

Prinlynet Defs

23 / Oct / 2012



## *Secretaria*

- Ver al dorso
- Para su información
- Notas
- Para mantenerle al día
- Expediente
- Dar Cuenta
- Registrar y Procesar

*Senado*  
DE PUERTO RICO

EL CAPITOLIO  
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San Juan, Puerto Rico  
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## REFERIDO A:

### COMISIONES PERMANENTES

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- Hacienda
- Gobierno
- Seguridad Pública y Judicatura
- Salud
- Educación y Asuntos de la Familia
- Desarrollo Económico y Planificación
- Urbanismo e Infraestructura
- Jurídico Penal
- Jurídico Civil
- Agricultura
- Recursos Naturales y Ambientales
- Comercio y Cooperativismo
- Turismo y Cultura
- Trabajo, Asuntos del Veterano y Recursos Humanos
- Bienestar Social
- Asuntos Municipales
- Recreación y Deportes
- Banca, Asuntos del Consumidor y Corporaciones Públicas
- Desarrollo de la Región del Oeste
- Asuntos de la Mujer
- Asuntos Internos
- Reglas y Calendario
- Asuntos Federales
- De la Montaña
- Ética

### COMISIONES ESPECIALES

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- Puerto de las Américas
- Derecho de Autodeterminación del Pueblo de Puerto Rico
- Sobre Reforma Gubernamental

### COMISIONES CONJUNTAS

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- Informes Especiales del Contralor
- Donativos Legislativos de Puerto Rico
- Internado Córdova-Fernós
- Internado Pilar Barbosa
- Internado Ramos Comas
- Código Penal
- Revisión y Reforma del Código Civil
- Alianzas Público Privadas
- Auditoría Fiscal y Manejo Fondos Públicos
- Revisión Continua Código Penal y Reforma de las Leyes



Iniciales

*Oficina del Presidente*

Katherine Erazo  
CHIEF OF STAFF

Fecha 23 de octubre 2012

Referido a Guillermo Ortiz

- Para su información
- Evaluar y recomendar
- Para trabajar y contestar directamente
- Dar cuenta al cuerpo
- Para otorgar contrato
- Para nombramiento
- Autorizado

#16566



ESTADO LIBRE ASOCIADO DE PUERTO RICO  
OFICINA DEL PROCURADOR DE LAS PERSONAS CON IMPEDIMENTOS  
Edificio Caribbean Office Plaza • Ave. Ponce de León 670 • Miramar, Puerto Rico  
"LOGRANDO UN PUERTO RICO SIN BARRERAS"

16 de octubre de 2012

**Hon. Thomas Rivera Schatz**  
Presidente  
Senado de Puerto Rico  
San Juan, Puerto Rico

RECIBIDO  
OFIC. PRESIDENTE SENADO PR  
THOMAS RIVERA SCHATZ  
2012 OCT 22 PM 1:36

Honorable Rivera Schatz:

Adjunto copia del Informe de Auditoría Externa (Single Audit Report) de la Oficina del Procurador de las Personas con Impedimentos correspondiente al año fiscal 2011-2012.

De necesitar información adicional favor de comunicarse con Edwin A. Rivera Colón, Director de Presupuesto al 725-2333 ext. 2079 ó a través del correo electrónico [erivera@oppi.gobierno.pr](mailto:erivera@oppi.gobierno.pr).

Cordialmente,

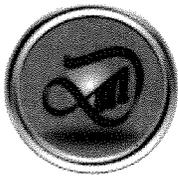
  
Iván Díaz Carrasquillo, J.D., CCS, CFE,  
Procurador

finanzas/Federales/Carta/audit./pág.2

DO-20050



GOVERNMENT OF PUERTO RICO  
**OFFICE OF THE OMBUDSMAN FOR  
PERSONS WITH DISABILITIES**  
**FINANCIAL STATEMENT**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(WITH THE ADDITIONAL REPORTS REQUIRED BY  
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)



***CPA DIAZ-MARTINEZ, PSC***  
**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**



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**PART I**  
**FINANCIAL**





## INDEPENDENT AUDITOR'S REPORT

Iván Díaz Carrasquillo, J.D., CCS, CFE  
Ombudsman  
Office of the Ombudsman for Persons with Disabilities  
Government of Puerto Rico  
Caribbean Office Plaza Building  
670 Ponce de León Avenue  
San Juan, PR 00907

We have audited the accompanying Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the **Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico (OPPI)** for the fiscal year ended June 30, 2012. This statement is the responsibility of **OPPI's** management. Our responsibility is to express an opinion on this financial statement based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. Those standards require that we plan and perform the audit 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 statement. 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 audit provides a reasonable basis for our opinions.

As discussed in Note 2 to the financial statement, **OPPI** prepares its Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the financial statement of **OPPI** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Government of Puerto Rico that is attributable to the transactions of **OPPI**. They do not purport to, and do not, present fairly the financial position of the Government of Puerto Rico as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of **OPPI** governmental funds, and the respective cash basis net changes thereof for the fiscal year ended June 30, 2012, in conformity with the basis of accounting described in Note 2.



Iván Díaz Carrasquillo, J.D., CCS, CFE, Ombudsman  
Office of the Ombudsman for Persons with Disabilities  
Government of Puerto Rico  
INDEPENDENT AUDITOR'S REPORT  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2012 on our consideration of OPPI's internal control over financial reporting on our test 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.

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds that collectively comprise OPPI's financial statement. 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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statement as a whole.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico  
October 4, 2012

Stamp No. E26801 was affixed to  
the original report.



GOVERNMENT OF PUERTO RICO  
OFFICE OF THE OMBUDSMAN FOR  
PERSONS WITH DISABILITIES

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND NET CHANGES – GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>State Special Fund</u>	<u>Federal Grants Fund</u>	<u>Total Governmental Funds</u>
<b>CASH RECEIPTS:</b>				
Appropriations from the Government of Puerto Rico .....	\$1,962,000	\$ 225,000	\$ -	\$2,187,000
Federal Grants .....	<u>-</u>	<u>-</u>	<u>1,938,545</u>	<u>1,938,545</u>
<b>Total Cash Receipts</b> .....	<u>1,962,000</u>	<u>225,000</u>	<u>1,938,545</u>	<u>4,125,545</u>
<b>CASH DISBURSEMENTS:</b>				
Act of Rights for the People with Disabilities Program – State Law Number 238 .....	-	200,450	-	200,450
Federal Grants:				
Developmental Disabilities Basic Support and Advocacy Grants .....	-	-	853,603	853,603
Protection and Advocacy for Individuals Mentally Illness .....	-	-	559,922	559,922
Traumatic Brain Injury State Demonstration Grant Program....	-	-	45,497	45,497
Voting Access for Individuals with Disabilities – Grant for Protection and Advocacy Systems .....	-	-	100,880	100,880
Rehabilitation Services Client Assistance Program .....	-	-	161,590	161,590
Program of Protection and Advocacy of Individual Rights .....	-	-	185,351	185,351
Assistive Technology State Grants for Protection and Advocacy .....	-	-	49,750	49,750
Social Security – Work Incentives Planning and Assistance Program .....	-	-	69,676	69,676
General Administration and Direction.....	<u>1,941,745</u>	<u>-</u>	<u>-</u>	<u>1,941,745</u>
<b>Total Cash Disbursements</b> .....	<u>1,941,745</u>	<u>200,450</u>	<u>2,026,269</u>	<u>4,168,464</u>
<b>NET CHANGES</b> .....	<u>\$ 20,255</u>	<u>\$ 24,550</u>	<u>(\$ 87,724)</u>	<u>(\$ 42,919)</u>

See accompanying Notes to this Statement.



## 1. FINANCIAL REPORTING ENTITY

### A. Organization

The Government of Puerto Rico was constituted on July 25, 1952, under provisions of its Constitution as approved by the people of Puerto Rico and the Congress of the United States of America. The Government's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the government. The Government assumes responsibility for public safety, public health, public housing, welfare, education, and economic development.

The **Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico (OPPI)** was established under Law Number 2 of September 27, 1985, as amended. According with the Plan for Reorganization Number 1 of June 22, 2011 (Plan), a new office was created, Office of Management of the Ombudsmen Offices. This office is responsible for consolidate all administrative faculties and functions of all ombudsman offices in Puerto Rico, and to promote an organizational structure that permit provided a better services to citizens they serve. As per the Plan, a new office of **OPPI** was created, with similar functions as the previous entity, and shall assist and help to solve the problems and needs of persons with disabilities in the areas of education, health, employment, free entrepreneurship of commercial, civil and political rights, social, labor and tax legislation, housing, transportation, recreation, environmental protection, and culture, among other. Although, to promote the integration of persons with physical, mental or sensorial disabilities in the programs of conservation, education and environment preservation with other agencies and instrumentalities of the Government of Puerto Rico. The Ombudsman is designated by the Governor with the advice and consent of the Senate for a ten (10) years term.

**OPPI** is subsidized by appropriations from the Government of Puerto Rico and by federal grants received from the U.S. Department of Health and Human Services, the U.S. Department of Education, the U.S. Department of Labor and the Social Security Administration.

### B. Financial Reporting Entity

The accompanying financial statement includes all divisions whose funds are under the custody and control of **OPPI**. In evaluating **OPPI** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Codification of Governmental Accounting and Financial Reporting Standard, Section 2100.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause **OPPI's** financial statement to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of **OPPI** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on **OPPI**.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to **OPPI** indicate no organizations meet the criteria to be included as component units. Accordingly, this financial statement presents only **OPPI** as the reporting entity.

**OPPI** is for financial reporting purposes a part of the Government of Puerto Rico. Because **OPPI** is part, for financial reporting purposes, of the Government of Puerto Rico, its financial data is included as part of the Government of Puerto Rico financial statements. **OPPI** accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of **OPPI's** management, 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Statement – Measurement Focus and Basis of Accounting

OPPI's accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves the reporting of only cash resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

This cash basis of accounting differs from GAAP primarily because revenue (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) are recognized when paid rather than when incurred or subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2011-2012. No accrual is recognized.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in OPPI's financial statement. No long-term debt is reported in OPPI's financial statement. No accrued compensated absences are reported in OPPI's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

The accounts of OPPI are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds principally approved by the U.S. Department of Health and Human Services (DHHS). These are composed of three funds which are described below. The accounts of OPPI are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The following individual programs account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- **General Fund** – The general fund is the main operating fund of OPPI. It is used to account for all financial resources except those required to be accounted for separately.
- **State Special Fund** – Accounts for resources received from enacted law by the Government of Puerto Rico to assist in the implementation of various programs.
- **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grant Awards administered by OPPI.

### **Notes to the Financial Statement**

The notes to the financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

### B. Stewardship, Compliance, and Accountability

#### **Budgetary Information**

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Government of Puerto Rico for recurrent and ordinary functions of OPPI. The procedures followed in approving the annual budget is as follows:



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

- a. Between November and December OPPI submits to the Office of Management and Budget of the Government of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
- b. At the beginning of the ordinary session of the Legislative Assembly of the Government of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Government. This proposed budget includes estimated expenditures and the means of financing them.
- c. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Government has the authority to make the necessary adjustments to the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Budgetary Comparison Schedule is not legally required to do so.

**C. Interfund Transactions**

OPPI has the following type of transactions among funds:

*Interfund Transfers* – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund.

**D. Risk Financing**

OPPI is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risk are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Government of Puerto Rico instrumentalities. Also, principal officials of OPPI are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to OPPI.

**E. Accounting for Pension Costs**

OPPI adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

OPPI accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying financial statement are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of the Codification, the Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of OPPI participate. OPPI is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### F. Future Adoption of Accounting Pronouncements

The GASB issued the following pronouncements that have effective dates after June 30, 2012:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

OPPI's financial statement was not affected by the implementation of these statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

OPPI has not yet determined the effect this statement will have on OPPI's financial statement.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experience either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

Statement 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

OPPI's financial statement was not affected by the implementation of these statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged.

OPPI has not yet determined the effect these statements will have on OPPI's financial statement.

## 3. CASH

### *Cash in Banks*

The funds of OPPI are under the custody and control of the Secretary of the Puerto Rico Treasury Department pursuant to Act No. 230 of July 23, 1974, as amended, known as "Government of Puerto Rico Accounting Law". The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of OPPI in such pooled cash accounts are available to meet its current operating requirements.

OPPI's cash at June 30, 2012 are demand deposits in the Government Development Bank of Puerto Rico (GDB), and are recorded at cost, which approximates fair value.

## 4. LEASE COMMITMENTS

OPPI rent its facilities through operating lease agreements with private entities. Rent disbursed under such lease agreements for the year ended June 30, 2012 amounted to approximately \$559,783. This amount should be approximately the same expenditures in the following five fiscal years.

## 5. PENSION PLAN

### *Description of the Plan*

Employees of OPPI participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.



**5. PENSION PLAN** – continuation

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. OPPI is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Government. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.



5. PENSION PLAN – continuation

**Funding Policy**

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

<b>OPPI</b>	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

**Annual Contribution**

OPPI's contributions during this year are recognized as total pension expenditures in the category of administration.

The amount contributed represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

6. CONTINGENCIES

**Federal Awards**

In the normal course of operations, OPPI participates in various federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, OPPI may be required to reimburse the grantor or pass-through agency.

OPPI is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

**Litigation**

OPPI is a party to various legal proceedings that normally occur in the course of governmental operations. As a result of OPPI's use of the cash basis of accounting, the financial statement do not include accrual or provisions for loss contingencies that may result from these proceedings. Although the outcome of the proceedings cannot be predicted due to the insurance coverage maintained by the Government and the statute relating to judgments, OPPI believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial statement of OPPI.



**7. RELATED PARTY TRANSACTIONS**

OPPI has the following transactions with governmental units:

- ◆ OPPI paid to Puerto Rico Public Buildings Authority the amount of \$30,518 for rental of facilities during the fiscal year ended June 30, 2012.
- ◆ OPPI paid to Puerto Rico Public General Services Administration the amount of \$22,003 for motor vehicles maintenance and licenses during the fiscal year ended June 30, 2012.

**8. SUBSEQUENT EVENT**

OPPI has evaluated subsequent events through October 4, 2012, the date which the financial statement were available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

**END OF NOTES**



**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**



GOVERNMENT OF PUERTO RICO  
OFFICE OF THE OMBUDSMAN FOR  
PERSONS WITH DISABILITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Education – Direct Programs:			
Rehabilitation Services_Client Assistance Program.....	84.161A		\$ 161,590
Program of Protection and Advocacy of Individual Rights..	84.240A		185,351
Assistive Technology_State Grants for Protection and Advocacy .....	84.343A		<u>49,750</u>
Total U.S. Department of Education – Direct Programs ...			<u>396,691</u>
U.S. Department of Health and Human Services – Direct Programs:			
Protection and Advocacy for Individuals Mentally Illness ...	93.138		559,922
Traumatic Brain Injury State Demonstration Grant Program .....	93.234		45,497
Voting Access for Individuals with Disabilities – Grant for Protection and Advocacy Systems .....	93.618		100,880
Developmental Disabilities Basic Support and Advocacy Grants.....	93.630		<u>853,603</u>
Total U.S. Department of Health and Human Services – Direct Programs .....			<u>1,559,902</u>
U.S. Social Security Administration – Direct Program:			
Social Security – Work Incentives Planning and Assistance Program.....	96.008		<u>69,676</u>
Total Social Security Administration – Direct Programs ...			<u>69,676</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS.....</b>			<b><u>\$2,026,269</u></b>

See the accompanying Notes to Schedule of Expenditures of Federal Awards.



**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activities of the **Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico (OPPI)**. The information in the SEFA is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a selected portion of the operations of **OPPI**, it is not intended to and does not present the financial position, or change in net assets of **OPPI**.

Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the financial statement. **OPPI** reporting entity is defined in Note (1) (A) to the financial statement. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies, if any, are included on the SEFA.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.

**3. FEDERAL CFDA NUMBER**

The CFDA numbers included in the SEFA are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**4. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND NET CHANGES – GOVERNMENTAL FUNDS**

Expenditures of federal awards are reported in **OPPI**'s Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Fund in the Federal Grants Fund column.

**END OF NOTES**





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

Iván Díaz Carrasquillo, J.D., CCS, CFE  
Ombudsman  
Office of the Ombudsman for Persons with Disabilities  
Government of Puerto Rico  
Caribbean Office Plaza Building  
670 Ponce de León Avenue  
San Juan, PR 00907

We have audited the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the **Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico (OPPI)** for the fiscal year ended June 30, 2012, which collectively comprise **OPPI's** basic financial statement and has issued our report thereon dated October 4, 2012. 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**

Management of **OPPI** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered **OPPI's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of **OPPI's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **OPPI's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of **OPPI's** basic financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-II-1 and 2012-II-02 to be material weaknesses.



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

Iván Díaz Carrasquillo, J.D., CCS, CFE, Ombudsman

Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico

Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **OPPI's** basic financial statement 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-II-1 and 2012-II-02.

**OPPI's** response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit **OPPI's** response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of **OPPI** in a separate letter dated October 4, 2012.

This report is intended for the information and use of **OPPI's** management, the federal awarding agency and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico  
October 4, 2012

Stamp No. E26802 was affixed to  
the original report.







**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Iván Díaz Carrasquillo, J.D., CCS, CFE  
Ombudsman  
Office of the Ombudsman for Persons with Disabilities  
Government of Puerto Rico  
Caribbean Office Plaza Building  
670 Ponce de León Avenue  
San Juan, PR 00907

**Compliance**

We have audited **Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico (OPPI)**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **OPPI**'s major federal programs for the fiscal year ended June 30, 2012. **OPPI**'s major federal programs are identified in the Summary of Auditors' Result 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 **OPPI**'s management. Our responsibility is to express an opinion on **OPPI**'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 **OPPI**'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 on **OPPI**'s compliance with those requirements.

As described in item 2012-III-01 in the accompanying Schedule of Findings and Questioned Costs, **OPPI** did not comply with requirement regarding allowable costs/cost principles that is applicable to the Protection and Advocacy for Individuals with Mental Illness, and Developmental Disabilities Basic Support and Advocacy Grants. Also, as described in item 2012-III-02 in the accompanying Schedule of Findings and Questioned Costs, **OPPI** did not comply with requirement regarding eligibility that is applicable to the Developmental Disabilities Basic Support and Advocacy Grants. Compliance with such requirements is necessary, in our opinion, for **OPPI** to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, **OPPI** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Iván Díaz Carrasquillo, J.D., CCS, CFE, Ombudsman

Office of the Ombudsman for Persons with Disabilities of the Government of Puerto Rico

Page 2

**Internal Control Over Compliance**

Management of **OPPI** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **OPPI**'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **OPPI**'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discuss below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-III-01 and 2012-III-02 to be material weaknesses.

**OPPI**'s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit **OPPI**'s responses and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of **OPPI**'s management, the federal awarding agency and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



CPA DIAZ-MARTINEZ, PSC  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico  
October 4, 2012

Stamp No. E26803 was affixed to  
the original report.





**PART III**

**FINDINGS AND QUESTIONED COSTS**



SECTION I – SUMMARY OF AUDITORS’ RESULTS

**Financial Statements**

- Type of auditors’ report issued:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion
- Internal control over financial reporting:
- Material weakness (es) identified?  Yes  No
  - Significant deficiency (ies) identified?  Yes  None Reported
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

- Internal control over major programs:
- Material weakness (es) identified?  Yes  No
  - Significant deficiency (ies) identified?  Yes  None Reported
- Type of auditors’ report issued on compliance for Major Programs:  Unqualified Opinion  Qualified Opinion  
 Adverse Opinion  Disclaimer Opinion
- Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133?  Yes  No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
93.138	Protection and Advocacy for Individuals Mentally Illness
93.630	Developmental Disabilities Basic Support and Advocacy Grants

- Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000
- Auditee qualified as low-risk auditee?  Yes  No



SECTION II – FINANCIAL STATEMENT FINDINGS

<b>FINDING REFERENCE NUMBER</b>	2012-II-01 (See FINDING REFERENCE NUMBER 2012-III-01)
<b>TYPE OF FINDING</b>	<b>MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE – COST ALLOCATION PLAN</b>
<b>CRITERIA</b>	<p>OMB Circular A-87, Attachment A, Part C 3 (a) establish that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Also, OMB Circular A-87, Attachment A, Part E 2 (a), states that direct costs are those that can be identified specifically with a particular final cost objective. In relation to the compensation of employees it states:</p> <ul style="list-style-type: none"><li>• Compensation of employees for time devoted and identified specifically to the performance of those awards.</li></ul> <p>Circular A-87 Part C (1) (j) establishes that a cost to be allowable, must be adequately documented.</p>
<b>CONDITION</b>	<p>During the evaluation of client allocation of the 5% earmarking requirement for administrative costs for the federal programs, we noted that the basis for distributing it is on a direct cost basis. The compensation of specific employees is not based on the time devoted or identified specifically to the performance of those awards. The allocation is not distributed evenly among all programs that receive the benefits of administrative services.</p>

continue



SECTION II – FINANCIAL STATEMENT FINDINGS

<b>FINDING REFERENCE NUMBER</b>	2012-II-02 (See FINDING REFERENCE NUMBER 2012-III-02)
<b>TYPE OF FINDING</b>	<b>MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE – ELIGIBILITY</b>
<b>CRITERIA</b>	<p>OMB Circular A-133 <i>Compliance Requirement</i>, Part 6-E, states that to provide reasonable assurance that only eligible individuals received assistance under Federal award programs, the entity should perform the following internal control activities:</p> <ol style="list-style-type: none"><li>1. Manual criteria checklists or automated process used in making eligibility determinations.</li><li>2. Process for periodic eligibility re-determinations in accordance with program requirements.</li><li>3. Verification of accuracy of information used in eligibility determinations.</li><li>4. Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.</li></ol> <p>Circular A-87 Part C (1) (j) establishes that a cost to be allowable, must be adequately documented.</p>
<b>CONDITION</b>	<p>During the evaluation of internal control and compliance over eligibility requirement performed over a sample of (60) sixty participants of OPPI's Developmental Disabilities Basic Support and Advocacy Grants program, we noted that OPPI's personnel did not documented the eligibility process on two (2) participants and for one (1) participant the eligibility determination checklist was from another program.</p>



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	2012-III-01
<b>FEDERAL PROGRAMS</b>	PROTECTION AND ADVOCACY FOR INDIVIDUALS WITH MENTAL ILLNESS (CFDA NO. 93.138) DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS (CFDA NO. 93.630) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
<b>AWARD NUMBERS</b>	2X98SM007297-11, 2X98SM007297-12 G-1001PRADPA, G-1101PRADPA
<b>COMPLIANCE REQUIREMENT</b>	ALLOWABLE COST/COST PRINCIPLE
<b>TYPE OF FINDING</b>	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
<b>CRITERIA</b>	<p>OMB Circular A-87, Attachment A, Part C 3 (a) establish that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Also, OMB Circular A-87, Attachment A, Part E 2 (a), states that direct costs are those that can be identified specifically with a particular final cost objective. In relation to the compensation of employees it states:</p> <ul style="list-style-type: none"><li>• Compensation of employees for time devoted and identified specifically to the performance of those awards.</li></ul> <p>Circular A-87 Part C (1) (j) establishes that a cost to be allowable, must be adequately documented.</p>
<b>CONDITION</b>	During the evaluation of client allocation of the 5% earmarking requirement for administrative costs for the federal programs, we noted that the basis for distributing it is on a direct cost basis. The compensation of specific employees is not based on the time devoted or identified specifically to the performance of those awards. The allocation is not distributed evenly among all programs that receive the benefits of administrative services.
<b>QUESTIONED COSTS</b>	Not determined.
<b>INFORMATION TO PROVIDE PROPER PERSPECTIVE</b>	Management is not distributing administrative charges in accordance with relative benefits received for all major and nonmajor federal programs.
<b>CAUSE</b>	While verifying a Certification prepared by client where the administrative costs are distributed among various programs, the distribution is not made evenly among them. When inquiring if the distribution was made on the basis of the level of effort of employees to those specific programs, management told that no specific basis supports such distribution.
<b>EFFECT OR POSSIBLE EFFECT</b>	OPPI is not allocating administrative charges based on the time and resources devoted to each program, which may result in overcharging of administrative costs to programs that may not be benefited from the services of the employees. This situation could lead to unallowable costs.
<b>RECOMMENDATION</b>	We recommend OPPI to prepare a cost allocation plan of administrative charges that is assignable to cost objectives in accordance with the relative benefits received.

continue



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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2012-III-01 – continuation

**RESPONSIBLE OFFICIAL'S  
RESPONSE AND CORRECTIVE  
ACTION PLANNED**                      An amendment will be carry out to the cost distribution basis to fulfill with the Circular Letter  
A-87 regulations.

**IMPLEMENTATION DATE**                      Immediately

**RESPONSIBLE PERSON**                      Budget Director

continue



SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	2012-III-02
<b>FEDERAL PROGRAM</b>	DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY GRANTS (CFDA NO. 93.630) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
<b>AWARD NUMBERS</b>	G-1001PRADPA, G-1101PRADPA
<b>COMPLIANCE REQUIREMENT</b>	ELIGIBILITY
<b>TYPE OF FINDING</b>	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
<b>CRITERIA</b>	<p>OMB Circular A-133 <i>Compliance Requirement</i>, Part 6-E, states that to provide reasonable assurance that only eligible individuals received assistance under Federal award programs, the entity should perform the following internal control activities:</p> <ol style="list-style-type: none"> <li>1. Manual criteria checklists or automated process used in making eligibility determinations.</li> <li>2. Process for periodic eligibility re-determinations in accordance with program requirements.</li> <li>3. Verification of accuracy of information used in eligibility determinations.</li> <li>4. Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.</li> </ol> <p>Circular A-87 Part C (1) (j) establishes that a cost to be allowable, must be adequately documented.</p>
<b>CONDITION</b>	During the evaluation of internal control and compliance over eligibility requirement performed over a sample of (60) sixty participants of OPPI's Developmental Disabilities Basic Support and Advocacy Grants program, we noted that OPPI's personnel did not documented the eligibility process on two (2) participants and for one (1) participant the eligibility determination checklist was from another program.
<b>QUESTIONED COSTS</b>	Not determined.
<b>INFORMATION TO PROVIDE PROPER PERSPECTIVE</b>	In order to ensure that only eligible participants benefit from the Developmental Disabilities Basic Support and Advocacy Grants program, the eligibility determination process must be documented.
<b>CAUSE</b>	The entity did not documented eligibility process for two (2) participants of the Developmental Disabilities Basic Support and Advocacy Grants program because of an override of controls. And an alleged mistake of the system was the cause of the one (1) participant that the eligibility checklist was from another program.
<b>EFFECT OR POSSIBLE EFFECT</b>	OPPI may have questioned costs on audits performed if no documentation on eligibility determination is maintained in participant's files.
<b>RECOMMENDATION</b>	In order to provide the fair and equitable treatment to all eligible candidates to benefit from the Developmental Disabilities Basic Support and Advocacy Grants program and to provide safeguards for maintaining the integrity of the participant's eligibility determination process, OPPI should document and review the eligibility determination for all the participants that benefit from program funds. We recommend the implementation of a standard for the review of the eligibility process, in which the documents for this purpose are signed as properly reviewed.

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**FINDING REFERENCE NUMBER**      2012-III-02 – continuation

**RESPONSIBLE OFFICIAL'S  
RESPONSE AND CORRECTIVE  
ACTION PLANNED**

A review will be carry out in each file to verify if the compliance of the participant eligibility requirements are met and also, to ensure that all documents are complete and belongs to the reference case. This action will be done before the case is closed or the file is referred to the of Hearing Officers or Legal Affairs offices.

**IMPLEMENTATION DATE**                      Immediately

**RESPONSIBLE PERSONS**                      Programs Coordinators; Regionals Directors; and Advocates

**END OF SCHEDULE**



(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

NONE

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

(5)

NONE

END OF SCHEDULE

