

AN OVERVIEW BY THE LEGISLATIVE AUDITOR  
OF THE  
MANAGEMENT AUDIT OF HABILITAT, INC.

*INTRODUCTION*

The management audit of Habilitat, Inc. (Habilitat), a privately operated drug treatment and rehabilitation center, was conducted by the Office of the Legislative Auditor. Although Habilitat is a private agency, it is heavily dependent upon government sources for the funding of its treatment and rehabilitation program. Section 23-1, HRS, empowers the Legislative Auditor to conduct audits of "quasi-public institutions . . . which are supported in whole or in part by, or which handle state or public funds . . . ."

The audit was carried out pursuant to a joint request made by the President of the Senate and the Speaker of the House of Representatives of the Legislature of the State of Hawaii. The request for the audit was the outgrowth of concerns expressed during the 1978 Legislative Session regarding the expenditure of public funds by Habilitat.

While the audit centered upon Habilitat, its scope was not restricted entirely to the internal operations of that organization. In addition, the audit encompassed governmental policies, procedures, requirements, and practices which have an impact upon Habilitat's operations. The two state agencies included within this expanded scope were the Department of Social Services and Housing (DSSH) and the Department of Health (DOH).

The purpose of this overview is to review briefly the major findings and recommendations of the audit and the responses of the affected agencies to the audit report.

*SUMMARY OF FINDINGS AND RECOMMENDATIONS*

The audit covered a wide range of topics and resulted in numerous specific findings and recommendations. In the audit report, these are set forth under three major categories—those relating to Habilitat's (1) programs, (2) organizational management and personnel administration, and (3) financial administration. While the findings and recommendations are too numerous and detailed to review individually, a summary of the more significant findings is presented below:

**Habilitat's Programs**

There are serious obstacles to the conduct of an effective evaluation of Habilitat's treatment, rehabilitation, and preventive program. They include insufficient knowledge about substance abuse and addiction and limited data concerning both Habilitat's clientele and addicts in general. Neither Habilitat nor the State is doing much to remove the obstacles

for an effective evaluation mechanism. The State's efforts are stymied by the lack of coordination between the Department of Health and the Department of Social Services and Housing, which contract for services with Habilitat.

- . Habilitat lacks clear organizational objectives and a planned and systematic approach for acquiring needed physical facilities, engaging in business enterprises, and conducting its fundraising activities. As a result, real property acquisitions have been erratic and unproductive and have raised questions about legality and propriety; business ventures have floundered; and the fundraising telethon has declined in efficiency in recent years.

### **Organization Management and Personnel Administration**

- . Habilitat's board of directors has abdicated its power and authority to manage Habilitat's organization and personnel. It has vested nearly all such power in the executive director.
- . The executive director has exercised his power and authority to manage Habilitat in such a personalized and extemporaneous manner as to cause instability in the organization and its programs.
- . The executive director is in conflict of interest. By virtue of the power and authority vested in him, he passes on compensation and employee benefits for himself and the members of his family.
- . There is an exceptionally high rate of staff turnover at Habilitat, especially in accounting and business management. This undermines long-term staff effectiveness, and reflects the arbitrary approach taken to staff retention.
- . Habilitat's personnel policies and practices are unclear, unfair, and otherwise deficient. There is a lack of a rational classification and pay system; nepotism in the hiring of employees is unrestrained; and employee grievance and appeals procedures are absent.
- . Conflict of interest situations are being created by the movement of personnel between governmental agencies and private organizations, such as Habilitat, which do business with these agencies.
- . Government agencies are not exercising adequate surveillance over Habilitat's personnel policies and practices, with the result that they are failing to ensure the proper use of public funds.

### **Habilitat's Financial Management**

- . Habilitat's fund accounting system does not adequately safeguard the use of monies earmarked for capital improvements and does not provide an accurate allocation of administrative costs among the funds.

- . Although improvements have been made in the past two years, Habilitat's accounting system and practices still require attention. Adequate policies, procedures, and guidelines and control mechanisms are lacking with respect to financial management. A number of questionable accounting practices have been allowed to continue within the organization.
- . The Department of Health and the Department of Social Services and Housing have paid inadequate attention to the financial management of Habilitat. The agencies fail to coordinate their efforts with one another; they allocate funds to Habilitat on a mechanical formula rather than on a programmatic basis; and they inadequately administer and monitor their contracts with Habilitat.
- . Habilitat has been less than candid about its resident training program known as the "red tag" program. The program appears to have caused violations of governmental regulations concerning eligibility for welfare and food stamp assistance to occur.
- . Habilitat has utilized heavily the program residents to carry out Habilitat's sales and marketing program. It has sent and assigned program residents to the mainland for extended periods, an act which made the program residents ineligible for continued government support. However, Habilitat failed to inform the appropriate government agencies of the fact and instead sought to conceal it.
- . Habilitat has sought to maximize use of government funds by aiding and abetting in concealing facts of ineligibility of program residents for government support.

The findings indicate that there is a need to strengthen Habilitat's internal management as well as governmental monitoring and supervision.

**Need to strengthen Habilitat's internal management.** To a considerable extent, Habilitat's severe problems in internal management and controls can be attributed to a failure on the part of Habilitat's board of directors to fulfill its legal and organizational responsibilities. Concomitant with this failure and contributing to the overall situation, however, have been the actions of Habilitat's executive director to achieve and exercise a predominant role in the affairs of the organization. As a result, serious conflict of interest situations have been created and numerous breakdowns have occurred in controlling and giving proper direction to the actions and decisions of Habilitat. To put the organization back upon a proper course of action and decisionmaking, the audit report calls for the reestablishment of the board of directors as the center of authority and responsibility, the exclusion of the executive director from membership on the board of directors, and the installation of adequate internal reporting and control systems.

**Need to strengthen governmental monitoring and supervision of organizations like Habilitat.** The shortcomings on the part of affected governmental agencies—in this case, DOH and DSSH—have created conditions which have allowed, or even encouraged, Habilitat to behave in the manner in which it has—a manner where governmental requirements have been violated or ignored and public resources have been wasted or used improperly. Neither DOH nor DSSH has

provided adequate program leadership and guidance to Habilitat, and both have failed to exercise adequate program and fiscal oversight over Habilitat's program and financial operations. Moreover, the two departments have made matters worse by their failure to coordinate with each other. To overcome these problems, the audit report recommends that DSSH and DOH take appropriate steps to coordinate their respective activities more effectively and to provide adequate leadership, direction, and control for programs such as the one administered by Habilitat.

### *AGENCY REACTIONS TO AUDIT REPORT*

Among all the audit reports issued by the Office of the Legislative Auditor, the agency responses to this audit probably set a new record in terms of length, obfuscation, and failure to come to grips meaningfully with the issues raised in the audit report. In total, the three agency responses almost equal in length the audit report itself. It is noteworthy, however, that despite all this verbiage, the three agencies—Habilitat, DSSH, and DOH—have not, on the whole, expressed disagreement with the recommendations set forth in the audit report.

Even Habilitat, which is the most critical of the audit report among the three agencies, comments as follows: "We find most of the recommendations to be essentially sound." DSSH responds that the report, with its recommendations, provides the agency "with a useful tool in strengthening [its] management capabilities." DOH states, "A number of your recommendations are meritorious. Please be assured that we will develop and implement appropriate corrective action based in part on your comments and recommendations."

Nevertheless, none of the agencies—not Habilitat, not DSSH, and not DOH—has responded to the specific recommendations made in the audit report in any realistic or definable way relative to what they will do about the recommendations. Indeed, in many instances statements are so vague and contradictory as to create uncertainty as to whether or not the agencies fully understand the contents of the audit report.

### *CONCLUSION*

On the basis of the agency responses received, it is not possible to discern whether any improvements are forthcoming, either in Habilitat's operations or in the exercise of responsibilities by the state agencies involved. In the light of this situation, we conclude, reluctantly, that it will take legislative oversight and persuasion to pin down where Habilitat's program might be headed and whether the state agencies recognize and are willing to pursue their responsibilities.

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