400
Total expenses	1,120,900	711,500	594,741	627,200
Net revenue	$ (88,500)	$(152,500)	$ (98,883)	$(322,200)

	Year-End Balances 2008
ASSETS	
Cash	$11,242,953
Net loan receivables	495,121
Other Assets	35,195
Total Assets	11,773,268
LIABILITIES	
Unpaid award to Children's Hospital of Richmond	89,932
Accounts payable (accrued expenses)	33,425
Total liabilities	123,357
NET ASSETS	
Opening balance	11,703,684
Net revenue	(98,883)
Total net assets	$11,604,801

Source: The Authority

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

Feburary 24, 2009

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

The Honorable M. Kirkland Cox
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, 2008. 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, review the adequacy of the Authority's internal controls, 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.

Loan Processing
Board Governance
Payroll Expenses

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 analyses. 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 certain matters involving internal controls and their operations 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 one audit finding reported in the prior year that is not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on March 6, 2009. 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

GDS:clj

NewWell Fund

1602 Rolling Hills Drive, Suite 107
Richmond, Virginia 23229
Phone: 804-662-9000 / Fax: 804-662-9533

March 5, 2009

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, 2008.

Develop a Business Plan and Future Funding Issues

The Authority has initiated the development of a business plan for the specific purpose of addressing organizational future operations and financial sustainability. The goal is to project a five year budget forecast of costs and revenues with identified loan program benchmarks to guide the Board in decision making. An analysis of operational expenses and program income will be a critical component of this plan. Recent progress towards this end has been made in improving collection procedures for delinquent loans, reducing rent expenses, increasing investment income, and decreasing staff costs. The current banking partner will be approached to measure its capacity to assume the direct loan component while providing consumer support, flexible rates and terms, and their willingness to support the Authority's clientele and their individual situations. Executive Management will consider various revenue enhancements and cost saving scenarios for the Authority, including collaboration with outside entities or agencies, and general administrative cost reduction measures, all with program sustainability in mind.

Collateralize Public Funds

The Authority has consolidated the accounts held with its private banking partner and transferred those funds from its closed accounts to the qualified public depository under the Department of Treasury. The remaining funds with the banking partner are now identified and will be reported to Treasury as public funds. The transfer of funds to Treasury will increase the interest earned on those funds now invested.

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.

As you know, the Authority was created for the purpose of providing loan financing to those Virginians with disabilities who not could otherwise get public lending assistance, or for whom traditional rates and terms would not be affordable. This continues to drive the services of the program from direct loan delivery to loan guarantees and interest buy down support. Our federal grants require the loan fund be maintained in an efficient manner and we continue to be recognized as a national model for responsive customer support. The Authority appreciates your guidance and recommendations on delivering cost effective services while preserving the foundation of our funds.

Respectfully Submitted,

Joseph F. Wallace

Joseph F. Wallace, Ph.D.
Executive Director

AUTHORITY OFFICIALS

As of June 30, 2008

Assistive Technology Loan Fund Authority

Dr. Joey Wallace
Executive Director

Board of Directors

Ms. Amy Odhner
Chairwoman

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

Mr. Juan Martinez
Mr. Dean Bonney
Ms. Linda Harris
Mr. Michael Haydon
Mr. Thomas Hock
Ms. Susan Klein
Mr. Ronald Lanier
Ms. Barbara Ostrander
Ms. Sevelia Allen