



Meliora Partners, Inc.

# Assessment Report:

## Hawaii County Economic Opportunity Council

Hilo, Hawaii

May, 2009



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**Disclaimer:** The recommendations contained in this report represent the best efforts of the assessment team to understand conditions viewed and disclosed during its visit. Some observations and conclusions may be misinterpretations of what was observed or heard. The report highlights program areas that the reviewers were asked to address or that they believe needed attention. The report is intended as a starting place for discussion and action not as a prescription for specific actions. Recommendations are for individual organizational systems.

# Assessment Report

Hawaii County Economic Opportunity Council  
Hilo, Hawaii

## Summary

Hawaii County Economic Opportunity Council (HCEOC) serves the Big Island of Hawaii, a single county in the state of Hawaii. The organization has a central office and a district office in Hilo, with three additional district offices spaced roughly equidistantly around the island. HCEOC operations fall into four major areas:

- **Administration**, comprised of the Executive Director, Fiscal Officer, Human Resources Director, and an Executive Assistant.
- **Community Services**, being all activities providing direct services to clients, and including the Drop Out Prevention Program, The Language and Multi-Cultural Program, Weatherization, Energy Assistance, Employment/Core Services, Food Services, Housing/Economic Development, Transportation, and commodity food distribution.
- **Rainbow Falls Connection**, a collection of activities focused on generating income for the organization and jobs for low income people. In addition to a gift shop across the street from Rainbow Falls (state park, a popular tourist venue), this division operates three food kitchens, one of which produces gourmet items sold locally and throughout the Islands. Two other kitchens are operated as “business incubators” which individuals or companies can rent to produce food items for sale.
- **Science/Technology**—HCEOC has obtained demonstration grants for two projects: a plant tissue culture laboratory and a renewable energy project. Both were initiated to identify “green jobs” that would provide opportunities for low income people to acquire knowledge, skills, and experience that would prepare them for employment in high tech, well-paying future jobs.

A team from Meliora Partners, Inc. conducted an assessment of HCEOC during the week of May 18 through 22, 2009. This report summarizes the observations, conclusions, and recommendations of that process.

HCEOC has passed through an organizationally traumatic period. It has operated without a Human Resources Director for the past three years. A recently hired Fiscal Officer was let go during the period when HCEOC was under intense scrutiny by the Office of Head Start. That scrutiny resulted in relinquishment of the Head Start program by HCEOC at

the end of March, 2009. An independent consultant evaluated the organization's financial management at the end of 2008. The Office of Community Services conducted program and fiscal monitoring in early 2009. All of these activities raised concerns about the current condition and future viability of HCEOC.

Although HCEOC has a number of noteworthy programs, its overall financial and management condition is cause for concern. The following were among the most significant findings of the assessment team:

- The HCEOC board of directors has not been adequately informed of conditions within the entity. Financial reports were based on incomplete record-keeping; program reports were not made regularly and did not address compliance issues and outcome goals; the board had no ongoing role in short and long-range planning.
- The board failed to act on numerous pieces of information that indicated that certain programs or projects were operating in deficit and that funds were being re-directed to purposes for which they were not awarded.
- Board and committee documents showed that few formal decisions setting policy or management guidance resulted from discussions by the board.
- HCEOC did not document how its members were recruited and selected in compliance with CSBG act and bylaws requirements.
- Board bylaws do not require that an annual, agency-wide audit be obtained, nor that the executive director receive an annual performance evaluation, although both of these activities take place.
- The fiscal year 2008 audit has not been completed and approved by the board, even though it is due to federal officials by June 30, 2009. This also means that the organization has had no legitimate basis for its financial statements more than half way through the current fiscal year.
- HCEOC does not follow its written procedure for administrative cost allocation.
- The fiscal department is understaffed, and the accounting software falls short of requirements for effective use. Transaction recording and cash-to-ledger reconciliation is not up-to-date.
- No agency-wide budget has been created, against which all the expenses of the organization can be regularly compared. The organization's "for profit" projects do not have budgets.
- The close out of the Head Start program was carried out too hastily. Legitimate costs have yet to be claimed and the opportunity to do so may be lost.

- HCEOC’s management structure isolated programs and staff. Communication occurred primarily between the executive director and individual program directors. No value appears to have been placed on the importance of the organization as a whole. Many staff could not describe what employees not in their section or program did.
- HCEOC does not exercise internal accountability for either funds or outcomes. Funds were routinely applied to expenses that needed to be paid (regardless of their source) or were directed from their intended purpose to support an activity or program deemed more important at the time.
- The ostensibly “for profit” initiatives of the organization were allowed to function at a loss for extended periods. Although these programs were credited with recently having passed the break-even point, the managers of those programs were not factored into the cost of doing business. Part or all of their salaries were paid from CSBG.
- HCEOC’s human resource systems are incomplete and ill organized. The new HR Director recognized this condition and had begun a wide range of remedial actions.
- HCEOC had no discernible ongoing planning process. The community assessment included in the Fiscal Years 2009-2010 community action plan was not used as the basis for board discussion of agency long and short range priorities and strategies.
- HCEOC’s approach to setting priorities might be stated as:
  - 1) Seek money to keep doing what we’ve always been doing;
  - 2) In the absence of funding, stop doing what we’re doing;
  - 3) See what public money is available and do what can be funded.It was not apparent that resource development priorities were set on the basis of what would do the most good for low income people.
- Although several HCEOC projects emphasized preparing low income people for new employment, those projects did not appear to have accompanying “family self-sufficiency” support systems and efforts.
- Employees, for the most part, did not talk about low income people, their needs, and how the organization might systematically support development by low income people of greater control over their lives.

HCEOC needs to consider a number of remedial actions for immediate implementation. Among the most important are the following:

- Ensure the board has sufficient training to understand the financial information presented to it.

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- Properly document board member recruitment and selection.
  - Properly document actions taken by the board. Move board discussion to committee meetings; reserve board meetings for decision-making.
  - Revise the bylaws to incorporate restructuring decisions that have apparently been made but have not been documented. Submit the revisions to CAPLAW for review.
  - Publish an annual calendar of committee and board meetings. Note in minutes whether committee and board meetings are regular or special.
  - Activate or eliminate board committees. Document committee work in meeting minutes.
  - Seek additional assistance for the fiscal director in order to expedite bringing the books of account up-to-date.
  - Establish budgets for all activities and determine whether each program/project can operate within its budget.
  - Complete the fiscal year 2008 audit so opening entries can be made in the fiscal year 2009 books.
  - Establish and implement an administrative cost pool, allocating overhead costs to all funding accounts.
  - Implement new accounting software.
  - Freeze all spending not approved in writing by the fiscal officer. Freeze all program development, restructuring, funding, or elimination until a viability study has been made of each program, based on a zero-sum budget.
  - Use stimulus money to extend computer upgrading and networking beyond the central office and the accounting software. Link all worksites by email.
  - Re-organize the personnel files. Include more information in them.
  - Obtain a computerized human resources software application for collecting and reporting important personnel information.
  - Correct the exempt/non-exempt classification of employees.
  - Update, issue, and train staff on revised personnel policies and procedures.
  - Conduct a wage comparability study, and develop a pay schedule based on the results.

- Provide training and professional development opportunities for staff, as appropriate to their programs and interests, and suited to the development of HCEOC as a Community Action Agency.
- Look for revenue-generating potential in existing programs or activities.
- Establish formal accountability systems and practices that routinely collect program data, analyze it, and produce corrective responses as needed.
- Undertake a more comprehensive community assessment and strategic planning initiative to determine what the organization's service priorities ought to be. Frame that undertaking in terms of the national community action goals and performance indicators and the CSBG service areas defined in the Community Action Plan. Consider directing stimulus funds toward the needs identified in the 2008 client surveys.

## Findings and Recommendations

### Governance

Hawaii County Economic Opportunity Council (HCEOC) has a 27-member board, divided equally among the required three constituent groups: low income, private sector, and elected public officials. Low income members are elected by four district community action councils, where the organization's local offices are located. Four state representatives have named representatives, as has a city council member. Both the county prosecuting attorney and the deputy prosecuting attorney represent the public sector, as does a member of the board of education and the district superintendent. Private sector members represent three financial institutions, the community college, the Head Start Policy Council, and the elderly activities division of the county.

Team members attended a board meeting on May 18<sup>th</sup>, 2009, as well as ad hoc committee meetings on May 19<sup>th</sup> and 22<sup>nd</sup>. Team members read board and committee minutes for 2008 and 2009. Board member files and the board roster were examined.

Between November, 2008, and February, 2009, the board was engaged in a discussion by the Region IX Head Start office about whether HCEOC would retain its preschool program. Clinton Hostetler, a consultant, was hired to assess the financial situation of the program. His report raised issues in addition to those identified by Head Start. The future of the program was discussed in a joint Executive/Finance committee meeting (January 20, 2009) and in a board meeting (February 23, 2009). The executive director argued for relinquishment of the program, so that an organization with a stronger early childhood development background could operate it. He also expressed dissatisfaction with the

highly regulatory nature of the program and the number of personnel issues arising from the program.

The State of Hawaii Office of Community Service (OCS) conducted program monitoring of HCEOC on March 12 and 13, 2009. An OCS monitor also carried out a fiscal monitoring on March 13<sup>th</sup>. As a result of these monitorings, OCS required HCEOC to submit program and fiscal corrective action plans, which were sent on May 13, 2009.

## Findings

1. **Board attendance barely exceeded the twelve members required for a quorum.** Four members from each sector had consistent attendance records. Also, the committees were inactive over the fifteen month period examined.
2. Board lack of understanding of financial conditions and concerns reflected **inadequate support from the executive director**, who stated in the corrective action plan that he did not attend financial committee meetings because he thought his presence might influence or interfere with the committee's discussions. The corrective action plan also stated that the agency stopped sending out financial materials because members didn't bring them to meetings.
3. Minutes indicated that **the board was not made aware of the fiscal concerns raised by Head Start consultant Hostetler**, concerns that figured prominently in Head Start's pressure on HCEOC to relinquish the program.
4. **The board did not act decisively when it had clear evidence for concern.** The issue of the Rainbow Falls Connection and the Food Service Project operating at a loss was raised in executive/finance committee meetings May 19, 2008, and November 17, 2008, and governing board meetings on February 23, 2009, and May 18, 2009. A fiscal presentation on May 18<sup>th</sup> about the food service project identified a \$346,000 personnel expense paid by HCEOC in the absence of other funding. The report also stated that the project was operating at a loss. There was no discussion of this expense, how it had been paid for, or how it would be recouped or absorbed. In none of those instances was discussion followed up with motions instructing that specific remedial actions be taken. Subsequent minutes do not contain discussion or follow-up on these topics.
5. **The HCEOC board did not receive regular, current information on program activities.** The 2009-2010 Community Action Plan stated "[U]sually, annual Board of Directors Training is held in January..." and that "[A]t regular meetings of the Board, members may receive presentations on different agency programs." Board minutes that were examined identified board training that took place in February, 2008, and January, 2009, and included program presentations by staff. Other minutes examined did not contain evidence of reports from any programs other than Head Start. A standardized program board report has been proposed in the Program Corrective Action Plan (p. 9), but program reports are still projected to occur at an annual board-staff planning retreat.

6. **The executive director performance evaluation format calls for assessment of performance against the HCEOOC strategic plan, which the agency does not have.** Annual evaluations were contained in the executive director's personnel file, although annual performance evaluation of the executive director by the board was not specified in the bylaws.
7. **Bylaws did not specify the board's responsibility to select an independent auditor nor its responsibility to obtain an annual audit report.** This is a central requirement of CAA boards under OMB Circular A-122. HCEOOC had been requested by Head Start to select a new auditor. Documents provided did not describe how the auditor was recruited and selected. Finance committee minutes stated that two proposals had been received and that the proposers would be asked to make personal presentations.
8. **HCEOOC did not use its committee structure.** Board bylaws establish eleven standing committees. Only minutes from joint meetings of the executive and finance committees were contained in the board file and were reflected in board meeting minutes. The only meeting calendar presented to the assessment team contained five committee meetings scheduled for both February and March. The document presented had handwritten notes to the effect that two of the February meetings and four of the March meetings had been cancelled. No minutes were produced for the two committees that met in February.
9. **Board minutes did not record approval of funding applications by the program committee,** as specified in Article IV, Section 2 of the bylaws.
10. **Board minutes contained no evidence of action by the membership committee** to receive and review private and public sector board membership applications, or to maintain member attendance records and to recommend removal of inactive members. The board member removal standard in the bylaws (Article 1, Section 7) required missing two consecutive board meetings AND (emphasis added) missing three consecutive committee meetings. As the committees did not meet in 2008, it would have been impossible to apply the criterion. No files were maintained that documented the membership of individual directors.
11. **No activity on the part of the evaluation committee was described in board minutes.** No minutes of meetings of the committee were presented. The only input on program and project activities and achievements received by the board took place during the annual planning and board training meeting.
12. **Although a personnel committee was charged in the bylaws with maintaining current and compliant employment policies and procedures, the employee manual presented as current was dated 2001.**
13. **It could not be determined from minutes whether the board had met its advance notice requirements stated in the bylaws.**

14. **Board minutes did not identify whether meetings were regular or special.** Bylaws stated that board meetings were to be held on the fourth Monday of each month. The executive assistant stated that meetings are held every other month in even numbered months. No calendar of regular board meetings was available to the assessment team.
15. **Approval of changes to committee structure were not reflected in board minutes and the bylaws had not been modified accordingly.** Several staff and board members stated that the board had restructured its committees. The only evidence for this was a list of committees and members.

## Recommendations

- A. **Reduce the size of the board** and concentrate on recruiting members who will participate actively. A twelve-member board would accommodate one low income representative from each district; an eighteen-member board would allow for two low income representatives from Hilo and Kona and one each from Hamakua and K'au/Puna.
- B. **Provide more training and support to board members.** Monitor member attendance closely and enforce participation criteria. Adopt an enforceable participation requirement: attendance at 75% or more of board meetings each year and similar participation on committees.
- C. **Return to the bylaws-mandate schedule of monthly board meetings.** Conditions requiring improvement are too numerous and pressing for meetings every other month.
- D. **Activate or eliminate committees.** Prepare and archive minutes on all committee meetings. Reduce committee structure to five committees: Executive, Finance, Program, Personnel, and Board Development. Officer can chair each of the committees, but meet together as the executive committee only to conduct business that cannot wait for the next board meeting.
- E. **Revise bylaws** to reflect changes in committee structure, to add selection of an independent auditor and obtaining an annual audit, as well as specifying that the executive director's performance be evaluated each year. Remove the provisions for finance committee recommendations on raises. **Submit revised bylaws to CAPLAW for review.**
- F. **Publish an annual calendar of regular board and committee meetings.**
- G. **Distribute to the board and committees an annual calendar of funding proposal due dates** and meetings at which the proposals should be reviewed and approved by the committees specified in the bylaws and by the board.
- H. **Record in meeting minutes whether meetings are regular or special.**

- I. **Document the declaration of a quorum, and its method of determination, in meeting minutes.**
- J. **List members present and absent at meetings in the minutes.** Declare the number of seats vacant at each meeting.
- K. **Conclude board discussions with formal motions duly recorded in the minutes.**
- L. **Create and maintain files on individual board members** documenting how they were recruited and selected, their attendance record, training in which they participated, and their committee service.

## Financial Management

HCEOC utilizes the Grants Management System (GMS) accounting software. The version was several years old, and the agency utilized the minimum number of modules to prepare the general ledger. Documents reviewed prior to arrival included the past three A-133 audits and the drafts of the September 30, 2008, audit and management letter, the most current fiscal and personnel policies, internal financial statements prepared as of March 31, 2009, Community Services Block Grant monitoring report prepared March 13, 2009, board finance committee meeting minutes for the prior year, and the report of a consulting service fiscal monitoring, conducted in December of 2008, by Clinton Hostetler. Four financial staff were interviewed during the assessment, as well as the A-133 auditor for fiscal year 2008 and a staff person with the pension plan at Wachovia Securities.

During interviews, the new fiscal director pointed out that almost the entire fiscal staff was new or temporary. During her first week, she found that the agency was cutting checks and then holding them until sufficient cash was deposited to cover them. As vendors complained, some manual checks were prepared that duplicated amounts on checks being held, but the held checks were not voided and the ledger adjusted. She also found the agency was several months behind in filing claims for reimbursement with grantors, thus worsening the cash position. The fiscal director felt almost all of the held checks have been sent, but continued searches of the files are still revealing additional checks not mailed. She discontinued the practice of cutting checks ahead of the date of release.

As of the date of this assessment, all March, 2009, reimbursement requests had been filed and most of the dollars received. Vendor invoices as of April, 2009, were still being processed and no April reimbursement requests had been filed.

October, 2008, through March, 2009, revenue and expenditure reports show that HCEOC operated in a deficit during these six months. The fiscal director and executive director agreed that operations were in the hole and stated that staff cuts had recently been made in an attempt to narrow the deficit, but that the losses have not ceased.

Head Start operations were discontinued effective March 31, 2009, reducing agency employment by approximately 80 people. No appreciable reduction in administration has

been made since this grant terminated, because, the executive director stated, Head Start paid a small percentage of administration costs.

## Findings

1. **The agency did not know its current financial position.** Past practices of the financial department, fiscal staff turnover, incomplete data in the accounting software, and the newness of the current fiscal director all contributed to this situation. Although the fiscal director is making headway, without additional assistance it will be some time before accurate financial information can be presented to management and the board.
2. All of the proposed September 30, 2008 **auditor adjustments have not been booked and the audit itself has not received final approval by the board.** Furthermore, the auditor is still investigating certain issues with the audit, and additional revision to the audit might be forthcoming. Until these balances are known and entered into the books, it is not possible to accurately state the financial position of the agency.
3. **HCEOC does not follow its written procedures for administrative cost allocation nor is there a formal administrative cost budget in place.** The allocation methodology for personnel costs states that the agency will evaluate employee time and activity logs for three separate months as the basis for charging grants. Interviews and document exam showed that this was not done. Rather the former fiscal director instructed the payroll accountant on where to charge administrative personnel on each payroll based on where available dollars existed.
4. **Balance sheet accounts are not reconciled; many accounts remain unchanged since the last audit.** Errors on the balance sheet oftentimes have their offset in revenue and expenditures, thereby causing erroneous reporting to the various grantors.
5. **Bank reconciliations are not current** for any account and in some cases have not been performed since the last audit. Timely reconciliations are mandatory if the agency is to accurately monitor cash and prepare reports for the administration and board of directors.
6. **The fiscal department is not adequately staffed.** While temporary employees have performed essential functions, some routine work and analysis remains on hold. The fiscal director has completed interviews for two positions, accounts payable plus billing and general ledger functions. One person is scheduled to begin June 1<sup>st</sup> and the agency is waiting for their other future employee to finalize travel plans. Even when these employees start, a normal learning curve will apply.
7. **The accounting software exists on one computer in the fiscal department; only one individual is allowed in the system at any time.** This restricted access is hampering efficiency of the fiscal staff and limits the reporting capabilities of the fiscal officer. More than one person at a time must be able to access the accounting software.
8. **Some programs continue to operate at a deficit.** The board of directors has instructed the staff to make the necessary changes so that no program will be

operating in a deficit past July 1, 2009. Given the status of the financial systems and department, it will be very difficult for the fiscal director to accurately report the status for the programs for each manager by this date. The fiscal director will also not have sufficient time for analysis of individual program operations.

9. **The agency has no company-wide operating budget against which to compare actual expenses.** While some programs have budgets, other non-grant operations do not. (An agency-wide budget is used to consolidate all budgets into a single document that allows the staff and board to see where all of its resources come from and where those resources are expended. Such a document allows management and the board to understand where the agency's financial position should be and allows the board to hold management responsible for the performance of the agency. ) To meet the board's direction of operating at break-even, the agency must have a budget for all revenues and expenditures and compare results to it. With the shortness in staffing, additional assistance may be required.
10. **The agency has not funded all of its 2008 pension costs** to the third party administrator. The auditor stated that the agency overstated its pension liability as of September 30, 2008, and an adjustment must be booked. This booking may leave the agency with a questioned cost. The expenses have already been claimed in payroll and the cash has been drawn from the grantors. This cash was spent on other bills, thereby requiring HCEOC to generate non-grant cash to cover the liability. The auditor is still reviewing the situation.
11. **Since many Head Start employees worked only 6.5 hr days during the first quarter of 2009, it is likely that these employees will not be eligible for the pension plan and the funds drawn down on their behalf will have to be returned to Head Start.** In an attempt to finalize Head Start expenses, the agency has reported pension costs for all Head Start employees thru March 31, 2009. These funds were drawn from Head Start but the pension plan states that an employee must work 500 hours in a year to be eligible for pension payments.
12. Although the Head Start grant ceased operations on March 31, 2009, and assets were physically transferred, **the book entry to remove the assets from the HCEOC ledger has not been made.** This has the effect of overstating the company's assets and equity.
13. **The agency carries non-grant accounts receivable for many of the food service program accounts.** While the auditor required a bad-debt reserve to be established at September 30, 2008, examination of these aged receivables indicates that **write-offs will most likely exceed this reserve.** Although a consultant was hired over three months ago to analyze the financial status of the food service, no work product or recommendations from that contract was presented to the team.
14. The executive director drives a company vehicle to and from his home. Examination of his W-2 revealed that the **required disclosure and declaration of income did not occur.**
15. The executive director and finance committee members indicated that two **company assets were being sold to generate cash to cover previous deficits.** Hawaii Bio-tech

Tissue Cultures currently employs six people and the agency provided correspondence from the Office of Community Services regarding its potential sale. The executive director said the sale price would be \$600,000 and the buyer would agree to hire the employees on our staff and those on lay-off. He believed that no reimbursement of previous grant funds provided by the federal government will be required. Examination of the documents provided indicated that **no final resolution of the sale proceeds has been determined by the federal Office of Community Services and that the agency must provide additional documentation before a determination is reached.** No contract of sale has been prepared.

The agency also has approximately one acre of property in the Kona district that it proposes to sell. During the exit conference the board indicated they had contacted a realtor to handle the sale. As of today it is unclear what proceeds will be available to the agency.

16. The fiscal officer provided an internal balance sheet as of March 31, 2009, and clearly stated that it contained inaccuracies. In an attempt to provide a clearer picture of HCEOC's financial status, the assessment team prepared an estimated balance sheet. This document showed **a pattern of declining equity, current assets less than current liabilities, and expenses exceeding revenues in the period following October 1, 2008.**

## Recommendations

- A. **Complete the audit review and approve the audit for submission.** The audit must be submitted within six days of the scheduled June board meeting. Once accepted, this will provide a starting point to measure the current year. Review and respond to all findings and recommendations.
- B. **Review the staffing needed in the accounting department.** A seasoned fiscal officer and the two newly hired accountants (once they are in place and up to speed) should be sufficient to run this department.
- C. **Provide the fiscal officer with external assistance** to clean up the balance sheet, reconcile existing grants, and assist in preparation of an agency-wide budget. Request permission from the State Office of Community Service to revise the CSBG work plan to provide dollars to pay for the assistance and, on the State's recommendation, if acceptable, to extend Meliora's contract to complete this work. With this assistance, the fiscal director should be able to move forward while training new staff.
- D. **Terminate the existing consultant contract in Food Service** so the dollars can be used for fiscal assistance.
- E. **Establish an administrative cost pool and devise an allocation plan** to be submitted to funders and approved for use beginning October 1, 2009. Communicate the results to all program managers so that they will understand the charges their program must bear.

- F. **Implement new accounting software** that will provide the necessary fiscal functions to support all staff needing to use it. The state office of CSBG has already committed funds to acquire this software.
- G. Immediately **advise all vendors and staff that new or renewed financial commitments of any type must contain the approval of the fiscal officer.** This includes purchases, staff additions, employee benefits, contracts, credit cards, etc.
- H. **Prepare a zero-based budget for each program**, including administration budget and charges, to determine if each can continue. The administration will review agency benefits and advise program managers of any recommendations they will make to the board.
- I. **Advise Head Start that the auditor has not finalized his report, and additional charges and/or credits may be pending.**
- J. **Contact all existing food service customers and tell them new contract pricing will probably increase to allow continuation of the program.** Complete the analysis of costs and prepare for contract negotiations.
- K. **Prepare a corrected W-2 for the executive director on all open years with the IRS.** It may be necessary to seek either legal or accounting advice on correcting such items.
- L. **Review the listing of assets** to determine if any additional sales are possible. Conduct a physical inventory of all the sales so that an accurate fixed assets schedule can be maintained.
- M. Advise the state OCS office that if **stimulus dollars are granted, they will be segregated and that the fiscal director must approve all disbursements from this account.**
- N. **Fund HCEOOC with stimulus dollars in a staged manner**, as follows:
- a. Release funds for the computer hardware and networking upgrade;
  - b. Release funds for purchase of two buses;
  - c. Release additional funds following completion of accounting clean-up, creation of an agency-wide budget, and determination of program viability based on analysis of all current programming.
- O. Once the asset sales are finalized, **determine if sufficient dollars exist to reimburse any questioned costs.** If funds are insufficient, contact the appropriate grantor and negotiate a repayment plan.
- P. **Work with the Finance Committee to devise acceptable monthly reporting to support their requirements.**
- Q. **Prepare monthly revenue and expenditure reports comparing actual to budget for all program managers.** Train on their content if necessary.
- R. **Conduct financial training for the entire fiscal staff, program managers, and the board of directors.**

## Administration

Hawaii County Economic Opportunity Council (HCEOC) has its central administrative office in Hilo, out of which its program directors work. One of its four district offices is located in this office. The other three district offices are located in Hamakau, Kone-Kileau, and K'au-Puna. These are accessible by means of the highway which circles the island. Hamakua is 42 miles and 55 minutes from the central office; the Kona office is 80 plus miles beyond that, a total driving time of two and a half hours from Hilo. Distance to the K'au/Puna district office is 55 miles, the drive time 90 minutes. The distance between these offices and the effort that must be made to visit them has created a sense of isolation in the districts, particularly for the Kona area. Much of the program activity occurs in and around Hilo.

HCEOC only recently resolved the absence of three agency leaders. For a period, the positions of human resource director, fiscal officer, and deputy director for community services were unfilled. The latter position was contracted to an individual who did not keep office hours during the official work day and who was not observed by staff as being on the job. A fiscal officer was terminated during the relinquishment of Head Start. The position was filled only in mid-March.

HCEOC relinquished the Head Start program at the end of March, reducing its staff by nearly half. Individuals interviewed, and board minutes examined, stated that the agency would be restructured administratively. That change was not clearly articulated at the time of the assessment, nor had it been expressed in a new organizational chart. HCEOC operations fell into four major areas:

- **Administration**, comprised of the Executive Direct. Fiscal Officer, Human Resources Director, and an Executive Assistant.
- **Community Services**, being all activities providing direct services to clients, and including the Drop Out Prevention Program, The Language and Multi-Cultural Program, Weatherization, Energy Assistance, Employment/Core Services, Food Services, Housing/Economic Development, Transportation, and commodity food distribution.
- **Rainbow Falls Connection**, a collection of activities focused on generating income for the organization and jobs for low income people. In addition to a gift shop across the street from Rainbow Falls (state park, a popular tourist venue), this division operates three food kitchens, one of which produces gourmet items sold locally and throughout the Islands. Two other kitchens are operated as “business incubators” which individual or companies can rent to produce food items for sale.
- **Science/Technology**—HCEOC has obtained demonstration grants for two projects: a plant tissue culture laboratory and a renewable energy project. Both were initiated to identify “green jobs” that would provide opportunities for low

income people to acquire knowledge, skills, and experience that would prepare them for employment in high tech, well-paying future jobs.

Although these activities can be described as falling into natural groupings, in fact they are operated as a series of discrete and isolated activities. The top leadership of the organization does not meet on a regular basis to deal with agency-wide issues and concerns, nor to create and strengthen collaborative, cooperative relationships between HCEOC programs. Meetings of the whole staff are seldom held, and then only to address personnel-related issues.

Employees at HCEOC did not describe a sense of belonging to an organization: their activity and identity related to a specific program. Many individuals interviewed were not able to provide clear descriptions of what went on in other parts of the organization. Staff did not have an understanding of the organization's financial situation and felt little urgency about its current status. Program managers did not receive financial reports. They had not received the recent monitoring reports by the Hawaii Department of Labor and Industrial Relations, Office of Community Services.

## Findings

- 1. There was no leadership coordination among program managers as a group.** HCEOC leadership and management was strictly top down, based on one-to-one interaction between the executive director and program directors. Cited in the most recent OCS program monitoring for this lack of top management coordination, HCEOC's response was to deny the value of such an approach but to include in its corrective action plan a proposal to develop "strict guidelines for conducting effective program staff meetings."
- 2. A range of individuals interviewed described the absence of internal accountability systems,** with particular concern about a lack of interest in achieving goals and objectives. The potential for such accountability was also undermined by lack of regular feedback on financial conditions, as well as re-allocation of funds to other activities.
- 3. Organizational relationships and responsibilities are not clearly articulated.** On the organizational chart contained in the September, 2008 Community Action Plan the Deputy Director for Science and Technology has no supervisory responsibility for the Bio-Tech Tissue Culture Center or the Renewable Energy Project. The renewable energy project is not depicted on the chart at all. None of the HCEOC "for-profit" activities are included in the September, 2008, Community Action Plan organizational chart.
- 4. The true cost of for profit and demonstration projects was not accurately represented to the board of directors.** The Rainbow Falls Connection was cited at the May 18<sup>th</sup> board meeting for having generated revenue in excess of expenses. However, that perspective did not acknowledge that the RFC director was paid wholly out of CSBG. Similarly, the board was not aware that most programs are not

charged administrative costs consistent with an approved cost allocation plan. The Deputy Director for Science and Technology was partially charged to administrative costs, although that position lacks agency-wide scope.

5. Multiple individuals interviewed described a pattern of **arbitrary re-allocation of funds** from the source and purposes for which they were authorized to expenses unrelated to those purposes. This practice contradicts A-122 and could result in allegations of misappropriation of funds and require repayment of such unallowable costs.

## Recommendations

- A. **Prohibit the executive director from making future program or financial commitments for the organization** without review by the fiscal officer and approval by the governing board.
- B. **Establish and enforce comprehensive responsibility for the science projects**, including the job training objectives of the projects.
- C. **Do not undertake any new projects or initiatives** until the analysis of existing program viability and an agency-wide budget have been completed.
- D. **Extend computer networking and upgrade beyond the central office** and the accounting system to include all satellite work sites.

## Human Resources

HCEOC hired a Human Resources Director in April, calling on the experience of the person who had performed personnel responsibilities within the Head Start program. Prior to March, 2009, the position was unfilled at HCEOC for approximately three years. The new HR director admitted to members of the assessment team that personnel systems and records needed substantial overhaul, but that she had begun those processes.

HCEOC's personnel records are maintained in the central office. A clerical employee supports this administrative function. Files are organized by project, so only the current clerk can easily locate them. Files are organized in reverse chronological order, making their analysis easy. Personnel files are primarily payroll files. The assessment team reviewed twenty job descriptions and twenty employee files. The HR Director provided the team with draft personnel policies and procedures which had not yet been approved by the board.

## Findings

1. **Job descriptions examined did not include important information** about exempt/non-exempt classification, full- or part-time employment, or pay grade/category assignment.
2. **Job descriptions were undated**, so their relevance to current activities could not be readily assessed.
3. **Only** one personnel file examined contained an I-9 Form completed by the employer. This form is a federal employment requirement. New regulations and forms will be required July 1, 2009.
4. **Less than 15% of personnel files examined contained a current W-4 Federal Tax Form, or State of Hawaii Tax Form.** These forms are federal and state employment requirements, and must be updated annually.
5. **Only four files examined contained job descriptions** for the employee's current position.
6. **HCEOC had no human resources software system**, such as that available from ADP, or a current tracking and reporting system to meet Affirmative Action requirements.
7. **Many employees were incorrectly classified as exempt** when they were performing hourly functions. Several employment contracts were contained in the personnel files examined, and contract employment did not appear to be justified for the positions.
8. **There was very little evidence of a formal hiring process at HCEOC.** Only four of the files examined contained an interview scoring sheet. Nearly all files have a job application dated the same as the hire date listed on the personnel action form or memo. Interviews with several staff members indicated that people were selected for jobs and asked to apply, without regard to their qualifications, and often without any external job postings. Many of the SEE Workers currently employed by HCEOC were not qualified for the positions they hold and were not receiving training.
9. **Earnings of employees reflect no pattern, consistency, or equity.** There was no evidence that HCEOC had conducted a recent wage comparability study or had constructed a pay schedule based on such a study.
10. Changes to pay rates were explained as percentage increases (no reason), changes in position, reduction in time and restoration of time.
11. **Personnel files examined appeared to primarily "payroll" files.** They did not contain:
  - a. Evidence of job interview processes (only about 25% did)
  - b. Disciplinary or corrective actions

- c. Annual performance evaluations
- d. Evidence of professional development activity
- e. Linkage of pay rates to a salary/wage scale

**12. Interviews with staff also indicated that there are no performance evaluations, either probationary or annual, at HCEOC.** With the exception of the Executive Director, who is evaluated by the Board of Directors, **only one personnel file examined contained an annual performance evaluation, dated 1978.**

## Recommendations

- A. **Re-organize files in alphabetical order.** Remove files of persons no longer employed. Remove medical information from files.
- B. **Require more complete information on Personnel Memos,** including supporting documentation and evidence (signature) of receipt by the employee.
- C. **Add the following information** (in the same or separate folders/dividers):
  - a. Hiring information, initial and subsequent position changes: applications, references, resumes, interview notes, interview scoring tabulations
  - b. Performance evaluation, probationary and annual, as well as evaluation performed to justify merit raises or position changes
  - c. Evidence of professional development: workshops, classes, certifications, degrees
  - d. Disciplinary action and corrective action
- D. **Obtain a human resources software system,** as part of the overall computerization of HCEOC.
- E. **Reclassify employees correctly as exempt or non-exempt.** Clarify the status of hourly employees and contract employees and amend documents as needed.
- F. **Finish updating the personnel policies and procedures,** with an opportunity for staff members to provide review and feedback. Present the revisions to the board of directors for final approval. Provide follow up training to staff on the new policies and require their acknowledgment and receipt of the new policies with a signature.
- G. **Implement a more transparent hiring process,** with external job postings, and an objective interview and selection process. Require the signature of the Human Resources Director and Fiscal Officer on all new hire or change of pay decisions.
- H. **Conduct a wage comparability study, and develop a pay schedule based on the results.** Present the schedule to the Board of Directors for approval and implement it throughout the organization as funds become available.

- I. **Require more complete information on Personnel Memos and Personnel Action Forms**, including supporting documentation and the signature of the employee to acknowledge receipt of a copy.
- J. **Clarify the organizational structure of HCEOC** and communicate the role of each employee clearly throughout the agency, especially supervisors.
- K. **Complete employee time** studies that the HR Director has begun. Write new job descriptions for all employees, based on actual duties performed, using the detailed version model with the corrections noted in the Findings above.
- L. **Develop a performance evaluation tool** for all staff, and develop corrective action plans and steps for disciplinary action. Provide training to all employees on the new forms and procedures, and implement throughout the organization. Complete annual performance evaluations for all employees as soon as possible.
- M. **Provide training and professional development opportunities for staff**, as appropriate to their programs and interests, and suited to the development of HCEOC as a Community Action Agency. Document all activity in personnel files.

## Planning

Interviews of HCEOC employees and examination of a variety of documents failed to produce support for ongoing planning by the organization. Although a community assessment was submitted in the 2008 Community Action Plan, there did not appear in board minutes any involvement of the board in either producing or analyzing that document. The assessment included tabulation of 952 needs surveys completed primarily by low income persons showing that the needs they perceived to be of most concern included:

- 68% Assistance with utility bills
- 49% Affordable housing
- 40% Need health insurance
- 39% Rental assistance
- 31% Financial assistance with childcare
- 27% Transportation
- 26% Financial assistance for food
- 25% Assistance for medication
- 23% Assistance with job skills, employment prep
- 17% Seeking employment
- 16% Emergency food assistance

## Findings

- 1. **HCEOC was required to submit a corrective action plan to address its lack of institutionalized planning.** The monitoring report noted that such planning as exists

takes place in informal discussions and is expressed in work plans and timelines in funding proposals.

2. **The board played no role in the development of proposals for stimulus funding.** The application for stimulus funding due to the Hawaii Office of Community Service on Tuesday, May 19<sup>th</sup>, was presented to the board of directors on the 18<sup>th</sup>. The application had not been discussed by an appropriate board committee, the budget had not been seen by the Fiscal Officer, and no discussion had taken place as to the appropriateness of the proposed applications of the funds. Questions were raised by board members about those applications at the May 18<sup>th</sup> board meeting. Granted a three day extension for submitting its revised proposals, the agency failed to meet the Thursday close of business deadline agreed to by the state staff.
3. **No rationale for identifying funding priorities could be tied to existing community assessment or strategic planning by the board.** The 2008 client surveys indicated a clear pattern of concern by low income people for assistance with housing availability and affordability. The original proposals for stimulus funding did not reflect any of those priorities, but instead sought funds for:
  - a. Expanding computerization and networking in the organization;
  - b. Continuation of the Language and Multicultural Program;
  - c. Continuation of the Drop Out Prevention Program;
  - d. Acquisition of additional buses for the transportation program; and
  - e. Purchase and installation of a high-end accounting software program.
4. **Proposals for funding did not reflect informed projections of need and cost.** Funding was requested based on “what we think we can get,” rather than what was really needed.
  - a. One of the proposals for stimulus money was for upgrading the agency’s computer network. This proposal was based on an estimate by a local IT vender for hardware only, and was limited solely to the central office. It did not include locations other than the central office, contained no analysis of existing hardware and software compared against that which would be needed. It did not include installation, maintenance, and tech support costs.
  - b. Another component of the stimulus proposals was for \$20,000 to purchase the SAGE MIP accounting software program. The request assumed that because the fiscal department could not generate needed financial reports from existing accounting software that it would be able to do so with this “state of the art” high-end program. The \$20,000 would only have purchased the basic “software engine” for MIP. To function properly, additional software modules would need to be purchased and installed.

The cost of all required modules, configuration of the total software package, and training of staff in its use would likely significantly exceed the amount requested. The software in use—GMS—was adequate to the agency’s needs, although it, to, would require acquisition of and training in all of the needed software modules (although no one on staff was aware of that). The assessment team pointed out that, in its experience, HCEOC could adequately keep its books on QuickBooks for Nonprofits software.

5. Discussions with board members and employees gave substance to a picture of **HCEOC’s approach to setting priorities**, which might be stated as:
  - a. Seek money to keep doing what we’ve always been doing;
  - b. In the absence of funding, stop doing what we’re doing;
  - c. See what public money is available and do what can be funded.
6. The program corrective action plan submitted to OCS stated that HCEOC will complete a five year plan strategic plan in September, 2009, but it did not identify a process that will include participation by low income people, community members, staff, and board members.
7. The program corrective action plan also stated that “program directors [are] to identify and present to the BOD [board of directors] the following:
  - a. Core values
  - b. Customers
  - c. Partners
  - d. Program strengths
  - e. Program weaknesses
  - f. Opportunities/barriers”

Here, too, **participation by others than the staff was not contemplated.**

8. A few HCEOC staff acknowledged past training in ROMA, as well as having been provided computers and software with which to report achievements in ROMA format. The organization has not incorporated the framework of the six national goals, and their accompanying performance indicators, into the thinking, accountability systems, or planning processes. The software provided has not been used.

## Recommendations

- A. HCEOC leaders (staff and board) should **revisit the community assessment contained in the 2009 Community Action Plan**, particularly from the perspective of the national community action goals and performance indicators and the CSBG service areas defined in the Plan. As part of that assessment, current HCEOC programs and projects should be evaluated for the extent to which they address real and pressing low income needs which are not being met from other community resources.

- B. **Look for revenue-generating potential in existing programs or activities.** Two of the most promising examples are transportation (which can tap into a variety of funding mechanisms on a fee for service basis) and food service, which provides a unique and necessary service in the Hilo.
- C. **Train the board of directors and program managers in the national goals and performance indicators.** Make these the framework for agency planning and accountability.

## Services

The assessment team visited with program managers and staff at the central office, two district offices, a food service kitchen and an incubator kitchen, the tissue culture lab and the energy project workshop. Activities that fall under the umbrella of “community services” constitute the most direct-to-client activities of HCEOC. The Rainbow Falls Connection primarily provides employment opportunities, and the energy research projects contain a workforce development component.

Compared to what are often characterized as “give away” programs, HCEOC has created a number of unique opportunities to have a long-lasting effect on the lives of low income people. Both the Drop Out Prevention Program (DOPP) and the Language Arts Multicultural Program (LAMP) target at risk students and their families with the goal of ensuring that low income children and youth benefit from as much education as possible. The food service program and the Rainbow Falls Connection provide employment opportunities and training in the food service field. The tissue culture and renewable energy projects seek to prepare low income persons for employment in what are hoped with be will well-paying “green” industries in the future.

## Findings

1. Despite the promise of many activities, and the great deal of prominence and attention directed at them, **HCEOC does not appear to support the participation of low income people in these developmental opportunities** as much as it should. The Fiscal Corrective Action Plan (May 4, 2009) states that “...HCEOC engages in business development projects ... to create the jobs first and then offer employment to *individuals that demonstrate an aptitude* for their respective positions.” (italics added)
2. It appeared from observation of two district offices that **little direct client service takes place**. It appeared that the primary service being provided was transportation. Employees, for the most part, did not talk about low income people, their needs, and how the organization might systematically support development by low income people of greater control over their lives.

3. During interviews with staff, there was no discussion of linking HCEOC programs, such as transportation and employment, to better serve low-income people. There was some discussion of community partnership development, mostly as a referral network for services HCEOC does not provide. There was very little conversation about low income people and what they might need to improve their lives.
4. Although it was pointed out that the local utility in Hilo would begin requiring solar water heaters on new residential construction in 2010, **the energy project had no relationships with firms likely to be doing that work.** Project managers did not speak to a business plan which realistically projected opportunities for trainees in “green jobs.”
5. Although several HCEOC projects emphasize preparing low income people for new employment, those **projects did not appear to have accompanying “family self-sufficiency” support systems and efforts.** The agency philosophy stressed making employment opportunities available and then letting people succeed or fail (see finding 1).
6. **The organization did not address housing-related needs identified in the client surveys** in the community assessment as top priorities in services and resource development.
7. Since the organization began to achieve success obtaining funding for demonstration projects, program managers have been made responsible for developing their own funding proposals. No training was provided, nor were proposals reviewed by the executive director. In some instances the board was informed that funding had ceased for certain programs, when instead the agency had failed to submit a competitive proposal.

## Recommendations

- A. **HCEOC needs to evaluate the purposes to which it is now applying CSBG funds,** particularly if those funds are supporting activities that are supposed to be self-supporting. It should look for existing opportunities to increase program support internally, particularly through increased revenue. Fee for service opportunities exist in both food service and transportation.
- B. **Community assessment and strategic planning need to be undertaken to determine what the organization’s service priorities ought to be.**
- C. **Stimulus funds should be directed toward the needs identified in the 2008 client surveys.**
- D. **Establish formal accountability systems and practices that routinely collect program data, analyze it, and produce corrective responses as needed to maintain compliance and to achieve stated outcomes.**

## Assessment Overview

Meliora Partners, Inc. was asked by the Office of Community Services (OCS) in the State of Hawaii Department of Labor and Industrial Relations to conduct an assessment of Hawaii County Economic Opportunity Council (HCEOC), as a follow-up to relinquishment by the agency of its Head Start program, in addition to program and fiscal monitoring of the agency by OCS.

A five-person team from Meliora Partners, Inc. conducted the assessment during the week of May 18 through 22. Team members included:

Management Specialists

Magi York

Owen Heiserman

Andi Swart

Financial Specialists

Dan Miller

Mark Morgan

During the assessment, team members interviewed staff and board members, observed board and committee meetings, examined documents including financial transaction, board and committee meeting minutes, bylaws, and fiscal and personnel policies and procedures. Team members visited two district offices, food kitchens for food service, Rainbow Falls connection, and an incubator, the biotech tissue culture lab and the renewable energy workshop.

  
**Meliora Partners, Inc.**

Meliora Partners, Inc. is a nonprofit technical assistance organization dedicated to preventing emerging organizational vulnerabilities or crises from compromising the capacity of community action agencies to achieve quality outcomes for low income families and the communities in which they live. The organization assists state Community Services Block Grant (CSBG) offices and community action agencies to intervene in a timely way so as to avert crises. The team has been funded continuously since 1999 to provide these services nationally. To date, Meliora Peer-to-Peer team members have assisted more than 90 community action agencies in over 30 states. The team consists of three management specialists, two financial specialists, and two support staff. More information about Meliora Partners can be found at [www.meliorapartners.org](http://www.meliorapartners.org).