



HAWAII DISABILITY RIGHTS CENTER

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TESTIMONY TO THE TWENTY-FOURTH STATE LEGISLATURE, 2008 SESSION

To: House Committee on Health
House Committee on Human Services & Housing

From: Gary L. Smith, President
Hawaii Disability Rights Center

Re: House Bill 3352
Relating to an Audit of the Hawaii Disability Rights Center.

Hearing: Wednesday, February 6, 2008 at 8:00a.m.
Conference Room 329, State Capitol

Members of the Committees on Health and Human Services & Housing:

Thank you for the opportunity to provide testimony opposing House Bill 3352, relating to an Audit of the Hawaii Disability Rights Center.

I am Gary L. Smith, President of the Hawaii Disability Rights Center (HDRC), formerly known as the Protection and Advocacy Agency of Hawaii (P&A). As you may know, we are the agency mandated by federal law and designated by Executive Order to protect and advocate for the human, civil and legal rights of Hawaii's estimated 180,000 people with disabilities.

We oppose this bill for the same reasons we expressed during the 2007 legislature, where a very similar Concurrent Resolution was defeated. We are dismayed to see this issue surface again at the legislature. Nothing has changed in the last year to warrant a reconsideration of this bill. Its reintroduction is simply an attempt to use the Legislature to retaliate against HDRC for conducting its federally mandated advocacy on behalf of Hawaii's people with disabilities.

We understand that the Legislature is concerned about the litigation between HDRC and Opportunities for the Retarded, Inc. (ORI). The legal proceedings have been seriously protracted. The delay is largely due to the numerous motions filed by the defense in the litigation which took many months to resolve. Since the last legislative session, the following has occurred in the litigation:

- 1) A federal court ruled in favor of HDRC and ordered ORI to comply with HDRC's request for information to conduct its investigation of neglect and abuse at ORI;
- 2) At the request of several legislators, the Department of Attorney General for the State of Hawaii conducted an analysis on the access authority under federal law of HDRC and concluded that it was in agreement with HDRC's analysis of the access authority presented to the Legislature last year;
- 3) The Commissioner of the Federal Administration on Developmental Disabilities (HDRC's primary federal overseer) who visited Honolulu and met with HDRC, ORI and other community organizations and family members fully supported HDRC's activities in connection with the ORI investigation; and,
- 4) At the request of Governor Linda Lingle's office, HDRC prepared and tendered a report summarizing HDRC's observations, findings and recommendations with respect to the allegations of neglect and abuse at ORI.

HDRC and ORI are in the midst of discussions under the supervision of Federal Magistrate Berry Kurren who is attempting to mediate a settlement. Representatives of the respective boards of directors have met and we are continuing our attempts to achieve a collaborative resolution.

If, after hearing all this, the Legislature nonetheless feels that further inquiry is warranted and wants the Auditor to conduct some review of the HDRC, we then submit that at the very least, the Legislative Auditor should be directed, as part of the audit, to fully examine the findings and conclusions stated in our Report titled "An Investigation of a Report of Neglect and Abuse at Opportunities For The Retarded, Inc." This report raises questions, not only about ORI, but about the actions of several state agencies, such as the Department of Health, Department of Human Services and Department of Labor and Industrial Relations, who have a responsibility to monitor activities at ORI. Overseeing the operation of state agencies is exactly within the purview of the Legislative Auditor. Additionally, ORI receives a sizeable amount of financial support from the state. So, if the Legislature wants to audit the HDRC because it has questions about the way in which it has conducted its statutorily mandated investigation at ORI, then, for purposes of being thorough and complete, it should direct the Auditor to review the report on our investigation and make recommendations to the Legislature next year for any further action which it deems may be appropriate. In that way, the legislature will receive a complete, unbiased review of the entire picture, as opposed to just focusing on the actions of this agency in isolation.

Thank you for the opportunity to provide testimony in opposition to this bill.

Attachments: HDRC Financial Statements, Independent Auditor's Reports, and Supplementary Schedules for FY ended 2007 and 2006, (see pgs. 22 & 23 reflecting that HDRC has been determined to be "low-risk auditee".)

HAWAII DISABILITY RIGHTS CENTER

**FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORTS,
AND SUPPLEMENTARY SCHEDULES**

For the Years Ended September 30, 2007 and 2006

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HAWAII DISABILITY RIGHTS CENTER

INTRODUCTION

For the Years Ended September 30, 2007 and 2006

Hawaii Disability Rights Center is a nonprofit Hawaii corporation chartered in July 1977 primarily to protect and guarantee the human, civil, and legal rights of persons with developmental disabilities, mental illness, and other disabilities of all ages in the State of Hawaii, and to act as advocates on their behalf. Revenue and support is derived primarily from federal and state grants and contracts. The Governor of the State of Hawaii has designated the Center as the advocacy agency in Hawaii to receive federal funds under the Developmental Disabilities Assistance and Bill of Rights Act of 1975, the Rehabilitation Act of 1973, and the Protection and Advocacy for Mentally Ill Individuals Act of 1986, all as amended. Hawaii Disability Rights Center was originally chartered as *Kahua Ho'omalu Kina (A Place of Protection for the Handicapped)*. It changed its name to the *Hawaii Disability Rights Center* in January 2000. The Center is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Center are tax deductible.

The Center receives federal awards directly from the U.S. Department of Health and Human Services, for a Protection and Advocacy for Individuals with Mental Illness program, Traumatic Brain Injury Protection and Advocacy Grants, Protection and Advocacy Systems: Help America to Vote programs, and a Developmental Disabilities Basic Support and Advocacy Grant. The U.S. Department of Education provides federal awards directly to the Center for a Rehabilitation Services – Client Assistance Program, a Program of Protection and Advocacy of Individual Rights, and an Assistive Technology – State Grants for Protection and Advocacy program. Hawaii Disability Rights Center also receives direct federal awards for Social Security State Grants for Work Incentive Assistance to Disabled Beneficiaries. Additional funding is received from the State of Hawaii for protection and advocacy programs.

This report is the result of a single audit of Hawaii Disability Rights Center, conducted in accordance with auditing standards generally accepted in the United States of America; the *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This report includes the financial statements of Hawaii Disability Rights Center as of and for the years ended September 30, 2007 and 2006, with the accompanying footnotes and independent auditors' report. It also includes the independent auditors' reports required by the Government Accountability Office's *Government Auditing Standards*, and the schedule of expenditures of federal awards and independent auditors' reports required by OMB Circular A-133 for the year ended September 30, 2007. Findings and questioned costs (if any) are reported by the auditors under that caption in the final section of this report.

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HAWAII DISABILITY RIGHTS CENTER

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For the Years Ended September 30, 2007 and 2006

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HAWAII DISABILITY RIGHTS CENTER
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the Years Ended September 30, 2007 and 2006

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Detor & Williams

Certified Public Accountants | A Professional Corporation

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Hawaii Disability Rights Center:

We have audited the accompanying statements of financial position of the Hawaii Disability Rights Center (a nonprofit Hawaii corporation) as of September 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hawaii Disability Rights Center as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2008, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

DETOR & WILLIAMS

February 1, 2008

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HAWAII DISABILITY RIGHTS CENTER
STATEMENTS OF FINANCIAL POSITION

As of September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash (including savings accounts)	\$199,178	\$179,940
Government grants receivable – net	107,280	88,169
Prepaid expenses and other current assets	<u>15,424</u>	<u>17,893</u>
Total current assets	<u>321,882</u>	<u>286,002</u>
PROPERTY AND EQUIPMENT – Net	<u>50,855</u>	<u>32,189</u>
LEASE DEPOSIT	<u>8,773</u>	<u>8,773</u>
TOTAL ASSETS	<u>\$381,510</u>	<u>\$326,964</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 31,204	\$ 12,002
Accrued liabilities	6,379	2,390
Deferred revenue	<u>34,696</u>	<u>-</u>
Total current liabilities	<u>72,279</u>	<u>14,392</u>
NET ASSETS		
Unrestricted – undesignated	258,376	280,383
Unrestricted – invested in property and equipment	<u>50,855</u>	<u>32,189</u>
Total net assets	<u>309,231</u>	<u>312,572</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$381,510</u>	<u>\$326,964</u>

See accompanying notes to financial statements.

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HAWAII DISABILITY RIGHTS CENTER

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Federal government grants		
Individuals with Mental Illness program	\$ 402,700	\$ 402,700
Developmentally Disabled program	365,940	365,940
Individual Rights program	160,311	160,311
Benefit Planning and Outreach Program	117,064	50,762
Client Assistance program	108,244	119,554
Beneficiaries of Social Security program	96,912	87,270
Traumatic Brain Injury Protection program	47,848	56,284
Help America to Vote program	44,202	54,750
Assistive Technology program	<u>50,000</u>	<u>50,000</u>
Total federal government grants	1,393,221	1,347,571
State of Hawaii grants	167,505	165,505
Program income	134,351	237,025
Indigent Legal Assistance program grant	49,182	52,461
Interest and other income	<u>9,890</u>	<u>71</u>
Total revenue and support	<u>1,754,149</u>	<u>1,802,633</u>
Expenses		
Program services	1,626,238	1,640,135
Management and general	129,667	95,059
Fundraising	<u>1,585</u>	<u>1,626</u>
Total expenses	<u>1,757,490</u>	<u>1,736,820</u>
Increase (decrease) in unrestricted net assets	<u>(3,341)</u>	<u>65,813</u>
INCREASE (DECREASE) IN NET ASSETS	(3,341)	65,813
NET ASSETS – Beginning of year	<u>312,572</u>	<u>246,759</u>
NET ASSETS – End of year	<u>\$ 309,231</u>	<u>\$ 312,572</u>

See accompanying notes to financial statements.

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HAWAII DISABILITY RIGHTS CENTER
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2007

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries	\$ 898,132	\$ 80,313	\$ 979	\$ 979,424
Employee benefits	90,579	8,100	99	98,778
Pension contributions	82,285	7,358	90	89,733
Payroll taxes	<u>70,475</u>	<u>6,302</u>	<u>77</u>	<u>76,854</u>
Total salaries and benefits	1,141,471	102,073	1,245	1,244,789
Occupancy	158,867	14,206	174	173,247
Legal fees	70,821	-	-	70,821
Travel	50,483	-	-	50,483
Outside services	46,907	-	-	46,907
Equipment rental and maintenance	27,140	2,427	30	29,597
Depreciation	19,497	1,743	22	21,262
Telephone	18,122	1,620	20	19,762
Accounting fees	14,920	1,334	16	16,270
Supplies	12,866	1,150	14	14,030
Insurance	12,172	1,088	14	13,274
Conferences and meetings	12,006	1,074	13	13,093
Advertising	9,405	841	10	10,256
Postage	8,118	726	9	8,853
Books and subscriptions	7,954	-	-	7,954
Dues, licenses, and permits	6,436	575	7	7,018
Interest	3,809	341	6	4,156
Training	-	-	-	-
Small equipment purchases	2,079	186	2	2,267
Miscellaneous	2,102	188	2	2,292
Printing and publications	<u>1,063</u>	<u>95</u>	<u>1</u>	<u>1,159</u>
Total expenses	<u>\$1,626,238</u>	<u>\$129,667</u>	<u>\$1,585</u>	<u>\$1,757,490</u>

See accompanying notes to financial statements.

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HAWAII DISABILITY RIGHTS CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2006

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries	\$ 984,831	\$ 60,702	\$1,046	\$1,046,579
Employee benefits	108,573	6,692	115	115,380
Pension contributions	80,210	4,944	85	85,239
Payroll taxes	<u>82,206</u>	<u>5,067</u>	<u>87</u>	<u>87,360</u>
Total salaries and benefits	1,255,820	77,405	1,333	1,334,558
Occupancy	123,890	7,636	132	131,658
Legal fees	12,848	-	-	12,848
Travel	63,834	-	-	63,834
Outside services	22,206	-	-	22,206
Equipment rental and maintenance	28,776	1,773	31	30,580
Depreciation	22,402	1,381	24	23,807
Telephone	19,640	1,211	20	20,871
Accounting fees	16,433	1,013	17	17,463
Supplies	12,576	775	13	13,364
Insurance	11,658	719	12	12,389
Conferences and meetings	10,942	674	12	11,628
Advertising	8,935	551	9	9,495
Postage	6,210	383	6	6,599
Books and subscriptions	5,007	-	-	5,007
Dues, licenses, and permits	6,249	385	7	6,641
Interest	506	202	-	708
Training	3,430	-	-	3,430
Small equipment purchases	7,268	448	8	7,724
Miscellaneous	1,214	485	2	1,701
Printing and publications	<u>291</u>	<u>18</u>	<u>-</u>	<u>309</u>
Total expenses	<u>\$1,640,135</u>	<u>\$ 95,059</u>	<u>\$1,626</u>	<u>\$1,736,820</u>

See accompanying notes to financial statements.

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HAWAII DISABILITY RIGHTS CENTER

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (3,341)	\$ 65,813
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	21,262	23,807
(Gain) loss on disposal of property and equipment	(9,563)	764
(Increase) decrease in:		
Government grants receivable	(19,111)	5,376
Prepaid expenses and other current assets	2,469	16,609
Increase (decrease) in:		
Accounts payable	19,202	2,354
Accrued liabilities	3,989	(1,808)
Deferred revenue	<u>34,696</u>	<u>(47,451)</u>
Net cash provided by operating activities	<u>49,603</u>	<u>65,464</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	13,424	-
Additions to property and equipment	<u>(43,789)</u>	<u>(2,465)</u>
Net cash used by investing activities	<u>(30,365)</u>	<u>(2,465)</u>
NET INCREASE IN CASH	19,238	62,999
CASH – Beginning of year	<u>179,940</u>	<u>116,941</u>
CASH – End of year	<u>\$199,178</u>	<u>\$179,940</u>

See accompanying notes to financial statements.

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HAWAII DISABILITY RIGHTS CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Disability Rights Center is a nonprofit Hawaii corporation chartered in July 1977 primarily to protect and guarantee the human, civil, and legal rights of persons with developmental disabilities, mental illness, and other disabilities of all ages in the State of Hawaii, and to act as advocates on their behalf. Revenue and support is derived primarily from federal and state grants and contracts. The Governor of the State of Hawaii has designated the Center as the advocacy agency in Hawaii to receive federal funds under the Developmental Disabilities Assistance and Bill of Rights Act of 1975, the Rehabilitation Act of 1973, and the Protection and Advocacy for Mentally Ill Individuals Act of 1986, all as amended. Hawaii Disability Rights Center was originally chartered as *Kahua Ho'omalu Kina (A Place of Protection for the Handicapped)*. It changed its name to the *Hawaii Disability Rights Center* in January 2000.

Amounts received from government agencies are subject to audit and adjustment. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements. Revenue and support is derived principally from government grants and contracts, the loss of such government grants and contracts could have a material adverse effect on the Center.

The Center is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Center are tax deductible.

Basis of Accounting

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2007 and 2006), and permanently restricted net assets (none in 2007 and 2006). Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Revenue from government grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for property and equipment, which are capitalized and depreciated for financial reporting purposes). Revenue received in excess of such expenditures is deferred. Expenses are recorded when the related liability is incurred. Expenses are allocated on a functional basis among the various program and support services based on estimates by management. Expenses that can be identified with the program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases. Advertising costs are expensed as incurred.

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Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near-term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Center to credit risk include cash and receivables. Cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$147,500 at September 30, 2007 and \$91,400 at September 30, 2006. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded as required by federal regulations. Receivables are due primarily from governmental agencies and have been adjusted for all known doubtful accounts. They are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to individual receivable amounts.

Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of 5 years for computers, office equipment, and office furniture and fixtures, and over the term of the underlying lease for leasehold improvements. Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major improvements and expenditures for property and equipment in excess of \$500 are capitalized. Repairs and maintenance are expensed.

Pension

The Center sponsors a simplified employee pension plan (SEP) covering all employees who have worked in at least two of the immediately preceding five years. Pension expense, which is funded as accrued, amounted to \$89,733 for the year ended September 30, 2007 and \$85,239 for the year ended September 30, 2006.

NOTE B – PROPERTY AND EQUIPMENT

At September 30, 2007 and 2006, property and equipment consisted of the following:

	<u>2007</u>	<u>2006</u>
Computers	\$108,557	\$ 86,086
Other office equipment	90,948	91,625
Office furniture and fixtures	23,391	24,320
Leasehold improvements	<u>6,630</u>	<u>6,630</u>
Total	229,526	208,661
Accumulated depreciation	(178,671)	(176,472)
Property and equipment – net	<u>\$ 50,855</u>	<u>\$ 32,189</u>

NOTE C – LINE-OF-CREDIT

The Center has a \$250,000 line-of-credit available with First Hawaiian Bank available through March 2008, which is collateralized by its cash accounts and bears interest at the Bank's base rate plus 1%. There were no advances outstanding on the line-of-credit at September 30, 2007 and 2006. The Bank's base rate was 7.5% and 8.25% at September 30, 2007 and 2006, respectively.

NOTE D – LEASE COMMITMENTS

The Center leases office space in Honolulu, Hawaii on the island of Oahu under an operating lease expiring in February 2011 and leases office space on other islands on a month-to-month basis. Rent expense for office space (included in occupancy expense) amounted to \$154,206 for the year ended September 30, 2007 and \$116,477 for the year ended September 30, 2006. The Center also leases office equipment under operating leases expiring in December 2012. Rent expense for office equipment (included in equipment rental and maintenance expense) amounted to \$13,598 for the year ended September 30, 2007 and \$14,224 for the year ended September 30, 2006.

At September 30, 2007, future minimum future operating lease payments by fiscal years ending September 30th approximated \$155,400 in 2008, \$158,400 in 2009, \$160,700 in 2010, \$73,600 in 2011, \$13,400 in 2012, and \$2,200 in 2013.

NOTE E – FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation. The Center operates throughout the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the financial statements of the Hawaii Disability Rights Center from such changes in economic conditions are not presently determinable.

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HAWAII DISABILITY RIGHTS CENTER
REPORTS REQUIRED BY GAO *GOVERNMENT AUDITING STANDARDS*
For the Year Ended September 30, 2007

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Detor & Williams

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Hawaii Disability Rights Center:

We have audited the financial statements of the Hawaii Disability Rights Center (a nonprofit Hawaii corporation) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DETOR & WILLIAMS

February 1, 2008

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HAWAII DISABILITY RIGHTS CENTER
REPORTS REQUIRED BY OMB CIRCULAR A-133
For the Year Ended September 30, 2007

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Detor & Williams

Certified Public Accountants | A Professional Corporation

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Hawaii Disability Rights Center:

Compliance

We have audited the compliance of the Hawaii Disability Rights Center (a nonprofit Hawaii corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for year ended September 30, 2007. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Hawaii Disability Rights Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

000030

Internal Control over Compliance

The management of the Hawaii Disability Rights Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Hawaii Disability Rights Center (a nonprofit Hawaii corporation) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 1, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



February 1, 2008

000031

HAWAII DISABILITY RIGHTS CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2007

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
Direct programs			
Protection and Advocacy for Individuals with Mental Illness	93.138	SMX159700-07-02	\$ <u>443,814</u>
Traumatic Brain Injury Protection and Advocacy Grant		1X82MC07259-01-00	28,356
Traumatic Brain Injury Protection and Advocacy Grant		1X82MC08189-01-00	<u>19,114</u>
Total	93.267		<u>47,470</u>
Protection and Advocacy Systems: Help America to Vote		G-0603HIVOTP	39,655
Protection and Advocacy Systems: Help America to Vote		G-0703HIVOTP	<u>4,547</u>
Total	93.618		<u>44,202</u>
Developmental Disabilities Basic Support and Advocacy Grants*	93.630*	G-0701HIPA12*	<u>459,177*</u>
Total U.S. Department of Health and Human Services			<u>994,663</u>
 U.S. Department of Education			
Direct programs			
Rehabilitation Services – Client Assistance Program	84.161A	H161A060012B	<u>108,244</u>
Program of Protection and Advocacy of Individual Rights	84.240A	H240A060012B	<u>163,433</u>
Assistive Technology – State Grants for Protection and Advocacy	84.343A	H343A060012B	<u>50,000</u>
Total U.S. Department of Education			<u>321,677</u>

(Continued)

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HAWAII DISABILITY RIGHTS CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended September 30, 2007

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
Social Security Administration			
Direct programs			
Social Security State Grants for Work Incentive Assistance to Disabled Beneficiaries		17-A-20014-9-02	\$ 19,102
Social Security State Grants for Work Incentive Assistance to Disabled Beneficiaries		17-A-20014-9-03	<u>77,810</u>
Total	96.009*		<u>96,912*</u>
Work Incentives Planning and Assistance Program		14-W-50027-9-01	72,709
Work Incentives Planning and Assistance Program		14-W-50027-9-02	<u>44,355</u>
Total	96.008		<u>117,064</u>
Total Social Security Administration			<u>213,976</u>
Total Expenditures of Federal Awards			<u>\$1,530,316</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards was prepared on the accrual basis of accounting. (*) Denotes major programs, comprising 36% of total expenditures of federal awards of a low-risk auditee.

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HAWAII DISABILITY RIGHTS CENTER
FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2007

000034

HAWAII DISABILITY RIGHTS CENTER
CURRENT YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2007

SUMMARY OF AUDIT RESULTS

The auditors expressed an unqualified opinion on the Center's financial statements.

No deficiencies or combinations of deficiencies material to the Center's internal control over financial reporting were reported by the auditors.

No instances of noncompliance material to the Center's financial statements were reported by the auditors.

The auditors expressed an unqualified opinion on compliance for the Center's major federal award programs.

No deficiencies or combinations of deficiencies material to the Center's internal control over compliance were reported by the auditors.

No audit findings related to the Center's major federal award programs were reported by the auditors.

The programs tested as major programs were the Developmental Disabilities Basic Support and Advocacy Grants (CFDA #93.630) and the Social Security State Grants for Work Incentive Assistance to Disabled Beneficiaries (CFDA #96.009). Major programs comprised 36% of total expenditures of federal awards of a low-risk auditee.

The threshold for distinguishing Types A and B programs was \$300,000.

The Hawaii Disability Rights Center was determined to be a low-risk auditee because there were no reportable conditions or material findings and questioned costs reported in either of its two preceding annual single audits.

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the current year, no deficiencies or combinations of deficiencies material to the Center's internal control over financial reporting and no instances of noncompliance material to the Center's financial statements were reported by the auditors.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

In the current year, the auditors expressed an unqualified opinion on compliance for the Center's major federal award programs. No deficiencies or combinations of deficiencies material to the Center's internal control over compliance were reported by the auditors in the current year.

000035

HAWAII DISABILITY RIGHTS CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2007

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the prior year, no reportable conditions or material findings related to the audit of the Center's financial statements were reported by the auditors.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

In the prior year, no reportable conditions or material findings and questioned costs related to the audit of the Center's major federal award programs were reported by the auditors.

000036

TESTIMONY IN SUPPORT OF HB 3352

TO: House of Representatives Committees on Health and Human Services and Housing

FROM: Ronald R. Renshaw

HEARING: February 6, 2008 at 8:00 a.m. in Conference Room 329

Dear House of Representatives Committee members,

Thank you for this opportunity to provide testimony in support of HB 3352.

I support this bill for the following reasons:

A report from the Attorney General's Office, dated September 14, 2007, establishes that, *"... there is authority for the Legislature to direct the auditor to conduct an investigation ... under the DD Act and its regulations, the State (Governor) is responsible for designating a P&A system initially and can redesignate the P&A for 'good cause' Section 104(a)(4) of the DD Act: 45 CFR 1386..20 ... and in fact, the State is responsible for making the 'good cause' determination. If there is evidence that indicates a redesignation of HDRC as the State's P&A agency ought to occur, there are federal procedures which must be followed."* An audit should provide state government the information necessary for decision making in its provision of oversight.

It is important that agencies expending state funds be subject to review by the state. As far as I know, the agency designated by state law as Hawaii's Protection and Advocacy (P&A) System, Hawaii Disability Rights Center (HDRC), has not been subject to such a review in the 30 years since its designation. Government funds are limited and an audit would ensure that the P&A system's use of public funds is appropriate and efficient.

The requested audit would also ensure that the legislature is aware of the manner in which the P&A system is carrying out its monitoring and advocacy activities. An audit could address the conflict between the P&A system's right to access people with developmental disabilities and their records and the individual's, and the individual's family's, right to privacy. It could assess the P&A system's criteria for choosing between litigation and some alternative means of dispute resolution. It could also determine what the P&A system's procedure is for complaints or grievances.

Thank you again for this opportunity to provide testimony in support of HB 3352.

000037

From: hprr@hawaii.rr.com
Sent: Monday, February 04, 2008 1:42 PM
To: HLTtestimony
Subject: Testimony in Support of HB # 3352

TESTIMONY IN SUPPORT OF HOUSE BILL # 3352

TO: Joint House Committees on Health and Human Services

FROM: Yvonne de Luna

RE: H.B. # 3352

RELATING TO AN AUDIT OF THE HAWAII DISABILITY RIGHTS
CENTER

Hearing: Wednesday, February 6, 2008, 8:00 am
Conference Room 329, State Capitol

Dear Members of the Committees on Health and Human Services:

I am submitting this testimony in support of House Bill # 3352, which requires the auditor to perform a financial and management audit of the Hawaii Disability Rights Center (HDRC).

I support this bill and ask for your consideration for the following reasons.

First of all, it is my understanding, based on a report from the Attorney General's Office dated September 14, 2007, that "there is authority for the Legislature to direct the auditor to conduct an investigation...Under the DD Act and its regulations, the State (Governor) is responsible for designating a P&A initially and can redesignate the P&A for 'good cause' Section 104(a)(4) of the DD Act: 45 CFR 1386.20...and in fact, the state is responsible for making the 'good cause' determination. If there is evidence that indicates a redesignation of HDRC as the State's P&A agency ought to occur, there are federal procedures which must be followed."

HDRC, a private, non-profit agency, has been 30 years in existence and I feel it is important that an institution created by federal law and an agency designated through an Executive Order, should be subject to regular reviews by the state, as a check and balance, to determine if this particular agency's designation is still appropriate and whether there is "good cause" to justify changes in the designation. The state or Governor may want to consider having a process to open up this "designation position" so it does not appear that only one, non-profit agency, can hold this designation in our state and this process will allow others to have the opportunity to apply and be considered for this important role as the protection and advocacy agency for our state.

Government funds are limited especially when it comes to the protection of our state's vulnerable people. Appropriate and efficient utilization of these funds/resources should be reviewed by our state on a regular basis. The Developmental Disabilities Act, a federal law which led to the creation of protection and advocacy agencies such as HDRC, has to be reviewed by Congress every 7 years. Why is HDRC's designation not subject to such a review?

I support the idea that, possibly, through this audit, the Legislature and the Governor, will have the opportunity to review HDRC's management approach to service provision, resolving conflicts between a patient and their rights to privacy, conflicts on the service providers' obligation to disclose patient information and records to HDRC, and conflicts on the justification and manner in which HDRC demands from service providers and their families/guardians unrestricted and unaccompanied access to the patient and the patient's records.

I am hopeful that an audit of HDRC will also look into how HDRC handles abuse and neglect complaints, how it determines the merit of litigation as opposed to other means of dispute

resolution and how it handles complaints/ grievances against it.

I support the idea of the state having a third party, such as the auditor, evaluate the ability of HDRC, its management and its staff to carry out its federal mandates effectively, reasonably and fairly in our state. I believe that this audit is a good way for state government to apply its oversight on "state designated agencies" and assure our community of quality protection and advocacy services.

I like the idea of hearings such as this where the public has yet another opportunity to provide input. Although HDRC does hold public meetings to obtain public input, I feel the "check and balance" from our state should be actively applied to assure that the community's input receive its due consideration from HDRC.

Finally, I am hoping that through this bill, government and the community will have a chance to re-visit and discuss the values held with regards to protection and advocacy, the intent of the laws currently in place, if the implementation of the law needs to be changed or to determine if the law itself needs to be changed.

Again, thank you and I ask for your support of this bill.

##

000039

May Mizuno

From: Jane Valdez [jane_valdez2003@yahoo.com]

Sent: Tuesday, February 05, 2008 9:26 AM

To: HLTtestimony

Subject: Supporting HB 3352

To: House of Representatives Committees on Health and Human Services and Housing

From: Jane B. Valdez

Hearing: February 6, 2008 @ 8:00am in Conference Room 329

Dear House of Representatives Committee members,

Thank you for this opportunity to provide testimony in support of HB 3352.

As a concern citizen and I have worked with people with disabilities, they are wonderful people once you get to know them. I hope you will join me in supporting this important bill.

Thank you again.

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000040

May Mizuno

From: Sunny Raguirag [sunnyjn808@yahoo.com]

Sent: Tuesday, February 05, 2008 9:49 AM

To: HLTtestimony

Subject: Supporting HB 3352

Dear House of Representatives Committee Members,

Thank you for the opportunity to provide testimony in support of HB 3352. As a concerned citizen, I have experience working with people that have disabilities and I know that there is a wonderful side to them that other people don't get a chance to see. I hope you will join me in supporting this important bill. Thank you for your time.

Sincerely,
Sunny J. Raguirag

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000041

2/5/2008

mizuno1-Edgar

From: Karen Flatt [khflatt@hawaiiintel.net]
Sent: Tuesday, February 05, 2008 2:19 PM
To: HLTtestimony
Subject: HB 3352

TO: House of Representatives Committees on Health and Human Services and
Housing

FROM: Karen Flatt

HEARING: 2/06/08 at 8:00 AM in Conference Room 329

FOR: HB 3352

Dear Committee Members;

Thank you for this opportunity to voice my support of HB 3352. As the guardian of a developmentally disabled brother, I feel that the passage of this Bill is of the utmost importance to continue to ensure his well-being.

Thank you, again.

Sincerely,

Karen Flatt

TESTIMONY IN SUPPORT OF HOUSE BILL # 3352

TO: Joint House Committees on Health and Human Services
FROM: Dennis Chun
RE: H.B. # 3352
Relating to an Audit of the Hawaii Disability Rights Center
HEARING: Wednesday, February 6, 2008, 8:00 am
Conference Room 329, State Capitol

hdrc_020408[1].txt

By designating HDRC as the state P&A under federal law, the State of Hawaii has handed great powers to an institution that affects a growing number of residents in hospitals, schools, group homes, retirement homes, nursing homes and similar community program and living arrangements. While few can argue against their mission, it is proper to question their mode of operation because-

- HDRC claims to have the power to act against the interests of clients' families and guardians; choice triumphs over the best interests of the client.

- HDRC does not believe that any other agency can adequately investigate abuse and neglect unless that agency concurs with HDRC's views of the matter.

- HDRC embraces the belief that their powers are expansive but rejects the idea that the broader the grant of power, the greater the need for oversight. Due to lapses in the original statute creating the P&A's, the courts have been their main means of exercising that power. A court can only define what is legal; the definition of what is right and proper is left to the community and this legislature.

We are here to ask for an investigation on the use of these powers. We are here to ask that the auditor reaffirm that there are right and proper decisions occurring under the color of state law.