



Meliora Partners, Inc.

# Assessment Report Kauai Economic Opportunity

Lihue, Hawaii

August, 2009



## Table of Contents

---

Summary .....	1
Findings and Recommendations .....	4
Governance .....	4
Financial Management .....	12
Administration .....	15
Human Resources .....	17
Planning.....	21
Services .....	20
Assessment Overview .....	22
Meliora Partners, Inc. ....	23

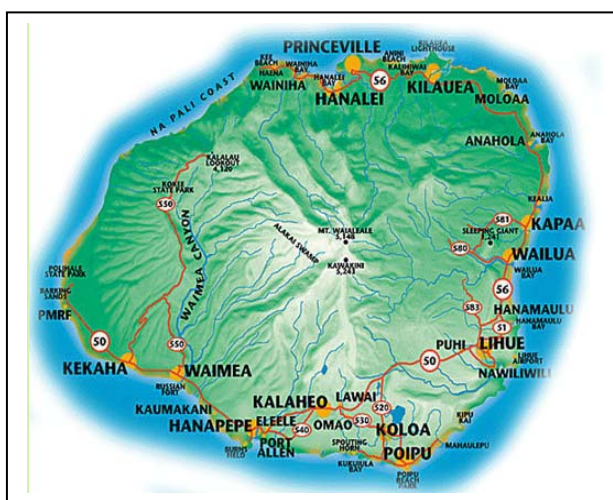
**Disclaimer:** The recommendations contained in this report represent the best efforts of the assessment team to understand conditions viewed and disclosed during its visit. Some observations and conclusions may be misinterpretations of what was observed or heard. The report highlights program areas 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

Kauai Economic Opportunity, Inc.  
Lihue, Hawaii

## Summary

KEO serves the county of Kauai, which had a 2006 population of 61,334. Kauai is the smallest of the four Hawaiian counties. 2006 census estimates<sup>1</sup> identified 5,720 county residents living at or below the poverty level; an additional 8,241 had incomes between 100 and 200 percent of poverty, the latter being the threshold for service under the American Recovery and Reconstruction Act (ARRA). Under current economic conditions, these numbers have likely increased. The county unemployment rate in July, 2006, was 2.9% compared to 9.8% in July, 2009<sup>2</sup>.



A majority of KEO programs assist families and individuals in three primary areas: youth, nutrition, and housing. These will be discussed in more detail in the Services section to follow. Several of these programs are innovative in the populations they serve and the services they provide. KEO took the lead in establishing a homeless assistance program on the island, including the creation of an emergency homeless shelter, transitional housing units, and a homeless mobile medical outreach program. KEO also facilitated the formation of a public-private coalition to expand the agricultural potential of the island through instruction in the cultivation of papaya as well as reconditioning a disinfestation plant to treat fruit so that it can be exported to the

<sup>1</sup> [http://factfinder.census.gov/servlet/STTable?\\_bm=y&-context=st&-qr\\_name=ACS\\_2007\\_3YR\\_G00\\_S1701&-ds\\_name=ACS\\_2007\\_3YR\\_G00\\_&-tree\\_id=3307&-redoLog=true&-\\_caller=geoselect&-geo\\_id=05000US15007&-format=&-\\_lang=en](http://factfinder.census.gov/servlet/STTable?_bm=y&-context=st&-qr_name=ACS_2007_3YR_G00_S1701&-ds_name=ACS_2007_3YR_G00_&-tree_id=3307&-redoLog=true&-_caller=geoselect&-geo_id=05000US15007&-format=&-_lang=en)

<sup>2</sup> <http://www.hiwi.org/article.asp?ARTICLEID=463&PAGEID=94&SUBID>

mainland. The organization operates a kitchen that prepares food for the Meals on Wheels program, Head Start centers and private child care facilities, as well as its own two preschool centers.

KEO finds itself at an opening to a new future. The current strategic plan ends in 2010, an opportunity to celebrate achievement and to renew commitment to the community action mission. This report makes a number of recommendations for rejuvenating the organization's governance structure and processes. Other recommendations suggest changes to management procedures and processes to enhance the capacity of the KEO staff.

The assessment team identified a number of changes KEO needs to make to **bring itself into compliance** with state and federal laws and regulations. These will be detailed in the Findings and Recommendations section. Highlights of these findings and recommendations include:

**KEO has a pattern of not following its own policies and procedures.** If there is no compelling reason for a policy or procedure and it is not being followed, the policy and/or procedure should be revised to reflect current practice or be eliminated.

**The opinions and recommendations of the CEO appear to take precedence over board-established policy. CEO sign-off on all phases** of financial transactions, incoming and outgoing communication, and operational decisions **has resulted in a number of undesirable conditions:**

- a. **Risk management procedures** such as separation of responsibilities **have little effect.**
  - b. The **board has not regularly compared policy and practice**, ensured that they are in harmony, nor verified that either is consistent with current law and regulation; and
  - c. **Staff seek CEO decisions** rather than exercise independent judgment based on approved policies and procedures.
  - d. **The board appears to ratify the recommendations of the CEO.** Board minutes currently describe a CEO report as the first order of business after approval of prior meeting minutes. This report is accompanied by a listing of the various stages of funding proposals: to be submitted; submitted; approved and received. Subsequent committee reports nearly always state requests that the board accept or approve the funding requests listed in the CEO's report.
- a. **KEO has not computerized** to the extent most businesses and other CAAs have. KEO service locations are not linked electronically. Incoming and ongoing email at the administrative office goes through a single computer. Employees, notably

project managers, do not have direct access to email. This situation reflects CEO concerns raised by earlier employee abuse of internet access, rather than a board policy based on business effectiveness considerations.

- b. **Employees have been told by the CEO that the board will not revise or adjust the pay schedule.** Interviews with board members established that proposals to conduct a new wage and fringe comparability study and to revise the pay schedule had not been suggested to the board.

**The current pay schedule discourages employee commitment and retention** and complicates recruitment of high quality staff in the future. Staff interviewed felt their pay was not commensurate with their work. The CEO confirmed that the pay schedule was constructed to reward tenure more than to encourage upward mobility. The entry level rates at the highest pay grades seemed to the assessment team inadequate to attract and hold high quality managers.

**KEO appears not to have reacted quickly enough to changed circumstances to prevent the return of grant monies to funders.** The assessment team identified approximately \$200,000 that had been returned to funders in fiscal year 2009. Although staff gave clear and reasonable explanations of why these funds were not spent, earlier attention to changed conditions might have allowed for revision of work plans and budgets so that funds could have been reprogrammed to other allowable activities.

Board of Directors membership has been static and declining for many years. KEO has not met its bylaws requirement for a full board membership nor its CSBG obligation of democratic selection of low income members. A lack of regular community assessment and strategic planning has deprived the board of an up-to-date foundation for evaluating the appropriateness of programs or the relevance of board members.

## Findings and Recommendations

### Governance

Assessment team members interviewed eight board members who represented each of the three required membership sectors: low income, public, and private. The following documents were reviewed and analyzed: board bylaws and articles of incorporation; committee minutes; board meeting minutes; member selection communications; board roster.

The KEO board of directors follows an alternating schedule of committee and full board meetings. Committees meet in odd numbered months and the full board in even numbered months. Minutes were examined for four sets of committee meetings and eight board meetings between April, 2008, and May, 2009.

The KEO board consists of fifteen members, five from each sector. Two public sector seats were vacant during all of the period examined. Although the board roster had names in all five low income (or resident) sector seats, minutes recorded participation by only two of the five. Analysis of board member participation yielded these results:

	Low Income	Private	Public	Percentage of
Filled	95%	88%	55%	meetings for which all members were seated
Vacant	12%	25%	45%	meetings for which all members were not seated
Attendance	20%	58%	39%	meetings seated members attended
Absent	78%	18%	13%	meetings seated members did not attend
Participation	19%	58%	23%	total meetings seated members attended

The table shows that although the low income sector was fully seated, its member attendance and participation was only one in five meetings. Three low income members attended no meetings in the period studied; two members each attended half of the meetings. Similarly, two public sector seats were vacant during the whole study period. Although the other three public members attended eight out of ten meetings, participation for the sector was only 23%. Private sector members had the best attendance record. Four of the members attended 70% or more of the meetings.

### **1. The bylaws definition of a quorum is ambiguous and may not have been met.**

Article IV, Section 4 states that a quorum shall be 50 percent of the *authorized* members (emphasis added). The assessment team understood this to mean of the total number of seats. KEO has been assuming this to mean of the seated members. Using the first meaning, **the KEO board did not achieve a quorum during the study period**. Average attendance at board meetings was 5 members; the highest attendance (at two meetings) was 7.

**Recommendation 1:** Substitute one of the following phrases for “of the authorized members”:

- a. “of the number of board seats defined in Article I, Section 1.”
- b. “of the seated members, or not less than six.”
- c. “a quorum shall be seven members of the board.”

### **2. Two public sector members represented public agencies, not elected officials.**

Paul Matunaga is described on the board roster as a representative of the Department of Vocational Rehabilitation and Eugene Uegama as a representative of the Department of Education. Absent documentation of member selection, the agency could not establish that these members were the designated representatives of elected officials. Mr. Matsunaga, who has been on the board for more than 25 years, stated that he was seated because he worked for a public entity.

**Recommendation 2:**

### **3. Bylaws provisions for removing non-attending members were not enforced.**

Private sector members who miss two consecutive committee or board meetings unexcused are to be removed, according to bylaws Article I, section 6A. The sanction is not applied to public or low income board members. No documentation of excused absences was presented, nor were any members removed from the board during the study period. Members who do not attend meetings are not exercising their duty of care. Members should be sought who can follow through on a commitment to participate.

**Recommendation 2:** Enforce the bylaws provisions, or make one or more of the following changes in the bylaws:

- a. Drop the provision for excuses. The board can waive the rules in instances where non-attending members had absences for reasons beyond their control.
- b. Increase the absentee allowance to three meetings in a twelve month period.

**4. The KEO board roster contained the names of seven board members whose terms had expired, but who had been “asked to serve until a replacement could be found.”**

A number of members’ terms had expired more than three years prior to the assessment. A few had served beyond an additional term. There was no discussion in the committee or board minutes examined of efforts to seek new members.

**Recommendation 3:** Establish and implement procedures to place members on staggered terms and actively recruit members to fill expired terms and vacant seats.

**5. The bylaws contain a number of provisions inconsistent with customary and best board practice.**

**Recommendation 4:** Remove the following items from the bylaws:

- a. The provision for alternates for private and low income sector members (Article I, Section 7).
- b. Article I, Section 2. All necessary language is better stated in Section 3 of the article.
- c. Remove “from their respective organizations” from Article I, Section 3 A. Non-organizational democratic selection methods can be used to nominate low income board members.
- d. Remove Article I, Section 6 A (see number 1, above), or apply it to all board members.
- e. Remove language in Article I, Section 5, about changes in the number of board members.

**6. The bylaws lack a number of sections recommended for inclusion by CAPLAW in its Bylaws Toolkit.**

**Recommendation 5:** Add language in the bylaws to:

- a. Set out the powers of the board. These can be found in generic form in a state's nonprofit corporations law. The *CAPLAW Bylaws Toolkit* contains sample language.
- b. Require review and approval of all funding applications, work plans, budgets, and revisions or modifications of the same.
- c. Specify the board's responsibility to hire an independent auditor and to receive the report of an audit in person.
- d. Specify the board's responsibility to hire, guide, and evaluate the performance of the executive director.
- e. Specify the board's responsibility to approve personnel and financial management policies and to make periodic review and revision of the same.
- f. Strengthen the "board development" responsibilities of the Board Chair and the Executive Committee, or create a separate Board Development Committee tasked with monitoring participation, recruiting members, and board self-assessment and training.
- g. Add language to Article III, Section 4, specifying that the Program Evaluation Committee is to receive, review, and report to the board on all program monitoring reports.

The assessment team also identified changes that should be made to Board meeting procedures and documentation.

#### **7. Board and committee minutes do not adequately document the business conducted by the board.**

KEO uses a standard template for documenting committee meetings, a significant improvement on the practice of many CAAs which do not document committee meetings. Although these reports list the recommendations to the full board, they do not reflect any sense of discussion that took place. Recommendations are not recorded by motion and second. The template lists the types of board action the committee is recommending: 1) approval, 2) adoption, 3) or change of policy. Many recommendations for approval of funding applications were checked as policy recommendations instead of items for board approval.

Board meeting agendas, and consequently the minutes, are structured so that the CEO makes the first report to the board, followed by the reports of committees. Because the CEO presents a list of all committee recommendations, the minutes state that each

committee then simply requests that the CEO’s report (and recommendations) be accepted as the committee’s report and recommendations. This sequence gives the appearance of the committees merely rubber stamping the recommendations of the CEO. Board members interviewed objected to that characterization and described discussions that had taken place in committee and board meetings.

**Recommendation 6.1:** Make the following changes to committee minutes:

- a. Move the type of committee action choices to the recommendations for board action section and apply the characterization to each recommendation.
- b. List each board action recommendation individually and state as a motion.
- c. Example:

	Board Action	Motion/Description
X	Policy Change	
	Approval	
	Information	

**Recommendation 6.2:** Make the following changes to board minutes:

- a. Have the CEO’s report (on the agenda and in the minutes) follow the committee reports so that the recommendations of committees are clearly presented as those of each committee, not of the CEO.
- b. List each item of business separately, even if, for example, a list of funding proposals is presented and approved as a consent agenda. Document the maker of each motion, the seconder, the nature of the vote (voice, show of hands, etc.) and the vote (unanimous, without opposition, # for, # against). List the names of members voting no or abstaining.
- c. Have the CEO report on topics and issues not presented by the committees.

**8. The minutes examined do not demonstrate that the board formally votes to accept responsibility for grants/contracts, their budgets and work programs.**

This is another weakness of having the CEO present all business to the board. Documents examined demonstrate that the board is asked to formally approve the submission of funding proposals/applications. Sometimes that authorization is given in the absence of a definite budget or work plan. The same document lists grants and

contracts received, and their budgeted amounts, but without a request for acceptance or approval.

**Recommendation 7:** Present grants and contracts for approval/acceptance by the board when they are issued by the funder or contractor. Accompany the motion to accept with a brief description of the work plan, the outcomes being committed to, and the budget. Vote to accept each commitment individually. Proposals for submission should issue from the program development committee; requests for acceptance should issue from the finance committee.

## **9. Members have limited opportunity to understand the information upon which they must make decisions.**

Except for the agenda, which is sent to members as a meeting announcement, all materials considered by committees and the full board are distributed at the meetings. Board meeting packets typically included 1/2" to 3/4" of paper, much of it quite dense with information. Committee minutes, on the other hand, did not have any attachments, it being unclear what information was distributed to members verbally or in print.

**Recommendation 8:** Find alternative means of informing board members ahead of meetings so that their deliberations can be informed.

- a. Put program reports on a twice or three times a year schedule, so that only a limited number of them need to be reviewed at each meeting, but so that attention can be given to them.
- b. Report on program outcomes and key compliance measures rather than all data points reported to funders.
- c. Distribute as much material as possible at or before committee meetings and expect members to become expert on their committee responsibilities.
- d. Engage board members in dialog about the information that would be most useful to them in fulfilling their policy, oversight, and strategic thinking responsibilities and then organize information distribution accordingly.

Finally, KEO needs to institute adequate documentation of board member recruitment and participation.

## 10. KEO cannot demonstrate compliance with the tripartite requirements of the CSBG Act nor key elements of its bylaws.

As described above, the KEO board experienced serious noncompliance over the period of 14 months studied. Board seats went unfilled; members stayed on the board well past their terms (which it was impossible to verify as accurate, as well); members participated little or not at all but were not removed. Because no individual files were maintained on board members, there was almost no documentation of how members were recruited and seated. Attendance information on minutes was not sufficient for members to maintain an ongoing awareness of participation or to take corrective action.

**Recommendation 9:** The following changes should be instituted to provide adequate documentation of board member selection and participation.

- a. Each board member should have a file on their membership containing the following documents/information:
  1. Letter of resignation (if appropriate)
  2. Current member contact information reviewed and updated at least annually
  3. Committee and officer history
  4. Copy(ies) of annual member participation record(s)
  5. Annual committee re-designation
  6. Approval and current term designation by elected public officials for themselves or their designated representatives
  7. Evidence of training participated in
  8. Removal notice with accompanying minutes (if applicable)
  9. Notice of possible removal and responses (if applicable)
  10. Member profile, including current occupation and community involvement; education preparation and past community involvement
  11. Member selection documents
  12. Designation of selection method
  13. Declaration of vacancy
- b. Selection of low income members should be documented by:
  1. Letter of resignation (if appropriate)

2. Current member contact information reviewed and updated at least annually
  3. Committee and officer history
  4. Copy(ies) of annual member participation record(s)
  5. Annual committee re-designation
  6. Approval and current term designation by elected public officials for themselves or their designated representatives
  7. Evidence of training participated in
  8. Removal notice with accompanying minutes (if applicable)
  9. Notice of possible removal and responses (if applicable)
  10. Member profile, including current occupation and community involvement; education preparation and past community involvement
  11. Evidence that the nominee lives in the designated neighborhood or target area
  12. Copies of meeting documents demonstrating the democratic selection of low income nominees, including an agenda on which the nomination appears as an agenda item and minutes of the meeting describing the nomination process
  13. Alternately, copies of correspondence with “low income” organizations requesting nomination of board members
  14. Copies of public notice (media publications, flyers, brochures, etc.) demonstrating where, when, and how potential board members were informed of the opportunity to serve
  15. The most recent board-approved definition or designation of neighborhoods or target areas from which low income members will be selected
- c. Selection of private sector members should be documented by:
1. Letter of resignation (if appropriate)
  2. Current member contact information reviewed and updated at least annually
  3. Committee and officer history
  4. Copy(ies) of annual member participation record(s)
  5. Annual committee re-designation

6. Approval and current term designation by elected public officials for themselves or their designated representatives
7. Evidence of training participated in
8. Removal notice with accompanying minutes (if applicable)
9. Notice of possible removal and responses (if applicable)
10. Member profile, including current occupation and community involvement; education preparation and past community involvement
11. Minutes of board development/nominating committee discussion of possible board members to recruit;
12. Correspondence with individuals or organizations soliciting their participation
13. Nomination or acceptance correspondence from organizations or individuals

## Financial Management

Two fiscal personnel were interviewed during the assessment, as well as the Administrative Officer and the Chief Executive Officer. Documents reviewed included the past three A-133 audits, the current fiscal and personnel policies, monitoring reports from grantors during the past year, current internal financial statements prepared as of 6/30/09, and board and finance committee meeting minutes from the past year. The assessment team contacted the State of Hawaii Department of Labor and Industrial Relations to question their monitor about a July of 2009 monitoring for which no report had yet been received.

Other documents and items reviewed during the assessment: the 2008 990 tax return, the previous year's W-2 and 1099 filings, the payroll tax returns and deposits for the quarter ending 6/30/09, and other tax filings for that period. To test and verify the accuracy of the financial statements the 6/30/09 bank reconciliations were examined, invoices were sampled for coding accuracy and proper approval, the detail and aging of accounts payable was examined, and the accuracy of significant liabilities was verified. The fixed assets listing, other assets, and the latest filings for grant reimbursements were reviewed.

KEO utilizes a current version of GMS software and has installed several modules to support billing, payables, fixed assets and the general ledger. They outsource payroll

but key the same information into the accounting software so they can compare totals before posting to the general ledger. The Fiscal Officer noted that the internal financial statements were not finalized for the 2009 audit. A spreadsheet is attached which notes proposed adjustments to receivables and deferred revenue, based on the financial specialists' analysis.

Timesheets were reviewed and personnel files were sampled for proper content, separation of required information, authorization, and accuracy of posted payroll information to the general ledger. Employee classifications between salaried and hourly were reviewed and we tested employee wages against the current board-approved wage scale.

**11. The agency is in violation of regulations and their own fiscal manual regarding administrative cost allocation.**

The Fiscal Manual states "that [administrative] personnel designated by the CEO will maintain cost reports indicating the amount of time spent on each program. Monthly administrative charges will then be based upon these reports." The agency presently uses budgets to spread and charge administrative costs.

**Recommendation 10:** The fiscal manual describes one method of accumulating administrative time by program. Administrative personnel could track their time directly on their time sheet. The GMS software also has a module that can be utilized to accumulate and spread administrative cost to programs. Whichever method the agency picks it should not use budgets as the method of spreading costs.

**12. A subsidiary ledger is not being kept for Accounts Receivable. The Accounts Receivable amount on the 6/30/09 balance sheet, although reasonable, cannot be validated.**

Billings are being sent to various clients but KEO does not currently keep a subsidiary ledger detailing the balance in the account. The fiscal officer could come fairly close to the balance but could only estimate balances.

**Recommendation11:** Maintain a detailed receivables account for each customer.

**13. As of 8/12/09, the inventory for last year had not been taken or scheduled.**

The Fiscal Manual states that staff is to take a physical inventory of all equipment 90 days prior to the end of the fiscal year. The physical inventory of assets should be conducted at least every two years. If the fiscal staff does not have sufficient time then other personnel could be used.

**Recommendation 12:** If the manual is going to remain unchanged then the inventory needs to be conducted annually before fiscal year-end. For any other alternative, the fiscal manual needs to be changed.

**14. The fiscal officer is not conducting surprise counts on petty cash funds as instructed in the fiscal manual.**

Petty cash surprise counts should be conducted at least annually. If the fiscal officer does not have sufficient time then other personnel could be utilized.

**Recommendation 13:** If the manual is going to remain unchanged then the petty cash counts need to be conducted accordingly. For any other alternative, the fiscal manual needs to be changed.

**15. The board chair is not approving the unpaid items list as required in the fiscal manual.**

The board chair is reviewing the paid check listing, not the unpaid list. This is another example of not following (or changing) existing policies.

**Recommendation 14:** If the agency has many review processes in place, and if they chose not to include the board chair at this level, this step could be eliminated. Having the board approve purchases and payments over a chosen dollar level (\$20,000) seems to be more appropriate.

**16. The fiscal manual has not been updated since August of 2000.**

The number of policies and procedures in the manual that are not being followed argues for closer and more frequent attention to the manual.

**Recommendation 15:** A review and update every two or three years would be more appropriate.

**17. The money which KEO maintains in a cash account exceeds the FDIC insurance limit and is liable to potential loss.**

KEO had a reconciled cash balance of \$682,286.12 at the end of June, 2009. This money is not earning interest, in addition to being partially uninsured.

**Recommendation 16:** KEO should investigate a sweep account or similar banking procedure. At a minimum, the agency should request pledged securities for amounts in excess of FDIC limits.

**18. KEO keeps bids in programs files.**

**Recommendation 17:** Keep bid materials in the payment voucher packet so that all procurement and payment materials are together.

**19. The relationship with “contract employees” may not have met IRS criteria.**

IRS regulations stipulate that several requirements be met before parties can be considered independent contractors. The three employment contracts examined may not have met all of these requirements.

**Recommendation 18:** Review the requirements before any new contracts are started.

## Administration

The Kauai Economic Opportunity administration consists of a Chief Executive Officer, a Fiscal Officer, and an Administrative Officer. A position of Planner has just been created and filled. A clerk assists the Administrative Officer. The Fiscal Officer has an accountant and a fiscal clerk. The CEO heads a leadership team of five project directors in addition to the administrative and fiscal officers. The leadership team meets weekly. Project directors meet monthly with the fiscal officer.

KEO's central office houses the administrative staff and project directors. The emergency homeless shelter and several transitional housing units are located next to the office. Two group homes assist homeless adults with substance abuse conditions. Preschool services are delivered from two locations in Lihue and Kalaheo; the kitchen is located in a church which rents the space. Youth programs are located at two middle schools, one in Ka'paa, the other in Hanapepe.

**20. KEO has limited internal and external communication.**

Only three computers in the central office have email/internet access. A few other sites, notably the homeless program locations, have internet access because the program must use web-based reporting systems. The organization does not have an internal computer network, nor does it provide for satellite locations to obtain internet access or establish independent email accounts, such as those available on Yahoo, Hotmail, or Google. Email received in the central office is posted on the CEO's door at the end of the day and distributed with instructions or comments from the CEO the next morning.

**Recommendation 19:** Link all KEO locations into an intranet, with connections to the internet and external email. Establish an in-house email server to ensure security and oversight. This investment could be made with ARRA funds (if approved) or using cash reserves.

## **21. The practice of the CEO signing off on all financial transactions, reports, and communications raises risk management issues.**

All financial transactions, from purchase orders to payment approval, are signed off by the CEO. Incoming and outgoing emails are reviewed by the CEO, who also reviews and allocates incoming mail. This practice overrides internal management practices such as separation of functions, leaving the appearance that only one individual makes all decisions for the organization.

Such a practice also subordinates official policies and procedures to the actions and interpretations of an individual. Evidence that this has happened exists in the many fiscal and personnel practices not being followed that the assessment team identified. Failure of the governing board to review its fiscal and personnel policies on a regular basis has allowed such disparities to exist for many years.

The CEO's practice of working an unofficial schedule (approximately 10:00 AM until 8:00 PM) raised two additional problems:

- 1) For two hours in the morning the CEO is not available for problem-solving and decision-making (the importance of which has been established in the practice of requiring all information to be vetted by the CEO), resulting in a halt to operational progress; and,
- 2) The schedule suggests that the CEO does not have to "play by the same rules" as the staff, a morale issue.

**Recommendation 20:** Establish and follow policies that spread responsibility, separate responsibilities, and ensure that all employees follow the same rules.

## **22. KEO has archived documents beyond requirements for records retention and is running out of storage space.**

Several of the spaces being used to store old documents have been completely filled. Staff are not sure what records should be kept and which could be destroyed.

**Recommendation 21:** Establish a records retention policy, with the advice of the agency's current auditor, or some other equivalent authority. Destroy no longer needed records. Label all records archived with a "Destroy By" when they are placed in storage. Organize the records by those dates.

## Human Resources

The Administrative Officer functions as the primary human resources administrator, with the assistance of a clerk. Both individuals were interviewed. Eleven employee personnel files were reviewed, as were ten payroll files. KEO personnel policies and procedures were reviewed.

KEO offers fringe benefits to any employee working 20 hours per week or more, without pro rating. Medical insurance includes drug and vision coverage, as well as term life and accidental death and disability insurance. Vacation leave starts at 12 days per year and rises to 24 days per year after 15 years of service. Only 10 days of leave can be carried into the new year by long term employees.

Job descriptions are developed using a standardized matrix, which assigns points to various categories of qualification and duties. The pay schedule contains thirteen grades and 23 steps. This design was chosen to ensure possible pay increases over a long period of time for employees who do not move to better-paying positions.

Employees receive performance evaluations at the end of their probationary period, prior to promotion, and on the anniversary of their hire (to their current position). These documents consistently appear in employee personnel files. They are signed by employee and evaluator and contain evidence of discussion, including opportunities for professional development.

**23. Personnel policies state that pension contributions will be made monthly, but in fact only the employee contribution is made monthly. The employer contribution is made annually.**

**Recommendation 22.** The policy and practice of employer contributions needs to be changed to monthly or the manual should be changed to reflect actual practice.

**24. KEO pay levels are inadequate to attract, motivate, and retain the highest quality employees.**

Every employee interviewed expressed how happy they were to have a job, and in most cases how much they enjoyed their job and felt it was important work. On the other hand, everyone said they felt they were not paid an amount equal to the value of the work and of their effort. Many individuals interviewed stated that the pay schedule was so low because the board would not approve changing it. Nine of eleven employees

whose personnel files were reviewed averaged five and two-thirds years employment at KEO. By contrast the top three employees averaged more than 25 years.

The KEO wage structure was established in 1999. It had been modified twice, once to accommodate increase in the minimum wage; a second time to equalize pay for the van drivers who deliver Meals on Wheels. During the assessment, KEO was in the process of replacing an accountant in the fiscal department. At the starting wage of \$24,000, few applicants responded, and the interviewees were not characterized as particularly outstanding.

In a similar vein, the assessment team does not believe that the Fiscal Officer and the Administrative Officer could be replaced at the starting step of their pay grade: \$33,804. Although these are the second most responsible jobs in the organization, they are only in the third from the top pay grade. Because the CEO is not on the pay schedule, these positions might each be easier to fill were they classified at the top grade, which starts at \$39,420.

**Recommendation 23:** Replace the current pay structure on the basis of a new, comprehensive wage and fringe comparability study.

## **25. Current policies do not limit employee accumulation of sick time.**

While a very generous employee benefit, this policy imposes an unfunded liability on the organization. A long-tenured employee who developed a serious medical condition, for example, could potentially receive months of paid sick leave, which would typically be paid out of grant/contract funds. To maintain effective operations, the organization would have to hire another person to carry out the absent employee's duties. Either the employee or his/her replacement would have to be paid from non-grant/contract funds. KEO is fortunate to have a substantial undesignated reserve fund from which it could pay additional employees costs, as illustrated above.

**Recommendation 24.** To limit this liability, KEO could do one of the following:

- a. Designate a portion of the cash reserve for replacement employee costs;
- b. Limit employee sick leave accumulation to no more than the equivalent of vacation carry over;
- c. Eliminate sick leave carry over.

**26. Not all employees have IRS Form I-9 in their personnel file.**

Examination of employee personnel files showed that few individuals had current I-9 forms on file. This is a federal requirement. New forms and instructions became available July 1, 2009.

**Recommendation 25:** Obtain the new forms and instructions and place a current I-9 in each employee's file.

**27. KEO job descriptions have not been recently updated.**

The majority of job descriptions examined dated from the mid-1990s. A few had been updated, or created, more recently during hiring processes. The weighting system used to develop job descriptions ensured that a consistent methodology was used.

**Recommendation 26:** Review and update all job descriptions.

**28. The personnel policies and procedures were last updated more than ten years ago.**

**Recommendation 27:** Review and update the personnel manual. Consult with a human resources professional or employment attorney to ensure currency. Some specific items to correct or update include:

- a. The definition of a "regular" employee does not specify a 40 hour per week work schedule. Such an employee should be designated as "full time."
- b. Provisions 9.6.3 and 9.6.4 state that the CEO may deny transfer of vacation and sick leave in cases of promotion.
- c. Provision 11.5.1 contains language about Head Start.
- d. A number of references are made to "the Committee," without further clarification.
- e. Safety practices and the handling of Workers Compensation issues are not addressed.
- f. Affirmative action, ADA, and drug-free workplace are not addressed.
- g. The procedures make no specific requirement that changes in employee status be documented and that the documentation be placed in the employee's file (personnel and payroll).

## Planning

KEO planning processes appeared to be geared primarily to the annual community action plan and other funding proposals. The organization developed a ten year strategic plan, following an extensive community assessment, in 1999. A few board members remembered that process, but did not describe any similar recent activity. A 2008 community assessment was attached to the KEO 2009 Community Action Plan.

### **29. Agency-wide planning does not appear to be a regular feature of KEO management or governance.**

Management team meetings are held monthly, but their content was not described by any of the participants as including discussion of community conditions and needs as they relate to current or possible future activities. The board described a few discussions of whether particular funding proposals should be pursued, but did not give the impression that projection of the mission forward in time was a regular feature of governance.

**Recommendation 28:** Institute a shorter cycle of community assessment and strategic planning. Undertake this initiative when the board membership has been restored to full strength. Engage the entire staff in thinking about what KEO's mission and functions can be over the next three to five years.

## Services

KEO provides services that cluster around a few core constituencies and community responses.

**Housing programs** with an emphasis on homelessness and transitional housing. KEO operates group homes and Shelter Plus Care facilities. It also weatherizes homes and approves households for energy assistance. The agency Care-A-Van conducts medical outreach to homeless persons living on beaches and other public places.

**Child and youth development**, including two preschool centers and two middle school after school programs.

**Nutrition program** for seniors, through Meals on Wheels. The KEO kitchen also provides meals to Head Start sites and other preschools on a contract basis. The agency

operates an emergency food pantry and serves as a distributor for the commodity foods program.

**Mediation programs** are funded for individuals and families through the court system. A peer mediation program teaches high school students conflict resolution skills.

The **Horticulture** project has been carried out in cooperation with the Farm Bureau and the University of Hawaii to accomplish two goals: to teach the techniques of papaya growing, and to re-certify a disinfestation plant so that papaya and other local fruits can be treated for pests prior to shipment to the mainland.

Additionally, KEO delivers a variety of **emergency aid services**, using local resources from the United Way and a number of charitable funds.

**30. The horticulture/disinfestation plant project does not appear targeted to low income persons.**

This project represents an innovative economic development initiative and public/private partnership. It does not appear to benefit low income persons. Approximately fifteen persons were selected for the papaya growing phase of the project, only seven of which remain active. Those seven were described as persons with other employment. No files were kept on the selection process.

**Recommendation 29:** Gather as much information as possible on the participant selection process and the participants. Document participation in and termination from the project.

**31. The disinfestation plant does not seem to be part of a business plan that will carry the project forward when current funding ends in December, 2009.**

The University of Hawaii agronomist stated running the plant efficiently would require staggered production on a constant basis from 150 acres of papaya. Project staff did not describe commitments in place to obtain sufficient product to operate the plant or sufficient purchasing commitments to market that production on the mainland. The Farm Bureau had not fulfilled its promise to obtain 501(c)(3) status for a marketing nonprofit which would operate the plant.

**Recommendation 30:** Create a realistic business plan for this project for 2010 and beyond, after current funds ends. Formalize the organizational commitments for this project in writing.

**32. KEO has returned significant unspent monies to funders at the end of grant periods.**

KEO staff explained the reasons for several examples of returned funds, all of which were plausible. However, the circumstances described could have triggered earlier decision-making which would have resulted in opportunities for reprogramming funds to other allowable grant activities.

**Recommendation 31:** KEO board of directors should require staff to present spending projections for all projects at the six month point, with options for re-programming funds that may not get spent, or alternative strategies to ensure that original purposes are achieved.



---

## Assessment Overview

Meliora Partners, Inc. conducted an assessment of Kauai Economic Opportunity (KEO), Inc. the week of August 10-14, 2009. This assessment was conducted as part of a contract with the Office of Community Services (OCS), Hawaii Department of Labor and Industrial Relations, to review the condition of all four community action agencies in the state.

The following were members of the assessment team:

Management Specialists		Magi York Owen Heiserman	Financial Specialists		Dan Miller Steve Barnett
------------------------	--	-----------------------------	-----------------------	--	-----------------------------

The team interviewed members of the KEO staff, including all of the leadership team, as well as seven governing board members. Core policies and procedures documents were reviewed and analyzed, including the fiscal and employee manuals, and the board bylaws. Minutes of board committees and of the board were examined for the period from March, 2008 through May, 2009. Personnel and payroll files were reviewed; bank reconciliations and purchasing transactions were assessed. The team visited the emergency homeless shelter.



---

## **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 originated at Mid-Iowa Community Action, Inc., which received a Peer-to-Peer Technical Assistance and Crisis Aversion and Prevention grant in 1999 from the Office of Community Services, Administration for Children and Families, US Department of Health and Human Services. 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).