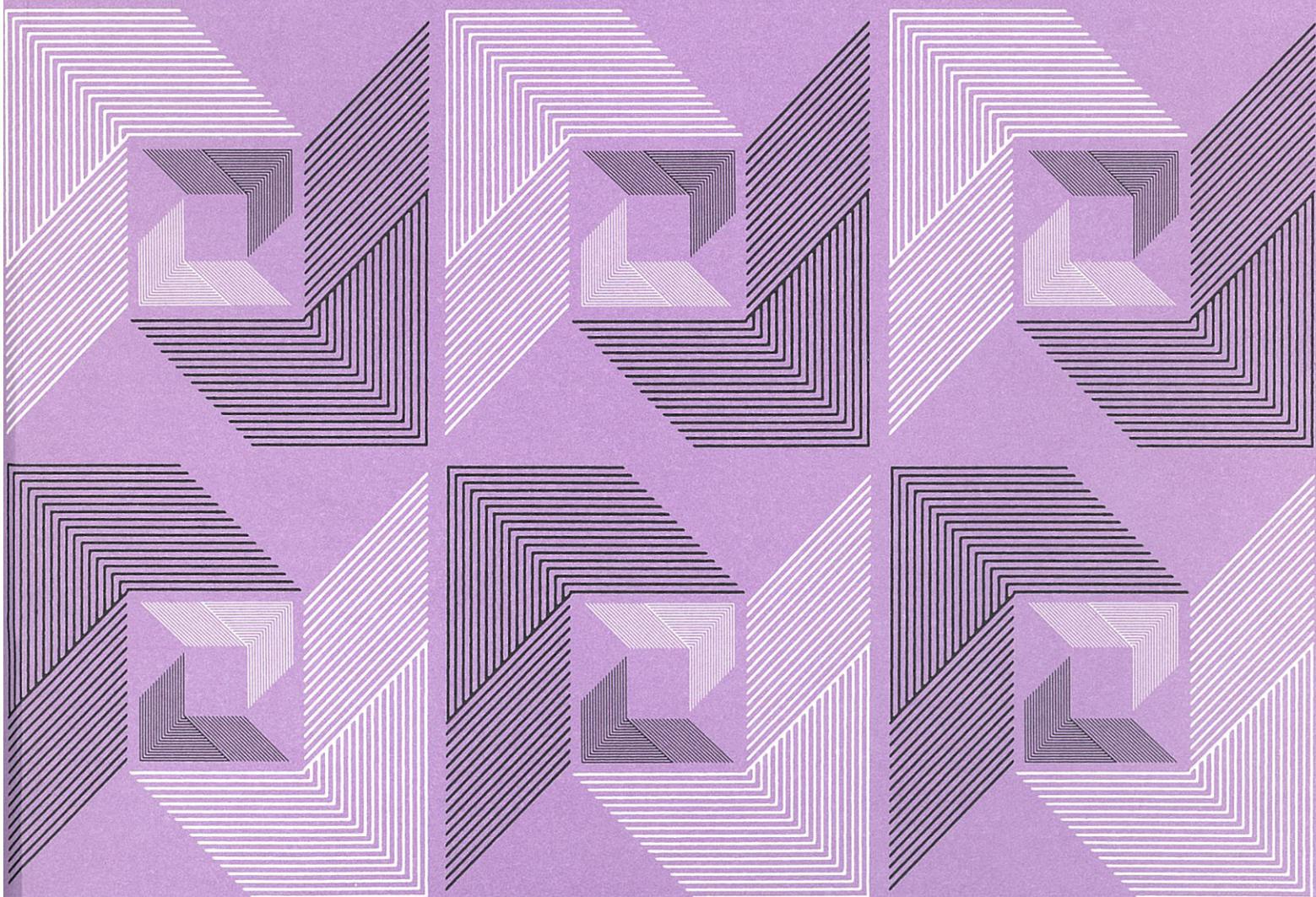


AUDIT REPORT NO. 79-3
AUGUST 1979

MANAGEMENT AUDIT OF HABILITAT, INC.

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VII, Section 10, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

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The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient, and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy, and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.

5. Conducting special studies and investigations as may be directed by the legislature.

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MANAGEMENT AUDIT OF HABILITAT, INC.

**A Report to the Governor and the Legislature of the
State of Hawaii**

**Submitted by the
Legislative Auditor of the State of Hawaii**

Audit Report No. 79-3

August 1979

FOREWORD

This is a management audit report on Habilitat, Inc., a private, nonprofit corporation operating in Hawaii as a treatment and rehabilitation center for persons suffering from drug abuse and addiction, alcoholism, and other problems.

The audit was undertaken at the joint request of 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 rose out of concern expressed during the 1978 legislative session regarding the fairly large amounts of public funds expended through Habilitat.

The report consists of five parts. Part I contains an introduction and background information on Habilitat. Part II sets forth our assessment of Habilitat's programs, including our findings and recommendations with regard to those programs. Part III presents our findings, comments, and recommendations relating to Habilitat's organizational management and personnel administration. Part IV contains our findings and recommendations as they relate to Habilitat's financial management. As is our usual practice, we have requested the agencies affected by this audit to comment on the report recommendations. Although this is an audit directed primarily at Habilitat, we found that its activities were so closely intertwined with various governmental programs that we had to extend the scope of the audit to include activities of the state department of health (DOH) and the state department of social services and housing (DSSH). Therefore, Part V includes the responses received from DOH and DSSH as well as those from Habilitat.

We wish to express our sincere appreciation for the cooperation and assistance extended to us by the officials and staffs of all three of the affected agencies.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

October 1979

TABLE OF CONTENTS

		<i>Page</i>
 PART I INTRODUCTION AND BACKGROUND		
<i>Chapter</i>		
1	Introduction	3
	Objectives of the Audit	3
	Scope of the Audit	3
	Organization of the Report	4
	Definitions and Abbreviations	4
2	Background: Basic Characteristics of Habilitat	5
	Legal Entity	5
	Therapeutic Community	7
	Administrative Organization	10
	Financial and Business Operations	10
	Channel for the Expenditure of Governmental Funds ...	12
	Facilities	13
	The Executive Director	14
 PART II ASSESSMENT OF HABILITAT'S PROGRAMS		
3	Introduction	17
	Summary of Findings	17
4	Obstacles to and General Lack of Evaluation of Habilitat's Program of Treatment, Rehabilitation, and Prevention ...	18
	Summary of Findings	18
	Obstacles to Effective Program Evaluation of Habilitat's Performance	18
	Absence of Internal Program Evaluation	22
	Absence of External Governmental Evaluation	23
	Recommendations	29
5	An Assessment of Habilitat's Program of Treatment, Rehabilitation, and Prevention	31
	Summary of Findings	31
	Indications and Claims of Success for Habilitat's Program	31
	Deficiencies in Habilitat's Program of Treatment, Rehabilitation, and Prevention	33
	Recommendations	36

<i>Chapter</i>		<i>Page</i>
6	An Assessment of Habilitat's Planning and Programming for Capital Improvements, Business Ventures, and Telethon Fundraising	37
	Summary of Findings	37
	Overall Shortcomings in the Area of Operational Planning and Programming for Capital Improvements and Business Enterprises	37
	Shortcomings Relating to Real Property Transactions and Capital Improvements	38
	Shortcomings Relating to Habilitat's Business Enterprises	42
	Shortcomings in Habilitat's Approach to Its Telethon Fundraising Activity	44
	Recommendations	46
PART III	ASSESSMENT OF HABILITAT'S ORGANIZATIONAL MANAGEMENT AND PERSONNEL ADMINISTRATION	
7	Introduction	49
	Summary of Findings	49
8	A General Assessment of Organizational Management and Personnel Administration	50
	Summary of Findings	50
	Abdication of Authority and Responsibility by Habilitat's Board of Directors	50
	Adverse Effects of Vincent Marino's Personalized Approach to Organizational Management and Personnel Administration	52
	The Need for a Change	54
	Recommendations	55
9	An Assessment of Habilitat's Personnel Practices	56
	Summary of Findings	56
	Unduly High Rate of Staff Turnover	56
	Unclear, Unfair, and Otherwise Deficient Personnel Policies and Practices	59
	Conflicts of Interest in the Movement of Personnel Between Habilitat and Government Agencies	64
	Inadequate Government Surveillance of Habilitat's Personnel Policies and Practices	66

Chapter 1

INTRODUCTION

This report is the result of 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 that we conduct an audit of Habilitat, Inc. (Habilitat). The request for the audit rose from concerns expressed during the 1978 legislative session regarding the expenditure of state funds by Habilitat.

Habilitat is a private, nonprofit corporation. However, governmental funds constitute a major source of financial support for the organization. HRS section 23-1 empowers the office of the legislative auditor to conduct audits of "quasi-public institutions . . . which are supported in whole or in part, or which handle public funds."

Objectives of the Audit

The objectives of this audit were:

1. To determine whether state funds have been expended by Habilitat to achieve the purposes for which they were appropriated.
2. To evaluate the effectiveness of Habilitat's program.
3. To determine whether selected management practices and procedures con-

tribute to the efficient and effective use of resources.

Scope of the Audit

The audit was restricted to the areas of: (1) financial management, (2) program effectiveness, and (3) selected areas of general management of the organization. Even within these areas, the focus was sometimes restricted. For example, in the area of financial management, we did not examine the financial statements of Habilitat for the purpose of attesting to the accuracy of the statements since this has been performed by an independent CPA firm hired by Habilitat.

The scope of the audit, however, was not confined entirely to the internal operations of Habilitat. While our examination centered on activities of Habilitat, governmental policies, procedures, requirements, and practices were included within the scope of the audit to the extent that they had an impact upon Habilitat's management and program. The governmental agencies included in our review were the department of health and the department of social services and housing.

It should be noted that our field work for this audit took place during the last several months of 1978. Consequently, events and developments occurring since then are not

included within the scope of the audit except where specifically noted.

Organization of the Report

This report is divided into five parts. Part I contains this introduction and a general background chapter on Habilitat.

Part II, consisting of chapters 3 to 6, focuses upon the operations of Habilitat's program of treatment and rehabilitation and its programs of planning and programming capital improvements, business ventures, and telethon fundraising.

In part III, consisting of chapters 7 to 9, we examine Habilitat's performance in the areas of organizational management and personnel administration and the effect of governmental activities on these two areas of performance.

In part IV, consisting of chapters 10 to 12, we review in some detail Habilitat's performance in the area of financial management and note the impact of governmental activities in the fiscal field.

Part V contains the responses of the affected agencies—including Habilitat and the state departments—to the preliminary draft of this report which was circulated to them. As is customary, we requested the affected parties to comment on our findings and recommendations.

Definitions and Abbreviations

In this report we use numerous abbreviations and terms which have a specialized meaning within the context of Habilitat. To avoid confusion and to identify these properly, we provide the following definitions:

1. *DOH* — state department of health.
2. *DSSH* — state department of social services and housing.
3. *NIDA contract* — a contract with Habilitat administered by DOH and involving federal funds provided by the National Institute of Drug Abuse (NIDA) and state matching funds. NIDA is an agency of the U.S. Department of Health, Education and Welfare (HEW).
4. *POS contract* — a contract with Habilitat administered by DSSH and involving federal funds provided under Title XX of the Social Security Act and state matching funds. It is called POS for "purchase of services"—a contractual arrangement between the State and a private organization for services provided by the organization for which it is reimbursed by the state and federal governments. Title XX is also administered by HEW.
5. *Graduate* — this term is used in various ways by Habilitat, but its most common use and the use employed in this report refers to a person who has gone through and completed Habilitat's treatment program. Such persons are also referred to within Habilitat as "by-products."
6. *Resident* — a person who has been accepted into Habilitat's treatment program and is still in the program.
7. *Red tag or red tag resident* — a term used until quite recently to refer to Habilitat residents in the final stages of treatment who were given jobs to perform within the organization and compensated therefor through stipends paid by Habilitat.
8. *Square* — a term used within Habilitat and similar organizations to refer to persons who have not gone through the treatment process and are not graduates of the program.

Chapter 2

BACKGROUND: BASIC CHARACTERISTICS OF HABILITAT

In this chapter we lay the groundwork for the remainder of our audit report by describing some of the basic characteristics of Habilitat. In brief, the purpose of this chapter is to provide answers to the question: what is Habilitat and how does it function?

Habilitat is by no means a simple or easily explainable entity. Rather, it is multi-dimensional; it consists of a number of separate but overlapping elements which must be considered together to gain a reasonable understanding of what Habilitat is and how it functions. Set forth below are the major components we have been able to identify as parts making up the total picture of Habilitat.

Legal Entity

First of all, Habilitat is a legal entity. It was organized under the laws of the State of Hawaii as a nonprofit corporation on June 1, 1971. The purposes of the corporation ("Habilitat, Inc."), as stated in its charter of incorporation, are as follows:

- "(1) To provide psychological, medical, and educational treatment to persons who suffer from social maladjustment or psychological imbalance as the result of their use of drugs or as a result of other social or psychological conditions and to prepare and encourage these persons to reestablish a normal life in the world with renewed self possession and a normal, balanced outlook on society and life in general;

- "(2) To study the problems of drug use and other adverse psychological conditions and to develop better methods for their treatment;
- "(3) To inform the public about these problems and their treatment; . . ."

Limitations on the corporation. These purposes are further limited under the charter of incorporation to charitable and educational purposes as defined in the U.S. Internal Revenue Code. As a corporation not organized for profit, Habilitat cannot issue any stock. Moreover, no part of its assets, income, or earnings is allowed to inure to the benefit of any member, director, officer, or other private individual, except that reasonable compensation may be paid for services rendered which are related to the stated purposes of the corporation.

Tax-exempt organization. Besides being a nonprofit corporation as provided for under Hawaii's statutes, Habilitat is also a tax-exempt organization. It has been granted a tax-exempt status by both the federal and state governments. As a tax-exempt entity, Habilitat does not have to pay certain types of federal, state, and local taxes, although some of its activities remain subject to some types of taxation (e.g., sales of goods and services by Habilitat are subject to Hawaii's general excise tax).

Members and directors of the corporation. Under its charter of incorporation and its bylaws, Habilitat is controlled by its members. Initially, these documents provided for members

and directors to be one and the same. However, they have been subsequently amended to remove the requirement that individuals be both members and directors and to permit the members to set the number of directors and elect the directors. A majority of the members may elect new members to the corporation and remove members from the corporation. Directors are elected annually by the members. The directors, in turn, elect the officers of the corporation each year.¹

Since late 1971, membership in the corporation has hovered around 20—apparently reaching a peak of 24 at the annual meeting held on February 19, 1973, and numbering 19² as of the most recent annual meeting held on July 17, 1978. Ten persons were elected as directors at this meeting, all of whom were members of the corporation.

Characteristics of the membership and board of directors. There is, and long has been, a close identification between members of the corporation and employees of Habilitat. There used to be similar identification between directors and employees; recently, however, such director-employee identification has been greatly reduced.

The annual meeting held in July 1978 exemplifies the situation. Of the 19 persons who were members at this meeting, ten were employees of Habilitat, one was a former employee, and one was the spouse of an employee. However, only one of the employees was elected to the ten-member board of directors. (In addition, the former employee and the spouse of an employee were elected to the board.) At one time as many as six out of a total of 15 directors were employees. As a result, at some board meetings, employee-directors held a majority among those participating in the meetings.

The composition of the board of directors elected in June 1978 and presently serving is fairly diverse, but this has not always been the case. Among the three women and seven

men on the board are several representatives of the business world, a trade union leader, a retired federal government employee, a juvenile probation officer, an attorney, and a person active in civic affairs. Previously, however, there were as many as five attorneys on the board. At one time, too, many of the board members were also parents of persons who were undergoing treatment in Habilitat. In times past, the medical and related professions were represented on the board, but this is no longer the case. To the extent that any element can be said to be heavily represented on the board of directors elected in July 1978, such an element is the business community. Four of the ten directors come from the private business sector.

Officers of the corporation. The charter of incorporation and the bylaws provide for the following principal officers of the corporation: a president, one or more vice presidents, a treasurer, a secretary, and an executive director. The board of directors may also elect a chairman of the board and appoint or employ such other officers, agents, and employees as it may deem proper, including an executive director, assistant treasurers, and assistant secretaries. Unless otherwise specified by the board of directors, the officers are chosen from among the directors themselves. Officers are elected annually by the board and serve at its pleasure “until the next annual meeting and thereafter until a successor shall be duly elected and qualified.” The board is charged with the duty of fixing the duties,

¹Despite the initial provisions making the positions of member and director coterminous, there was an inconsistency between the original charter of incorporation and the original bylaws in this regard. The charter listed only seven persons as directors while the bylaws listed 12 individuals as being members. This inconsistency regarding membership in the corporation and on the board of directors persisted through most of the life of the corporation. Only recently has this inconsistency been corrected by amendments to the charter to reflect and confirm prior practice and earlier changes in the bylaws which have had the effect of eliminating the requirement that individuals be both members and directors and of allowing the members to determine the composition of the board.

²The minutes of this meeting show only 18 persons as members, but apparently one member's name was inadvertently omitted. His name is included, however, among those elected as directors.

powers, salary, and compensation of officers, agents, and employees, but may delegate such function with respect to agents and employees.

The bylaws contain specific provisions with respect to the positions of president, vice president, treasurer, secretary, and executive director. Under these provisions, the president is supposed to preside over meetings of the board of directors and serve as chief executive officer of the corporation. The latter duty includes exercising "general supervision and direction over the management and conduct of the business and affairs of the Corporation." The vice president(s) is designated to assume and perform the duties of the president in the absence or disability of the president. The treasurer is charged with overseeing the financial management of the corporation, including keeping the financial books and accounts, rendering financial statements, and exercising custody over all funds and securities of the corporation. The secretary is required to keep minutes of all meetings of the members of the corporation and of the board of directors (including any of its committees), and to give proper notice of meetings as required by the bylaws or the board of directors. The vice president(s), the treasurer, and the secretary each exercises such other powers and duties as may be assigned by the bylaws or by the board of directors.

Provisions relating to the position of executive director were added by an amendment to the original bylaws. Under this amendment, the executive director is made automatically a member of the board of directors and is given all the voting and other rights of a director except the right to vote on the removal from office of the executive director. The executive director has such duties and responsibilities as may be determined by the board of directors.

Therapeutic Community

Habilitat falls into the category of organizations which are known as "therapeutic

communities." These are private or semiprivate agencies which have been developed to rehabilitate drug addicts, alcoholics, and persons suffering from "character disorders."

Conceptual base underlying the therapeutic community approach. The therapeutic communities are based upon a combination of the psychological and sociological approaches to dealing with the problem of addiction or susceptibility to mind-affecting substances.

According to the psychological theories of addiction, there are "addictive personalities"—i.e., persons who are prone to become addicted and who therefore need to have their personalities restructured to overcome this weakness. Thus, restructuring of personalities is the emphasis in the psychological approach to meeting the problem of addiction to heroin, alcohol, or other substances.

From the sociological viewpoint, society creates addicts and causes ex-addicts to relapse into addiction again—i.e., one's social surroundings cause one to turn to drugs, alcohol, and similar substances and to develop a dependence upon such substances. As a consequence, the remedy under this approach is to change the social situation to eliminate or relieve the impulse toward addictive behavior.

Under the therapeutic community approach, both psychological and sociological factors are accepted as contributing to the problem. Hence, the objective of this approach is to deal with both factors more or less simultaneously.

Application of the concept. While these psychological and sociological treatment procedures are being carried out, the therapeutic community seeks to provide an environment which will be substance-free and in which the social pressures will be directed toward abstinence rather than relapse. This environment is provided through a total "live in" situation. In other words, persons undergoing this type of treatment subject themselves to an exclusive

and highly controlled situation. They become full-time "residents" of a tight little community and allow nearly all aspects of their lives to be controlled by the community so long as they remain in residence. In the initial phases, they are cut off completely from the outside world, including relatives and friends, and their lives are scheduled for them 24 hours a day. They are told when to eat and sleep and what to do the rest of the time. They are assigned menial tasks to perform, they enjoy virtually no privileges, and they reportedly are never out of the presence of another more senior member of the community.

As these individuals respond to treatment over time, they are able to earn privileges, to move on to more desirable tasks, to make contacts with the world outside the community, and to exercise more influence over decisions affecting their actions and lives. Nevertheless, as long as they continue to be residents, their routines are highly structured and decisions affecting their lives and behavior are subject to control by the group.

The stated or generally understood purpose of these programs is to have the residents return to the larger community as responsible, stable, and contributing members of society who will remain free of dependency upon drugs, alcohol, or other such "crutches." Thus, at the final stages, there is a transition process where the individuals gradually spend more and more time away from the therapeutic community (going to school, working, performing voluntary service, etc.) until they can function independently. At this point the residents become "graduates."

The three phases of Habilitat's therapeutic program. Habilitat's therapeutic program consists of three phases. A brief description of each is set forth below.

1. **Induction.** This is a process which lasts one or two days to two weeks. It is a period when both the applicant and Habilitat must decide whether or not the applicant

will enter into the program. During this time the applicant's motivation is tested. He is confronted with his behavior and made to understand that there is a better and more constructive way to behave. He must then indicate a willingness to change and to accept the requirements that will be imposed upon him in the program. He also must come into the program "clean"—i.e., free from being under the influence of any drug. Not all applicants pass this phase and enter the program. Included in the process is a psychiatric evaluation which is designed to screen out psychotics and psychopaths who are recognized not to be suitable subjects for this type of treatment.

2. **Treatment.** This phase is the heart of the program and is expected to last from 9 to 18 months, depending upon the response of the individual. As described by Habilitat, it is "a 24-hour live-in, direct behavioral attack approach" where life is "meant to be like living in a goldfish bowl." New residents are cut off from communication with the outside for the first 60 to 90 days. Starting off with menial tasks, they gradually work up to perform more responsible tasks involved in the operation and maintenance of the program and its facilities.

Besides the work routine assigned to each resident, there are three basic tools used in treatment. The first is the *morning meeting*, which is a half hour period right after breakfast that is designed to get everyone in a good mood through exercise, singing, skits, dancing, and other lighthearted activities. The second is the *daily seminar*, which is an hour-long session after lunch devoted to more serious business in the form of guest speakers, discussions, debates, films, etc.

Considered the most essential tool of the program is the *encounter*. These encounter "games," as they are called, take place three times a week and are supervised by staff clinicians who guide and control the group of 20 or so participants. The purpose of the games is to provide for the release of normal hostilities in a manner which will not endanger

others. Residents are not allowed to display anger and feeling when they occur, but are supposed to reserve these sentiments for the game when there will be a chance for direct verbal confrontation with the person causing the feelings. These games often involve loud shouting and gut-level language, but it is said that most residents leave the games feeling relaxed and relieved.

On occasion, disciplinary actions have to be taken to help residents overcome some of their problems and to maintain the proper atmosphere within the community. These disciplinary measures can take several forms: (1) a severe verbal reprimand, which is referred to as a "haircut," (2) relieving a resident of his responsibilities and restricting his privileges and activities, during which time he is said to be in the "dishpan," and (3) restricting the activities of a group or the residents as a whole—i.e., putting them on "ban."

There is also the "marathon." This is the infrequent but important "emotional enema" that releases deeper, and previously unconfessed, hostile emotions. It complements the encounter games.

Due to the large number of high school dropouts who enter into Habilitat, schooling also constitutes an important part of the program. One of the requirements for graduation from Habilitat is that one also have a high school diploma. To enable residents to achieve this goal, there is an on-site educational program taught by two teachers and accredited by the adult education program of the state department of education. A recurring event at Habilitat is the awarding of general education development (GED) diplomas to residents at the facility.

3. *Re-entry.* The final phase of Habilitat's program has as its purpose the entry of residents back into the larger community. This phase is described as lasting from 12 to 15 months. Its stated objective is to provide vocational rehabilitation and training so that residents will be employable upon

graduation from the program. Part of this process is to give participants experience in managing their own resources and having them budget the money received, including putting a portion of it in a savings account.

It is preferred that residents in the re-entry phase live at a facility which is separate from that used for treatment, but this is not always possible. In any event, activities are more varied and life is less structured at this stage. For example, residents are allowed free evenings when they may leave the facility. Re-entry residents work within the program. They receive job assignments in various aspects of the program, such as working in the administrative offices, becoming involved in the operations of the institution, or serving as part of the sales force involved in the revenue-producing aspects of Habilitat's total program.

During re-entry, some residents take specialized vocational training away from the facility (e.g., a number of the residents have trained to become beauticians). Others attend night classes at the nearby community college. Residents are also encouraged to take an active role in the community through participation in voluntary organizations and activities. Encounter sessions still remain a part of the program during this phase. However, they take place only two evenings a week and are said to be specialized to meet needs related to re-entry.

Finally, the point is reached where residents must decide what they will do after graduation from the program. Some go on for additional higher education. Some seek careers outside the context of the therapeutic community. A significant number remain part of the program by becoming staff members at Habilitat.

Other key features of Habilitat's program. Other key features of Habilitat's program are summarized here.

1. *Program based upon program*

products. A basic feature of Habilitat's program is its complete reliance upon program products (program graduates) to provide the clinical staffing for the program. This approach is founded on the concept that only persons who have suffered the pains and problems of drug addiction, alcoholism, etc., and have gone through the therapeutic process can fully understand what all this involves and provide the type of role model to which those still suffering can easily relate and accept.

All therapeutic communities seem to utilize program products in their treatment process. However there are some which also include professional personnel in the fields of psychiatry and psychology on their clinical staffs and utilize a combination of resources in their therapeutic treatment. In its early years, Habilitat had on its board persons with backgrounds in the fields of medicine, psychiatry, and psychology. In recent years, however, there have been no such persons on the board, and the entire clinical staff has been composed of persons who have been through the program or are still going through the program.

2. **Program utilizing some degree of decisionmaking by consensus.** As far as its clinical operations are concerned, a high degree of reliance is placed upon group decisionmaking. A consensus is sought among the clinical staff before any important actions are taken. Hence, there is said to be close and continuing consultation between superiors and subordinates so that agreement can be reached in the making of recommendations up the chain of command or in the passing down of instructions. The executive director provides an exception to this pattern. Although he may generally support and encourage the consensus-type approach, he retains final authority in administrative decisionmaking.

3. **Program serving primarily a youthful clientele.** Although Habilitat has established no formal upper age limit for entrants into the program, it serves primarily a very youthful clientele. At one time, it accepted applicants

as young as 12 years old. At present, however, its lower age limit is 16 years. Most residents are in their late teens or early 20's, but there are a few who are in their 30's or 40's. The average age is reported to be between 20 and 21 years.

Administrative Organization

Habilitat's functioning administrative organization is of significant proportions. Set forth in figure 2.1 is a chart of the organization as it existed at the time of our audit. As can be seen from this chart, the organization is headed administratively by the executive director and is divided into an administrative staff and a clinical staff.

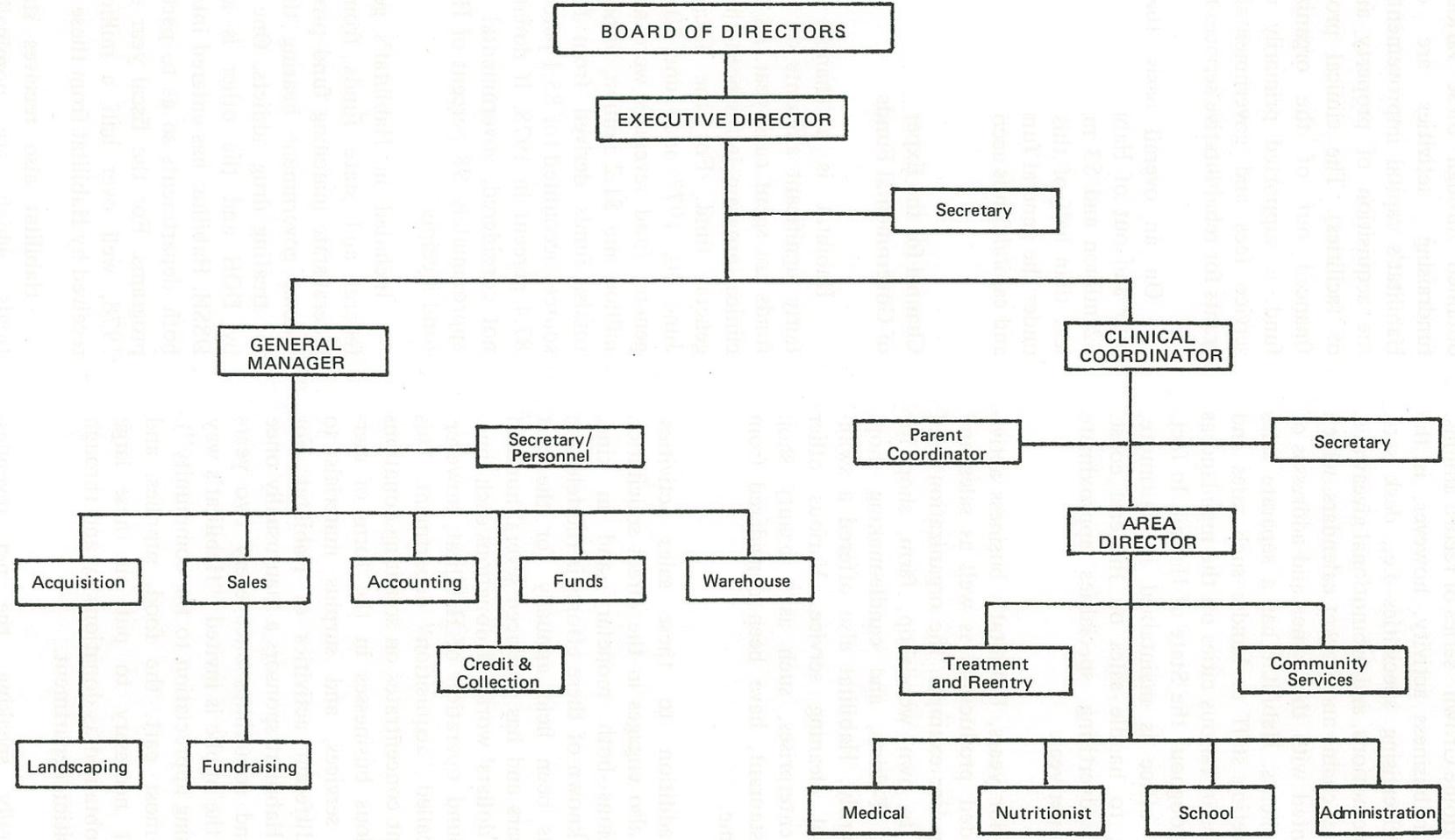
For the past several years, Habilitat's program has been handling between 100 and 200 residents. The resident population as of mid-November 1978 was 122. The clinical, administrative, and support personnel to carry out the total program (including the business operations discussed below) have generally numbered between 60 and 70 (including some persons who have been residents while at the same time filling positions within the organization). Of this total, approximately one fourth have been involved in the clinical area while the rest have been engaged in administrative and business activities.

Financial and Business Operations

In addition to the clinical therapeutic program, Habilitat conducts a sizeable financial and business operation. This business operation is aimed at providing financial support for the organization while also offering the opportunity for program residents to gain vocational training and experience.

At present, Habilitat's business activities involve the sale of various goods and services, including yard maintenance service, cook-books featuring recipes of various celebrities,

Figure 2.1
Organization Chart of Habilitat, Inc.
(As of February 1979)



SOURCE: Department of Social Services and Housing, Purchase of Services Office, Report on Evaluation of Habilitat's Compliance with Its POS Contract, dated March 13, 1979.

and the "Home Grown" series of record albums. The major business activity, however, is the sale of advertising specialties—i.e., desk sets, pens, office notions, and promotional giveaways, such as key chains and pocket calendars, which are imprinted with the names and addresses of business clients. Habilitat has a separate sales and marketing staff to handle such sales and makes sales in various cities on the mainland as well as throughout the State of Hawaii. In fact, a branch office is maintained in Baltimore, Maryland, to handle sales on the east coast. Sales of advertising specialties approximate \$1 million per year.

In prior years, Habilitat's business activities included production as well as sales and marketing. For example, the organization used to have its own woodshop, farm, shop for imprinting T-shirts, and candle-making shop. Until recently, Habilitat also offered a swimming pool cleaning service. Various other business enterprises, such as a beauty shop and a restaurant, have been considered from time to time.

In addition to these sales activities, Habilitat also engages in the direct solicitation of donations—both monetary and in kind. The best known of these efforts is the telethon which has been held annually for the past several years and has produced several hundred thousand dollars' worth of donations each time. A year-round operation of Habilitat, however, is its so-called "acquisition" department. This department concentrates on soliciting donations from various businesses in the form of merchandise, services, and surplus materials to support different activities of Habilitat. For example, Habilitat sponsors a luau usually once a year, and sometimes once every two years to which the public is invited ("Habilitat's way of expressing appreciation to the community"). For the most part, the food, supplies, and equipment necessary to put on these large luaus are obtained as donations by and through the acquisition department.

Generally speaking, the net revenues

obtained through these various business and fundraising activities are earmarked for Habilitat's capital improvements program (i.e., the acquisition of property and construction of facilities). The clinical program, which is financed out of the organization's general fund, is supported primarily out of program service fees and governmental contracts and grants for rehabilitative services rendered.

On an overall basis, the flow of cash into and out of Habilitat amounts to between \$2 million and \$3 million annually. Somewhat less than half of this amount is accounted for under the general fund. The sales and marketing and capital funds account for the rest.

Channel for the Expenditure of Governmental Funds

Habilitat is a channel through which fairly significant amounts of federal and state funds are spent each year. As noted above, the clinical program is financed through Habilitat's general fund. For the fiscal years ending June 30, 1977 and June 30, 1978, reported general fund revenues were approximately \$1 million and \$1.2 million, respectively. Of these totals, funds derived from federal and state sources accounted for 85.1 percent for 1977 and 87.4 percent in 1978. If donations in kind are not considered, governmental funds constitute approximately 98 percent of Habilitat's general fund receipts.

Included in Habilitat's general fund are federal and state funds from two separate federal-state matching fund programs (with the federal government bearing the major share) for treating drug addicts. One is administered by DOH and the other is administered by DSSH. Habilitat has entered into contracts with both departments so as to participate in these programs. For the fiscal year ending June 30, 1978, well over half a million dollars was received by Habilitat from these two sources.

Habilitat also receives state and federal funds which are nominally payable to

Habilitat residents by virtue of their being able to qualify for assistance under various social welfare programs. For example, many of Habilitat's residents receive general assistance support from the State of Hawaii through DSSH. Many also qualify for food stamps under the federal food stamp program. In these cases, the funds often flow directly to Habilitat because Habilitat holds a power of attorney for the persons involved and acts as their agent in the receipt and use of the welfare payments and food stamp bonuses to which they are entitled. During 1977-1978, general assistance and food stamp expenditures on behalf of Habilitat residents which we have been able to identify amounted to more than \$300,000.

Habilitat also receives funds directly for the care it provides for a limited number of residents. For example, several of the residents have been placed in Habilitat by the family court. In these cases, the court provides support for their care. In 1977-78, these support payments amounted to \$565 per month per person. A few of Habilitat's residents qualify for welfare support under the aid to families with dependent children (AFDC) and foster child programs. Rather than going directly to the children themselves, these payments are made to Habilitat on their behalf. Direct payments from these other sources are relatively small, however.

Finally, Habilitat secures federal CETA (Comprehensive Employment Training Act) funds through the office of human resources of the city and county of Honolulu to pay a portion of the salaries of some of its employees. During 1977-1978, there were seven employees participating in the program, for whom almost \$12,500 was received. For the 1978-79 year, almost \$8,000 had been allocated for five such employees.

It should be noted that not all governmental expenditures made on behalf of Habilitat residents flow through Habilitat. For example, in fiscal year 1977-78, we have been able to identify Medicaid expenditures in excess of

\$62,000 made on behalf of participants in Habilitat's program. Medicaid payments are made directly to the providers of medical services. Hence, these payments are not reflected in Habilitat's financial reports.

Facilities

At present, Habilitat's operations are scattered in several different locations. Most of the facilities are located in the Kaneohe area on the windward side of the island of Oahu. However, there are two staff houses in the Kailua area somewhat removed from the other major facilities. Habilitat also maintains a branch sales and marketing operation in Baltimore, Maryland.

The major facility which Habilitat owns is its Habilitat I installation on the shores of Kaneohe Bay. This is the 1½ acre former Bigelow Estate property which was acquired in 1977 after having been leased since 1972. It is the most visible and heavily used of Habilitat's various facilities. It serves as the dormitory and treatment facility for all of Habilitat's residents except those in the latest phases of re-entry. As of mid-November 1978, 102 out of 122 residents were living at Habilitat I. Habilitat I is also the site of the dining facilities for the organization and houses the clinical files for the program. There were plans for the demolition of some of the existing structures and the erection of new buildings and for the renovation of other buildings.³

Habilitat is also using rent-free a state-owned building on the grounds of the State Hospital at Kaneohe which was previously vacant and which is earmarked eventually to be turned over to the Windward Community College located in the same vicinity. This building, now known as Habilitat II, is used as the dormitory for approximately 20 residents who are in the final phases of re-entry.

³ Such demolition occurred in early 1979.

In the business district of Kaneohe are Habilitat's executive and sales offices and its warehouse facility. Both of these facilities are leased. The executive and sales offices occupy most of the top floor of a three-story, office building. The warehouse is located several blocks away and consists of several bays in a large structure which houses other tenants besides Habilitat. Since the discontinuation of its T-shirt operation, not all of this space is required by Habilitat, and an attempt was made to sublease the unneeded space.

One of the staff houses in Kailua is used as a residence for Habilitat's executive director. It is the apparent intention of Habilitat to retain this residence on a long-term basis. However, plans for the other house call for it to be sold. Meanwhile, it has been occupied by several Habilitat staff members who have paid rent at what was designed to be a "break-even" level for Habilitat.

Until fairly recently, Habilitat also rented a number of other houses in the windward Oahu area which it used to provide quarters for re-entry residents and for staff members. However, the organization has presently abandoned its policy of securing such housing, and the affected personnel must now make their own individual arrangements for housing.

Habilitat's facilities in Baltimore consist of a rented townhouse which is used for staff housing and a rented two-level office area, one level of which it planned to give up in early 1979.

The Executive Director

No portrait of Habilitat would be complete which does not take cognizance of the impact

of its executive director Vincent ("Vinny") Marino. In a very real sense, it may be said that Habilitat is the projection of this man's personality.

Vincent Marino originally came to Hawaii in 1970 as a staff member of "Communiversi-ty," a therapeutic community-type organization which operated briefly in Hawaii. However, as a result of a split in this organization, a small group, including Marino, set up another organization in early 1971 and called it Habilitat. A borrowed two-bedroom house in Kailua was the place where Habilitat began. It was here that Marino and the first group of six residents took up life as a therapeutic community.

Although a number of persons participated in and contributed to the creation of Habilitat, Marino undoubtedly played the key role. He was the only one who devoted full-time effort at the beginning, and he has served as the administrative and clinical head of the organization since Habilitat's inception. Of the original corporate directors of Habilitat, only he and one other remain on the board of directors. Of the original employees, he alone remains part of Habilitat. In recognition of his role, Habilitat's board of directors has officially designated him as "founder" of the organization.

Vincent Marino serves as the representative and spokesman for Habilitat. He sets the tone for the organization and fills the role of "father" for the "family" which makes up the therapeutic community. He is the one who largely sets the directions in which the organization will move, or decides what it will not do or from which areas it will withdraw.

PART II

ASSESSMENT OF HABILITAT'S PROGRAMS

Chapter 3

INTRODUCTION

In this part we examine the various programs of Habilitat. Chapters 4 and 5 deal with Habilitat's program of treatment, rehabilitation, and prevention in the area of substance abuse and addiction. Chapter 6 covers Habilitat's capital improvements, business venture, and telethon fundraising programs.

Summary of Findings

In summary, we find as follows:

1. 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, the lack of definition, and the sparsity of data con-

cerning both Habilitat's clientele and addicts in general. Neither the Habilitat nor the State is doing much to remove the obstacles and otherwise to provide for an effective evaluation mechanism. The State's efforts in this regard are stymied by the lack of coordination of activities between DOH and DSSH, both of which agencies contract with Habilitat for services in this area.

2. Habilitat lacks clear organizational objectives and a planned and systematic approach to the acquisition of needed physical facilities, engaging in business enterprises, and conducting its fundraising activities. Real property acquisitions have been erratic and unproductive and have raised questions of legality and propriety; business ventures have floundered; and the fundraising telethon has declined in efficiency in recent years.

Chapter 4

OBSTACLES TO AND GENERAL LACK OF EVALUATION OF HABILITAT'S PROGRAM OF TREATMENT, REHABILITATION, AND PREVENTION

Based upon its own publicity and its contractual relationships with DOH and DSSH, Habilitat exists primarily to provide treatment, rehabilitation, and prevention services in the area of substance abuse and addiction. Presumably, therefore, the rest of the organization's operations and activities are subservient to this main purpose and should function to support and promote the treatment, rehabilitation, and prevention program.

Accordingly, it is appropriate in any assessment of Habilitat to focus first upon the treatment, rehabilitation, and prevention program. In this chapter, we discuss the serious obstacles which presently hinder the evaluation of any program in this field and examine the extent to which evaluations are being made of Habilitat's program. In the following chapter, we set forth the results of our own assessment of Habilitat's program based upon available information.

Summary of Findings

With respect to evaluation of Habilitat's treatment, rehabilitation, and preventive program, we find as follows:

1. There are severe obstacles to the making of any effective program evaluation. The obstacles include those which are present generally in the field of substance abuse and addiction and those which are specific to

Habilitat. Among the obstacles are the lack of agreement as to what use or degree of use of substances is acceptable and unacceptable; the general lack of knowledge regarding the causes, effects, and ways of treating the various kinds of substance abuse and addiction; the difficulty in defining "success" in the treatment, rehabilitation, and prevention of substance abuse and addiction; the absence of reliable and usable data on Habilitat's program of treatment, rehabilitation, and prevention; and the presence of confusion in the focus of Habilitat's program.

2. Very little of substance or significance is being done either by Habilitat or by the State to evaluate in a meaningful way Habilitat's program performance or to remove the obstacles hindering such an evaluation.

Obstacles to Effective Program Evaluation of Habilitat's Performance

Several obstacles stand in the way of making an effective evaluation of Habilitat's performance in the field of substance abuse and addiction. Set forth below are the most significant of these obstacles.

General lack of agreement and knowledge about substance abuse and addiction. The greatest obstacle to effective evaluation of performance in the field of substance abuse and addiction is the general lack of consensus and

knowledge about the use and abuse of various mind-affecting substances.

First of all, there is no firm agreement as to what is an acceptable substance and what is not an acceptable substance. Through the ages, there have been tremendous variations in perceptions and degrees of approval and disapproval respecting the use of specific substances among the various cultures and subcultures. Even within a given culture, history is replete with examples of particular substances moving back and forth between various categories of official treatment—i.e., from being highly praised and actively promoted, to being tolerated, to being condemned and officially proscribed. In times past, sanctions have been imposed for using substances which now are both socially acceptable and widely used (e.g., coffee and tobacco).

This unsettled situation continues to prevail today. Substances are tolerated or condemned in varying degrees. Some substances are prohibited by law or subject to stringent governmental restrictions and regulations, while others have gained respectability and receive little governmental attention. In both cases, society is often not unanimous as to the wisdom of the prevailing governmental attitudes.

The frequent and often strong lack of agreement concerning the acceptability of different substances reflects equally pervasive disagreements concerning the effects of the use of various substances. Many claims, counter-claims, and charges are made concerning the supposed beneficial effects, adverse effects, and noneffects of different substances when used singly or in combination. Some of these are backed by careful research, but many appeal to emotion, tradition, and vested interest and have little to substantiate them in terms of verifiable facts or conclusive findings.

Contributing to this general situation is the failure to differentiate between substance use, abuse, and addiction. For almost all mind-affecting substances, there are some uses which

do not constitute a real problem and other uses which may create serious problems. Human utilization of these substances ranges all the way from nonuse on one extreme to addiction on the other. Problems arise when use reaches the point of abuse and addiction. By substance abuse, we mean the point where use of a substance discernibly impairs one's health or relationships with others. By addiction, we mean the condition where physical and emotional pain is suffered by a person when that individual is deprived of a particular substance or suitable substitute.¹

By failing to differentiate between substance use, abuse, and addiction, it becomes almost impossible to reach any agreement regarding the problems requiring public attention in this field. In the absence of such agreement, the tendency is to view abuse and addiction as in themselves presenting the problem and to concentrate efforts toward achieving complete abstinence through measures aimed at prohibiting the production, distribution, and sale of particular substances.

This is a simplistic approach when one notes that substance abuse or addiction does not necessarily incapacitate a person from being a productive member of society. History provides many examples of addicts who have led long, useful lives as functioning members of society despite their dependence upon some chemical substance.

Lying at the root of this situation is the fact that there is no agreement and insufficient knowledge concerning the causes of substance abuse and addiction. Several theories have been advanced. They include the time-honored supposition that abuse and addiction arise entirely from the lack of will power. In more recent times, psychological, sociological, and biochemical reasons have been postulated.

¹These definitions are drawn from literature in the field of substance abuse and addiction. Although other definitions may be used, these seem to represent the broadest areas of agreement.

The psychological approach holds that the susceptibility to substance abuse and addiction comes from within the psyche and therefore cure lies in a restructuring of the personality of the affected individual. The sociological theory claims that society and the general environment create substance abusers and addicts and cause them to relapse into abuse and addiction. Under this theory, remedy lies in changing the social context and removing the conditions that lead to abuse and addiction. As noted above, the therapeutic community approach represents a combination of the psychological and sociological theories.

The biochemical approach is the most recently developed theory and is still embraced by only a relatively few experts. This approach credits abuse of and addiction to substances to the biochemical makeup of an individual.

Despite these various theories, authorities in this field ultimately admit that they do not know why some persons become substance abusers and addicts while others do not.

Problem of defining "success." In the face of the state of affairs described above, it is virtually impossible to set appropriate objectives and to establish effective standards or measures of performance by which to evaluate programs to combat substance abuse and addiction. This, however, has not deterred governmental and nongovernmental agencies from seeking to apply numerous solutions in terms of varied, extensive, and expensive programs of control and treatment. The amount of resources devoted to such efforts is incalculable.

In the light of the difficulty of setting appropriate objectives and standards of performance, as noted earlier there has been a tendency among those in the field—including Habilitat's leadership—to evaluate the success of these programs in the absolutist, simplistic terms of a single criterion: complete abstinence from further use of a particular class of substances (popularly termed "drugs," and meaning primarily narcotics). Thus, while Habilitat may

state that in addition to turning out drug-free graduates it is also aiming to produce persons who will lead crime-free and productive lives, total abstinence from the use of drugs is the first and essential test a resident must pass to be considered a success.

Such an absolute criterion, however, may be not only highly unrealistic but also seriously misleading. One acceptable degree of success might be considered achieved if drug dependency is simply reduced to the point where the individual is able to function as a productive member of society without having to resort to crime.

Moreover, the apparent termination of the use of an illegal drug is not necessarily proof of success. Elimination of a dependency upon drugs may simply result in the shifting of that dependency from one harmful substance to another. Studies elsewhere indicate that many "rehabilitated" addicts end up eventually as alcoholics or methadone addicts. Where this is the pattern, it would be highly misleading for the program involved to claim that it is achieving great success.

Scarcity of reliable, usable data. Even if the problems relating to substance abuse and addiction could be clearly defined and program objectives and standards in the field could be fully developed and agreed upon so that "success" could be measured, there is another obstruction hindering effective evaluation in this field. This hurdle results from the scarcity of reliable, usable data regarding treatment programs in this field. This is true for almost all such programs, and those of Habilitat are no exceptions.

In recent years considerably more attention has been given to the recording and filing of case information on residents in Habilitat's program than occurred earlier. Part of this effort may have come in response to governmental requirements that certain records be maintained if an agency is to qualify for governmental funding. For whatever reason, the more

recently a resident has been admitted, the more complete that resident's case file is likely to be. Habilitat's data, however, suffer from serious deficiencies.

One deficiency is the lack of even basic information on many of the early participants in the program. Another, and more serious, deficiency is Habilitat's failure to record information concerning some of the most important points in a resident's treatment program. This latter deficiency is particularly evident for "splittees"—i.e., those residents who leave Habilitat "against clinical advice" or who are expelled from Habilitat.

Among the records which we reviewed, surprisingly little information is recorded relative to departures from Habilitat. In most cases, there is simply a terse notation that the resident departed on a particular date. No explanation is provided. No statement is made concerning grievance hearings or investigations into the causes of the departure or into factors which might have contributed to this event. Moreover, there seems to be a dropoff in the usual types of entries in the days just before departure, thereby making it impossible to detect the underlying factors and reasons why a person might have left.

For program dropouts, therefore, information abruptly stops. Indeed, continued communication with such persons is often prohibited in the believed interest of buffering those still in treatment from counterproductive influences. Consequently, it is impossible to determine from Habilitat's records what may have happened to those residents who failed to complete the program. Even for graduates, no systematic approach is taken to follow up on what has happened to them. As a result, no consistent and comprehensive body of data exists regarding residents over time.

Another information deficiency at Habilitat is the failure to classify residents very clearly by the type of problems being treated. As previously indicated, Habilitat purports to

deal with three types of problems—i.e., drug dependency, alcoholism, and character disorders—but the residents are not classed accordingly.

It is true that in some cases all three problems might be involved. Often, though, one of the three is considered primary. While such classification might not be too significant for some purposes, it can be critical for evaluating Habilitat's programs relative to treatment for substance dependency. Indeed, within the drug dependency category, a further breakdown should be made so that drug addicts can be distinguished from drug abusers. Otherwise, it becomes impossible to know how well the program is performing, or how it compares with other programs, and how to improve its effectiveness.

A final major information shortcoming at Habilitat is the failure to compile and analyze data on any recurring, consistent, and comprehensive basis. Most data simply remain in a raw and largely unusable condition. Thus, when generalized information is sought, Habilitat's staff has to go through the laborious process of examining individual files and extracting the particular information wanted. The time and effort involved in doing this quickly discourage any extensive use of these raw data.

The dilemma of a narrow versus a broad focus for Habilitat's program. One other obstacle to program evaluation needs to be mentioned.

After reviewing Habilitat, it is difficult to know whether to classify it as an agency primarily concerned with treating substance-dependent persons or as an agency whose target clientele suffer from a much broader range of sociologically and psychologically rooted problems. (The persons in the latter class are referred to as suffering from "character disorders.") Habilitat has not made it clear which group of persons constitutes the focus for its programs. Not only is the scope of focus

difficult to pin down, but also it seems to change quite rapidly and inexplicably.

For example, in our discussions with Vincent Marino, he stated quite flatly and emphatically that Habilitat is not a drug treatment facility. He then went on to point out that applicants must be "clean" (i.e., free of drugs) before they are admitted to Habilitat and that Habilitat's program is really aimed at helping "mixed up" persons "to get their heads on straight." He claimed further that the Habilitat approach is applicable to a broad range of problems affecting individuals and that nearly everyone could benefit from going through the Habilitat "experience."

At the same time, however, most of the publicity emanating from Habilitat places emphasis upon what it can do, and has done, for persons suffering from a dependency upon drugs and alcohol. Moreover, a large portion of Habilitat's funding is received on the basis that it is a treatment facility for drug abusers and addicts.

Confusion about Habilitat's scope of action is further illustrated by the following. Habilitat at one time drove hard to establish a juvenile facility on a permanent basis and admitted persons as young as 12 years of age into the program. However, the whole effort was quite suddenly dropped and the admission age was raised to 16. Also, Habilitat at one time seriously proposed to the State that it be allowed to take over the operation of the Hawaii youth correctional facility.

This hazy duality in Habilitat's role makes evaluation of its program very difficult. On the basis of Habilitat's own statistics, a large portion of the persons admitted into the program did not enter on the basis that they were either alcoholics or dependent upon drugs. Moreover, our broad review of admission data and individual case records indicates that relatively few of Habilitat's residents can be classified as having been truly addicted to "hard" drugs, such as heroin. Thus, when looking at Habilitat's

"graduation" or "success" rates, it is virtually impossible to know what they mean relative to the treatment for drug abuse and addiction. Yet, these rates are constantly being compared with the performance of other programs which are clearly restricted to the treatment of drug-dependent persons.

Absence of Internal Program Evaluation

Due largely to obstacles cited above, very little of substance or significance has been done by Habilitat to evaluate in any meaningful way Habilitat's program performance. Moreover, little has been done to remove the obstacles now hindering the carrying out of an effective evaluation.

In those few instances where some sort of evaluation has been undertaken, the evaluations have generally been at the initiative of the executive director. Since the executive director is administratively responsible for the programs, these evaluations have in essence been self-evaluations.

No matter how qualified and well-intentioned the administrative staff of an organization may be, true objectivity is almost impossible to achieve through self-evaluations. For objectivity in evaluation, it would seem that the evaluation should be made at a level at least one step removed from the administrative staff. In the case of Habilitat, this would be at the level of the board of directors.

It is the responsibility of the board of directors, as the policymaking body of the organization, to set meaningful program objectives and standards of performance. As such, it is also the board's responsibility to oversee the overall conduct of the programs through performance monitoring and evaluation on a regular and continuing basis.

This evaluative responsibility can be performed either by the board as a whole or by a committee of the board. If the board lacks the

necessary expertise within its own membership to perform this function, then it should seek outside assistance, either through contractual services or through voluntary advisory bodies.

However, Habilitat's board of directors has tended to avoid becoming involved in any way in clinical matters and to leave this area almost exclusively to the executive director, Vincent Marino, and other members of the staff. Reinforcing this arrangement has been the executive director's strong assertion that only persons who have gone through the program can fully understand what the program involves and be able to perform effectively as a clinician in the program.

It appears that during the period June 1971 to September 1978 Habilitat commissioned only two outside evaluations of the clinical aspects of the program. In the same period, however, numerous outside consultants have been hired to assist in the business and financial areas of Habilitat's operations.

The first of the two clinical program evaluations occurred in the initial year of Habilitat's existence and was conducted by the director of another therapeutic program in which both Vincent Marino and his wife had been participants. This evaluation focused primarily on the qualifications and performance of Habilitat's clinical staff. The second evaluation took place in early 1978 and was made by a medical doctor who is the head of psychiatry at the Addiction Research Foundation in Toronto, Canada. Like the earlier evaluation, it was based upon several days of on-site observation at Habilitat. The report on the second evaluation is instructive.

The author of the second evaluation commented quite favorably on several features of Habilitat's program. However, he noted neglect in the area of research and evaluation—a problem which Habilitat apparently shares with many other similar organizations:

"There is one noticeable exception (and this is a problem area which Habilitat shares with virtually all other programmes in this field as well as other social service fields). This is in the area of research. A programme of the magnitude, complexity and quality of Habilitat cries out for careful research evaluation of the most precise kind that contemporary technology is able to mount. That this is absent is no necessary criticism, since it is only rarely available. But that it would be desirable is beyond any doubt. What is particularly essential is to develop a careful accounting of the outcome of treatment provided by Habilitat to its residents by means of a follow-up study of its graduates. But there are a number of other desirable research areas in the programme, most particularly an attempt to specify what the contribution of the vocational programme might be to the overall success of the residents.

"As has been the case in the past, some reliance may be placed upon the clinical impressions of external observers. In the long run, however, much more palpable empirical evidence will be demanded by the scientific community, by the government, and even by the public at large. The mounting of a research programme is sound common sense, rather than an esoteric scientific endeavour. It is a crucial factor in allaying the skepticism of those unfamiliar with the programme and its methods. On the other hand, it is probably also crucial in assuring that the credit to which the programme seems to be so obviously entitled will come to it."

This evaluator then went on to say that an evaluation of Habilitat's program would achieve greater objectivity and acceptability if it were made by an independent body rather than by either Habilitat or the state agencies. However, he noted that one of Habilitat's goals should be "to equip the programme with the wherewithal to maintain a data base of the kind which would facilitate such an evaluation."

As far as we can determine, no followup action has been taken by Habilitat to implement his recommendation relating to research and evaluation of the clinical program. The net result is that Habilitat continues to operate without benefit of an effective internal evaluation of its central activity—its treatment, rehabilitation, and prevention program.

Absence of External Governmental Evaluation

As indicated above, Habilitat is under contract with two state departments—DOH and DSSH—to provide treatment services for persons

suffering from drug dependency in exchange for substantial funding of its treatment program from these agencies. A large proportion of this governmental funding is derived originally from the federal government and is channelled through DSSH and DOH to Habilitat and numerous other private and quasi-private agencies offering services to the State.

DOH's federal funding is derived from Health, Education, and Welfare's (HEW) NIDA and its agreements with Habilitat are referred to as "NIDA contracts." DSSH also receives its funding from HEW but under the provisions of Title XX of the Social Security Act rather than through NIDA. Its contracts with Habilitat are referred to as "POS contracts" in recognition of the fact that they utilize the "purchase of service" concept under which the State makes formal arrangements with a variety of private and semiprivate organizations to provide services to particular target groups. For Habilitat, the target group includes persons dependent upon drugs to the point where they may be considered incapacitated.

Actually, the NIDA contracts are also purchase of service agreements, but they are designated differently to avoid confusion with DSSH's POS contracts.

Under the purchase of service approach, involvement by the affected government agencies in the affairs of the suppliers of services becomes quite extensive. In effect, these agreements are performance contracts. This means, therefore, that the contracting departments should specify the services to be purchased, set standards for measuring performance, and then monitor and evaluate performance to ensure that the standards are being met and the full intent of the contracts are being properly and effectively carried out. In short, both DSSH and DOH bear a very heavy responsibility to monitor and evaluate Habilitat's performance. This responsibility extends to the numerous other agencies with which DOH and DSSH have NIDA and POS contracts.

However, neither of these departments is fulfilling its responsibilities in this area. As a consequence, the external evaluation of Habilitat's performance is generally as inadequate as the internal assessment of how well the organization is doing in the area of treatment, rehabilitation, and prevention.

Set forth more specifically below are the shortcomings which mark the approach now being taken by DSSH and DOH in their contractual relationships with Habilitat. Although reference here is made only to Habilitat, there are indications that the same situation might prevail in the dozen or so NIDA contracts and the 60 to 70 POS contracts being administered by the two departments. Certainly variations exist between DOH and DSSH with respect to particular points discussed below. Nevertheless, conditions are similar enough that the two types of contracts can be considered together.

Inadequate definition of problems or needs. The initial step in any programmatic process for accomplishing objectives is to determine what particular problems or needs exist so that appropriate solutions can be devised and priorities can be set. However, this very fundamental step has not been taken with respect to the areas covered by the NIDA and POS contracts.

This observation was explicitly made in early 1977 by a consultant hired by the State. Based upon its extensive evaluation of DSSH's purchase of service operations, this consulting firm at that time concluded as follows: "*No definitive information exists regarding service needs, impact, or quality for the total social service program.*" This situation has not changed materially in the ensuing two years.

Both the DOH and DSSH staffs have admitted that they really do not know how severe or extensive the problem of substance abuse and dependency might be in Hawaii. These staff members make "guesstimates" based upon mainland statistics which may or

may not be applicable to Hawaii. Indeed, the reliability of these data even for the communities they purport to depict is quite doubtful. A favorite statistic quoted by law enforcement officials here and elsewhere is that 50 percent of all robberies, or other similar crimes, are drug-related. We have been unable to find any verification of such assertions, however.

Lacking firm, empirically established data on the extent and seriousness of the drug problem or problems in Hawaii (e.g., the incidence of addiction and the financial and social costs associated with drug abuse and addiction), it is impossible for DOH and DSSH to estimate, much less to determine definitely, the effectiveness of expenditures in the field of treating and rehabilitating persons suffering from substance abuse and addiction and of preventing the spread of substance dependency.

Inadequate setting of objectives. Without any clear picture of what the problem or problems are in the field of substance dependency, it is not surprising that the NIDA and POS contracts are vague in stating just what is to be accomplished by the contracts and what guidelines Habilitat should follow in carrying out the contracts.

The contracts contain "goals" which are essentially the same for the two types of contracts. The goals are derived *verbatim* from federal specifications. They are so broadly worded they can be applied to the wide range of services covered by POS contracts, including such diverse ones as child day care, adult day care, employment training, family planning, health support, protective services, social rehabilitation, chore service, and referral service.

Out of five goals stipulated by the federal government, three are contained in the POS contract with Habilitat.

These three goals are stated as follows:

- "1. Achieving or maintaining economic self-support to prevent, reduce or eliminate dependency.

- "2. Achieving or maintaining self-sufficiency, including reduction or prevention of dependency.

- "3. Preventing or the remedy of neglect, abuse or exploitation of children or adults unable to protect their own interests; or preserving, rehabilitating or re-uniting families."

After several years of accepting these three, DSSH officials have now informed us that one is not particularly applicable to Habilitat and should be replaced by another. Hence, they are considering substituting "[p]reventing or reducing inappropriate institutional care by providing community-based care or other forms of less intensive care" for "[p]reventing or the remedy of neglect, abuse or exploitation of children or adults unable to protect their own interests; or preserving, rehabilitating or re-uniting families."

These broadly stated goals are accompanied by an equally broad, but lengthier, set of "objectives" contained in the Comprehensive Annual Services Program (CASAP) plan issued by DSSH. However, the goals contained in the contracts and the objectives listed in CASAP reveal almost nothing concerning what Habilitat is all about or what the State's expectations are in the area of substance abuse and addiction.

DOH's alcohol and drug abuse branch is responsible for a state plan in this field. A massive document exists with a title "Plan" on its cover. But since it fails to delineate the problem(s), the need(s), the alternative strategies, and a program of concerted action, its validity as a planning tool remains moot in any operational sense. Instead, we heard that the real plan is thus far limited to the supposed setting of three priorities: (1) prevention (primarily through education), (2) maintenance of rehabilitative services, and (3) establishment of new services where now lacking.

How "official" this plan of priorities is and how it was developed are less than clear. Nothing provided to us in writing by DSSH and DOH provides any guidance as to what Habilitat should be doing. Moreover, the State's allocation

of resources does not reflect these priorities if indeed they are official.

Inadequate standards or measures of performance. To determine effectiveness in carrying out the broad goals and objectives indicated above, the NIDA and POS contracts make provision for what are called "criteria of effectiveness." But, with goals and objectives lacking specificity, these criteria naturally are ambiguous.

In both the NIDA and POS contracts with Habilitat for 1977-1978 and 1978-1979, actual numbers have been used which give the impression that definiteness and precision exist when in fact they do not. As far as we have been able to determine, the numbers used in the contracts have no firm basis.

The result of this approach is that the measures do not always fit the objectives. Thus, the NIDA and POS contracts indicate their objectives are "to assist" a certain number of Habilitat residents to become gainfully employed, "to assist" a certain number to seek additional education, and "to assist" a certain number to become free of abuse. Yet, the measures are stated in terms of the actual number who become employed, the actual number who seek additional education, etc. "Assist" is not defined. Presumably, though, the number assisted might not always correspond to the number who become employed, seek additional education, etc.

That this inconsistency causes confusion is reflected in the quarterly reports submitted to the government by Habilitat. In some cases, the reports indicate the numbers "assisted." In other cases, however, the reports contain quantitative information only on those who end up employed, admitted to college, graduating from high school, etc. What is astonishing is that the state agencies have been content to let this situation continue without making any effort to clarify matters or to rectify the inconsistencies.

Indeed, compliance with federal requirements so as to qualify for federal matching funds appears to be the main, if not the sole, reason why evaluation procedures are included in the contracts with Habilitat in the first place. Thus, all indications are that the affected departments are much more concerned about form than they are about substance. They seem to prefer that something be reported rather than that the reported information be meaningful. This is confirmed by the fact that they do not become particularly excited over the failure of Habilitat to attain some of the objectives specified in the contracts. Similarly, they do not seek to have Habilitat set more realistic objectives in those cases where the specified objectives appear unrealistic.

One consideration to bear in mind is that quantitative measurements may not always be appropriate. Sometimes accomplishments are better measured by their quality, even though admittedly quality is much less susceptible to measurement due to the judgmental factors involved.

While the absence of quantitative measurements undoubtedly complicates the tasks of monitoring and evaluation, it is probably much better to admit that precise measures do not exist than to use numbers in a false or irrelevant manner. The use of in-applicable statistics can be more deceptive and misleading than no statistics. They tend to create a sense of certainty and precision when, in actuality, things are very uncertain and very imprecise. *Pro forma* data collection all too readily covers up the nebulosity so evident in qualitative areas of social concern.

Inadequate monitoring and evaluation. Under existing conditions, the absence of objectives and standards makes little difference anyway because the monitoring and evaluation of performance are so inadequate. It is true that a lot of forms are being filled out and a lot of papers are being shuffled. However, the only impact these activities seem to be having is either to divert attention from substantive

matters or to give a false sense of security that matters are under control. In many cases, it may be producing both of these effects simultaneously.

In early 1977, the consultants who examined DSSH's overall POS program reported that some program monitoring was being performed by DSSH staff, but there was:

“— No systematic recording of program monitoring activities

“— No reporting system which provides comprehensive client, impact, or goal achievement information routinely to the program monitoring staff

“— No program monitor assigned to approximately one-third of the providers

...

“Almost no fiscal monitoring is conducted. . . .

...

“A POS evaluation component is lacking—The absence of service needs data, and good impact and fiscal data makes it difficult to evaluate in general the impact, relevance, or costs and benefits of individual POS programs. Equally important, lack of evaluation monies has prevented DSSH from conducting any POS program evaluations.”

Conditions have improved little, if any, since these findings were reported two years earlier. DOH and DSSH have failed to monitor even such an elementary matter as the number of resident population at Habilitat.

For years Habilitat has projected resident population increases far in excess of the numbers actually experienced. Yet, the state agencies have not (as far as we can determine) questioned Habilitat's practice. Nor have they suggested that perhaps the projections should be scaled down. At the time of our audit, Habilitat's resident population had been declining and stood at less than two thirds what it was at its peak. Population projections are important, of course, because they provide the basis for both budgets and contract rates.

The last on-site review of Habilitat by DSSH staff occurred more than two years prior to our audit even though annual inspec-

tions are called for. Although another visitation was planned for early 1979, this was to be quite limited in that it would not include a review of the financial aspects of Habilitat's program.

After taking several years to get organized and staffed, DOH's alcohol and drug abuse branch has been visiting Habilitat more frequently than have DSSH's monitors. Quarterly inspections by a DOH team have been carried out fairly regularly. Again, however, the emphasis of these efforts has been on form rather than substance. The team seems to spend most of its time checking to see that the proper records are kept and that required reports are filled out and submitted on time.

DOH's failure to follow up on important matters stands out with respect to its contract provision for a year's followup on former Habilitat residents. Little, if any, enforcement is evident. The contractually required followup could prove highly valuable as a means of assessing Habilitat's performance and providing guidance for future action—both for Habilitat and for the State. Yet, no real program has emerged to conduct this research. Neither Habilitat nor the State appears to have the staff and other resources to carry out such an ongoing study.

Inadequate coordination of efforts. Contributing to the problem in this area is the failure of DOH and DSSH to achieve effective coordination between themselves in dealing with Habilitat. Both departments administer contracts which are highly similar. They both have similar information requirements. Yet, the contracts are negotiated separately and each department has its own forms and reporting requirements. They neither share the information collected individually nor take steps to join in monitoring and inspecting Habilitat's performance.

This lack of coordination between DOH and DSSH is in part the result of the lack of an overall state strategy for dealing with the problems associated with substance abuse and

addiction. This is true even though some initial steps have been taken to look at the problems in a comprehensive and integrated manner.

In the early 1970's, DOH brought together its drug abuse program and its alcohol abuse program under a single branch in its mental health division, and a substance abuse agency was created in the governor's office. Neither entity was adequately staffed to function effectively in this field, and their separate actions tended to divide and confuse responsibility in this field and to cause an overlapping and duplication of functions.

In 1975, the legislature passed Act 190 in an attempt to put the State on a comprehensive and coordinated course toward solving the problems of substance abuse and addiction. Under the act, the substance abuse agency was consolidated into a newly established division of substance abuse within DOH.² The division was charged with the following responsibilities:

- (1) to coordinate all substance abuse programs in the State,
- (2) to prepare and administer a state plan for substance abuse,
- (3) to identify funding and service resources for meeting needs in this area,
- (4) to act as the receiving agency for all federal funds, and
- (5) to evaluate program effectiveness and review the state plan annually (with an appropriate report to be submitted each year to the legislature).

The legislature allotted all existing positions, 12 in number, including many then being kept vacant, to the new division.³

Despite this fairly early legislative recognition of the need to take coordinated action in the field of substance abuse and addiction, the State has moved extremely slowly

to set up an effective administrative machinery to implement Act 190. DOH's substance abuse unit is still in the process of staffing up to carry out the enlarged role assigned to it. The head of the unit candidly admits that no real state plan exists in this field and is indefinite as to when such a plan may be forthcoming.

Moreover, while DOH, through its substance abuse unit, is supposed to "[c]oordinate all substance abuse programs including rehabilitation, treatment, education, research, and preventive activities," the unit as yet has virtually nothing to do with the large POS program for treatment services financed under Title XX of the federal Social Security Act (with 25 percent matching from the State) and administered by DSSH. DOH takes the view that coordination means either it administers matters directly and entirely or it does not have to concern itself at all with such matters. Thus, until DSSH is willing to turn the POS contracts over to it, including the use of federal funds earmarked for administration and evaluation, DOH is taking a "hands off" position toward all POS matters. For its part, DSSH says it is willing to have DOH dispense POS funds to the agencies supplying the services, but it is not willing to part with any funds earmarked for administration and evaluation. As a result, while both departments agree in principle that a joint approach would be desirable, they both also concede that administrative differences are standing in the way of such a development.

For Habilitat, this situation is particularly burdensome. It must deal with two separate

² Although "division" is the term used in the legislative committee report, the unit is actually referred to as a "branch" within DOH's mental health division.

³ To assist and advise the new division, Act 190 also made the existing commission on drug abuse and controlled substances an advisory body to the new division. This 15-member group is supposed to be selected on the basis of its members' being able to contribute to the solution of problems relating to drug abuse. As such, the law calls for the body to be broadly representative by including in its membership persons drawn from the following fields: pharmacology, medicine, community and business affairs, youth action, education, legal defense, law enforcement, and corrections.

agencies, with each having its own special requirements. Forms and information requirements of the two are often overlapping and duplicative but still are sufficiently different to require separate preparations. Two separate budgets, for example, need to be prepared.

Most disconcerting of all, however, is that no effective surveillance and control is exercised by the two departments even in the face of all this redundant effort. No real analysis or evaluation is carried on by either agency. Based upon all the evidence we were able to gather, neither department has a very complete or accurate picture of what is happening and not happening at Habilitat.

Although the problem of inadequate coordination between DOH and DSSH is acute, it is exacerbated by a further lack of coordination within the two departments—especially within DSSH. We found it necessary in this audit to go to numerous administrative units within DSSH to obtain information concerning Habilitat and the department's relationships with Habilitat. Nowhere within that department is this information brought together or readily accessible.

In fact, we were frequently astounded to discover how little one unit knew about what another unit was doing even though their relationships with Habilitat were closely related, if not mutually interdependent. The 1977 consultants' report noted the split in administrative responsibilities between the POS administrative unit and the fiscal unit. We found this was only one of a number of similar splits within these departments.

Recommendations

We recommend as follows:

1. *Both Habilitat and the State should clearly acknowledge the very serious obstacles now hindering an effective evaluation of*

programs in the field of substance abuse and addiction, and should take appropriate steps to remove these obstacles where possible and to minimize their effects otherwise. In more specific terms, this means that they should:

a. *Formulate a soundly based approach to information-gathering and decisionmaking in this field.*

b. *Define as precisely as possible what is meant by "success" in this field—including acceptance of the possibility that there may be variations or degrees of success.*

c. *Develop and implement an adequate system of data collection, compilation, and analysis in this field.*

d. *Make evaluation an integral part of ongoing program operations.*

2. *Habilitat's board of directors should assume as one of its primary responsibilities the establishment and implementation of an effective, ongoing system of program evaluation. This means that the board of directors, rather than the staff, should set program objectives and standards of performance, should make sure a proper data base is maintained, should oversee the overall conduct of the program through performance monitoring, and should evaluate performance on a continuing basis.*

3. *Habilitat should assess its program focus and develop a clear definition of its purpose. To the extent that Habilitat's focus is multiple or extends beyond the purpose of the NIDA and POS contracts, both DOH and DSSH should ensure that they can identify and evaluate how their funding is being used by Habilitat.*

4. *DOH should move as expeditiously as possible to fulfill the coordinating role assigned to it by law in this area of substance abuse and addiction. This does not mean that DOH should assume sole responsibility for all aspects of the*

State's program on substance abuse and addiction. It does mean that at the minimum it should provide leadership so that the efforts of DOH, DSSH, and all other state agencies involved in this area may be pulled together into a cohesive state strategy and program. Specifically, with respect to NIDA and POS contracts with Habilitat and other private and quasi-private agencies, DOH, together with DSSH and other state agencies involved, should establish and implement an effective, ongoing system of program evaluation. To do so meaningfully, the following are essential:

a. The underlying problems to be attacked through such contracts should be defined far more carefully and fully.

b. The contracts should then set definitive objectives—qualitatively as well as quantitatively defined according to the nature of the program involved—for each contracted project, and prescribe the framework or parameters for evaluating performances.

c. Performance monitoring and evaluation by the public agencies involved should be both realistic and directly germane, as distinct from canned criteria expected to fit many different programs.

d. A third party with requisite familiarity in this field should be contracted to conduct periodic performance evaluations of both the private contractor and the public agencies responsible for such contracts.

Chapter 5

AN ASSESSMENT OF HABILITAT'S PROGRAM OF TREATMENT, REHABILITATION, AND PREVENTION

In chapter 4, we pointed out some obstacles which seriously hinder the evaluation of Habilitat's program of treatment, rehabilitation, and prevention. We also discussed there the fact that these obstacles and other factors have prevented any meaningful evaluations to have been made of Habilitat's program—either by Habilitat itself or by the state agencies which supply most of the funds required to support the program.

In this chapter, we report the results of our own assessment of Habilitat's program of treatment, rehabilitation, and prevention. In making this assessment, we have faced the same handicaps confronting others in this area. As a consequence, we have not been able to come up with completely conclusive findings or fully satisfactory answers. However, on the basis of the information available, we believe there is sufficient evidence to suggest that serious problems exist with regard to Habilitat's program—and possibly others in the substance abuse field—and that urgent attention should be given to the problems throughout this field.

Summary of Findings

Based upon our assessment of Habilitat's program of treatment, rehabilitation, and prevention, we find as follows:

1. Habilitat apparently is helping some persons. However, the extent of and reasons for

any such success cannot be readily determined. It is also virtually impossible to substantiate the claims of success made for the program—either in absolute terms or relative to other programs. Available information on this and other programs is too limited, too subjective, and too susceptible to manipulation to provide a firm basis for judgment.

2. Whatever success Habilitat may be achieving, its program still suffers from the following deficiencies:

- a. Habilitat lacks adequate followup and feedback on program participants. Information on program "dropouts" is almost totally absent, and information on graduates is uneven and not readily usable.

- b. Habilitat provides a narrow and limited range of opportunities for vocational training. The design of the vocational training program raises a serious question as to whether the interests of the residents are being sacrificed to the business interests of the organization. Habilitat lacks expertise in the area of vocational training and career preparation; yet it has not sought outside help in this area.

Indications and Claims of Success for Habilitat's Program

In the face of all the shortcomings set forth in chapter 4, there are some indications—and

many claims—that Habilitat is achieving success in the area of treating persons suffering from substance abuse and addiction. Indeed, if the claims are to be accepted at face value, Habilitat may be doing as well as—or perhaps even better than—other agencies operating in this field.

However, even the best of “informed judgments” on success rates can only be considered preliminary and tentative. They are founded on data that are limited, fragmentary, and largely subjective, highly variable in quality and quantity, and seldom comparable between programs. As a consequence, it is virtually impossible to substantiate the claims made for Habilitat’s program—either in absolute terms for the program itself or relative to other programs.

Nevertheless, it would appear that Habilitat has helped and is helping some persons. To the extent this happens, the organization can legitimately claim credit for the help provided and the effects resulting therefrom. It is appropriate, therefore, to examine the evidence put forward to show that the program is achieving success.

Personal testimonials. The most compelling evidence of Habilitat’s success is the numerous and apparently quite sincere examples of personal testimony by individuals whose lives have been thoroughly “messed up” prior to their contact with Habilitat, but who seem to have experienced a real transformation in outlook and behavior as a result of going through Habilitat’s program. There appears to be no reason to doubt that this phenomenon has occurred on a number of occasions. Unknown, however, is the permanence of this change or how frequently it has actually happened. Also unknown is why the Habilitat experience seems to have worked in these cases but not in others.

Even with these unknowns, if some persons have been helped by Habilitat to become free of their dependency upon drugs or alcohol and to lead productive, crime-free lives, then the program should be considered as having achieved some success. Among persons who are highly

critical of Vincent Marino and Habilitat, many still concede that Habilitat has helped some persons in a very positive manner.

Quantification of Habilitat’s success rate.

When one turns to the available quantitative data, the results at Habilitat look reasonable on the surface, even though not directly comparable to other programs due to the lack of proper research controls. On the other hand, a close examination of the data provides a less than clear picture.

Over the period of nearly four years extending from January 1, 1975 through October 30, 1978, for which Habilitat was able to compile information for us, 654 persons are reported to have been admitted into residence at Habilitat. Of this total, 134 were still in the program at the end of October 1978. Of the remaining 520, 173 became program graduates while 341 either were expelled or left the program “against clinical advice.” Of the overall total of 654, some 230 completed the treatment phase of the program. This indicates that the highest rate of attrition occurs during the treatment phase, many dropping out almost immediately.

The initial impression these statistics give is that Habilitat’s success rate is not particularly good. Even if all 134 persons in the program on October 31, 1978 go on to become graduates, still less than half of the persons admitted over the past four years will be classifiable as successes according to Habilitat’s criteria. However, a 30 percent to 40 percent success rate would appear extremely good when the results of other programs are taken into consideration. Some programs cannot claim success rates as high as 10 percent, and there have been multimillion-dollar programs which cannot point to more than a handful of doubtful successes.

Nevertheless, one should approach these statistics, and any success rate claims based upon them, with considerable caution. In the first place, it should be recognized that the potential

for success among residents of Habilitat is likely to be much higher than for most other programs. This fact occurs because this program tends to eliminate before admission all candidates except those most highly motivated toward breaking their dependency upon drugs or alcohol. Not only must applicants be "clean" (i.e., drug-free) upon admittance, they must also convince the staff that they are sincere in their commitment to change their behavior.

It should also be recognized that not all of Habilitat's residents, dropouts, and graduates can be classified as having been dependent upon alcohol or drugs. As previously mentioned, many of them have been recognized by Habilitat itself as suffering from "character disorders" rather than as abusers or addicts of various substances. Even among those exhibiting a drug dependency, no clear distinction is made between those who have merely experimented with drugs and those who are fully addicted. Yet, the strategies and problems involved in achieving a "cure" might likely differ significantly between these two groups.

For some programs elsewhere, the entire clientele consists of persons who are clearly addicted to "hard" drugs and who have no internal "motivation" to become unaddicted. Comparing Habilitat to these latter organizations would, therefore, be completely unfair and highly misleading. This fact can also mean that Habilitat's success rate, as a "drug treatment program," is different from and lower than its claims of success.

Another consideration to bear in mind is that Habilitat's criteria for success might be quite different from criteria assignable to other programs. For example, Habilitat classifies graduates as successes but considers dropouts as failures. Among the dropouts, however, are persons who leave Habilitat before graduation because they no longer need Habilitat for a crutch. Even Habilitat concedes that some of these persons reenter society as apparently well adjusted individuals, who, as far as is known, are leading productive, crime-free lives. Thus, by

general community standards, these persons would be adjudged successes even though Habilitat does not.

On the other hand, a number of Habilitat's graduates suffer relapses. Some reenter Habilitat and at least a few end up becoming alcoholics or back in jail. Due to a lack of followup information on both graduates and dropouts, it is impossible to know at present what the recidivism rate may be within either group.

In addition, a large portion of Habilitat's graduates remain in the employ of Habilitat, often for many years. Indeed, some of Habilitat's successes have apparently found it beyond their capabilities to function effectively on the outside and have returned to take employment within the sheltering protection of the therapeutic community. Should these cases be considered successes or failures? Do they suggest an inherent weakness in the individuals themselves or in Habilitat's treatment format? Has a dependency upon substances been replaced by a dependency upon the group or organization? Or is their relationship to Habilitat simply another variation of a universal urge to secure the social and psychological support of a larger group? Without more research, these questions must remain unanswered. In the meantime, however, Habilitat's success rate remains cloudy.

Deficiencies in Habilitat's Program of Treatment, Rehabilitation, and Prevention

Based upon the information available, the extent of and reasons for any success being achieved cannot be definitely determined. On the other hand, it is fairly apparent that the program suffers from some important deficiencies. We set forth below the deficiencies which became apparent to us in this audit.

Lack of followup on and analysis of program results. One of the program's weaknesses already noted is its failure to provide for any effective followup on and analysis of the

results being achieved by the program—both immediate and long-term. This problem starts with the failure to set an adequate data base for subsequent analysis and feedback. It persists and becomes more serious with the failure to recognize that great value can be derived from an effective system of followup and analysis.

While personal testimonials and impressions gained from a few days of observation at Habilitat may have some value, they provide a rather weak base upon which to evaluate the programs' overall performance or to build a strong case supporting the program's effectiveness. Therefore, both to assure proper planning and management for the program and to establish credibility in the program's effectiveness, Habilitat should make sure that it has an objective, reliable, and comprehensive system for following up on and analyzing the results of the program. This step, however, is most unlikely unless a third-party evaluation is involved.

Weaknesses in the area of vocational training and career development. A major strength and unique characteristic claimed for Habilitat is its program of vocational training and career development. Vincent Marino and other spokesmen for the organization make much of the contention that Habilitat stands out among all agencies in the field of treatment for substance abuse and addiction—including therapeutic communities elsewhere—in preparing its residents to be employable when they reenter society. A Habilitat graduate is said thereby to be much better equipped to cope with life and better able to resist relapse. Habilitat's efforts in this area, however, appear to suffer the following shortcomings.¹

1. **Design of Habilitat's vocational program.** A serious problem concerns the design of the vocational training and career development effort. Although some vocational training is provided outside of the organization (e.g., training in beauty culture), most of the preparation and experience offered to residents are provided by Habilitat itself through the

vehicle of its own administrative and business operations. Residents are given jobs within the organization which could be—and sometimes are—filled by nonresidents.

The range of business activities carried out by Habilitat is limited and thus the vocational training program is unduly narrow in scope. Moreover, the kind of business activities engaged in by Habilitat does not offer the residents vocational training of sufficient depth.

Over the years, Habilitat has undertaken a number of business ventures. Most of these have not proven successful, however, and have been dropped after a relatively short time. Except for the yard cleaning service which requires relatively unskilled labor, the major business activity has been the sales and marketing program for advertising specialties. Although this enterprise is not proving to be profitable for Habilitat, it nevertheless grosses over \$1 million per year. Many of Habilitat's residents are funneled into this sales and marketing effort, but selling of this type does not appear to prepare one automatically to become a successful salesperson outside of Habilitat.

The result of the foregoing is that Habilitat's vocational program does not adequately prepare one for reentering society on a fully productive basis.

2. **Conflict in objectives.** There is some question whether Habilitat's vocational program is indeed designed to prepare its residents to be employable when they reenter society.

Habilitat shares with many other therapeutic communities the goal of self-sufficiency—that is to be self-reliant and not

¹ One problem concerning Habilitat's vocational program is discussed in a later chapter. This relates to the manner in which this program element is financed. At this point, it is enough to say that considerable confusion surrounds this matter and that Habilitat has been less than straightforward in informing the State how the operation of the vocational program affects the use of public funds and the organization's eligibility to receive these funds.

dependent on government for financial assistance. This goal, of course, has not been met. Nevertheless, it is toward that end that Habilitat (and other communities) engages in business and fundraising operations.

With relatively few exceptions, the vocational pursuits in which Habilitat's residents are placed for vocational training are those connected with those business operations intended to make Habilitat a self-reliant organization.

We found no direct evidence of any policy to sacrifice the interests of residents to receive vocational training to the interests of the organization to become self-reliant. However, there are some indicators that this may in fact be occurring.

One indicator is the manner in which residents are placed in the jobs with the businesses run by Habilitat. Residents are supposed to look around to see what jobs are available and then to take the initiative to convince the staff that they should be allowed to try the jobs in which they are interested. Based upon a trial period, both the resident and Habilitat decide whether or not the resident should continue in the job chosen. Thus, from the very outset, Habilitat's job needs largely determine what work experience residents will be allowed to undertake.

Two other practices tend to indicate that job opportunities are tailored more to satisfy the needs of the organization than to meet the needs of the residents. One is the fact that many residents become employees of Habilitat and continue to perform the same jobs they held as residents. If Habilitat were truly preparing residents to find employment outside the organization, it does not seem that this should be such a frequent occurrence. More striking than this, however, are the numerous instances in which residents have been dismissed from Habilitat on the basis of their "incompetence" in the jobs they had been filling. We find it highly anomalous for Habilitat, on the one hand, to be receiving governmental funds for persons

who are deemed to be incapacitated and unemployable and, on the other hand, to be dismissing some of those same persons from the program because they are incompetent to fill the jobs given to them by Habilitat.

It thus appears that business and operational considerations of Habilitat are taking precedence over the needs of the residents insofar as the program for vocational training is concerned.

3. *Problem of a lack of competence in vocational guidance.* As much as anything, weaknesses in Habilitat's career preparation effort probably results from a lack of competence in the area of vocational guidance on the part of Habilitat's staff.

As explained elsewhere, Habilitat's clinical staff have been chosen on the basis that only persons who have gone through the therapeutic community experience are qualified to serve as clinicians in such a program. However, becoming qualified in this manner to become a clinician does not necessarily qualify one to become a competent vocational counselor or instructor in career preparation and vocational training. Indeed many who go through the therapeutic community process have little or no experience in vocational pursuits. As a consequence, they are likely to be singularly *unqualified* to set up and implement a comprehensive and effective program of career guidance and preparation.

We were unable to discover anyone on Habilitat's clinical staff who has any particular experience or training in this field. Moreover, the staff do not seem to recognize that they may need some expert advice or assistance in this area. No effort seems to have been made to tap the private sector for help in designing and implementing a fully effective vocational training program or to train Habilitat's staff for effective work in career preparation.

As far as we can tell, no effort has been made in recent years even to talk to anyone in the state government who might have a special

interest or competency in this field, such as personnel at the University of Hawaii, in the department of education, or in the vocational rehabilitation division of DSSH. In fairness, it should also be noted that DSSH has not encouraged any such contact despite the scope and magnitude of its relationship with Habilitat.

4. *An alternative approach.* It seems that there is a much better approach that can be taken to vocational training and career preparation than the one now followed by Habilitat. Rather than being restricted by whatever jobs are available within Habilitat and by the limited competence and experience of Habilitat's staff, it would appear that Habilitat should use as its point of departure the individualized needs, aspirations, and capabilities of its residents. It should then draw upon as wide a range of resources as possible to fit the requirements, interests, and potentialities of each resident.

Such an alternative approach means, first of all, that Habilitat should seek out and try to utilize all the expertise available in the community in the area of vocational and career guidance. Second, it means that Habilitat should take advantage of whatever governmental programs (e.g., subsidization and direct provision of vocational training) that may exist

in this field so as to maximize legitimately the use of available funds and also avoid any duplications of effort.

Third, it means that Habilitat should be working with other employers to set up training programs for Habilitat residents and other similarly incapacitated persons undergoing treatment in other programs. Habilitat should not only prepare residents to meet community needs; it should also prepare the community to accept and utilize the capabilities available in Habilitat's graduates.

Recommendations

We recommend as follows:

1. *Habilitat should begin to develop a data base and a program of followup and analysis on all those passing through Habilitat, including dropouts as well as graduates.*

2. *Habilitat should develop a vocational training and career preparation program that is diverse and is based on the individualized needs, aspirations, and capabilities of its residents. In the development of such a program, Habilitat should seek out and utilize the expertise available in the community at large.*

Chapter 6

AN ASSESSMENT OF HABILITAT'S PLANNING AND PROGRAMMING FOR CAPITAL IMPROVEMENTS, BUSINESS VENTURES, AND TELETHON FUNDRAISING

In the preceding chapters, we focused upon Habilitat's main reason for its existence—its program of treatment, rehabilitation, and prevention. In this chapter, we examine Habilitat's approach to operational planning and programming for its capital improvements, for the business enterprises it undertakes, and for its major fundraising activity, the telethon.

Summary of Findings

We find that Habilitat lacks clear organizational objectives and is failing to take a systematic approach to the planning and programming of its activities relating to capital improvements, business enterprises, and fundraising. Instead, most major decisions depend upon the judgments of the executive director. As a result, Habilitat has:

1. Made many erratic and unproductive moves with respect to real property transactions and the development of capital improvements.
2. Floundered badly in selecting viable business enterprises through which the organization might achieve economic self-sufficiency or provide an effective program of vocational training for its residents.
3. Experienced a declining efficiency in its fundraising telethon and failed to take appropriate steps to find more effective means of raising funds.

Overall Shortcomings in the Area of Operational Planning and Programming for Capital Improvements and Business Enterprises

Habilitat represents a substantial investment in land and facilities and encompasses business operations which account for a cash flow of several million dollars a year. Considering the magnitude and importance of Habilitat's capital improvements program and its business operations, it is apparent that these areas of activity should be receiving very careful management attention and direction.

On an overall policy basis, Habilitat's board of directors should be charting the course for the organization to follow in the development of facilities and in the undertaking of business enterprises. Such setting of directions should be based upon objectives which have been carefully considered before their adoption and upon a thorough assessment of relevant information and alternatives. Then, once the directions have been set, the board of directors should make sure that adequate staff competencies and other resources are provided to carry out the policies as effectively as possible. Finally, the board should monitor performance and evaluate the results being achieved so that corrective actions can be taken where indicated.

However, our finding is that most of the conditions necessary to ensure effective management of Habilitat's capital improvements program and business operations are either

entirely lacking or grossly deficient. For the most part, Habilitat's board of directors has not exercised any leadership in this area, but rather has deferred almost entirely to the executive director to set directions. Moreover, having elected to follow the executive director's leadership in such matters, the board of directors has done little to place restraints on his actions, to monitor his performance, or to hold him accountable for the results obtained.

On his part, the executive director has similarly failed to give careful consideration to the establishment of objectives for the organization or to equip the organization adequately to move effectively in the areas of capital improvements and business enterprises. Instead, he has relied very heavily upon his own judgment in arriving at major decisions affecting Habilitat in these areas. The net result is that Habilitat lacks clear organizational objectives in both areas and is following a very unsystematic and inadequate approach to the planning and programming of its capital and business activities.

It is essential that the problems in these areas be clearly recognized and that early steps be taken to correct the conditions causing the problems. Below we discuss briefly and separately the situations affecting Habilitat's approach to capital improvements development and to business enterprises.

Shortcomings Relating to Real Property Transactions and Capital Improvements

Habilitat's actions over the years with regard to real property and capital improvement matters can hardly be considered to be well conceived or carefully planned to meet optimally either the short-range or the long-range needs of the organization. Instead, they can be characterized more accurately as being erratic and often an unproductive expenditure of time, effort, and resources of the organization.

Just trying to reconstruct how, why, and when particular decisions were made turns out to be a monumental, and often impossible, task. Staff and consultant studies, which should establish needs and options, are virtually nonexistent. About the only records available on many transactions, other than legal documents, are the minutes of the board of directors, and these are scanty on explanations and detailed information. The picture which emerges from a reading of the minutes, however, is one where actions tend to be based upon decisions which are influenced more by opportunistic impulse than by analytical studies and a careful weighing of alternatives.

Efforts to provide housing for program residents. Habilitat's principal need for property has been to provide housing for residents in the program. The urgency of this need and the importance of planning carefully to meet the need were brought to Habilitat's attention before the purchase in 1977 of the property, referred to as the Bigelow property, on the shores of Kaneohe Bay, now used as Habilitat I. At that time, a management consulting firm hired by Habilitat commented on the matter as follows:

"The future location of the Habilitat facility has not yet been planned. Expansion of the Habilitat's services has occurred without a significant amount of housing planning being done. The Habilitat will face a housing crisis unless adequate planning of the needs and future costs is done. The increase in housing costs which would result from the purchase of the Bigelow Estate and the securing of another location for Hab II could wreak havoc on the Habilitat's finances and force a reevaluation of the services offered. A committee of the Board of Directors should be immediately formed to detail the facilities needs of the Habilitat both at the present time and for the forthcoming five years. This committee should develop recommendations for consideration by the entire Board concerning the Habilitat's housing needs and the costs associated with procuring them."

However, this recommendation, along with the rest of the consultants' report, was summarily rejected by Vincent Marino. (The explanation given to us by Marino for this rejection was that the consultants' report was "too textbookish" and not practical.) Instead, in

the absence of any plan or program for determining and meeting Habilitat's housing needs, Habilitat purchased the Bigelow property.

1. *Purchase and development of the Bigelow property.* Several telethons and numerous other capital fundraising efforts have been sponsored by Habilitat in recent years, first, to acquire the land and existing buildings, and, then, to construct a more suitable dormitory and treatment facility on the Bigelow property. Relative to these fundraising efforts, Vincent Marino has continuously expressed an urgency to initiate construction of the new facility.

However, no fully acceptable plans have been developed for the new facility, and the groundbreaking date has been constantly postponed. As far as we can tell, no analysis has been made of alternative ways of meeting facility needs within acceptable cost limitations. One architect did provide a design, but its estimated price of \$400,000, made in a period of rapidly increasing construction costs, seemed to place it beyond Habilitat's ability to finance. Another architect submitted plans in August 1978 which were accepted by the board of directors at its September meeting—but with the proviso that the total costs of the first phase of the plans were not to exceed \$300,000. We were told that after these several years of delay, construction on the project would start soon—after the contractor had assembled all the sub-contractors needed to carry out the project.

If the new construction stays within the indicated \$300,000 limit, this amount will have to be added to the \$375,000 or more already spent to acquire the Bigelow property and to construct interim improvements on the property. In the meantime, Habilitat still lacks any clear formulation of program objectives or long-range determination of program needs. Recent trends indicate there may be significant changes in the facility's likely resident population load. For example, Habilitat's total present resident population as of November 1978 was only about 120 persons, as com-

pared with a peak of over 200 several years ago and a high of around 165 only a year earlier.

2. *Other property transactions and negotiations.* The purchase of the Bigelow property is only one part of what has been a more wide-ranging effort on the part of Habilitat to acquire and dispose of various properties. A brief recounting of some of the transactions and negotiations will indicate the distracting nature of this activity.

Between 1974 and 1978, Habilitat leased five homes and purchased one home to house residents who were in the final re-entry stage of the program. Since July 1978, all of the leased houses have been given up. The purchased house in Kailua reportedly will be sold as soon as the documents relating to the property can be reassembled. At the time of our audit, it was being rented to a group of Habilitat staff members on a break-even or at-cost basis.

Presently, all last-stage re-entry residents live at Habilitat II, the Lokai Ward at the State Hospital. Habilitat has had the use of this facility since 1973 practically rent-free, except for repairs, maintenance, and utilities—the latter running almost \$300 a month. When Habilitat had the various homes, Habilitat II held the earlier stage re-entry residents, and, at times, such other functions as induction. When Habilitat's population was running upwards of 180 (even topping 200), more living space was essential, as compared with a population of 102 sleeping at Habilitat I (Bigelow property) and 20 at Habilitat II as of November 14, 1978.

In June 1974, Habilitat purchased 5.7 acres in Kahaluu for what it was hoped would be a single, consolidated center designed as a village. Thirty thousand dollars was expended as a down payment on a \$150,000 agreement of sale. The board learned in August 1974, however, that construction of facilities for 200 people there would likely cost some \$750,000, not including extremely expensive provisions for water and sewage disposal. It thus decided to

dispose of this property. Eventually a buyer was found at what was termed a "breakeven" price in March 1975. The buyer, however, could not make payments on schedule, resulting in Habilitat's having to carry it and get extensions from the original seller for another two years.

Even before the first Kahaluu property had been fully disposed of, Habilitat secured an option to purchase another parcel in Kahaluu, a one and a half acre parcel known as the Pacheco property. Habilitat took a lease to the property at \$2,000 per month with an option to purchase. This transaction was entered into even though, according to the board minutes, Habilitat was aware that there were zoning violations involved and that, therefore, a variance would be needed.

There have been several other pieces of property that Habilitat considered over the years. Since Habilitat lacked a clearly stated set of needs and a well-thought-out plan, the offers and proposals had to be considered individually, and a great deal of time needed to be spent by the board on them.

Transactions relating to the house for the executive director. Habilitat owns a house in Kailua which it now provides rent-free and utility-free to its executive director. The transactions leading to the acquisition of this house not only further illustrate the haphazard and unplanned approach to acquisition of real property, but they also raise serious questions of propriety and judgment on the part of Habilitat's board of directors.

This house in Kailua was initially purchased in March 1974 in the name of Habilitat. However, it was clearly intended at that time to be owned by Vincent Marino. Habilitat was the named buyer in the agreement of sale for the property, but simultaneously with the agreement of sale, Habilitat entered into an arrangement with Marino whereby he was to acquire the property by reimbursing Habilitat for the payments it made to the seller.

Habilitat made a down payment of \$15,000 toward the total purchase price of \$90,000. The remaining \$75,000 was to be financed over a period of time with monthly payments scheduled at \$565 (later raised to \$585). Marino was supposed to repay Habilitat the \$15,000 down payment and reimburse Habilitat each month for its monthly payments.

In July 1974, Habilitat took out a home improvement loan with a bank in the amount of \$20,000 so that a swimming pool and a wall could be constructed on this property. This loan was for six years at 11.4 percent interest, to be repaid at the rate of \$385 per month. As in the case of the agreement of sale, Marino was to reimburse Habilitat each month, but apparently this agreement was never put in writing.

Habilitat's financial records indicate that all of the monthly payments against the agreement of sale and the home improvement loan were paid by Habilitat and reimbursed by Marino.

In March 1974, when the arrangement between Habilitat and Marino was first made, Habilitat's board of directors passed a resolution obligating Marino to remain at Habilitat as its executive director for three years. At the end of the three-year period, Marino was to have the right to acquire full title to the property, provided he remained as Habilitat's executive director during the three years. Although Habilitat never finalized a contract to that effect, the condition presumably bound Marino since he was present at that meeting and accepted the condition.

Upon completion of the three years in April 1977, Marino secured a loan from a savings and loan company to consummate the transfer of full title to him. Marino's loan covered the balance owed on the agreement of sale. It also reimbursed Habilitat \$10,721.15 of the \$15,000 down payment. Later, on July 1, 1977, Marino paid Habilitat \$3,963.24, presumably as another partial repayment on account of the down payment.

Habilitat originally considered its \$15,000 down payment not as a loan per se, but as an investment to induce Marino to stay at Habilitat, Marino's presence being considered as vital to the institution's continued development at that critical point in time. Thus, although an interest rate of 4 percent had been discussed with Marino, the board of directors did not stipulate any interest charge. However, subsequently, an independent auditor reportedly set a rate of 4 percent interest on it, as originally discussed. Habilitat's general manager claims he later raised the rate to 8 percent, in keeping with the prevailing rate. This matter was never taken up with the board of directors, but Marino reportedly agreed to pay the 8 percent interest to avoid any appearance of impropriety. As of the start of fiscal year 1978-79, \$4,822.12 was still listed on the records as unsettled on the initial \$15,000 down payment.

No sooner had Marino acquired the property then the board of directors decided it would prefer to own it for the use of its executive director on a rent- and utility-free basis, whoever that director might be. It was concluded that this perquisite was again necessary—in lieu of another pay raise—to keep Marino in Hawaii. Marino agreed to sell the house back to Habilitat at whichever of three appraisals would come in lowest.

The appraisals came in at \$121,000, \$124,000, and \$127,000. Habilitat agreed to buy at \$121,000. This was \$31,000 more than what Habilitat contracted to pay three years earlier. Habilitat paid the \$31,000 to Marino (\$31,044.27, to be exact). When the \$20,000 improvement loan (which was paid off by Marino) is considered, Marino's equity in the property was \$11,000.¹

To complete this acquisition, Habilitat assumed Marino's 9.5 percent, 30-year mortgage, with the savings and loan association. The mortgage balance then was \$89,911.11. Habilitat was permitted to assume the mortgage, however, only on a prepayment of \$20,000 and an investment of another \$20,000

in a six-year savings certificate with the savings and loan company.

The rationale for these conditions reportedly stemmed from a public relations aversion by lending institutions to making loans to charitable institutions which could generate a negative image if foreclosure ever became necessary. Thus, to overcome this objection, Habilitat had to make an immediate commitment to tie up \$40,000 of its cash resources.

In addition to the foregoing, Habilitat gave Marino a second mortgage on the property. The reason given for this was that Marino was still liable for meeting the mortgage payment schedule in the event of a failure or dissolution by Habilitat. With a second mortgage, Marino would be protected from Habilitat's ever placing another second mortgage on it and thereby jeopardizing his claim.

One other matter deserves mentioning. Although Marino had Habilitat borrow \$20,000 for him for his swimming pool and wall under a home improvement loan, the actual cost, by Marino's own admission to the board, was only \$15,500. Rather than reduce the loan accordingly, Marino had the board amend its resolution so that he could keep the difference to pay off personal debts. The rationale given for this action was that Marino was paying for the loan anyway, hence the board need not concern itself about the use of the funds. Thus, Marino got what was in effect a personal loan at the much lower interest rate of a home improvement loan.

In our view, the transactions involving the house for Marino represent serious breaches of duties on the part of both the board of directors and Marino. The board has a fiduciary obligation to protect the interests of the organization and

¹The \$20,000 loan was closed out on June 30, 1977 with a check for \$12,006.13, which was added to the \$12,705 already paid on monthly installments (\$7,993.87 of it paid toward principal).

to prevent damage or loss. Hence, it is required to exercise due care and diligence. The executive director similarly should be loyal to the organization and not engage in actions which will benefit himself to the detriment of Habilitat.

The transactions in essence constituted the making of loans to Marino. Although the initial intention might have been to ensure that Marino would stay as executive director of Habilitat, the \$15,000 down payment and the monthly payments on the agreement of sale and on the \$20,000 home improvement loan made by Habilitat were in effect advances for the benefit of Marino. Indeed, both Habilitat and Marino treated the transactions as loans, and they were reported as such to the Internal Revenue Service. As loans, the transactions violated HRS section 416-21(a) which states, "no loans shall be made by a nonprofit corporation to its directors or officers."

In addition to being highly questionable as a legal matter, the transactions showed poor judgment and an insensitivity to the best interests of Habilitat by the board of directors. They also demonstrated an absence of completely good faith dealing by the executive director. It is unquestioned that Marino personally benefitted from these transactions, at a not insignificant detriment to the organization, including the loss of potential income from appreciation of the house and the financial and legal risks of using Habilitat's name and credit for the benefit of a private individual.

Summary. From the foregoing, it can be seen that Habilitat's real estate transactions, involving hundreds of thousands of dollars, have been very confusing and at times highly questionable. In the face of the obvious importance of acquiring real estate and building facilities, Habilitat never developed, and it still lacks, an overall plan or program for its capital improvements where needs are clearly identified, alternatives in terms of costs and effectiveness are carefully weighed, and priorities are established so that budgets and programs can be

developed and financing obtained to bring plans to fruition in the most efficient and expedient manner possible. The net result has been the poor use of available resources and a continuing delay in the construction of facilities which seem to be urgently needed considering the dilapidated and crowded condition of the buildings at Habilitat I which are now being used to house approximately 100 residents.

Shortcomings Relating to Habilitat Business Enterprises

Over the years Habilitat has plunged into and out of several business ventures, in addition to its major focus in sales and marketing. In terms of the objective of making Habilitat self-supporting, these ventures have been at most only marginally successful. A number of them have been unavailing and unprofitable. The decided lack of success of these ventures is attributable in large measure to Habilitat's failure to conduct, before entering into any venture, any analysis of market potential, operational complexities, technological requirements, obstacles to be overcome, and break-even considerations. In addition, for some time Habilitat lacked competent fiscal personnel to assist it in evaluating the operations of new ventures. It is only with the advent of an experienced fiscal manager that serious questions have been raised about continuing some of these ventures due to their nonprofitability.

At the same time as fiscal self-sufficiency was being ostensibly sought for Habilitat, another objective was attached to these ventures, namely, that of providing vocational training for Habilitat's residents, as they progress through treatment toward eventual re-entry into the real-world life. As noted in a preceding chapter, to what extent these businesses did provide, or failed to provide, a useful career training experience for Habilitat residents is, as far as we could discern, never thoroughly evaluated.

Ventures that have floundered. Habilitat's unsuccessful business ventures include the following.

The first enterprise was the woodshop. Begun in January 1974, it declined and was largely phased out by 1977. In 1976, its revenues were listed as \$27,000 and expenses as \$39,000.

A venture into farming was under way by early 1976 but was reportedly not fully operational until that fall. At first, its products were used to supplement Habilitat's own food needs. According to one version, the farm might have served largely as a make-work operation to keep Habilitat's peak resident population constructively active. Even with the land being provided free by the State, 1976 saw the farm lose over \$8000. It was finally terminated in the spring of 1978.

Another venture launched in mid-1976 was T-shirt printing. Habilitat purchased equipment from the operator of an ongoing T-shirt business and he, in turn, managed it for Habilitat. It lasted for two years and died for lack of orders, despite optimistic forecasts of gross sales mounting to \$100,000 or more.

A similar, low investment business, swimming pool cleaning and maintenance, began and ended contemporarily with the T-shirt venture. Although a potential market was deemed favorable, it did not catch on.

For some seven or eight months during 1977 a "fix it" business was conducted. Appliances were repaired. No new ventures were attempted during 1978 except a very short-lived effort at tailoring to give one otherwise unemployable resident some sort of chance. It lasted all of three weeks.

According to board meeting minutes, Vincent Marino was at various times enthused about opening an Italian restaurant or a coffee and salami snack shop. At one point he reportedly wanted to purchase a large, existing

lamp shop in Honolulu from a board member. These went no further than discussions. Unlike the other ventures, these would have required sizeable capital outlays. But as in all the ventures actually undertaken, the lack of an experienced sense of business within Habilitat stands out graphically.

Questionable status of Habilitat's large-scale venture—advertising specialties. All of the unsuccessful ventures listed above represent relatively modest undertakings—individually, and even collectively. However, Habilitat operates another business activity on a much larger scale, the success of which must be termed highly questionable. This is its major sales and marketing effort involving advertising specialties. As previously noted, this enterprise accounts for more than \$1 million in revenues for the organization and is the reason why Habilitat has operations on the mainland.

Despite the magnitude of this activity, however, it can hardly be termed a success in terms of the normal standard by which business enterprises are measured—namely, profitability. According to Habilitat's own financial statements, its sales and marketing program—which is almost entirely advertising specialties—suffered a net loss of \$54,798 in fiscal year 1977–78. Actually, this amount represents an understatement of the loss attributable to this activity. Certain expenses related to the activity are charged against Habilitat's general fund (i.e., the treatment program) rather than against the sales and marketing fund. If all these expenses were reported against the latter fund, the advertising specialties program would have shown greater losses than the ones reported for last year and the year before that.

This activity—though it may be large-scale in dollar volume—does not seem to provide an avenue by which Habilitat can achieve economic self-sufficiency. Indeed, unless some significant improvement is made in the program's performance, it will continue to be a financial drain on Habilitat's resources.

Marginally successful ventures. In addition to the foregoing business activities which have not proven to be profitable, Habilitat has undertaken a few activities which appear to be marginally successful. These include such diverse things as its yard maintenance service, its sale of cookbooks and Christmas trees, and its sponsorship and promotion of the "Home Grown" record albums and concerts. Even in some of these ventures, later efforts have sometimes been less successful than the initial efforts. Altogether, they do not constitute a very large base of support for the organization. For example, for the fiscal year ending June 30, 1978, they produced altogether a net profit of only about \$50,000 for Habilitat—not quite enough to offset the reported loss for the sales and marketing effort.

Previous notice of problem and suggested corrective actions. The lack of an adequate approach to new business ventures was brought to the attention of Habilitat's board of directors as long ago as early 1976. At that time, the management consultants who had been hired to review all of Habilitat's nonclinical operations commented as follows:

"New ventures are entered into without a feasibility study being done and without a review by the Board of Directors. This has resulted in the Habilitat entering into poor business ventures such as woodshop. To minimize future losses and optimize the Habilitat's return on its investments, a new business proposal package should be prepared prior to entering into any new ventures. The Board of Directors should approve all new business proposals prior to the initiation of operations."

The consultants went on to outline in more detail the corrective actions which should be taken. These recommendations are set forth below.

"As a minimum, the following information should be submitted to the Board of Directors for discussion to enable them to make an informed decision to approve or disapprove the venture:

1. Estimated cash flows by month for the first year
2. Estimated annual cash flow for each of the subsequent four years.

3. Probable level of top management involvement in operating the new venture.
4. Clinical aspects of the venture.
5. Listing of probable benefits of entering into a new venture.
6. Listing of the potential problems that may be encountered if the venture is initiated.
7. Detailed description of the venture regarding the probable level of technology involved and degree of personnel utilization.

"We also recommend that all new ventures be evaluated in terms of the amount of skills training and job placement opportunities they will provide residents with. Consideration should also be given to coordinating the resident's desired skill levels with the education and training programs offered by the University of Hawaii, including its system of community colleges, the University of Hawaii's Manpower Development and Training Office, and other applicable organizations."

Like most of the rest of the consultants' report, Vincent Marino has chosen to disregard this portion of the report and the board of directors has acquiesced in this handling of the matter. Thus, the conditions prevailing when this report was submitted are still generally present at Habilitat with respect to the organization's business ventures.

Conclusion. Based upon the record to date, therefore, Habilitat has little chance of ever achieving its self-proclaimed goal of becoming financially self-sufficient—at least, not through its business activities under the organization's present leadership and by following the present approach to business ventures. Even as a means of providing vocational training for residents, the business activities undertaken fall far short of being adequate.

Shortcomings in Habilitat's Approach to Its Telethon Fundraising Activity

Habilitat held its first telethon in 1976 to obtain contributions for capital facilities. The telethon has subsequently become an annual event which represents Habilitat's major fundraising activity for the capital fund. During the telethons, Habilitat has informed the viewing

public that all contributions would be utilized specifically for the purpose of acquiring and improving capital facilities.

According to a Habilitat financial report dated April 26, 1976, the 1976 telethon netted \$171,191 on gross receipts of \$225,060. As can be seen below, the revenues from contributions during the past three years have varied but the variances have not been great. Expenses, however, stated as a percentage of total contributions has increased from 24 percent in 1976 to 65 percent in 1978.

	1976		1977		1978	
	Amount	(%)	Amount	(%)	Amount	(%)
Total revenues	\$225,060		\$255,907		\$208,280	
Fundraising expenditures . .	53,869	(24)	98,485	(38)	134,370	(65)
Net income	\$171,191	(76)	157,422	(62)	\$ 73,910	(35)

Expenses have escalated at a rate far exceeding inflation rates or any other economic index for the two years subsequent to the initial telethon. In two years, telethon fundraising expenditures have increased by about 150 percent from \$53,869 to \$134,370. As a result of the extraordinary increase in expenses, the net return on the dollar (amount available for capital expenditures) has decreased to a level that should concern Habilitat as well as contributors. In 1976, net income equaled to 76 cents for each dollar contributed, while the net return on the dollar was 62 cents in 1977. However, in 1978, a net income of only 35 cents was realized on each dollar contributed during the telethon.

Actually, the results would have been even lower if all costs attributable to the telethon had in fact been charged against the telethon. For example, we found expenses charged against the general fund which in the detailed financial records were identified as expenses directly related to the telethon. More significant than these, however, were overhead expenses which properly should have been allocated to the

telethon. For instance, Vincent Marino and other Habilitat personnel devote significant amounts of their time to the telethon. Yet, their full salaries are charged to the general fund. Habilitat's chief financial officer has conceded to us that overhead costs such as these should be allocated, but has stated that the necessary actions to implement this accounting change have not yet been taken.

During our review we noted that \$116,655 of the total 1978 telethon contributions of \$208,280 was listed as trusts and grants. This,

according to a Habilitat official, represented pre-telethon pledges which were obtained through solicitation efforts prior to the airing of the telethon. Perhaps this is one alternative that Habilitat should consider for future capital fundraising. Habilitat could make personal contact with corporations, financial institutions, and other potentially large contributors. Also, Habilitat could utilize prior telethon mailing lists and other "friends of Habilitat" listings to solicit additional contributions. We realize that public acknowledgement of pledges during the telethon may be an inducement for many contributions. However, this could be achieved by publishing a list of contributors in the newspaper.

The main point, however, is that a fundraising effort becomes highly questionable—from the point of view both of Habilitat and of the general public—where two out of every three dollars raised are consumed in the fundraising effort itself and only one dollar becomes available to spend for the purpose for which the funds ostensibly were raised. Therefore, Habilitat should establish criteria to

guide its decisions regarding fundraising activities, and should continuously evaluate its plans, decisions, and performance relative to these criteria so as to make fundraising efforts as efficient and as productive as possible. These criteria should include a limit on expenses beyond which a fundraising activity will not be undertaken or repeated.

Recommendations

With respect to the planning and programming of capital improvements, business ventures, and fundraising efforts for Habilitat, we make the following recommendations:

1. *Habilitat's board of directors should assert control and direction over all activities relating to real property matters, capital improvements, business ventures, and fundraising efforts. At a minimum, this means the board should:*

a. *Establish objectives and set directions based upon a careful assessment of relevant information and viable alternatives.*

b. *Make sure that adequate staff competencies and other resources are provided to carry out adopted policies as effectively as possible.*

c. *Provide for a system of monitoring and evaluation so that performance can be measured and corrective actions taken on a timely basis.*

2. *Before proceeding further on any major capital improvements or real property transactions, Habilitat's board of directors should carefully assess future needs and*

alternatives for meeting these needs so that the most effective use will be made of available resources.

3. *Habilitat's board of directors should reevaluate its policy of providing rent-free, utility-free housing to its executive director and determine whether or not it should retain ownership of any private residences. If disposition of present properties is deemed appropriate, then any such disposition should be handled in a manner which will avoid any conflict of interest, or appearance of conflict of interest, and will assure a maximum fair return to the organization.*

4. *Habilitat's board of directors should carefully weigh the question of whether or not it should be engaged in business activities of any sort. If business activities are deemed to be appropriate, the purposes to be served should be clearly stated and definite criteria should be established to guide all actions in this area. (The recommendations of the management consultants quoted above provide a basis for setting policies and procedures in this regard.) Accordingly, the board of directors should carefully scrutinize all of the existing business activities of Habilitat to determine whether they should be discontinued, continued as is, or continued in some modified form.*

5. *Habilitat's board of directors should carefully evaluate its approach to fundraising and its dependence upon the relatively inefficient telethon as its primary fundraising effort. In this evaluation, the board should establish criteria which will have to be met before any new effort will be undertaken or any existing effort will be continued. Any fundraising effort where expenses consume a high percentage of the funds raised should be subjected to the most searching scrutiny.*

PART III

**ASSESSMENT OF HABILITAT'S ORGANIZATIONAL
MANAGEMENT AND PERSONNEL ADMINISTRATION**

Chapter 7

INTRODUCTION

In this part we examine the management and administration of Habilitat's organization and personnel. Chapter 8 provides a general assessment of the management of Habilitat's affairs. Chapter 9 details some personnel practices and conditions existing at Habilitat.

Summary of Findings

In general, our findings in this part are as follows:

1. The board of directors is not exercising its authority in the organizational and personnel management of Habilitat. It has allowed the executive director to run Habilitat

on a highly personalized and extemporaneous basis. The result has been an extremely unstable situation, both in terms of the structure of the organization and in terms of staffing.

2. Habilitat's organizational structure changes according to the decisions of the executive director. Habilitat lacks a rational classification and compensation system; the result being inequities in the treatment of employees. There is an unusually high turnover rate in staffing.

3. There are serious conflict of interest issues within Habilitat. The issues arise from the dominant role played by the executive director in the management of Habilitat and from the movement of persons between Habilitat and the government agencies with which Habilitat deals.

Chapter 8

A GENERAL ASSESSMENT OF ORGANIZATIONAL MANAGEMENT AND PERSONNEL ADMINISTRATION

Two key areas of operations in any organization are the structure of the organization and its personnel. How these two inter-related areas are managed impacts on the resources necessary to carry out the organization's mission.

Due to the profound effect organizational and personnel actions can have upon the organization's operations, these two areas are among those over which the organization's board of directors should exercise strong supervisory control.

This chapter examines how, in general, the two areas are being managed at Habilidadat and the role Habilidadat's board of directors plays in the management of the areas.

Summary of Findings

Habilidadat suffers from an internal weakness of serious proportions. The weakness lies in its overall structure and governance which allow power and control to be highly concentrated in the executive director.

Specifically, we find as follows.

1. Habilidadat's board of directors has abdicated its power and authority to manage Habilidadat's organization and personnel. It has vested nearly all such power and authority in the executive director, Vincent Marino. The

narrow membership base, the control which Marino has over the membership, and Marino's presence on the board of directors have made it possible for Marino to exert an inordinate amount of influence and to cause the board through acquiescence and affirmative assent to vest power and authority in him.

2. The executive director has exercised his power and authority to manage Habilidadat in such a personalized and extemporaneous manner as to cause organizational and programmatic instability.

3. 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.

Abdication of Authority and Responsibility by Habilidadat's Board of Directors

In all corporations, profit and nonprofit, the corporate powers and authority are legally vested in its board of directors. Habilidadat is no exception. However, in the case of Habilidadat, the board of directors has effectively abdicated almost all of its authority and responsibility to manage Habilidadat to the executive director, Vincent Marino. Several elements have converged to produce this result.

First, Vincent Marino is a key founder of the organization and is one of the relatively small number of members (approximately 20) who elect the board of directors. Many of the members are employees of the organization who work under Marino's supervision.

Second, as executive director, Marino is automatically a full-fledged member of the board of directors.

Third, Marino is a very dominant personality. He exerts himself vigorously. On many occasions, he served as the presiding officer at the meetings of the board of directors.

By his automatic position on the board of directors; by his ability, as the superior of all Habilitat's employees, to influence the composition of both Habilitat's corporate membership and its board of directors; and by his overpowering personality, Vincent Marino has been able to control the board and cause it to delegate to him a tremendous amount of power over the affairs of the organization.

The board of directors' surrender of power and authority to Marino has taken two forms: (1) quiet acquiescence in what Marino does and (2) direct entrustment of authority by corporate resolution.

In the area of the structural aspect of the organization, the relinquishment of authority has taken the first form. The board has shown little interest in the matter and has allowed Marino to alter organizational lines at will, often without informing the board of the changes.

In the area of personnel management, abdication of authority has been in the first instance by a corporate resolution. On August 6, 1973, the board adopted a resolution assigning and delegating to Marino "the authority to appoint such agents and employees as he may from time to time deem advisable" and the authority over all "personnel decisions regarding

positions, duties, compensation, terms of employment and the like."

The resolution imposed some limitations and requirements upon the executive director, but these have largely been ignored or allowed to fall into disuse. For example, the executive director is supposed to report every four months on the "status of key employees and agents" and to provide the board with special status reports whenever directed by the board. However, no system has been set up to provide the board of directors with meaningful information on any personnel matters. Similarly, no pay increases are supposed to be granted without board approval if they should exceed budget costs. However, due to an inadequate, and sometimes nonexistent, budgeting system and a lack of clarity concerning the meaning of this provision, the provision has been rendered virtually null and void.

The only restrictions in the resolution which continue to be observed in some degree are the ones relating to Vincent Marino and his wife, Vickie. The resolution did not authorize Marino to set his own compensation. Thus, actions on pay changes for him require formal board approval. Likewise, the resolution exempted Vickie Marino by name from its coverage and specified that pay raises for her would have to be "covered by the Board." As a result, actions affecting her salary must also be approved by the board.

By practice, these restrictions have been extended to Vincent Marino's brother, Frank. However, the restrictions were not applied at the time Frank was first employed by Habilitat. Thus, he was made a vice president of the corporation and given a salary of \$25,000 per year, without any formal notice to or action by the board of directors. Only subsequent pay increases have been approved by the board. This practice of requiring board action has not been extended to another member of the Marino family—their teenage daughter—who went on Habilitat's payroll in May 1977 at an annual rate of \$6,400 and who

has received two pay increases since, which have raised her annual salary to \$8,600.

Even for Vincent and Vickie Marino, it is not clear that all of their fringe benefits are being approved by the board of directors. For example, we have been unable to find any clear authorization by the board allowing an expense-free automobile to be assigned to each of them by the corporation. The late model vehicles involved represent a rather substantial fringe benefit to the two of them. Similarly, there appears to be no longer any board control exercised over Vincent Marino's personal expenses which are charged to the corporation. At one time, an individual board member was designated to approve these expenditures. More recently, however, these expenditures have been routinely approved by an employee subject to Marino's supervision.

The board's noninvolvement in personnel matters is further illustrated by the following. Since the adoption of the August 6, 1973 resolution, Habilitat has been required by funding agencies to provide them with copies of written personnel policies for the organization. To meet these requirements, Habilitat's staff developed some written personnel policies for the organization. The most recent version is set forth in the form of a personnel manual. However, this manual has never received any formal sanction from the board of directors.

From the foregoing, it is quite apparent that Habilitat's board of directors has eschewed any significant involvement in organizational and personnel matters affecting the corporation. Except on matters relating to salary increases for three of the four members of the Marino family who are on the payroll, the board completely defers to and relies upon Vincent Marino to take action. No board committee has been established to oversee the actions taken.

No reporting system has been set up whereby the board might be kept adequately informed concerning important organizational and personnel matters. Information supplied to

the board in this area generally is quite sparse. In addition, that which is reported is not always accurate. For instance, Vincent Marino indicated to the board on two occasions during 1978 that large reductions he had made in staffing had been necessitated by cutbacks in governmental funding for Habilitat. On neither occasion, however, do Habilitat's financial records indicate that any such financial cutbacks actually occurred. Moreover, almost all of the positions thus vacated were filled again within a short time, thereby confirming the fact that a lack of funding was not the cause of the earlier personnel terminations.

The net effect of the board's abdication of authority and responsibility in these areas has been to give Vincent Marino a virtual blank check to make decisions on and exercise control over all matters pertaining to organizational management and personnel administration. If such powers had been used with self-restraint, the situation still would not be desirable. However, Marino has not exercised much self-restraint. Instead of formally promulgating and following general policies and procedures governing organizational changes and personnel matters, Marino has pursued a personalized approach to these subjects where decisions depend upon his direct approval.

Adverse Effects of Vincent Marino's Personalized Approach to Organizational Management and Personnel Administration

As a consequence of Vincent Marino's personalized approach to organizational management and personnel administration, Habilitat is suffering from a number of significant management deficiencies. Some of the more important of these are as follows.

Organizational instability. One effect of this situation is that it causes Habilitat to be an unstable organization. Directions taken by the organization and interrelationships within the organization are constantly subject to abrupt changes, dependent entirely upon

the desires and interests of Vincent Marino. If Marino expresses a wish to do something or to stop doing something, it becomes a virtual mandate for the rest of the organization.

This organizational instability became readily apparent to us in several ways. One of the most graphic is the large organizational chart which is kept on the wall in the conference room adjoining Vincent Marino's office. During the short period of our audit, this chart changed several times.

Still another indication of the instability and changeability is the organization's very high rate of turnover among its employees. This problem is discussed more fully below.

The demise of the so-called red tag program, which occurred during our audit, further demonstrates very forcefully the rapidity with which changes occur at Habilitat. In our first viewing of the large organizational wall chart, there were many red tags on the chart. During the latter months of 1978, however, both DSSH and we began asking some very probing questions about the red tag program—especially about the use of government funds to finance it. Suddenly, the program was terminated. In our last interview with Vincent Marino, we found there were no longer any red tags on the wall chart. Moreover, he told us that any questions about red tags were no longer relevant because the program no longer existed.

While this degree of organizational instability might serve well Marino's management style, we do not feel it contributes to the long-term health and well-being of Habilitat. Its general effect is to create confusion, cause wasted motion, and complicate the fixing of accountability within the organization. When everything today is different from what it was yesterday or is likely to be tomorrow, it becomes impossible to make meaningful plans, program the most effective use of resources, develop organizational experience and expertise, and fix accountability for performance.

Conflict of interest and tendency toward self-interest. The fact that Vincent Marino sits on the board of directors and that the board passes on the compensation and benefits to be paid to him and other members of his family, in itself, presents a potential conflict of interest situation. The conflict becomes real when Marino participates in the discussion of matters of direct personal interest to himself and his family. It is aggravated when Marino uses the power and influence yielded to him by the board to initiate proposals to increase such compensation and benefits and to vote on the proposals.

For a number of years, pay and benefit increases for Marino and members of his family were voted on by the board as frequently as every six months. In almost every case, Marino was the initiator and prime proponent of the increase proposals submitted to the board. Then, although on some occasions Marino appears to have abstained from voting on the proposals, on many other occasions, Marino appears to have voted on the proposals.

The matter of compensation and benefits for Marino and members of his family has caused some controversy on the board. Opposition to Marino's proposals for increases in compensation and benefits has been expressed strenuously from time to time by some members of the board. However, Marino has always been able to prevail. After each such episode, the general pattern has been for the opponents to leave the board. Controversy in this area has subsided in the past several years, due probably to Marino's agreement to forego 10 percent annual pay increases for three years in exchange for the provision of rent- and utility-free housing.

Marino, his brother, his wife, and his teenage daughter together are receiving compensation and benefits of between \$130,000 and \$150,000 annually. Although the four Marinos represent only about 6 percent of Habilitat's employees, they account for more than 19 percent of Habilitat's total payroll.

The problem of nepotism within Habilitat is not confined to the Marino family. We found numerous instances where two, three, and even four members of the same family have been on Habilitat's payroll or otherwise receiving material benefits through the organization.

Elsewhere in the field of private charitable organizations, the problem of conflict of interest on the boards of directors of such organizations has been recognized and safeguards against this problem have been developed.

For example, the National Information Bureau, Inc., (NIB)—which is a national organization that has been set up to evaluate and rate national not-for-profit organizations to guide the philanthropic giving by corporate and other donors—has included the following item among the basic standards it has established as being essential for a philanthropic organization to be approved by NIB.

"1. Board—An active and responsible governing body, holding regular meetings, whose members have no material conflict of interest and serve without compensation." [Emphasis added.]

Similarly, both the national and state United Way organizations have set standards to be met by organizations wishing to participate in the United Way approach to funding charitable organizations. For local United Way organizations to receive approval from the national United Way of America, they must meet the following standards, among others, with respect to their governing boards:

"Governing Arrangements

"1. The board should consist of not less than fifteen people. It should have representation from diverse elements of the community and usually will need to be larger than fifteen to reflect reasonably the population mix of the community. All its members should be volunteers—that is, not employees of the United Way organization nor any agency supported by the United Way. Board members should make decisions in the best interests of all the community.

...

"3. Board members should serve *without compensation* (except for reimbursement for expenses for fulfilling the responsibility of board membership)" [Emphases added.]

Similarly, Aloha United Way (AUW) includes the following among the principles which must be observed by organizations seeking admission into AUW's program:

"4. **Responsible Agency Management** — Each agency shall have an active responsible governing board serving without compensation, holding regular meetings and with a satisfactory form of administrative control."

Vincent Marino's unwillingness to step down from Habilitat's board of directors is reported to be one of the reasons why Habilitat's relationship with AUW was severed and why Habilitat is no longer an AUW participating agency.

The Need for a Change

If Habilitat is to remain a viable organization and to enjoy a broad-based community support for its activities, it must move away from being an organization dominated in almost every respect by one man. At a minimum, it appears that there is a need for a board of directors which will assume and perform the traditional functions of a board and which is devoid of potential as well as real conflict of interest.

In 1976, a management consulting firm which was hired to review Habilitat's non-clinical activities and to make recommendations concerning them confirmed the above. The consultants found that Marino was exercising too dominant a role in the affairs of the organization. They observed, among other things, as follows:

"Apparently, the outsiders on the Board of Directors [i.e., those not employed by Habilitat] are desired for sake of appearance and not for any real decision making functions.

"This conflict between the active role of a traditional Board of Directors and the Habilitat's nominal Board of Directors demands resolution if the level of friction between the insiders and the outsiders on Habilitat's Board is to be reduced.

"The Executive Director must also be able to coordinate his activities with that of the Board of Directors. In the past, the Board of Directors has been ineffective but the increased size and complexity of the Habilitat requires the Board of Directors to begin to perform the functions traditionally reserved for Boards of Directors. The Executive Director, therefore, should begin to look to the Board of Directors for guidance and assistance in managing the Habilitat's activities.

"The Executive Director of the Habilitat occupies the most important position in the organization. The size of the Habilitat requires that the Executive Director establish policies and appoint other managers to directly control activities rather than attempt to provide all direction on a personal basis as in the past. The organization's growth and the increasing complexity of its operating environment makes it imperative that the Executive Director be flexible enough to change as it becomes necessary. While the prevailing management style at the Habilitat of 'shooting from the hip' is sufficient to govern daily operations, a change to a more efficient management style must occur if the Habilitat is to avoid going from crisis to crisis.

"However, we sense an unwillingness to change on the most important issue—the role of the Board of Directors."

The last comment above proved to be highly accurate. The consultants' report was rejected out of hand by Marino. His critics on the board of directors at that time left the board shortly thereafter, and his dominance of the board and the organization continued unabated. Thus, most of the conditions identified by the management consultants in 1976 still are present in the organization today. Marino still makes most of the decisions affecting Habilitat's organization and personnel, and his management style still is very much what it seems to have been in 1976.

Recommendations

We recommend that Habilitat's board of directors reassert its direction and control over

the important policy areas of organizational management and personnel administration and relieve the executive director of many of the powers and responsibilities he is now exercising in these areas. To this end, we make the following specific recommendations:

1. *The executive director should be removed from membership on the board of directors. In addition, steps should be taken to eliminate all other actual and potential conflicts of interest on the board of directors. This means prohibiting any employee, any parent of residents, and any government representative having any direct official ties with Habilitat from sitting on the board.*

2. *To further ensure the selection of a board of directors which is as broadly based and impartial as possible, Habilitat should also take appropriate steps to broaden significantly the organization's membership to include many persons other than employees.*

3. *The board of directors should formulate organizational and personnel policies and should establish a board committee to exercise oversight over all key matters relating to organizational management and personnel administration.*

4. *The board of directors should reserve to itself the decisionmaking on all important questions relating to organizational management and personnel administration—such as approval of: (a) all key administrative appointments, (b) all salaries above a certain level (perhaps \$20,000), (c) all fringe benefits, (d) all major organizational changes, (e) broad personnel policies, and (f) the dismissal of any key employees.*

5. *The board of directors should take the action necessary to put into operation a reporting and information system that will enable the board to make informed decisions on matters relating to organizational management and personnel administration.*

Chapter 9

AN ASSESSMENT OF HABILITAT'S PERSONNEL PRACTICES

Since personnel administration plays an important role in the functioning of an organization, we examined the personnel practices and conditions that exist at Habilitat. This chapter sets forth the results of our efforts in this area.

Summary of Findings

Our findings are:

1. There is an exceptionally high rate of staff turnover at Habilitat, especially in the area of accounting and business management. This reflects the arbitrary approach taken to staff retention. It undermines long-term staff effectiveness.
2. 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.
3. 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.
4. 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.

Unduly High Rate of Staff Turnover

In chapter 8, we noted that one of the consequences of the personalized style of management of Vincent Marino has been the unusually high rate of staff turnover. We examine more fully here the magnitude of the problem.

At the outset it needs to be said that staff turnover is not necessarily bad in and of itself. Indeed, a degree of personnel turnover should be expected. But, if staff turnover is unduly high, it can have debilitating effects upon the organization. Among other things, it can undermine staff morale, prevent the development of staff experience and expertise, consume considerable resources just to provide staff training and indoctrination, cause a drain of the best talent out of the organization, and undermine the organization's effectiveness. For these reasons, a high turnover rate should be a matter of deep management concern. In cases where the high turnover rate affects key positions, the problems are likely to be accentuated and the need for concern should be greater.

Habilitat's staff has experienced a high rate of turnover for several years. This has been

the general situation throughout the organization, but has been particularly pronounced with respect to key positions in the area of financial management. The reasons for these high turnover rates are not entirely clear. In many cases, different and sometimes conflicting reasons are cited for the same termination actions. In other cases, the reported reasons are not substantiated by the facts. All terminations, however, require Vincent Marino's approval. Both the general and particular situations are described below.

General personnel turnover situation. Table 9.1 illustrates the exceptionally and unduly high general personnel turnover rate at Habilitat. The table covers the six-month period of June 1 through November 30, 1978.

Table 9.1

Summary of Terminations and Hirings of Staff Personnel at Habilitat During the Period from June 1, 1978 Through November 30, 1978

<i>Staff personnel</i>	<i>Staff terminations</i>	<i>Staff hirings</i>
"Red tags" (residents)	15	-
"By-products"	9	23
"Squares".	14	3
Total	38	26

Source: Employee records, Habilitat, Inc.

1. **Table 9.1 explained.** Our review of Habilitat's personnel records as well as the minutes of meetings of the board of directors indicates that the general personnel turnover rate has been high for years—dating back apparently to the inception of the organization. Records for the early periods, however, are rather sparse and do not provide a very good documentary basis for presentation. Accordingly, we selected a relatively recent period for inclusion in table 9.1.

For the past several years, Habilitat's staff have numbered between 60 and 70. Table 9.1

notes the number of staff members whose employment had been terminated and the number of staff members who had been hired in the short six-month period.

Table 9.1 includes three different groups of employees: "red tags," "by-products," and "squares." The definition of each group is as follows:

"Red tags" — Persons who were filling employee positions within Habilitat, but who were also considered still members of Habilitat's resident program.

"By-products" — Persons who were formerly residents in Habilitat's program, but who graduated from the program and became regular employees of Habilitat.

"Squares" — Persons who were never residents in Habilitat's program, but who were hired as regular employees of Habilitat.

No clear differentiation was made among these three groups as to the types of positions each might fill within the organization. In actuality, members of all three groups frequently worked together on common tasks or projects. Generally, however, red tags were confined to lower level positions. By practice, all clinical positions at Habilitat have been filled with by-products of Habilitat or of a similar therapeutic community or by red tags. For the most part, squares have occupied the higher level positions in the business and financial operations of the organization. Greater mixing of the groups has occurred among the clerical, accounting, and other administrative positions.

As can be seen from table 9.1, there were 38 staff terminations at Habilitat during the six-month period—a number equalling more than half of Habilitat's total staff complement. Of the total, 15 were red tags and 23 were regular employees (divided 9 and 14 between by-products and squares). During this same period, 26 employees were hired by Habilitat—including 23 by-products and 3 squares.

The red tag program was being phased out during this time (beginning about July when DSSH representatives were starting seriously to question the program). Hence, red tags stopped being added after June, and by the end of November there were no longer any red tags.

2. No clear explanation for high turnover. No clear picture emerges to explain this extensive number of personnel transactions during this six-month period. According to what Marino told the board of directors (as reflected in board meeting minutes), many of the terminations were necessitated by cutbacks in government funds coming into Habilitat. However, we have been unable to identify any reductions significant enough to cause such an impact. Moreover, the fact that many of the positions were rapidly refilled would tend to discredit such an assertion. Finally, other causes for termination are indicated in Habilitat's personnel files for at least some of the individuals involved.

There is one possible explanation for the numerous terminations and hirings during this period. They might have been occasioned by Vincent Marino's decision to phase out the red tag program. As can be seen from table 9.1, most of the hirings (23 out of 26) were of by-products rather than of squares.

With the red tag category no longer being available to accommodate residents reaching the status of graduates, it may be that Marino decided to make room for at least some of them by creating vacancies in existing positions for them to fill. In any event, this is in effect what happened—the by-product hires all represent red tags who were converted to employee status, some after being red tags for only a month or so.

However, there is a factor which casts some doubt upon the phasing out of the red tag program as being the explanation for this high rate of personnel turnover. This is a fact that the actions taken in mid-1978 represent to a considerable extent only a repeat performance of a prior pattern. This is indicated in the

minutes of the meeting of the board of directors held on January 9, 1978.

At this January meeting, Vincent Marino reported to the board that there had recently been 30 terminations, including 16 red tags and 14 regular staff members. Two reasons were cited for this large-scale reduction in staff: (1) "Substantial funding cuts by the State, affecting our operating, general, and capital funds;" and (2) "Over-dependency on the part of some graduates on Habilitat, which limited their personal growth and ability to function effectively in the outside world."

Again, however, the facts do not substantiate these explanations—especially the first one. For one thing, we have not been able to identify any cutbacks in state funding occurring at that time. For another, most of the vacancies were refilled almost immediately. For still another, the individual personnel records do not always support these explanations.

Therefore, taking these two successive events together, there appears to be no satisfactory explanation why there should be such a high personnel turnover rate at Habilitat. Everything seems to hinge simply upon Marino's management style.

Personnel turnover situation involving key financial personnel. With Habilitat handling an annual cash flow of between \$2 million and \$3 million and being involved in complex business and governmental funding arrangements, the top financial positions in the organization are critically important. In these positions, both competence and stability should be matters of prime consideration.

At Habilitat, there are two positions which can be considered as key financial management positions: (1) that of controller or chief accountant and (2) that of general manager or financial manager. The former is in charge of all accounting activities for all of Habilitat's operations. The latter not only supervises the controller, but is in charge of all of Habilitat's nonclinical operations.

1. *Turnover in the controller's position.* Since January 1977, four different persons have held the position of controller or chief accountant. Of the three who have left this post, all were terminated at Habilitat's initiative. In the cases of two of the terminations, "financial cutback" has been cited as the official reason for their departures. In both cases, however, replacements were hired immediately at salaries equal to or greater than the ones previously paid. In the third case, the person was discharged for "incompetence."

2. *Turnover in the general manager's position.* In the case of the general manager's or financial manager's position, four different persons have been in the position since July 1976, but the turnovers have been greater than this because one individual has been in and out of the position several times. Again, the initiative for these terminations have come from Habilitat—or, more specifically, from Vincent Marino. In the personnel records, various reasons were given for the terminations, including such ones as "incompetence" and "personal incompatibility with unique program requirements."

3. *Marino's involvement in the area of financial management.* With respect to both positions, Marino is the one who is primarily responsible for making the decisions regarding hiring and firing. Such a high turnover rate in these key positions indicates a serious deficiency either in Marino's recruitment and hiring practices for these positions or in Marino's supervisory style in the area of fiscal management—or both.

Many of the problems in the areas of financial management and business operations cited elsewhere in the report can be attributed to a great extent to the lack of stable, qualified, and firm management direction in these areas.

4. *Responsibilities of the board of directors.* Habilitat's board of directors must also share with Marino any blame that is assessed for shortcomings in the area of financial

management. The board has been fully aware of the rapid turnover that has been occurring in the two key financial positions. Yet, the record does not indicate that the board has raised any serious questions on such matters with Marino or has initiated any move on its own to strengthen performance in this area. The board apparently is willing to continue to give Marino a free hand to operate in this area.

Recommendation. We recommend as follows:

Vincent Marino's personalized approach to personnel matters should be replaced by a more orderly and planned approach. Further, both Habilitat's board of directors and management should give careful study to this problem of high employee turnover to determine other possible causes of and solutions to this problem. Steps should then be taken to implement whatever actions might be necessary or appropriate to achieve greater employee stability. Provision should also be made for continuous monitoring and evaluation of performance in this area. In these efforts, particular attention should be focused upon key positions in the area of financial management.

Unclear, Unfair, and Otherwise Deficient Personnel Policies and Practices

Habilitat has a document which is called a personnel manual. However, as we noted earlier, this document was developed primarily to satisfy the formal requirements of agencies granting funds to Habilitat and does not represent an actively or extensively used management tool within the organization. The manual is not a complete compendium of personnel policies; it has not been kept up to date; and it is not distributed to employees or used as a regular means of providing employee training and indoctrination. Moreover, its provisions are not always observed in practice.

As a result, Habilitat does not have a clearcut set of personnel policies. Instead, this

area is managed through a mishmash of written policies and informal practices under which employees do not know where they stand or what rights they may have, or be assured of fair and reasonable treatment. Some of the more serious deficiencies in personnel policies and practices are discussed below.

Lack of an adequate position and pay classification plan. At Habilitat, the relationships between pay, job function, and delegation of authority and responsibility are not clear. Employees do not appear to be reviewed under uniform salary and advancement criteria. The result of this approach are position and pay classification actions which do not have any readily explainable rationale or justification and do not seem to treat employees equitably.

Rather than exercise this authority through a set of formal principles and written guidelines, Marino has chosen to rely primarily upon his own judgments. The result of this approach are position and pay classification actions which do not have any readily explainable rationale or justification and do not seem to treat employees equitably.

Shortcomings in this area have previously been brought to the attention of Marino and Habilitat's board of directors. In early 1976, for instance, a management consulting firm hired by Habilitat to review the organization's nonclinical operations, made recommendations in the area of personnel administration which focused upon "the need for a personnel classification system which equates responsibilities with salary levels." The consultants went on to comment as follows on this subject:

"The Habilitat's employees are generally classified into several categories of work levels. Supervisory personnel, however, are not classified into levels on the basis of responsibility or pay. To avoid pay disparities among similar employees and to provide all employees with the same pay and advancement guidelines, we recommend that outside consultants be retained to draft a standard personnel classification system covering all Habilitat employees, including the Executive Director, which equates the level of responsibility with a specified pay level. The monetary amounts in the system should be adjusted annually using a broad base

indicator such as the Consumer Price Index. Pay increases above the index adjustment would then be made with the approval of the Board of Directors to reflect job changes or new responsibilities.

"A standard personnel classification system will also enable management to give pay increases on the basis of merit. This would be done by either moving the individual to a new job classification, if the person is performing work covered by the new classification, or by moving them to the upper part of the salary range they are currently slotted in. An example of a graduated personnel classification system is [provided]."

The consultants' recommendations in this area—along with most of their other recommendations—have been rejected by Marino and ignored by Habilitat's board of directors. As a consequence, conditions remain today much as they were almost three years ago.

Lack of restraints against nepotism. Nepotism (hiring of family members) can create morale and conflict of interest problems in any organization. In the political and governmental realm, public sentiment is now strongly opposed to the practice and more and more steps are being taken to make nepotism illegal. Even in such organizations as publicly held corporations for profit and labor unions, the practice increasingly is coming under fire and demands are being made that safeguards be established to restrain, if not eliminate, the practice.

For nonprofit, tax-exempt corporations, nepotism is an issue which clearly should be addressed and resolved in a manner that will serve the public interest. This is particularly true for those—such as Habilitat—which depend heavily upon government funds and publicly solicit donations for their financial support. It is a matter of meeting legal requirements as well as fulfilling ethical responsibilities. Hawaii's laws governing nonprofit, tax-exempt corporations prohibit these organizations from being used to serve the personal interest of any individual or group. Where government- and public-subsidized funds are being used by private organizations on a privileged, public purpose basis (i.e., tax free), it seems that the same ethical standards should apply as would apply if government were expending the funds directly.

This means, therefore, that Habilidad should through its personnel policies and practices have safeguards against nepotism within the organization. However, there are no restraints against this practice. Indeed, nepotism appears to be completely unrestrained within the organization.

1. *The example of the Marino family.*

The most glaring example of nepotism within Habilidad is provided by Vincent Marino and his family. As already noted, there are four members of the Marino family currently on Habilidad's payroll—Vincent, his wife (Vickie), his brother (Frank), and the Marinos' daughter (Lila). At the beginning of the 1978–79 fiscal year, the four of them were receiving a total of \$103,452 annually in direct salaries as follows:

Vincent	\$39,600
Vickie	25,000
Frank	30,252
Lila	8,600

In addition to these direct salaries, the Marinos receive other benefits from Habilidad. These include: (a) regular fringe benefits available to employees; (b) rent-free, utility-free housing for the Vincent Marinos; (c) expense-free use of late model cars for Vincent and Vickie; and (d) an expense account which provides Marino such things as free subscription to the newspaper delivered to his house, and the opportunity to dine and entertain at restaurants and nightclubs. Altogether, the compensation and benefits enjoyed by the Marinos are costing Habilidad close to \$150,000 per year.

It might be argued that all of the Marinos are rendering valuable services to Habilidad and that they are fully worth the costs of the compensation and benefits they are receiving. This argument becomes difficult to accept, however, when one examines how decisions are made within Habilidad regarding the hiring and fixing of salaries of employees. Under the conditions prevailing in this organization, Marino is in a position to exert influence over

the way he and members of his family are treated.

Of particular importance is the fact that Vincent Marino sits on Habilidad's board of directors. This provides him with the means both to determine his own compensation and benefits and to place family members on the payroll and increase their income from the organization.

Although the board of directors still sets the salaries for Vincent, Vickie, and Frank Marino, this appears to be more a formality than a practical restraint. Whenever board opposition has been expressed to the frequent compensation and fringe benefit requests initiated by Marino on behalf of himself and members of his family, the opposition has been overcome and the dissenting members have fairly quickly left the board. In some instances, Marino and other Habilidad employees on the board of directors have abstained from voting on motions involving matters affecting their direct interests (e.g., salary increases and benefit plans). More frequently, however, they have participated in and voted on actions where their interests have been affected.

A couple of specific instances will illustrate the nature of the situation prevailing within Habilidad with respect to the Marino family. One occurred back in 1974. In July 1974, Vincent hired his brother Frank and made him a vice president in charge of sales and marketing at a salary of \$25,000 per year. This was done without providing any formal notice to or receiving any official approval from the board of directors. It was not until a year or so later that Frank's employment with Habilidad was noted by the board of directors. It was only in mid-1976 when a 10 percent pay increase was proposed for Frank (along with Vincent and Vickie) that the board of directors received a job description for Frank's position even though he was receiving the second highest salary in the organization.

2. *Examples of other family groups.* The Marinos are not the only family with several

family members deriving salaries and benefits from Habilitat. We found numerous instances where two, three, and even four members of the same family were at one time or another associated with Habilitat.

As of November 1, 1978, there were at least 21 employees of Habilitat (including the Marinos)—one third of the total—who were related by blood or marriage to one or more individuals on the staff or on the board of directors of Habilitat. In addition to these 21, there were a number of persons who were still residents in the program and who were also related to Habilitat employees.

In pointing out these family relationships, we do not mean to imply that no two related persons should be associated with Habilitat regardless of all circumstances. There might well be situations under which such relationships would be deemed proper and acceptable. However, such determinations should not be left to the discretion of one person, Vincent Marino. Rather, they should be based upon definite and carefully considered criteria which have been reviewed and approved by Habilitat's board of directors. In adopting policies and procedures in this area, the board of directors should devote special attention to the elimination, or at least the minimization, of conflicts of interest and even the appearance of conflicts of interest. For both internal and external reasons, Habilitat should avoid opening itself to charges of favoritism and special privilege.

Lack of grievance and appeal procedures.

By his own description, Vincent Marino is the autocratic boss of Habilitat. He said that on a number of occasions he has fired employees (and expelled residents) on the spot for reasons ranging from incompetence to such infractions as returning to work from lunch with alcohol on one's breath. With the lack of clear policies and procedures in many areas of Habilitat's management, this type of management style undoubtedly creates a tough working situation for the employees.

Both residents and by-products (program graduates who have become Habilitat employees) have at least some means of releasing their emotions about Marino and Habilitat and communicating to Marino their feelings about their job and pay situations. This is through the regular encounter games in which they are required or encouraged to participate. While the encounter games are apparently also open to squares, they may not always feel at ease about participating in them. Besides, there should be more regularized procedures by which employees of Habilitat are able to express themselves and protect their rights as employees and individuals.

At present, however, no administrative machinery exists within Habilitat to provide employees with an accepted way of expressing grievances or of appealing decisions by Marino which they may feel to be unfair, unreasonable, or arbitrary. Habilitat's board of directors should be sensitive to this matter and should establish means by which grievances and appeals can be brought to the attention of the board for final review and adjudication.

Lack of clear differentiation between employees and residents. Another area where very serious problems are being created by the lack of adequate personnel policies and procedures is that involving the differentiation of employees from program residents. In most programs, this would be no problem because no overlap exists between program clients and program employees. However, as described elsewhere in this report, Habilitat includes as an integral part of its program the gradual phasing of clients from the status of residents to that of graduates by providing most of them with employment in the program—employment which may, and often does, continue after graduation from the program.

Under this arrangement, persons working side by side in Habilitat might fall into several categories—i.e., (1) residents in the re-entry phase who are receiving little or no pay for their work; (2) what used to be called "red tags," who

were still considered residents, but who received stipends amounting to over \$400 per month; (3) "by-products" who are program graduates now working as regular full-time employees of Habilitat; and (4) "squares" who are regular employees who have never been participants in the treatment program of a therapeutic community. Basically, no serious problem exists with regard to the definition of the last category. It is the differentiation among the first three which presents difficulties.

Ideally from a program point of view, it probably would be desirable for a person to be able to move from the first category to the third in such a manner that the change would be imperceptible as it is occurring. This is based on the concept that residents are more likely to succeed in overcoming their problems if they can be eased gently back into society.

However, there is another side to the coin. Due to the ambiguities surrounding Habilitat's program which are discussed elsewhere in this report, it is difficult, if not impossible, to know when and just how well the program is succeeding with a particular individual. This, then, opens the program up to possible misuse and abuse.

One danger is that virtually free labor (provided by unpaid or lowly paid residents) could be exploited to serve the ends of the organization (securing income by which to become economically self-sufficient) rather than the needs and well-being of the residents. Another danger is that residents could be kept in the program and continued on public welfare longer than necessary, thereby enabling both the program and the residents to benefit improperly from public financial support.

Still another danger in this situation is that some persons could be allowed to remain overly dependent upon the organization for an indefinite period. As a result, one type of dependence would merely be replaced by another.

To provide adequate safeguards for the public, for the residents, for the employees, and for Habilitat itself, it is important that clear policies and procedures be established governing the status of residents, employees, and those who may be making the transition from one to the other.

In developing these policies and procedures, attention must first be given to resolving some of the basic issues involved. As we point out elsewhere in this report, Habilitat must decide: (1) whether or not self-sufficiency through profitmaking businesses is an appropriate and feasible goal for the organization and (2) the extent to which the organization should rely upon its own resources to provide training and rehabilitation for its residents. How these issues are resolved will determine how great the problem will be to differentiate between residents and employees.

Assuming, however, that there will continue to be some residents working within the program, careful consideration should be given to such matters as the following: (1) the types of jobs and length of time residents will be allowed to work at nominal pay; (2) the conditions and restrictions under which residents will be able to work for Habilitat and receive pay, if they can at all, and still qualify for the various types of government funding which now support many of the residents; (3) the merits and demerits of allowing residents to become permanent employees directly after graduation instead of requiring them first to experience an interval of successful performance outside of the organization; and (4) the procedures and evaluation criteria which should be used for determining when a resident should move from one category to another.

In considering these matters and developing policies and procedures based upon them, Habilitat should work closely with all affected government agencies to: (1) explain what is intended and how the program is expected to work, (2) coordinate Habilitat's operations with governmental requirements and

restrictions, and (3) utilize governmental resources in the area of career preparation and vocational training and rehabilitation to the fullest extent possible.

Recommendations. We recommend the following in this area of personnel policies:

1. *Under the general guidance of the board of directors, Habilitat should undertake the development and implementation of an adequate position and pay classification plan for the organization, including the manner in which promotions, demotions, transfers, and pay adjustments will be made.*

2. *Habilitat's board of directors should initiate, develop, and promulgate appropriate policies for dealing with the problem of nepotism within the organization. As part of this action, the board of directors should carefully review the status of all related persons currently associated with Habilitat to determine how best to eliminate, or at least minimize, the possible adverse effects of having related persons within the organization.*

3. *Habilitat's board of directors should establish policies and procedures to provide employees with an effective and reasonable means of airing grievances and appealing personnel actions taken by Habilitat's management.*

4. *Habilitat's board of directors should undertake an appropriate study of the matter of employing residents within the organization. Based upon this study, the board should adopt policies and procedures governing the utilization of the services of residents within the organization and the conditions under which permanent employment might be granted to program graduates.*

Conflicts of Interest in the Movement of Personnel Between Habilitat and Government Agencies

In the preceding sections, we discuss the personnel practices and conditions that exist

solely within Habilitat. In addition to these, there are practices and conditions that prevail in the relationship between Habilitat and the governmental agencies with which Habilitat has contracts of services. Of particular concern here is the movement of personnel from Habilitat to a government agency and vice versa.

There have been several cases where personnel moved from a government agency to Habilitat or vice versa with relatively brief intervals occurring between the two affiliations. In all of these cases, the persons involved almost immediately began to represent their new employers in dealings with the agencies with which they were previously associated. In our view, these represented conflict of interest situations which should have been avoided.

There are potential dangers involved in the movement of personnel between government agencies and private organizations which must regularly deal with each other in the pursuit of their respective objectives.

Such dangers are particularly acute where substantial material interests are involved and where the government agencies are in a position to grant contracts to or exercise regulatory control over private organizations. In such situations, the temptations can be great to take advantage of close relationships to achieve personal gain. Even where such temptations can be resisted, the tendency might still be strong unconsciously to confuse the public interest and the private interest with one another.

Three specific cases which came to our attention in this area are described below.

Employment of former city and county of Honolulu official by Habilitat. The first case occurred in mid-1977. A specialist in the office of human resources of the city and county of Honolulu left his job and almost immediately was employed by Habilitat.

Originally, the city and county was the governmental agency through which NIDA

contracts were let to private drug abuse treatment agencies, including Habilitat. It was not until early 1977 that DOH's alcohol and drug abuse branch had become sufficiently organized to take over the administration of the contracts. In April 1977, the transfer of responsibility for administering the NIDA contracts was effectuated. This left the city and county specialist without any function to administer.

On July 1, 1977, he became an employee of Habilitat. His position at Habilitat was given the title of funds administrator, and he was put in charge of administering all governmental funds coming into Habilitat—including the funds Habilitat received under its NIDA contracts.

Although the NIDA contracts by this time were being administered by DOH rather than the city and county of Honolulu, this person, nevertheless, by virtue of his previous position and experience, enjoyed a particularly strong advantage in dealing with DOH and in gaining favorable treatment for Habilitat from DOH.

In this particular case, the individual involved appears to have violated the ethics provisions of the Charter of the City and County of Honolulu—certainly in spirit if not in terms of legal technicality. The pertinent provision of the City Charter is contained in section 10-105 under Article X, Standards of Conduct, which reads as follows:

“Section 10-105. Future Employment. No person who has served as an elected or appointed officer or employee of the city shall, within a period of one year after termination of such service or employment, appear for compensation before any agency of the city, or receive compensation for any services rendered in behalf of any private interests in relation to any case, proceeding or application with respect to which such person was directly concerned, or which was under his active consideration, or with respect to which knowledge or information was made available to him during the period of said service or employment.”

Whether or not the transfer of the NIDA contracts from city and county administration to state administration provides a technical loophole through which this individual might be

able to slip, we are not in a position to determine. It is obvious, however, that the clear intent of this section was violated in this instance.

Employment of Habilitat's former business manager by DOH. The second case involves a movement in the other direction—from Habilitat to DOH. In this instance, Habilitat's business manager left Habilitat in late July 1976, and by September 1976, was a program specialist with DOH's newly formed alcohol and drug abuse branch.

This particular individual was employed by Habilitat in August 1972, and for most of four years served as the organization's business manager and chief financial officer. Almost immediately after her employment with DOH, she was made a member of the DOH team which inspected Habilitat for compliance with its NIDA contract with DOH. She continues to exercise an influential role in DOH's evaluations of Habilitat.

In situations such as this, a previous relationship might have a detrimental or a beneficial effect upon the private agency doing business with the government. For the protection of all concerned and to avoid awkward situations which need not arise, government agencies as well as private organizations should be especially sensitive to the potential for conflicts of interest. Thus, in this case, DOH should have at least refrained from assigning the former employee to inspect or otherwise have direct contact with Habilitat for a time. After such period of insulation, no such assignment should be made until it is clearly determined that the employee's performance is not likely to be unduly affected for or against his or her previous employer.

Employment of a Habilitat graduate by DSSH. The third case is similar to the second, but involves DSSH and a Habilitat graduate.

In this case, a Habilitat graduate met the qualifications of an eligibility worker for the income maintenance section of DSSH. She was

hired and assigned to the Kaneohe office of that unit. Her initial assignment was to work on Habilitat cases.

Again, for the reasons cited above this created an undesirable conflict of interest situation. A recent graduate and employee of Habilitat is likely to be too emotionally involved with the organization to be able to maintain an impartial attitude toward Habilitat and residents in the program who might also be recipients of or applicants for public welfare assistance.

Preventive measures needed. To guard against and reduce the potential for conflicts of interest arising from the movement of personnel from government to private agencies and vice versa, attention needs to be given to the institution of protective measures. One measure coming increasingly into use is the establishment of a formal prohibition against the immediate employment of a person from one side to the other side. Frequently, a waiting period of one year is stipulated before such an employment will be legally sanctioned. In some cases, the waiting period might be longer.

Under a less stringent restriction, employment might be allowed, but direct participation in negotiations and other relationships between parties on the two sides would not be allowed until after a waiting period has elapsed. Such a waiting period is often set at one year, but shorter or longer periods might be set.

Recommendations. *We recommend that Habilitat, DOH, and DSSH review carefully their existing personnel policies and practices with the objective of eliminating, or minimizing to the fullest extent possible, conflicts of interest which might arise from employees or program residents moving between public and private agencies having close working relationships with one another. Based upon this review, appropriate safeguards should be established to prevent serious conflicts of interest from arising. Such safeguards might include:*

1. *Imposition of a waiting period of at least one year between leaving employment or program participation on one side and taking employment on the other side.*

2. *Placement of restrictions against letting an employee represent his organization in dealings with another organization with which the employee might have been previously associated—at least for a waiting period of one year or more.*

Inadequate Government Surveillance of Habilitat's Personnel Policies and Practices

Although Habilitat is a private agency, its personnel policies and practices should be a matter of concern to the various governmental agencies which have contracts with Habilitat.

The duty of governmental agencies to make Habilitat's personnel policies and practices their business arises from the fact that public funds flow to Habilitat under the contracts made by the agencies with Habilitat. The agencies have an obligation to ensure that the funds are used for the purposes intended, that the funds produce the results sought, and that all legal requirements concerning the use of the funds are met by Habilitat. To the extent that Habilitat's personnel policies and practices affect program results or cause or allow Habilitat to circumvent legal requirements, the governmental agencies have the right, indeed the responsibility, to insist on corrective measures.

However, neither DSSH nor DOH is much concerned about Habilitat's personnel policies and practices. In some instances, it seems that the agencies tend to condone policies and practices which detract from program results or deviate from legal requirements. Some examples are described below.

Career preparation and vocational training. A major program of Habilitat is the career preparation and vocational training and

rehabilitation program. This program is pursued almost exclusively through the resident employment program in which the clients perform work of the organization.

It should be a matter of prime concern to DSSH and DOH that the resident employment program is truly and effectively a career preparation and vocational training and rehabilitation program and is not simply a means of obtaining low-cost labor for the organization's drive toward economic self-sufficiency.

Yet neither DSSH nor DOH—especially the former because it is the one most significantly responsible—has done much to stay on top of the situation at Habilitat and to require corrective action where indicated. It was only in 1978 that DSSH began to delve into the so-called red tag program (described in the preceding chapter) and to question Habilitat's manner of running the program. Even then, the primary focus was on the financial ramifications of the program and little or no attention was given to its impact on residents. As a result, DSSH still does not know whether or not Habilitat has a real program of career preparation and vocational training and rehabilitation for its residents.

Circumvention of budget guidelines governing POS contracts. In the area of contract administration, DSSH has established guidelines governing the preparation of budgets to be included under its POS contracts (purchase of service contracts under Title XX of the Social Security Act). These guidelines set upper limits on salaries which can be paid under the contracts and restrict salary increases for contract-supported positions to amounts not to exceed 6 percent per year. Habilitat, however, has not been restricted by either of these limitations—due apparently to the fact that the POS contracts are not its only source of support. Although about 98 percent of the funding for Habilitat's general fund comes from government sources, the amount derived from POS is a much smaller percentage.

DSSH's approach to the problem of these budget guidelines being disregarded has been to disguise this fact rather than try to do something about it. Thus, in the proposals which Habilitat submits to DSSH and which become part of its POS contracts with DSSH, Habilitat does not show the total actual salaries paid to many of its employees covered by the contract but rather shows much lower salaries which happen to fall within the guidelines.

According to Habilitat, it has been instructed by DSSH to follow the practice of reporting only partial salaries for many of its employees. We were unable to obtain any satisfactory explanation from DSSH as to why this practice has been allowed. Spokesmen for the department maintain, however, that it makes no difference because the amounts charged to the POS contracts do not exceed the budget guidelines.

We do not concur with this point of view. First of all, we do not believe it is proper to include in the contracts documents which contain incorrect and misleading information. Second, we do not feel that government funds from other sources should be allowed to be used to circumvent restrictions imposed upon the use of POS contract funds. If the restrictions are felt to be desirable and reasonable, then the State should do everything possible to abide by the restrictions. This includes making sure that all state programs are adequately coordinated so that one program cannot be used to undermine the provisions of another program.

Failure to prevent the misapplication of public welfare funds. As we indicate elsewhere in this report, many of the jobs within Habilitat's administrative structure have been filled not with regular employees but with residents in the treatment program. Some of these residents receive minimal compensation for their services. Others, however, have been paid so-called "stipends" which have amounted to more than \$400 per month in many instances. At the same time, many of these same residents are considered incapacitated under

DSSH's requirements governing eligibility to receive various forms of welfare assistance—including public assistance, food stamps, Medicaid, and treatment services under POS and NIDA contracts between Habilitat and the State.

Stipends paid to residents have come out of Habilitat's general fund even though some of the residents work in activities which fall outside of the general fund (i.e., sales, marketing, and fundraising activities the income from which goes into either the sales and marketing fund or the capital fund of Habilitat). With 98 percent of the general fund's income derived from governmental sources (including welfare and food stamp receipts as well as POS and NIDA contract income), most of the stipend payments have been borne by the government even though this does not appear to be an intended or authorized use of these particular government funds. At the same time, by paying stipends in the amounts indicated, Habilitat has provided many of the recipients with income which exceeds the limits allowed for them to qualify for public assistance.

This problem is discussed more fully in chapter 12 where we examine Habilitat's financial operations. However, it is mentioned here to indicate that the affected government agencies—especially DSSH—must monitor Habilitat's employment policies and practices if they are to protect adequately the use of public financial resources. This is not to say that an in-house job training program at Habilitat should not be financed out of government funds. However, such a program should be explained and justified to the government, and it should be financed through funds authorized for this purpose by an appropriate government agency.

Government funds legally designated for other purposes should not be diverted to carry out such a program as presently seems to be the case.

Recommendations. With respect to governmental monitoring and control of Habilitat's personnel policies and practices, we recommend as follows:

1. DSSH and DOH should review Habilitat's personnel policies and practices in relation to Habilitat's program of career preparation and vocational training and rehabilitation to determine how well the latter meshes with the former and to assess whether or not the needs and rights of the residents are being adequately served at present in the way residents are employed by Habilitat. Where improvements are indicated on the basis of this review, the two departments should work with Habilitat to find ways to make these improvements.

2. DSSH and DOH—particularly the former—should carefully review Habilitat's personnel policies and practices to determine whether or not all requirements under the POS and NIDA contracts are being met and all other government monies going into Habilitat are being used for the purposes for which the monies are made available. DSSH should take special care to see that its contracts contain accurate information and conform to all established guidelines, and should coordinate with DOH to ensure that consistent policies are made applicable to Habilitat. Where corrective actions appear to be needed, the two departments should initiate steps to make the appropriate changes, working as cooperatively as possible with Habilitat.

PART IV

ASSESSMENT OF HABILITAT'S FINANCIAL MANAGEMENT

Chapter 10

INTRODUCTION

In this part, we focus attention on Habilitat's performance in the area of financial management and the effects of governmental activity on this performance. With Habilitat handling several millions of dollars per year, including over \$1 million in governmental funds, these constitute critical areas of public concern.

In chapter 11, we review Habilitat's overall approach to carrying out its functions and responsibilities in the area of fiscal operations. We also review the impact of governmental activities as they relate to the financial administration of agencies such as Habilitat. In chapter 12, we examine in some detail several specific areas of fiscal operations where very grave problems came to our attention in the course of this audit.

Summary of Findings

1. There has been a marked absence of leadership within Habilitat to manage Habilitat's fiscal affairs. As a result, Habilitat's fund accounting and budgeting systems and accounting practices have been flawed in a number of respects. DSSH and DOH for their parts have been grossly deficient in their approach to funding Habilitat.

2. Habilitat has engaged in a number of questionable financial transactions and practices. These transactions and practices were aimed, in part, at ensuring that Habilitat would not lose financial support from government.

Chapter 11

AN ASSESSMENT OF OVERALL FINANCIAL ARRANGEMENTS AT HABILITAT

A very large proportion of the dollars received and spent through Habilitat is derived from governmental sources. Both Habilitat and government, therefore, have a vital stake in the manner in which these resources are handled. From both their points of view, the purpose of financial management should be to manage fiscal resources in the most effective and efficient way possible to carry out their respective objectives and to fulfill their respective responsibilities. This chapter notes how well Habilitat and the governmental agencies concerned are performing in achieving that purpose.

Summary of Findings

Our general finding is that there are significant weaknesses and deficiencies in the way both Habilitat and the State of Hawaii are performing in the area of financial management. Specifically, we find as follows:

1. Habilitat's board of directors and management staff have demonstrated a lack of leadership in directing Habilitat's fiscal affairs.

2. 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.

3. Although improvements have been made in the past two years, Habilitat's accounting system and accounting practices still require attention. Adequate policies, procedures, and guidelines and control mechanisms are still lacking in some areas. A number of questionable accounting practices have been allowed to continue within the organization.

4. Habilitat's budgeting system is weak. For the current fiscal year starting on July 1, 1978, a budget was not completed for submission to the board of directors until late November 1978.

5. DSSH and DOH have paid inadequate attention to the financial management of Habilitat. Among other things, the agencies fail to coordinate their efforts with one another; allocate available funds to Habilitat and other private organizations on a mechanical formula rather than on a programmatic basis; and inadequately administer and monitor their contracts with Habilitat.

Generally Unsatisfactory Situation Surrounding Financial Management at Habilitat

Fiscal operations should serve to enable Habilitat and the affected government agencies to know what resources are available, to plan for the most effective use of these resources, to control the use of the resources and assure

the propriety of such use, to determine how the resources were actually used, and to evaluate performance in the utilization of the resources.

However, rather than being a tool for facilitating action and enhancing performance, financial management at Habilitat—as carried out by the organization and affected by governmental actions—has had some opposite effects.

Focus of Audit on Habilitat's General Fund for Fiscal Year 1977–78

Before shifting attention to the specific deficiencies affecting financial management of Habilitat, it should be noted that the focus of our audit on finances was on Habilitat's general fund activities for the fiscal year ending June 30, 1978.

Our examination of Habilitat's financial transactions during fiscal year 1977–78 indicates that all government funding for the organization was received by, expensed out of, and presumably accounted for in this fund. In fact, the general fund was almost entirely supported by state-appropriated funds and federal funds from programs for which state agencies have administrative and monitoring responsibilities.

General fund revenues, according to Habilitat's financial statement, totaled \$1,165,768 for fiscal year 1978, including \$111,003 of donations in kind consisting of food, clothing, and supplies. Amounts recorded as revenues on account of donated items are offset by expenditures in equal amounts as the donated items are consumed. The result is that donated items have no net effect on financial statements. For this reason, the \$111,003 of donations in kind received by Habilitat in fiscal year 1978 was not examined in our review.

Of the remaining \$1,054,765 in general fund revenues, \$1,018,719 or about 98 percent were public funds. The other approximately

\$36,000 was received from parental support (\$11,674) and public donations (\$24,372).

A breakdown of the public funding as shown in the fiscal year 1978 financial statement is as follows:

Direct resident support:

Welfare receipts	\$ 315,217
Food stamps	47,186
Family court	9,573
Subtotal	<u>371,976</u>

Program service fee revenue:

Purchase of services (Title XX program)	368,570
National Institute of Drug Abuse Contract	278,173
Subtotal	<u>646,743</u>
Total	<u>\$1,018,719</u>

Lack of Leadership and Nonfulfillment of Responsibilities by Habilitat's Board of Directors and the Executive Director

One of the most obvious deficiencies affecting financial management at Habilitat is the lack of leadership and proper direction and the nonfulfillment of financial and fiduciary responsibilities by Habilitat's board of directors and the executive director.

Board of directors. As in all other management areas, Habilitat's board of directors is ultimately responsible for what is done or not done in the area of financial management. Indeed, in the case of nonprofit, tax-exempt organizations, financial and business management is the area in which the boards of directors are generally expected to exert the most influence and provide the strongest leadership and direction. This is one of the reasons why the business community is so heavily represented on the boards of nonprofit organizations. The largest identifiable grouping within Habilitat's own board presently consists of persons from the business world.

In Habilitat's case, however, the board of directors has shown no leadership or commitment in the area of business and financial management. Just as it has in the other areas of its responsibilities, the board of directors has given almost all decisionmaking authority to the executive director, Vincent Marino. To meet legal requirements, some matters are submitted to the board of directors, but the action of the board in these cases is a mere formality.

The board's lack of commitment to fulfill its obligations in this area is evidenced by its failure properly to organize and equip itself to handle financial matters. Note the following.

1. *Failure to organize itself.* There are at least two ways in which the board could structure itself to handle financial matters. One way is for the board as a whole to serve as a finance and audit committee. The second is to delegate authority in this area to a committee of the board composed of a lesser number of members who are willing and able to give specialized attention to financial and business matters.

In the case of the second alternative, the committee would, subject to overall review and approval of the whole board, set basic fiscal policy and monitor performance in carrying out the policy. It would also be responsible for ensuring an objective outside audit of the books of Habilitat.

Generally, the second option is more suitable where the board composition is fairly large. In any event, the Habilitat's board has yet to structure itself, on the basis of the board as a whole or on the basis of a committee of the board, to enable it to function effectively in carrying out its financial duties.

2. *Failure to delineate the decisions to be made by the board.* The board of directors needs to reserve for itself the making of key decisions in the fiscal area. Some fiscal authority and responsibility can be delegated to the

executive director and the staff, but such delegation should be within definitely prescribed limits.

Habilitat's board has not clearly delineated the decisions which the board has reserved for itself and the scope and limits of the decisions which the staff may make. Virtually all fiscal decisions, therefore, are presently being made by Marino and the staff.

In 1976, a management consulting firm hired by Habilitat recommended that the following matters be subject to the approval of the board of directors, rather than be left to the discretion of the executive director and his staff:

- (1) All contracts for goods or services over \$5000 per year.
- (2) All new ventures involving an investment of labor or capital over \$1000 prior to their initiation.
- (3) All anticipated purchases over \$5000.
- (4) All contracts, leases, and anticipated purchases over \$1000 not previously budgeted.
- (5) The long-term plans, goals, and objectives of Habilitat.
- (6) The internal control system.
- (7) The hiring of all personnel with pay levels above \$9000 per year.
- (8) Increases in the level of employees or residents per facility over budgeted levels.
- (9) Hiring of auditors and management consultants where fees will exceed \$1000.

While one might feel that some of the specific provisions in the above list are either too liberal or too stringent, nevertheless the list itself provided Habilitat's board with a useful

guideline in establishing the jurisdiction of the board and the allowable limits of staff discretion in financial matters. The consultant's recommendations, however, were not seriously considered by the board.

3. *Failure to establish information system.* From time to time, the board receives some financial information from the staff. However, the board has not established and has not insisted on the creation of a system that would supply the board with fiscal information on a consistent and regular basis. Without such a system, the board cannot really know and understand what is happening in the whole business and financial area.

The consequence is that when information is provided to the board it is usually after the fact and relatively meager in scope and content. This is illustrated by the example used in an earlier chapter in which Marino simply announced to the board on two separate occasions that drastic reductions had been made in staffing due to supposed cutbacks in government funding. No specific justification for the action was either requested or supplied in either case, and no subsequent explanations were provided for the almost immediate refilling of most of the vacated positions.

4. *Board's ready acquiescence to Marino's proposals.* Not only is the board of directors' general indifference to the importance of financial management evidenced by its failure to organize and equip itself properly to deal with finances, but it is also demonstrated by its ready acquiescence to the acts and proposals of Vincent Marino, which have grave fiscal implications.

It is true that there have been individual board members who have disagreed with Marino's actions and proposals to the point where they have resigned. As a whole, however, the board has compliantly gone along with Marino on almost every proposal he has made.

The board's willingness to go along with Marino's actions and requests is not confined to those matters of material benefit to Marino and his family. It extends to matters affecting Habilitat's financial operations. This is shown in the way business ventures and real estate dealings are handled. It is shown by ready acceptance of the continuation of telethons in the face of a rapid decline in the rate of return for this form of fundraising. It is shown by the widespread nepotism which is allowed to go unquestioned at Habilitat. Finally, it is shown by the mishandling of government funds which has been allowed to occur and which is discussed in the next chapter.

5. *Summary.* In sum, it might be said that the board's indifference to Habilitat's fiscal matters evidences insensitivity to its fiduciary responsibilities.

For all of the faults which are laid at the feet of Vincent Marino in this report, Habilitat's board of directors must share a portion of the blame. Where they did not know what was happening, they should have known. Where they did know and did nothing, they should have exercised better judgment and should have prevented the excesses which have occurred.

Executive director. Vincent Marino's role as executive director in this situation cannot be minimized. To the extent there have been improper or inadequate leadership and a lack of sensitivity in the area of fiduciary responsibility, he must bear the brunt of the blame. Through his domination of the board of directors and through his appropriation of broad discretionary authority in business and financial matters, it can be said that he is responsible for most of the decisions which are made or not made in this area.

Marino's administrative weakness in this area of business and financial management is evident in part by the rapid turnover that has been occurring in the two top financial positions in the organization—those of general manager (formerly business manager) and controller

(formerly chief accountant). Marino is directly responsible for all of the hirings and firings involved.

Whether the persons who have left these two positions within the past two years were incompetent or whether they simply were unable to get along with Marino, the shortness of their stay in the positions reflects negatively on Marino's administration. No continuity in fiscal management has been possible because of the rapid turnovers. Thus, Habilitat has been unable to install fiscal management improvements which even Habilitat recognizes as being needed. Rather, the rapid changes in the two positions have caused interruptions and added delays in the inauguration of needed improvements.

Recommendations. We recommend as follows: Habilitat's board of directors should assert leadership and overall control and direction over the organization's financial operations. To this end, it should:

1. *Establish a finance and audit committee to establish basic fiscal policy for board approval and to oversee the organization's financial activities.*

2. *Delineate the key financial decisions which the board reserves to itself. The 1976 management consulting firm's recommendations in this area should serve as a source material in delineating these key financial decisions.*

3. *Require the development and implementation of a financial information and reporting system that will enable it to know what is going on in the organization and that will assist the board in making key financial decisions.*

4. *Habilitat's board of directors and the executive director should take steps to ensure continuity in the key fiscal positions within the organization.*

Deficiencies in Habilitat's Fund Accounting System

Another deficiency in Habilitat's financial management is its fund accounting system. Financial transactions are not accounted for properly within and between the funds.

Description of Habilitat's fund accounting system. Before making an assessment of Habilitat's fund accounting system, this system should be briefly described.

For purposes of accounting and financial reporting, Habilitat's operations are separated into the following three funds:

1. **General fund.** This fund is used primarily to support the residents in the rehabilitation program. Receipts are derived from the residents' state welfare payments, food stamps, family court fees, parental support, public donations, and program service fees from two contracts with the State of Hawaii. Funds are expended for room, board, other living expenses, and stipends, and for clinical and administrative support services, such as salaries, supplies, and rent.

2. **Capital fund.** This fund is used to support the following three activities: (a) fund-raising in the private sector, such as telethons, sale of "Home Grown" record albums, cook-books, and Christmas trees; (b) vocational and occupational therapy activities for the residents of the program, such as pool cleaning, landscaping services, and sale of wood products; and (c) real property rentals, such as staff housing and other general fund buildings. Funds are used to carry on the various fund-raising and therapy activities and to acquire and improve buildings for the program.

3. **Sales and marketing fund.** This fund was established for the training and employment programs for the residents of Habilitat. Revenues are derived primarily from the sale of advertising specialties and T-shirts. Fund expenses consist of those related to carrying

on the sales activities including the costs of maintaining a sales branch office in Baltimore, Maryland.

Shortcomings in Habilitat's fund accounting system. Habilitat's fund accounting system deficiencies are discussed below.

1. *Failure to place proper safeguards on funds earmarked for capital purpose.* Habilitat is failing to place sufficient safeguards to protect the integrity of monies contributed by donors specifically for the purpose of acquiring real property and facilities. Safeguards are needed to ensure that such monies are used only for the purposes contributed. Habilitat is failing in this regard in two respects.

First, Habilitat is failing to segregate sufficiently these monies from other funds. Habilitat does maintain a "capital fund" into which the monies earmarked for capital purposes are deposited. However, receipts generated from the fundraising activities of the therapy and vocational training program are also deposited into this capital fund.

Second, Habilitat has placed insufficient restrictions and controls on the use of the monies deposited into the capital fund for capital purposes. On paper, there are some restrictions.

When the outside auditors prepared the financial statements for the year ending June 30, 1978, restrictions were placed on the funds raised by the telethons. Telethon funds have been solicited on the express representation that they would be used only for capital projects.

The restrictions, however, only partially cover the funds intended for capital purposes. The only monies restricted are the net receipts obtained from the 1977 and 1978 telethons. For reasons unknown to us, the restrictions are not extended to the income received from the 1976 telethon. Moreover, no monies other than telethon receipts are restricted. These

other monies paid into the capital fund and intended for capital improvements are fairly substantial in amount.

Not only are the restrictions partial in their coverage, but they are also not being adhered to. The restrictions have been rendered meaningless by the practice of interfund transfers. Funds from the capital account have been transferred to both the general fund and the sales and marketing fund through the use of "Interfund Advance" accounts. Capital funds have been transferred to these other accounts because these other accounts have fallen short and have not been able to pay all of the expenses properly chargeable to them.

As of June 30, 1978, the general fund owed the capital fund \$139,350, while the sales and marketing fund owed the capital fund \$109,355. Our analysis reveals that the general fund and the sales and marketing fund cannot readily repay the capital fund. In fact, it is questionable whether the amounts owed can ever be paid back without seriously affecting the operations and programs of Habilitat. We base this conclusion on the weak financial position of the general fund and the sales and marketing fund. At June 30, 1978, the general fund had a *deficit* of \$84,569, and the sales and marketing fund also had a *deficit* of \$32,594. This means that, for both funds, the liabilities exceeded the assets in the funds.

Using capital funds to subsidize the operations and programs of Habilitat can have serious consequences. *First*, portions of these funds (including those raised by telethons) were contributed by many individuals and businesses upon the express representation that their contributions would be specifically used to acquire additional facilities for the residents of the program. Their diversion to other uses is a breach of the fiduciary obligation owed by the board of directors to the contributors. *Second*, since there is no assurance that the programs and sales ventures of the other funds will be successful enough to repay the capital fund advances, the capital fund is

subjected to risks it otherwise would not be required to endure, including the risk of inability to take advantage of favorable market conditions in the acquisition of real estate or the construction of improvements.

2. *Failure to allocate administrative costs.* Habilitat fails to allocate properly its administrative costs among the various funds. For example, the executive director's salary is paid entirely out of the general fund even though the executive director involves himself in activities, such as telethon fundraising, the costs of which are otherwise borne by the other funds. Likewise, the financial manager's salary is charged only against the general fund even though his duties extend to activities funded by the capital fund and the sales and marketing fund. The cost of the salaries of the administration department is also charged entirely to the general fund, with no allocation to the other funds, even though the administrative personnel, such as accounting personnel, service the activities of the other funds. The rent for the office used by the executive and administration departments is another cost which is charged only to the general fund. This, despite the fact that the executive department involves itself quite deeply in the activities of the capital and sales and marketing funds.

Habilitat has been unable to provide us with an acceptable justification for their failure to allocate these overhead and administrative costs. It maintains that it would be too much work to allocate administrative costs precisely and that these costs are primarily the responsibility of the general fund anyway. However, there appears to be no excuse for their lack of attention to this problem, especially when some other administrative expenses, such as computer charges, audit fees, and legal fees, are being allocated among the funds.

This overloading of the general fund is particularly significant when it is recognized that all monies from government sources received by Habilitat are paid into the general

fund and constitute about 98 percent of the total receipts of the general fund. To the extent that charges are improperly made against the general fund, the burden is borne by government.

In this connection, we note that if some of the costs now paid for entirely from the general fund were to be properly allocated to the other funds, the amount which is due the capital fund from the general fund on account of the interfund transfers described above may be less than what now appears on the record. This observation does not diminish our findings above on the lack of sufficient safeguards to protect the integrity of monies contributed by donors specifically for capital acquisition and improvement. The interfund transfers were made not for the purposes of allocating administration costs but for the purposes of bailing out the cash-short general fund (as well as the cash-short sales and marketing fund). It is that practice that we found highly objectionable in the earlier section.

Recommendations. We recommend that Habilitat's board of directors and staff take appropriate steps to assure proper and accurate fund accounting. Specifically we recommend that:

1. *Adequate controls be installed to prevent the diversion of funds contributed by donors specifically for the purpose of acquiring and improving real property to other uses.*

2. *Habilitat properly allocate administrative and overhead costs among the general, capital, and sales and marketing funds.*

Deficiencies in Habilitat's Accounting Controls

Two years ago, in preparation for an audit of its books for 1976-77 by an outside auditor, Habilitat employed an accountant under contract to get its books into shape. The contract accountant made considerable improvements to Habilitat's system of keeping

its accounts. Before the engagement of this accountant, Habilitat's accounting system left very much to be desired.

The outside auditor sought to further improve Habilitat's accounting system by making recommendations to correct certain serious deficiencies which it found in the course of auditing the books for 1976-77. The deficiencies included:

- (1) Duplicate payments to vendors.
- (2) Interfund transactions recorded in only one fund.
- (3) Journal vouchers not approved prior to payments.
- (4) Lack of voucher support for check requisitions.

Habilitat's management has attributed many of its accounting-related problems to the high employee turnover in Habilitat's accounting staff. It maintains, however, that constant progress has been made since the 1977 audit.

Our review confirms that the present situation seems to be much better than what it was in 1976-77. This does not mean, however, that the present situation can be considered satisfactory. Many weaknesses and deficiencies still exist.

Habilitat still suffers from a general lack of sound accounting policies, procedures, and guidelines. The organization has no accounting manual which sets out the duties of accounting personnel or specifies the accounting policies and procedures to be followed. Accounting transactions have sometimes been handled in a manner contrary to generally accepted accounting principles. Policies and control over cash receipts and the disbursement process are nonexistent in some cases and often ignored where present.

Specific shortcomings are discussed more fully below.

Poor internal controls. At the heart of any accounting system is its system of internal controls—i.e., the plan of organization and methods within an entity by which it can ensure the accuracy and reliability of its accounting data, promote operational efficiency, and assure adherence to applicable laws, policies, rules, and regulations of the various levels of government and of the entity itself. A sound system of internal controls includes two basic elements: (1) the adoption of procedures requiring prior authorization of expenditures, prompt collection of revenues, accurate and timely recording of transactions, and control of assets and liabilities; and (2) the assignment of duties in such a manner that no one individual controls all phases of a transaction without a cross-check by some other individual. Habilitat's system of internal controls leaves much to be desired.

1. *Failure to prevent duplicate payments.* Habilitat lacks sufficient controls to prevent duplicate payments. For the fiscal year ended June 30, 1978, there were several instances where individuals were paid more than once for the same service or for the same purpose. In one specific instance, a resident was paid his achievement bonus for advancing to red tag status three times within a four-month period, thereby collecting \$750 instead of the usual \$250. In another instance, a financial advisor was paid a consulting fee of \$480.76 twice in less than a month for the same professional services rendered. In still another instance, a resident was paid a child care allowance two times for the same month.

The problem here is with the payment approval system. The need for approval before payment is sometimes ignored. In addition, cash disbursements are often made without any vouchers or documentation to substantiate the validity of the disbursement.

2. ***Inadequate control over long distance telephone calls.*** The procedures established to control long distance telephone calls are far too frequently ignored by the staff and residents of Habilitat. As a result, numerous long distance calls have been made without any record as to the person making the call, the reason for the call, and whether prior authorization has been received to make the call. There have been many months when Habilitat's accounting department could not reconcile long distance telephone charges against internal telephone log slips.

In fiscal 1978, long distance telephone charges amounted to around \$10,000. This is a substantial amount. Management needs to take all measures necessary to ensure that the established procedures are properly followed and that improvements are made to prevent individuals from making unauthorized long distance telephone calls.

3. ***Lack of travel policies and procedures.*** For some time, Habilitat had no written travel policy at all covering such matters as per diem allowances or expense reporting. Reimbursements were thus often made without invoices or receipts to substantiate the expenditures.

For example, in the fiscal year ending June 30, 1978, extremely limited documentation was submitted to support the \$10,728.77 paid to the executive director (Vincent Marino) from the general fund's travel account. Similarly, very little documentation was submitted to support payments for travel out of the sales and marketing fund. With respect to this sales and marketing fund, during the first eight months of the fiscal year, most trips were paid for by advancing cash to the trip leaders. An accounting of such cash was rarely made.

In October 1978, Habilitat's general manager finally issued a memorandum setting forth some policies and procedures covering expense reporting by staff members. This represents an improvement over the very loose situation prevailing up to that time. However,

this written policy still suffers from deficiencies. For one thing, it establishes no definite guidelines governing the amounts of expenses that will be allowed or considered reasonable. For another, it does not provide for a proper system of checks on expenditures by the executive director. In the latter case, there should be review and approval at the level of Habilitat's board of directors completely independent of the executive director.

4. ***Loose control over "business lunches" account.*** Habilitat has no formal policies or guidelines on the matter of reimbursing employees for business meals. It has no rules, for instance, which define when an employee may be reimbursed for meals, what the dollar limit is for each meal, and how an employee's claim for reimbursement is to be filed and processed. As a consequence, disbursements for business lunches are often inadequately substantiated and sometimes of questionable propriety. Note the 1977-78 experience.

During 1977-78, almost \$5000 was charged against the general fund "business luncheon" account. \$950 of this was actually rental payments. Due to miscoding it was erroneously charged to this account.

More than \$3500 of the account was paid to the executive director (Vincent Marino). A substantial portion of this sum was for meal and entertainment expenses incurred by the executive director in the company of persons closely associated with Habilitat—present or former employees, residents, directors, and consultants. The purpose listed for several of these luncheons was Habilitat's telethon. It seems rather obvious that these expenses should not have been charged to Habilitat's general fund, but rather should have been reflected as a direct cost against the telethon account under Habilitat's building fund.

Reimbursement vouchers for this sum of more than \$3500 were incomplete in most cases, and generally lacked invoices or receipts

to substantiate the expenditures made. In addition, some of these reimbursements appeared to be excessive. Then, in some cases, the indicated purpose of the expenditures appeared to fall outside of any reasonable definition of "business luncheons." For instance, \$260 constituted purchases from a liquor store and \$120.36 was for hosting a consultant at a night club show.

Questionable accounting practices. Habilitat has followed a number of accounting practices which are highly questionable. Some of the more doubtful ones are described below.

1. *Expenditure of undeposited cash receipts at Baltimore office.* At Habilitat's Baltimore branch office \$1839 in undeposited cash receipts was used to make a down payment in the purchase of two automobiles. This transaction might have been an isolated case. However, using undeposited cash receipts to purchase any item is a poor accounting practice.

The use of undeposited cash receipts to make purchases can distort the financial statement of the organization. This is particularly so, if the purchase goes unrecorded. Even more serious, this practice lends itself to potential misuse of organizational funds.

2. *Failure to account for all governmental funding.* For 1977-78, Habilitat failed to provide in its financial statements an accurate and full disclosure of the total governmental funds it received during the year. Specifically, Habilitat understated in its statements the amounts it received in general assistance (welfare) and food stamps. This understatement resulted because Habilitat failed to include as "receipts" in Habilitat's statements those portions of the general assistance and food stamp proceeds which Habilitat used to pay stipends to certain of its program residents.

In 1977-78, stipends were paid to those residents known as "red tags"—i.e., those residents in the post-re-entry stage of treatment

filling trainee positions and receiving occupational/vocational training.¹

We describe in greater detail below this failure of Habilitat to include as "receipts" in its financial statements those portions of the general assistance and food stamp proceeds paid out as stipends to the red tags.

(An overall discussion of the purpose for and propriety of the stipends paid to the residents and the legal questions surrounding this practice is included in the next chapter. Here, we deal only with the appropriateness of the accounting transactions relative to government funds utilized by Habilitat to make the stipend payments.)

a. *Food stamp receipts.* Habilitat, acting as the authorized representative, applies for and purchases food stamp coupons on behalf of program residents. The value of the coupons is equal to the sum of the price paid for the coupons plus such bonus amounts as established by federal food stamp regulations.

Our examination of Habilitat's financial records revealed that the organization failed to account for and report in its financial statements the total amount of food stamp revenues (bonuses) received during fiscal year 1978. According to the accounting records, cash totaling \$57,600 was received by Habilitat in food stamp revenues. However, a total of \$10,414 was disbursed out of the food stamp revenue account during the fiscal year, leaving a balance of \$47,186. This amount, \$47,186, not the \$57,600 actually received, was reported as the total food stamp revenues in the fiscal year 1978 financial statements.

We have determined that over \$8,700 of the \$10,414 in disbursements was the result of making cash payments to red tag employees,

¹As noted in chapter 8, the red tag program terminated during the course of our audit. Specifically, it terminated at the end of November 1978.

equating to the amount of food stamp bonuses to which they were entitled as treatment center residents.

In effect, what Habilitat did was to include the red tag employees on the list of eligible resident food stamp participants, but after receiving the food stamp coupons it "cashed out" the red tags by including in the stipends paid to them an amount equal to the bonuses the red tags were eligible to receive as treatment residents. The net result is that the red tags were provided with cash which they were then able to use for any purpose, including nonfood purchases. This seems to violate the intent and regulations of the food stamp program.

b. *Welfare receipts.* In the case of welfare receipts, during the first seven months of fiscal year 1977-78, the general assistance checks on account of the red tags were dispensed by Habilitat directly to the red tags as part of the stipends. These welfare receipts that were dispensed directly to the red tags were not recorded by Habilitat as receipts and expenses of Habilitat. Over \$30,000 in welfare payments were so received and dispensed to the red tags by Habilitat.

The failure to record the \$30,000 as receipts and expenses of Habilitat resulted in an understatement of welfare receipts and stipend expenses of Habilitat. Although there was no net effect on the financial position of Habilitat, the failure to record the welfare proceeds as receipts and stipend expenses of Habilitat distorted the true financial picture of the organization.

Welfare proceeds received by Habilitat on account of all residents other than red tags were recorded. The failure to record welfare proceeds received on account of red tags resulted in treating welfare receipts inconsistently on the books of Habilitat. General assistance was provided red tag residents on the same basis as it was provided other Habilitat residents—i.e., incapacity and financial need.

The fact that red tags were paid stipends did not alter the basis for the general assistance payments.

3. *Questionable expenditures.* There were a number of expenditures made from Habilitat's general fund in 1977-78, which appear to have been highly questionable—especially when it is recognized that 98 percent of the monies in the general fund were derived from government sources. Set forth below are some of these questionable expenditures.

- . \$270 to purchase a life membership in United Airlines Red Carpet Club for Vincent Marino.
- . \$2579 for fireworks on New Year's.
- . \$1216 for Christmas cards.
- . Subscription to a daily newspaper delivered to the executive director's house.
- . \$350 to reimburse a Habilitat employee for "hosting" his nephew who came from the mainland to visit his father (a resident at Habilitat).

Recommendations. We recommend that Habilitat's board of directors and staff develop and implement a formal accounting system which includes an accounting manual detailing the accounting policies, procedures, and guidelines to be followed by the residents and staff, necessary to ensure reasonable accounting controls over the operations. The policies, procedures, and guidelines should cover such matters, among others, as:

1. The procedure for payments to vendors to eliminate incidents of double payments; monitoring to ensure that only authorized long distance telephone calls are made; specification of allowable travel expenses and accounting and documentation for travel expenses; and definition of business lunches which may be charged against Habilitat.

2. *Restrictions against the use of un-deposited cash receipts; and the accounting of all receipts and expenses in Habilitat's financial statements.*

Weaknesses in Habilitat's Budgeting System

For several years, it has been recognized within Habilitat that the organization's budgeting system is weak. This fact was pointed out to Habilitat by the management consultant which Habilitat hired in 1975-76 to review its nonclinical operations.

The current general manager—both in his present capacity and in his previous capacity as a financial advisor to Habilitat—has devoted considerable effort to establish a more effective budgeting system. Nevertheless, it still remains an area where improvement must be made.

For the fiscal year starting on July 1, 1978, a budget was not completed for submission to the board of directors until late November 1978. The value of the budget was greatly diminished by the fact that it was not prepared until the fiscal year was almost half over. A budget is supposed to serve as a tool for advance planning and as a device for controlling expenditures. Hence, it needs to be prepared in advance of the fiscal year.

The area of budgeting, therefore, requires greater emphasis and continuing attention on the part of Habilitat—including its board of directors, its executive director, and its fiscal staff.

***Recommendation.** Our recommendation here is that Habilitat's board of directors and staff should continue to pursue their efforts directed toward the implementation of an effective budgeting system for the organization. Emphasis should be given to the preparation of the budget before the beginning of the fiscal year and to the installation of an ongoing*

system of monitoring performance against the projected budget.

Governmental Deficiencies Affecting Financial Management of Habilitat

Habilitat's problems in the area of financial management are not caused entirely by internal shortcomings. Government agencies have also contributed to the problem.

DSSH and DOH have placed unnecessary burdens upon Habilitat. More significantly, they have created an environment which tends to encourage Habilitat to be lax and irresponsible in the area of financial management.

Lack of coordination. One deficiency in the governmental area was mentioned earlier. It is the lack of coordination between DSSH and DOH. As discussed, a close interrelationship exists between DOH's NIDA-funded program for persons suffering from drug dependency and DSSH's POS-funded program for persons incapacitated by alcohol, drugs, or other character disorders. Yet, these two departments continue to operate as two quite independent entities in the field where Habilitat and similar private agencies are providing treatment services.

Although their respective contracts are similar in many respects, the two departments operate on different contract timetables and insist upon negotiating separate and quite complex contract documents. As a result, Habilitat must prepare two separate contract proposals for two different time periods and negotiate them independently with the two departments. This, in effect, doubles the administrative work of private agencies such as Habilitat. This is an extra burden which neither Habilitat nor the government should have to bear.

Both DSSH and DOH agree in principle that there should be better coordination and that one way of achieving this might be to have one department act as the agent for the other.

By this means, Habilitat would only have to deal with one agency and go through one set of negotiations. However, neither department has shown any real initiative in trying to bring this concept to fruition.

Inadequate approach to budgeting and resource allocation. Another deficiency of the governmental agencies has been their seriously inadequate approach to the budgeting and allocation of resources under their control. For the most part, DSSH and DOH have served as the conduits for distributing federal (POS and NIDA) and state matching funds to private agencies such as Habilitat rather than the managers of these funds.

Generally, the procedure is for the state departments to cut up the total funding available among the various private agencies in rough proportion to what each agency received the prior year. Thus, Habilitat is told how much funding will likely be available under its POS and NIDA contracts for the coming year and is requested to develop budget proposals for the use of these allocated amounts.

The effect of this approach is to cause Habilitat to develop a justification to use up a certain amount of money rather than to come up with a proposal to provide a given amount of service at the most competitive or efficient level of cost. This is apparently true for all of the other private agencies receiving POS and NIDA funds.

That this is what actually happens is reflected in the action taken by Habilitat when one of the government departments questions or disallows items in Habilitat's budget proposals. The usual pattern is for Habilitat simply to shift the challenged amounts to other categories and to receive the total amount requested without any adjustment by the affected government department. Moreover, the budget approval process follows by some months the determination of contract amounts and the actual start of spending against these amounts.

Such an approach is hardly conducive to the effective allocation and budgeting of resources. It fails to determine where gaps and overlaps in services might occur and to make appropriate adjustments. It also fails to ensure that the most dollars go where the priorities are the greatest or where the most effective use of the funds will be made. Finally, it provides no incentive for agencies such as Habilitat to do a more effective job in utilizing the funds made available to them.

Inadequate approach to contract administration. A further weakness exhibited by the government agencies has been their generally inadequate approach to contract administration. This is particularly evident in the case of DSSH. Considering the fact that these departments are administering contracts amounting to millions of dollars per year and involving scores of private agencies, it would seem that they would develop a high degree of expertise and efficiency in the administration of these contracts. Such, however, has not been the case.

DOH's excuse for not having been more aggressive in this area is that it is still relatively new on the job of administering NIDA contracts and that it has only been able to move quite slowly in staffing up to take on this additional task. There is a limit, however, as to how long this excuse might be considered valid. It should not be much longer before DOH should be expected to demonstrate that it has its contracts well in hand and is administering them effectively.

DSSH has pleaded a lack of manpower as a major reason for not being better equipped to administer its POS contracts. However, this argument is not persuasive. It has been in the business of administering POS contracts since 1974.

It appears that DSSH is seriously handicapped organizationally in being able to administer these contracts effectively. Among other things, its fiscal staff is completely separated from the staff which is involved in the programmatic

aspects of the contracts. Hence, no one in the department is in a position to relate the two elements to each other. This is exemplified by the fact that the first on-site visitation to Habilitat in over two years by DSSH personnel was programmed for early 1979, but no provision was made to include a financial review as part of this examination effort.

The administration of contracts requires a strong management approach which embodies combined expertise in both the fiscal and program areas. The government department must be able to know what services it is seeking to purchase and to specify this in meaningful contractual and fiscal terms. It then must be prepared to monitor performance and to enforce all the provisions of each contract to ensure that proper and effective use is made of the resources under its control. Until this happens, the temptation will remain great for the contractors to avoid onerous provisions where possible and to push the limits of the contracts as far as possible.

Inadequate control procedures. Closely associated with the inadequate approach to contract administration by DSSH and DOH is the failure of the departments to establish effective control procedures in many areas. A couple of examples will indicate the nature of this weakness.

1. *Lack of a formal arrangement between DSSH and Habilitat regarding Habilitat's receipt and use of welfare funds.* Habilitat receives and utilizes substantial amounts of government monies which are technically designated to go to individuals who are residents at Habilitat. In 1977-78, Habilitat received approximately as much from this source as from its POS contract with DSSH. When receiving these funds (primarily welfare payments and food stamps), Habilitat receives them on behalf of the residents and acts as the agent for the residents.

For several years, DSSH has expressed unhappiness over how some of these funds have

been utilized by Habilitat and about not being adequately informed about such uses. At the same time, it has expressed frustration about not being able to do anything to correct the situation because its relationship with Habilitat in this area has never been clarified. Yet, no move has been initiated to establish a definite relationship with Habilitat covering such matters.

Considering the amounts of money involved and the importance of protecting the rights of the individual recipients as well as those of the government, it would seem that DSSH should have long since established a relationship with Habilitat through contract or otherwise under which Habilitat's role would be clearly designated and Habilitat could be held fully accountable for all of its actions affecting payments received on behalf of individuals.

2. *Inadequate approach to certifying incapacity so that Habilitat residents can qualify for governmental assistance.* To qualify for various forms of governmental financial assistance (welfare- and NIDA- and POS-financed care) while undergoing treatment at Habilitat, residents must be certified as being incapacitated by virtue of being dependent upon drugs or alcohol or suffering from a serious character disorder. Up until quite recently, however, the approach taken to such certification had very serious weaknesses.

The usual procedure was for a private psychiatrist who served as a consultant to Habilitat to make the certification based upon an interview with each resident. The practice has also been for the private psychiatrist to make an annual recertification for so long as a resident remained at Habilitat. However, the certifications provided by the private psychiatrist were accepted at face value with no review by government to evaluate the basis upon which the certifications were made.

The psychiatrist was paid for the initial examination and assessment and for each annual

examination of a resident through the Medicaid program. However, he got paid for each examination only if the resident were certified or recertified. If he did not find the resident eligible for certification or recertification, then no Medicaid payment was available.

There is no way of knowing whether or not any abuses have occurred under this certification procedure. However, it is undesirable to create conditions under which abuses could occur. Belatedly, recognition seems to have been given to this situation.

We have been informed that beginning the first of 1979 all examinations and certifications will be made by a team of psychiatrists at one of the major hospitals in Honolulu under contractual arrangements with the State. Under the new arrangement, the Medicaid fee will be paid without regard to whether or not the person examined is certified or recertified as being incapacitated and in need of treatment.

If indeed this new procedure is fully implemented, it should offer several advantages over the previous procedure. It substitutes a group of opinions for the single opinion of one psychiatrist. Centralization offers greater assurance of uniformity and consistency in the opinions reached. The financial incentive to certify is removed.

Inadequate monitoring and evaluation of performance. Still another weakness shown by the government agencies has been their very inadequate—in many cases, totally nonexistent—approach to monitoring and evaluating the performance of agencies such as Habilitat. This lack of adequate monitoring and evalua-

tion is discussed more fully elsewhere in this report. It is noted here, however, to indicate that it applies as much to the financial area as to other areas. In the next chapter, more attention is devoted to this deficiency as it relates to financial matters.

Recommendation. *DSSH and DOH should enhance their oversight responsibilities over Habilitat and other organizations with which they contract for services. They should direct their efforts to accomplish the following:*

1. *A greatly improved coordination between DSSH and DOH. In this connection, reference is made to our recommendations in chapter 4.*

2. *Development of an approach that would allocate available funds to Habilitat and other private agencies based on program proposals. DOH and DSSH should insist on program proposals by private agencies that are derived from an analysis of objectives, alternatives, and comparative costs and benefits of alternatives.*

3. *Formulation and implementation of a more businesslike approach to contract administration.*

4. *Establishment of controls that ensure proper utilization by Habilitat of general assistance, food stamp, and other similar governmental payments that are made to and received by Habilitat in behalf of Habilitat's residents.*

5. *Development and implementation of an adequate monitoring and performance evaluation procedure.*

Chapter 12

SPECIFIC PROBLEM AREAS INVOLVING FINANCIAL TRANSACTIONS BY HABILITAT

In the preceding chapter we reviewed Habilitat's overall approach to its fiscal functions and responsibilities and pointed out several grave weaknesses affecting this area of its management. These weaknesses are serious because they have a direct and significant impact upon Habilitat's discharge of its financial obligations as a contractor of services to government.

In the course of our audit we also became aware of a number of questionable and inappropriate financial transactions which have occurred and which should be corrected. In this chapter we identify and discuss these particular problem areas.

Summary of Findings

In summary, our findings are:

1. 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.

2. 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; but Habilitat has failed to inform the appropriate government agencies of this fact and instead sought to conceal it.

3. Habilitat has sought to maximize use of government funds by aiding and abetting in concealing facts of ineligibility of program residents for government support.

Problems Surrounding Habilitat's Resident-Vocational Training Program

Earlier in this report we described and discussed Habilitat's program of career preparation and vocational training and rehabilitation for its residents. Among the outstanding features of this program, as described, have been: (1) heavy reliance upon jobs within the organization to provide training to residents and (2) payment of rather large "stipends" (amounts up to and exceeding \$400 per month) to post re-entry residents filling positions within the organization (the so-called red tag residents). In addition to the problems relating to the program discussed elsewhere, the program raises serious questions in the area of financial management and Habilitat's discharge of its financial responsibilities.

Financial significance of the payment of stipends to residents. Habilitat's program of paying stipends to residents is not a matter of small consequence in terms of its fiscal implications. For example, during fiscal

year 1978, according to Habilitat's general fund financial statement, a total of \$120,837 was paid to program residents as stipends.¹ This represented 11 percent of Habilitat's total cash expenditures (excluding donated expenditures in kind) and 20 percent of the direct program expenses for the general fund during the fiscal year. It should also be reiterated that the general fund was almost entirely supported (98 percent) by public funds in fiscal year 1978.

Emphasis on the red tag program. Stipend payments were made to virtually all residents. However, the stipend amounts paid to residents before being placed in post re-entry were nominal and appeared to be within allowable limits relative to continued eligibility for economic assistance. They were therefore excluded from our examination. Our review centered on the stipend payments made to residents in post re-entry who were referred to by Habilitat as red tag residents. Most of the stipend expenditures were incurred to support this red tag program.

During 1977-78, the number of red tags averaged 26 a month, ranging from a high of 32 to a low of 19. Habilitat paid these red tags a total of about \$106,000 in stipends (including welfare payments given directly to the red tags during the first seven months of the year when such payments were not reflected as Habilitat receipts).

For the year we examined, the red tags were paid a standard stipend amount ranging between \$426 and \$438 per month if they were not living in Habilitat facilities. Red tags living in Habilitat staff houses received the same stipends, but a deduction was made to cover the costs of room and board provided to them. This deduction ranged from \$110 to \$120 per month.

Ambiguity surrounding the purpose and nature of the red tag program. A very serious problem concerning the red tag program was the considerable ambiguity which surrounded it. The program seems to have had several

purposes, but they were never clearly sorted out so that priorities could be established and proper interrelationships could be determined. Hence, the true nature of the program was never fully explained or clearly understood.

A major part of this problem stemmed from apparent confusion or differences of opinion concerning the meaning of and interrelationship among such terms as "treatment," "training," "vocational counseling," and "job development and placement." Both in official documents and in views expressed by representatives of the various affected parties, there are obvious differences in the meaning of each of these terms. At the same time, the activities to which the terms refer generally are recognized to be closely interrelated, if not overlapping. Unfortunately, however, the terms have not been clearly defined, and definite distinctions have not been made among them.

As a result of this failure to define the nature and purpose of the red tag program and to clarify terms relating to it, at least two quite different views might be taken concerning the thrust and propriety of the program as it has been administered by Habilitat. These two different views are indicated below.

1. *Primarily a treatment program to serve the needs of residents.* In our discussions with them, Habilitat personnel maintained that the red tag program was set up to provide career preparation and vocational training for residents in the post re-entry phase of Habilitat's rehabilitation program. Hence, it constituted an integral part of the organization's overall treatment program. According to Habilitat, without job training, residents will lack employable skills upon returning to the "outside," and, as a result, will quite likely face frustration and be impelled to return to a dependence upon drugs or alcohol.

¹As discussed in chapter 11, the amount of stipends shown in the financial statement was understated by about \$30,000, so the total stipend expenses were actually about \$150,000.

Also, according to Habilitat, residents continued to receive treatment in addition to job training while in the red tag program. This is because they still required considerable guidance and support. For this reason, they could be certified as incapacitated and therefore made eligible to continue to receive various types of welfare benefits. Habilitat has claimed further that the stipends paid were for the purpose of teaching red tags how to handle and manage money. Thus, a requirement was imposed upon the red tags that a certain proportion of their stipends had to be placed in personal savings accounts opened in their names.

All of this sounds both plausible and laudable. There is little doubt that career preparation and vocational training should prove highly useful in easing a resident's transition back into society. Indeed, the concept is quite consistent with general governmental policy in this field. For example, the federal rules and regulations governing the NIDA program for drug treatment services provide as follows:

"In the case of patients enrolled in residential programs [such as Habilitat's], such patients should be encouraged to participate in one of such [educational or job training] programs or to obtain gainful employment within sixty days from the date of admission. All efforts toward either of these objectives and the results derived therefrom must be noted in the patient's treatment plan and the notes of his progress. If, for any reason, a patient is not encouraged to pursue one of these alternatives, the reasons therefore [sic] also shall be recorded in the patient's records."

Thus, no exception should be taken to the provision of vocational rehabilitation and employment training programs for Habilitat's residents. In fact, under the federal guidelines quoted above, Habilitat's program would be deficient if vocational rehabilitation and employment training were not made available to program residents or if the residents were not encouraged to utilize these services.

However, the red tag program is subject to question if its primary function is not to

provide vocational rehabilitation and employment training or if its method of delivery and funding is not in compliance with legal requirements. A close examination of the program has brought to light other facts which cast serious doubt upon both the major thrust of the program and the manner in which it has been handled and financed by Habilitat.

2. *A program emphasizing training and subsidization of Habilitat personnel.* Despite Habilitat's insistence that the red tag program served primarily to provide vocational training to incapacitated residents and should be considered an integral part of its treatment process, our audit revealed various practices which did not fully support and substantiate these contentions. Indeed, taken together, these practices suggest that an emphasis of the program was to train and subsidize personnel to meet Habilitat's employment requirements.

Indications that one of the objectives of the red tag program was staff training and induction rather than treatment include the following:

- . Red tags were listed on Habilitat's organization chart as filling established positions.
- . Habilitat maintained personnel folders for red tags in the same way as for regular employees.
- . Stipends were both substantial and recorded in the payroll journal.
- . Red tags were not required to live at Habilitat facilities. In fact, some were assigned positions at the Baltimore office while others were sent on sales trips to the mainland for six weeks or longer.
- . Red tags who filled nonsales positions had the same working hours as regular employees.
- . Habilitat's records made references to

residents being fired and resigning, just as if they were employees.

One red tag was prepaid his general assistance welfare check amount because he was going on "vacation."

The business activities engaged in by the red tags were publicized and noted in the minutes of the meetings of the board of directors as activities undertaken to generate income for the organization and to move toward Vincent Marino's oft-repeated goal of achieving economic self-sufficiency for Habilitat.

Habilitat has spent little effort to develop job training opportunities for residents outside of the organization. It has made virtually no effort to avail itself of other vocational training and rehabilitation resources in the community. It has done virtually nothing to develop or recruit expertise in the field of career preparation and occupational training.

If the red tag program was indeed a method of meeting Habilitat's employment requirements, it was a financially advantageous way of doing so. Since the red tags were residents, Habilitat could look to government economic assistance programs to fund partially the costs of meeting its employment needs, costs which otherwise would have had to be met through Habilitat's other resources or through some other funding source.

The extent of the financial advantage to Habilitat might be illustrated as follows: In July 1978, there were 30 red tags listed in Habilitat's payroll journal as receiving stipends. Of these 30, the numbers receiving some form of economic assistance were as follows: welfare 27; food stamps 26; and POS-supported counselling 26. Of the 27 welfare recipients, 24 received general assistance support of \$191 per month, and the others received \$442, \$317, and \$183 per month, respectively. For all but two who received \$88 and \$60, the food stamp bonus

amount was \$31. The POS reimbursement was \$9.78 a day or \$293.40 per month per recipient.

In other words, Habilitat received a minimum of \$515 per person in economic assistance for most of the red tags. In addition, Habilitat most likely received NIDA funding for some of the red tags as well. We were unable to determine specific information on this because of the confidentiality restrictions relative to NIDA clients. Also, the red tags were able to obtain Medicaid coverage for medical expenses.

The financial advantage to Habilitat was enhanced by the fact that the stipends paid to the red tags were generally lower than the amounts Habilitat received in their behalf. In June 1978, for instance, most of the red tags were each paid a stipend amounting to \$428. Those residing at Habilitat facilities received \$318. This was at least \$87 less than the amount received by Habilitat per resident from government economic assistance programs. Moreover, the sums paid in stipends were considerably lower than the sums Habilitat would have had to pay had it engaged non-residents to perform essentially the same tasks that the resident red tags performed. The minimum monthly salary that Habilitat would have had to pay was \$600 (minimum starting salary). In addition, it would have had to pay employee benefits.

The financial incentives, of course, were all in favor of maintaining the red tag program and retaining the program participants as resident red tags for as long as possible. During the fiscal year, 20 participants continued to be reported as resident red tags for six months or longer.

The red tag residents also benefitted. They not only received some job training but also did not suffer any significant financial deficiency while receiving stipends versus the minimum salary. The bottom line monetary variance between the stipend payment and net salary amount was nominal. The stipends

listed in the payroll journal were without deductions for federal and state income taxes or FICA. We assume that since there were no withholdings, Habilitat and the red tags regarded the stipend payments as being FICA- and tax-exempt and therefore net pay. However, if the basic salary of \$600 had been paid, deductions would have had to be made for FICA and state and federal taxes, as well as for contributions to Habilitat's pension plan equal to 6 percent of compensation. In addition, free comprehensive medical coverage under Medicaid would no longer have been available (salaried employees are covered by a medical plan which is financed by Habilitat).

Lack of openness as a cause for doubt about the red tag program. A major factor causing doubt to be raised about the nature and purpose of the red tag program has been Habilitat's reluctance to discuss the program openly or to divulge information concerning it—especially with respect to what it cost and the source of its funding. Moreover, when probing questions began to be asked about the program, it was abruptly terminated. If the program were such a vital part of Habilitat's overall treatment process, it would seem that the organization would have been more anxious to discuss it and to defend its validity.

Indeed, if anything, Habilitat's actions with respect to the red tag program and the sparse information it has provided regarding the program have done more to create confusion and mistrust than to explain, justify, or gain support for the program.

We were unable to locate any detailed written description or justification for the program. Despite the cost and size of the program, it was not specifically identified or described in any of the budget documents given to us—including the budgets submitted as part of Habilitat's proposals which became incorporated in its NIDA and POS contracts. Habilitat did not go to any of the affected government agencies to explain or justify its red tag program, or to seek approval to carry

it out, even though the program depended almost entirely upon funding from governmental sources.

Then, when DSSH finally began to inquire about the program, Habilitat was evasive in its responses. For example, when DSSH asked about the amounts being paid in stipends, Habilitat supplied only the schedule of nominal stipends paid to residents still in the treatment phase of the program. The written reply omitted all reference to the fact that stipends amounting to over \$400 per month were being paid.

The closest thing to a disclosure of the program occurred in one of the attachments to Habilitat's 1978–1979 NIDA contract. This attachment included the following comments:

“Vocational counseling is provided by the program and on-the-job training is provided by the program in sales, garden and pool maintenance and in clinical and clerical work within the program.

“Job development and placement is done by the program. Approximately 30 jobs within the program have been developed to provide meaningful work at realistic wages for clients graduating from this program. In addition, clients who graduate are assisted in obtaining work outside the program and to utilize the resources available through CETA and the State Job Bank.”

These comments did not reveal the cost or source of funding for the program.

Just why Habilitat has been less than open concerning its red tag program cannot be known for certain. However, it appears that the organization either was unclear as to what the program should do and how it should function or that it feared that the program would not be accepted and supported if its full ramifications were revealed to the government agencies supplying 98 percent of the financial support for Habilitat's overall treatment program. In terms of the proper use of government funds, neither of these explanations provides adequate grounds for not being forthright in exposing the program to discussion, examination, and analysis.

Some legal questions about the red tag program. The preceding discussion and analysis of Habilitat's red tag program establish the framework within which the red tag program might be assessed in terms of its financial propriety and conformance with legal requirements. Up to this point, our conclusion is that the program's merits as a rehabilitative tool are difficult to demonstrate, but that the financial benefits derived from it by Habilitat and by the residents who participated in it are unmistakable. For the reasons set forth below, we feel the program as carried out has also violated various legal requirements.

1. *Unauthorized use of NIDA and POS contract funds to pay stipends.* The government monies used to fund the red tag program had fairly restrictive funding objectives, as follows:

<u>Program</u>	<u>Purpose</u>
General assistance	Shelter and standard allowance for food and other necessities
Food stamps	Provide a bonus amount of food stamps to increase the nutritional level of participants' diet
POS contract	Provide a 24-hour treatment service for drug and alcohol abusers or other incapacitated individuals
NIDA contract	Provide residential drug free, drug abuse treatment services for individuals with a primary drug abuse problem other than alcohol. ²

When the stipends paid to red tag residents are examined within the framework of the above-indicated funding objectives, it might be concluded that so much of the stipends that came from funds made available under the first two programs were used for the purposes intended by the two programs—i.e., for food, shelter, and other basic necessities and for improving the nutritional level of the partici-

pants' diets. But this conclusion is possible only because the stipend amount for each resident red tag exceeded the amount of general assistance payment and food stamp coupon bonus received on account of the red tag and because the general assistance payment and the food stamp bonus received for most of the red tags amounted in fiscal year 1978 to \$191 and \$31, respectively—clearly minimal levels for purposes of shelter, food, and other basic needs.

Of course, there is no way to determine whether \$222 of the stipend total of \$428 paid to each resident red tag not residing at a Habilitat facility and \$112 of the stipend total of \$318 paid to each resident red tag residing at a Habilitat facility were in fact used for shelter, food, and other necessities and for improving the nutritional level of the red tag's diet. Habilitat cannot affirm that this occurred. Nevertheless, one might assume that it happened, given the situation described above.

The same kind of conclusion, however, cannot be reached with respect to those portions of the stipends that came from NIDA and POS contract funds. To the contrary, the use of the POS and NIDA contract funds to pay stipends to the resident red tags appears not to have been authorized.

At the outset we note that neither the NIDA nor the POS programs appears to preclude the use of the NIDA or POS funds for purposes of providing vocational training so long as such training is a part of or incidental to the institutional treatment program. (The use of the funds for vocational training intended primarily or solely to meet an institution's employment needs appears to be excluded.)

²Due to confidentiality restrictions imposed by the federal government, we were unable to associate a specific amount of NIDA funds with each Habilitat resident as we were able to do in the other three programs. However, it was possible to reach conclusions regarding NIDA funds as in the case of the other program funds.

Thus the federal rules and regulations governing the NIDA program defines broadly the term, "treatment," as used in the purpose statement above. The regulations define "treatment" to include "interviewing, counseling, and other services or activities carried on for the purpose of, or as incident to, diagnosis, treatment, or rehabilitation with respect to drug abuse, whether or not conducted by a member of the medical profession." Such a definition seems to be all-encompassing, and certainly broad enough to cover vocational training which is a part of treatment.

The POS program does not have as broad a definition as the NIDA program and the range of services allowed under the POS program is probably narrower than that authorized by the NIDA program. However, as in the case of the NIDA program, the contract with Habilitat under the POS program included for fiscal year 1978 a mention of vocational training to prepare residents for occupations or higher education.

Although vocational training appears to be allowed under both the NIDA and the POS programs, we believe this, in and of itself, did not authorize Habilitat to use NIDA and POS funds to pay stipends to the red tags. Indeed, indications are that Habilitat was not authorized to do so.

First, the budget under neither the NIDA contract nor the POS contract for fiscal year 1978 provided for any vocational training programs. Moreover, the records do not show that Habilitat ever secured any approval for the red tag program as it was required to do under the NIDA program. The NIDA rules and regulations recognize vocational training to be a part of "supportive services" as distinguished from "counseling services." Counseling services constitute the normal activities of the NIDA program. The rules and regulations require that supportive services be secured from community sources and that if they are to be supplied directly by the contract agency, special approval

be first secured from NIDA. The red tag program was a program supplied directly by Habilitat and thus required NIDA approval.

Second, even if it is assumed that the funds under either or both the NIDA contract and the POS contract were authorized to be used to support the red tag program, without specific provision such authorization cannot be read to have allowed the direct payment of NIDA and POS funds to the red tags. At most, such authorization would have allowed the payment of costs associated with the red tag program, exclusive of wages or stipends paid directly to residents undergoing vocational training.

In view of the foregoing, we can only conclude that under neither the NIDA contract nor the POS contract was Habilitat authorized to use NIDA or POS funds to pay stipends to the resident red tags. Such use, in effect, constituted a diversion of government funds intended for one group of individuals to another group of individuals.

2. *Failure to comply with eligibility requirements for general assistance.* The other major problem concerning the red tag program is that it caused the eligibility requirements for general assistance to be violated.

For the purposes of Habilitat and its residents, the eligibility requirements for general assistance are: (a) certification by a psychiatrist that the resident concerned is incapacitated due to alcoholism, drug abuse, or emotional disorder and (b) the resident does not have non-exempt income or resources which exceed the need level established by the program (every dollar in income or resources in excess of the need level reduces by a dollar the amount of general assistance payments payable to the resident).

Those eligible for general assistance automatically qualify for food stamps. The food stamp eligibility requirements are less stringent than the eligibility requirements for general

assistance. Thus, under DSSH regulations, the food stamp eligibility requirements are deemed to have been met by those who are general assistance recipients. This being so, to the extent that the general assistance eligibility requirements were violated, it may be contended that the food stamp eligibility requirements were also violated. But this is not necessarily so. If a resident is ineligible to receive general assistance, he may yet qualify for food stamps if his income does not exceed \$301 per month.

The red tag program caused violations to occur with respect to both the income and incapacity requirements. The stipend paid to each red tag in fiscal year 1978 was \$428 per month. If we assume that a portion of this consisted of the general assistance allowance of \$191, and the food stamp bonus amount of \$31, there still remained in excess of \$200 per month paid to each red tag. The \$200-plus amount constituted income to the resident, thereby violating the income and resource limitations placed on general assistance payments. It does not matter that the \$200-plus came from NIDA or POS program funds or that it did not constitute wages or salaries in any real sense. The income or resource that disqualifies one from being a recipient of general assistance can come from any source and is not limited to wages or salaries.

The incapacity requirement was violated in this fashion. DSSH regulation 3113.05 promulgated April 25, 1978 defines "incapacity" which qualifies one for general assistance as follows:

"There is an inability to engage in any substantial (at least 30 hours per week) gainful employment by reason of any medically determinable physical or mental impairment which can be expected to last no more than 12 months or there is a medically determined incapacity not deemed severe enough, by the Social Security Administration, for purposes of SSI eligibility."³

From all appearances, the resident red tags engaged in gainful employment exceeding 30 hours per week. The red tags filled established

Habilitat staff positions and followed the same work schedule as regular, salaried employees. In addition, red tags filling salesman positions were sent on extended sales trips to the mainland for six weeks or longer. In fact, some red tags were assigned to positions at the Baltimore sales office for periods of six months or more.

Further, as noted earlier, some questions concerning the correctness of certification of residents as incapacitated are raised by the certification procedure which was followed in fiscal year 1978.

Habilitat as the agent for the resident red tags in collecting the general assistance payments paid by government was under a duty to report to DSSH any changes in any of the residents' eligibility to receive general assistance. Obviously, Habilitat submitted no information concerning the stipends paid to the red tags and the nature of the work performed by them, which if revealed to DSSH would have caused general assistance payments on the account of these resident red tags to be terminated or severely reduced.

Problems Surrounding Habilitat's Use of Residents in Its Out-of-State Sales and Marketing Program

Habilitat's sales program was established several years ago. As already noted, the sale of advertising specialties constitutes the major sales activities.

The sales are conducted on the mainland as well as on Oahu and the neighbor islands. The sales volume on the mainland has been greater than in Hawaii. Due to the volume of business on the mainland, Habilitat opened a sales office in Baltimore.

³The prior rule [3113(2)(d)] was somewhat less specific in its definition of incapacity but more detailed in its provisions for medical certification. The thrust of the requirement remains basically the same, however.

The sales force has been comprised primarily of residents receiving economic assistance. In fiscal year 1978, of the total 35 salespersons, only 7 were nonresidents; 24 were residents for the entire year, and 4 were residents for part of the year. The resident sales force was comprised of 16 re-entries; 6 re-entries who advanced to red tag status; 2 red tags; and 4 red tags who graduated to salaried status.

The use of residents receiving economic assistance on the sales force has raised serious questions. The questions have arisen because these resident salespersons have been sent on extended sales trips to the mainland. The questions revolve around the propriety of continued economic assistance payments while the resident salespersons are on such extended sales trips to the mainland.

The extent of resident travel on the mainland. Sales trips to the mainland by residents have been quite extensive. Note these statistics.

Of the total 24 resident salespersons in fiscal year 1978, all were sent on at least one sales trip to the mainland during the fiscal year. Ten were sent on more than one trip. Each trip was for at least six weeks. Durations of eight weeks or more were not uncommon. Six residents were assigned from three to five months to positions at Habilitat's Baltimore sales office.

Nature of the problem. Habilitat received general assistance payments and food stamp bonus coupons for all but one of the 24 residents while they were on the mainland. In addition, almost all of these residents were claimed for POS reimbursement payments. For example, one of the red tags was assigned to the Baltimore office for about five months, and another for three months. In both cases, they continued to receive general assistance, food stamps, and POS payments. The receipt of these payments for these residents while they were on extended sales trips to the mainland violated the rules governing the payments.

1. **General assistance.** Under DSSH regulations, a welfare recipient may continue to receive assistance even though he is absent from the State so long as such absence is only temporary and he has the intent to return to the State and he continues to meet all eligibility requirements. However, the recipient must meet certain conditions. Among the conditions are the recipient must, before leaving Hawaii, inform DSSH of the planned trip and destination and establish his intent to return to Hawaii. DSSH regulation 3104 lists the following as establishing intent to retain Hawaii as the recipient's residence:

- (1) Declaration of absence for a temporary purpose and intent to return.
- (2) Possession of round-trip ticket.
- (3) Maintaining property, apartment, or home in the home state.
- (4) Maintaining personal property in the home state.
- (5) Retention of voting privilege.
- (6) Retention of voting privileges in the home state.
- (7) Filing of annual state income tax.

DSSH regulation 3104.1 then provides as follows:

"Following the recipient's departure, a review of his intent to retain residence in Hawaii shall be made within 90 days.

"Hawaii's standards of eligibility shall apply and eligibility for assistance from the Department shall be reviewed three months after date of departure."

In practice, DSSH considers that there is an intent to return to Hawaii if the duration of the trip is 90 days or less, and the recipient has a round-trip airline ticket. The 90-day standard is derived from DSSH's regulation requiring a review of intent to retain Hawaii residence

within 90 days of departure and a review of continued eligibility for assistance three months after the date of departure.

The receipt of general assistance payments while residents were on extended trips to the mainland violated DSSH regulations in two respects. *First*, neither Habilitat nor the residents notified DSSH of the mainland trips. *Second*, in some cases, the trips were for periods in excess of 90 days, some as long as five or six months. In several of these cases, the residents concerned became salaried employees after five or six months, continued to stay at the Baltimore office as salaried employees, and later declared Baltimore as their residence.

2. **Food stamps.** DSSH regulations (3831 and 3831.1) stipulate that all households (one person recipient constitutes a household) must live in the project area in which they make application for the program. The regulations in effect for the period which we audited suffered from some ambiguity. They did not clearly define residence and did not clearly set forth what procedures should be followed when recipients are temporarily away from the project area. (Recent amendments helped to remove these problems.) Nevertheless, at least those residents who were assigned to the Baltimore sales office for several months appeared to have violated the above requirement.

3. **POS reimbursement.** DSSH regulations provide that:

"Incapacitated individuals who are medically determined to be drug addicts or alcoholics will not be required to be referred to the Division of Vocational Rehabilitation. However, these individuals shall be required to receive treatment in a residential treatment center or obtain treatment on an outpatient basis provided said treatment is received regularly and in a planned manner (i.e., not on an 'as needed' basis)."

Habilitat receives POS reimbursement payments for providing these required treatment services to incapacitated residents.

For fiscal year 1978 the POS contract between DSSH and Habilitat specified a 24-hour

treatment service for drug and alcohol abusers. It provided that individual and group counseling would be provided to residents at Habilitat's three locations in Kaneohe. No mention was made of possible provision of services at other locations, especially ones outside of the State of Hawaii.

The contract further obligated Habilitat to notify DSSH immediately when a recipient terminated services at the center; the recipient was absent from the center for ten consecutive days or planned to be absent for such period; and when the recipient's whereabouts became unknown.

In addition, Habilitat was required to furnish a monthly certified invoice listing the names and case numbers of eligible persons served by Habilitat and the costs of providing the services to each eligible person.

In most instances, Habilitat did not notify DSSH of resident travel and relocation as required, and the residents sent on mainland trips did not receive the 24-hour treatment service specified in the contract. The latter was true even for those sent and stationed at Habilitat's Baltimore office. The Baltimore office was not then, and is not now, staffed and equipped to provide treatment services. Habilitat's sales and marketing staff in Baltimore are not a part of the clinical staff. Habilitat has discussed the possibility of establishing a treatment center in Baltimore, but nothing has materialized.

Furthermore, although no treatment services were provided the residents sent on mainland sales trips, they were nevertheless included on the monthly certified lists as having received services during the period that they were on the mainland. This was so even as to those six residents who were assigned to the Baltimore sales office for periods of three to five months.

Failure to report mainland travel. As stated, Habilitat failed to notify DSSH of the

residents' extensive travel on the mainland. It seems that Habilitat sought to conceal from DSSH the fact of the residents' travel to the mainland to avoid the consequences of having economic assistance payments terminated as to these residents.

As previously discussed, during the first seven months of fiscal year 1978, it was Habilitat's practice to dispense directly to the red tags as part of their stipends the state general assistance payment checks which Habilitat received in behalf of the red tags. If the state welfare checks made out to the red tags on extended travel or assignment to the mainland had been cashed on the mainland by the red tags, the mainland banks' endorsements on the checks would have revealed to the State the fact of the absence of the red tags from Hawaii. To preclude this from happening, Habilitat established a check replacement procedure.

Under the procedure, Habilitat cut its own check in the same amount as the state welfare check (\$191) for each red tag on extended assignment to the mainland and sent it to the red tag along with the state welfare check, with instructions to the red tag to endorse the state check and to return it to Habilitat. Upon receipt, Habilitat deposited the state check into Habilitat's general fund.

That the procedure established was to preclude the disclosure of the fact that the red tag was on the mainland is revealed in the notations on the check request forms filed as a backup to the issuance of the replacement checks. The following notations are examples:

"Replace welfare check as she should not cash Hawaii welfare check in Maryland. (Send state check for her signature only).

"Replace welfare check as she is out of State. Welfare check will be signed and returned."

In addition, the following excerpt from a letter written by a red tag is illuminating. The

note was attached to one of the check request forms:

"I am at the Baltimore Office--so if you need my signature on the food stamp check, forward the check there and I will sign and return it. Also, I am broke--I only received 64 dollars last month. P.S. Is it cool for me to cash a Hawaii State check in a Maryland bank?? (Say that when the check is returned to Hawaii they notice it's been deposited in a Maryland bank?? You see, I am intending to open an account here in Baltimore."

Habilitat responded by cutting a check payable to the red tag for \$127. The purpose cited on the check request was "Difference in July's welfare receipts."

Improper Reliance on Government Funds

Although one of its objectives is to become self-sufficient, Habilitat is far from reaching this end. In the meantime it appears clear that Habilitat is seeking to maximize the use of public funds to support its programs. This maximization has been sought by means that are at times quite questionable. The red tag program is an example of this.

DSSH food stamp regulations place a \$1500 limit on nonexempt resources which a one-person household may possess. Nonexempt resources include cash on hand or in a checking account and stocks.

DSSH general assistance regulations provide that the amount in excess of the retention ceiling of \$425 for one person is to be computed as available resources in determining needs and is to be considered as budgetable resources and is to be used when determining the amount of assistance. "Resources" is defined to include bank accounts and the full value of stocks and bonds.

In at least two instances, Habilitat aided and abetted and was a party in circumventing these eligibility requirements, to the financial benefit of Habilitat.

In the first instance, Habilitat deposited and maintained \$3074 in a "restricted fund" on behalf of a resident when the resident received general assistance and food stamp payments. When the resident terminated from the program, Habilitat returned the \$3074 to the resident.

In the second case, a resident owned 100 shares of common stock. While receiving general assistance and food stamps, the resident donated the stocks to Habilitat. Habilitat immediately sold the stocks for about \$3500 and deposited the proceeds in the capital fund.

Problem of Inadequate Monitoring and Enforcement by Affected Government Agencies

Habilitat's questionable practices discussed in this chapter should not have been allowed to exist. To a great extent, the practices have occurred because the government agencies most concerned with Habilitat's operations—DSSH and DOH—have failed properly to monitor the operations of Habilitat.

All of the information contained in this chapter was available to the agencies had they made an effort to seek it out. Personnel within the government agencies from time to time expressed concerns and raised questions about some of the matters discussed in this chapter. The agencies even held meetings with Habilitat representatives on the matters. Yet, on the whole, government agencies have not diligently inquired into Habilitat's activities and practices.

DSSH, in particular, has been negligent. It is the agency which is responsible for the largest portion of governmental funds flowing into Habilitat. Not only does it administer Habilitat's POS contract, but also it dispenses the hundreds of thousands of dollars which go each year to Habilitat and its residents in the form of welfare payments, food stamps, and Medicaid.

Yet, DSSH has been remarkably passive in its relationships with Habilitat. For example, over two years have elapsed since its last on-site inspection at Habilitat. The inspection scheduled for early 1979 did not contemplate including any examination of Habilitat's fiscal operations, but was planned to be limited only to compliance with the POS contract.⁴ Despite the amount of public funds going into Habilitat and the questions which even DSSH personnel have raised about Habilitat's operations, DSSH's investigative unit has apparently not directed any special attention to the situation at Habilitat.

Recommendations

We recommend as follows:

- 1. DSSH and DOH should follow up on our findings to determine the extent to which applicable laws and regulations have been circumvented or violated by Habilitat. Appropriate corrective actions should be taken relative to any irregularities.*
- 2. DSSH and DOH should establish comprehensive and effective surveillance and monitoring procedures to ensure that Habilitat adheres to all applicable rules, regulations, and requirements concerning the use of public funds made available to Habilitat. In particular, the surveillance and monitoring procedures should provide for ensuring that eligibility requirements for general assistance and food stamps are adhered to and the funds made available under the NIDA and POS contracts are properly expended by Habilitat.*

⁴This monitoring visit actually took place in early February 1979 and the staff report has been issued. Although some questions of noncompliance were raised in the report which was sent to Habilitat, no further followup action has been taken.

PART V

RESPONSES OF AFFECTED AGENCIES

COMMENTS ON AGENCY RESPONSES

On August 10, 1979, copies of a preliminary draft of this audit report were transmitted to the governor, the presiding officers of the legislature, the president and the executive director of Habilitat, Inc. (Habilitat), and the directors of the departments of health (DOH) and social services and housing (DSSH). As is our practice, we asked the heads of the agencies directly affected by the audit to provide us with their comments on the recommendations contained in the audit report, including an indication of the actions that have been or will be taken on those recommendations.

A copy of the transmittal letter to the president of Habilitat is included herewith as Attachment A. Similar letters were sent to the executive director of Habilitat and to the directors of DOH and DSSH. The original deadline for submission of agency comments was set for August 29, 1979. However, at Habilitat's request, the deadline for that organization was extended to September 28, 1979.

The responses received from Habilitat, DSSH, and DOH are included respectively as attachments B, C, and D of this part. We offer below some general observation on these responses as well as separate comments on each of the replies received from the three agencies.

GENERAL OBSERVATION

Despite the nature and diversity of the agency responses, some generalizations can be made concerning them. First and probably most noteworthy is that, on the whole, they have not 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 our 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."

On the other hand, the responses reveal a continuing failure on the part of the agencies to understand fully and to come to grips realistically with the major problems brought to light in the audit report. The key issues center around the following topics: (1) the problem of internal management within Habilitat, particularly in reference to the respective roles to be played by its board of directors and its full-time executive and the need for Habilitat to apply effective management and operational controls; and (2) the problem of the responsible government agencies failing to exercise leadership, direction, and control in monitoring Habilitat's conduct of a public mission.

None of the agencies—not Habilitat, not the department of social services and housing, not the department of health—has responded to the specific recommendations made in the audit report in any meaningful way. Just what specific action will be taken by Habilitat or the two principal state agencies remains unknown. Thus, 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. 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.

HABILITAT'S RESPONSE

Habilitat submitted a lengthy response to our audit report. Some of the remarks are extremely broad and unspecific. In contrast, some relatively minor points are belabored in extended detail. We have reviewed Habilitat's response against the audit report and find it unnecessary to comment on each and every point made in the response. However, there are several significant areas that require further clarification and amplification, and these are set forth below.

Program Implications of a Situation Where Knowledge, Information, and Agreement Are Lacking. Our review of literature in the field and our examination of the operations of Habilitat, DOH, and DSSH indicate that knowledge, information, and agreement regarding the human use and abuse of mind-affecting substances are seriously inadequate. It is our evaluation that this state of affairs is adversely affecting all agencies and groups—including, but not limited to, Habilitat, DOH, and DSSH—dealing with substance abuse and addiction, whether it be in terms of treatment, rehabilitation, prevention, control, or law enforcement. So long as problems remain vague, undefined, and confused, it will be virtually impossible to develop and carry out effective and consistent action programs in this field.

While conceding that there is a great lack of knowledge, information, and agreement in this field, Habilitat attributes this deficiency exclusively to others—especially to what it refers to as the “medical/psychiatric field”—and exempts itself completely from such a shortcoming. In the process of responding to the audit report, however, Habilitat includes many confusing, inadequate, and contradictory statements. For example, Habilitat casts aspersions on the “[p]hilosophising, analyzing, criticizing, categorizing, and double-talking” of the “medical/psychiatric field” and pronounces that it “does not engage in probing cause and effect evaluations.” At the same time, however, Habilitat lays claim to its own philosophical base founded upon ancient Hawaiian culture and embracing the concepts of “ohana” and “ho’oponopono.” Habilitat also appeals to the authority of a physician and psychiatrist (Dr. Fred Glaser) to support and validate its claims of success and effectiveness.

Similarly, Habilitat states categorically in one place in its response that it does not utilize “psychological and sociological procedures.” Elsewhere, however, Habilitat says that it “considers all persons on hard drugs possess the ‘motivation’ [to become unaddicted], but it must be reached down and drawn out of the person.” Shortly, thereafter, Habilitat comments further that it “considers it [addiction] a symbol of social maladjustment or disorder.” Operating from such a psychological-sociological point of view, it is hard to see how psychological and sociological procedures can possibly be avoided. Thus, whether or not Habilitat's methods follow conventional or traditional patterns, they must nevertheless be psychologically and sociologically based. From its response, it is not at all clear whether Habilitat recognizes or understands that this is the case.

It should be noted further that Habilitat's response continues to leave unclear whether it should be considered a drug and alcohol treatment and rehabilitation program or viewed as something else. On the one hand, Habilitat emphasizes its unique characteristics as a residential therapeutic community and claims that its “approach is applicable to a broad range of problems affecting people.” At the same time, however, it stresses how many drug-free graduates it has produced, it refers to itself as a drug/alcohol treatment rehabilitation center, and it claims a better success record than any other similar (i.e., drug treatment and rehabilitation) program in the State.

If Habilitat is to be considered a drug and alcohol treatment and rehabilitation program, then proper allowance should be made for the fact that not all of its residents are drug-related and the fact that, unlike some other programs, it carefully screens incoming residents and requires all of them to be "clean" of drugs upon admission.

If, on the other hand, Habilitat is to be viewed as something other than a drug and alcohol treatment and rehabilitation program, then this "something else" should be adequately defined and described and direct comparisons with other drug and alcohol treatment and rehabilitation programs should no longer be made. In this regard, it is not sufficient to define and describe Habilitat simply as a "survival school" which is "designed to take an individual who is unable to manage his life and teach him to be a person who is productive, responsible, and self-sufficient." Obviously, such generalized language can be applied to many activities and does not convey much specific meaning.

The position Habilitat has taken on this issue presents some very serious problems which must be addressed if the public interest is to be served. Habilitat officials are the only authorities on the subject, and their views become articles of faith not to be doubted or questioned by anyone else. Normal rules and standards are not felt to be applicable. Uncritical acceptance of their views by outsiders is trumpeted as objective evaluation, but if an outsider raises questions, expresses doubts, or voices criticism, this is immediately and vociferously interpreted to be an attack or plot to undermine the position of the true believers. The ultimate result is ingrown attitudes, insulation from outside influences, and resistance to the possibility of improvement.

Habilitat spokesmen have been widely quoted in the news media to the effect that this audit is part of a conspiracy to destroy Habilitat. This view is reiterated and reemphasized in Habilitat's response where it imputes to the audit an objective "[t]o destroy the credibility of Habilitat by attempting to define it in a medical-psychological modality, which does not apply." Habilitat then goes on in its response to propose that most of our discussion of this overall issue be deleted from the audit report even though Habilitat concurs that others lack knowledge, information, and agreement on the subject of substance abuse and addiction.

In short, Habilitat seems to be satisfied that it knows all the answers. As a result, it seems to feel compelled to reject all questions, suggestions, and criticisms contained in the audit report relating to its treatment and rehabilitation program. This is true even though the main thrust of the audit report in this area is simply to repeat what Habilitat has already been told by one of its own consultants—namely, that Habilitat will have to provide "much more palpable empirical evidence" than it has up to now concerning the effectiveness of its program before its claims will be accepted "by the scientific community, by the government, and even by the public at large."

In its response, Habilitat has questioned the qualification and ability of the auditor's staff to make any sort of evaluation of its treatment and rehabilitation program. In answer to this point, we wish to make quite clear that we make no pretenses of being experts in either the field of drug abuse and addiction or the field of treatment and rehabilitation. Recognizing this, we have made no attempt to pass direct judgment on Habilitat's clinical techniques.

However, we have had considerable experience in reviewing and analyzing data and evidence relating to a wide variety of subjects. We submit, therefore, that we are quite qualified to evaluate the adequacy of data and evidence put forward in support of particular positions on different issues and areas of public concern. That is all we have done in the case of this audit of Habilitat. As we

amply portray in the audit report, we have examined all of the evidence Habilitat has put forward in support of its program and—like Habilitat's own consultant—find this evidence inadequate and unconvincing.

Reliance on Congressional Report. In several places in its response, Habilitat places great weight upon favorable statements made about Habilitat in the congressional report entitled, *Drug Abuse and Trafficking in the State of Hawaii – A Report of the Select Committee on Narcotics Abuse and Control, House of Representatives, Ninety-Fifth Congress, Second Session*. Habilitat neglects to add, however, that this report does not represent the results of any thorough or detailed examination of Habilitat's operations. In fact, the comments about Habilitat contained in the report reflect simply the select committee's impressions gained from testimony given to it by the executive director and a graduate of Habilitat during a two-day hearing held in Honolulu in mid-1978.

Considering the nature of this report, therefore, we do not feel that it offers much in the way of substantiating any of Habilitat's claims of effectiveness or of success.

Problems of Habilitat's Internal Management: What Have Been and Should Be the Roles of the Board of Directors and the Executive Director? A major issue raised in the audit report centers almost entirely around Habilitat's internal affairs. Hence, the agency comments on this subject have come almost exclusively from Habilitat. However, the subject is an important one because it has general applicability to all private agencies which enjoy a tax-exempt status and receive large amounts of public financial support. The issue concerns the manner in which such agencies should be governed—particularly with respect to what the relationships should be between the boards of directors and the full-time, paid executive staffs of these organizations. Habilitat expresses disagreement with certain key recommendations and makes various ambiguous and contradictory statements in its response which raise very serious questions as to whether Habilitat fully understands the major points set forth in the audit report and really intends to take the actions necessary to establish a proper relationship between its board of directors and its executive director.

In the audit report, we indicate that a clear separation should be made between Habilitat's board of directors and its full-time executive staff and that all major policymaking should rest with the board of directors. We also indicate that the board of directors should monitor and exercise effective supervisory control over actions of the executive, including both those in the clinical area and those in the financial and business area. We further find that: (1) no such clear separation exists within Habilitat, (2) the executive director has played a dominant role in the affairs of the organization, and (3) a number of program and financial deficiencies identified in the course of the audit can be attributed to the weaknesses which exist in interrelationships between the board of directors and the executive director.

The audit's recommendations in this area are based upon two fundamental considerations: (1) the need to provide for an effective system of checks and controls in the governance of organizations which are heavily endowed with the public interest but are not subject to the normal restraints and interplay of forces found in governmental agencies, and (2) the need to provide adequate safeguards against conflicts of interest in situations where public resources are involved but are under the control of private individuals. In this regard, the audit's recommendations are fully consistent with the positions taken by such respected private agencies concerned with the management of charitable organizations as the National Information Bureau, Inc., and the national and state United Way associations.

In its response, Habilitat comments variously as follows:

“We feel that the audit report greatly exaggerates the amount of power and control exercised by the office of the Executive Director.

“Essentially, we do not argue with the legislative auditor’s appraisal of Vincent Marino’s role in this organization as dominant and powerful. However, [there is an] undisputed need for his type of personality [in an organization such as Habilitat].

“We disagree with [the] characterization of the Habilitat Board as impotent.

“We acknowledge some weaknesses in this area [leadership in financial matters] during Habilitat’s formative years. We feel, however, that recognition should have been given to the significant improvement that has taken place in the last two or three years in terms of active involvement of Habilitat’s Board, particularly in financial matters.

“Again, the Board acknowledges some past inadequacies The Board wishes to point out, however, that as volunteer members of the governing body of a non-profit corporation, there are certainly limits to what it should be expected to do.

“[A]s a practical matter, boards of directors generally have little to do with the day-to-day management of corporations, be they profit oriented or non-profit. Board functions are generally limited to the making of policy and to rendering final decisions on unusual and/or highly significant matters.

“We see nothing wrong with this [Vincent Marino, as executive director, automatically serving as a full-fledged member of the board of directors].”

It should also be noted that Habilitat has offered no comments concerning the following statement and recommendation from the audit report.

“However, Habilitat’s board of directors has tended to avoid becoming involved in any way in clinical matters and to leave this area almost exclusively to the executive director, Vincent Marino, and other members of the staff. Reinforcing the arrangement has been the executive director’s strong assertion that only persons who have gone through the program can fully understand what the program involves

“2. Habilitat’s board of directors should assume as one of its primary responsibilities the establishment and implementation of an effective, ongoing system of program evaluation. This means that the board of directors, rather than the staff, should set program objectives and standards of performance, should make sure a proper data base is maintained, should oversee the overall conduct of the program through performance monitoring, and should evaluate performance on a continuing basis.”

From the foregoing, it is fairly apparent that Habilitat’s approach to overall organizational management is mixed and inconsistent. While agreeing that the board of directors’ role should be increased and enhanced, Habilitat appears extremely reluctant to change in any way the role of the executive director. The greatest shortcoming in Habilitat’s response in this regard is its failure to :

(1) recognize the problems inherent in letting the executive director serve on the board of directors and (2) take prompt steps to remove the executive director from the board.

Of particular significance is that a number of conflict of interest situations involving the executive director have been identified in the audit report. The board of directors and the executive director should have been sensitive to the inherent conflict situation created by the automatic and continuing presence of the executive director on the board which forces the executive director to play a dual role in all decisionmaking concerning him and his personal interests.

In summary, therefore, it can be said that Habilitat's response on this issue is for the most part quite inadequate.

External Evaluations of Clinical Program. In response to our statement that Habilitat has commissioned only two outside evaluations of the clinical aspects of its program, Habilitat maintains that "at least six documented evaluations have been done by outside authorities since June, 1971." To support this assertion, it refers to Exhibit E of the supplementary material submitted with its response. Our examination of Exhibit E reveals only one document that might be considered an evaluation, in addition to the two noted in the audit report.

Even this one document cannot be considered a full-fledged evaluation. As the authors of the document themselves noted, they had gained only an "impression" of Habilitat's program. They recommended that the next appropriate step for them to take would be "a systematic evaluation" of Habilitat's program.

As for the other claimed evaluations, the only evidence provided in Exhibit E is a selection of news clippings, press releases, etc., indicating that various other authorities had visited Habilitat. Our review of the minutes of Habilitat's board of directors does not reveal that any of these other so-called evaluations were ever brought to the attention of or considered by the board of directors.

Thus, unless Habilitat can produce more convincing evidence than it has so far, we stand by our statement that only two outside evaluations of the clinical aspects of Habilitat's program were ever commissioned.

Transactions Relating to the House for the Executive Director. Habilitat provides a very lengthy explanation and defense of the series of transactions relating to the purchase, re-sale, and re-purchase of the house at 146 Ainoni Street in Kailua as a residence for Habilitat's executive director. In this response, Habilitat does not dispute any of the facts set forth in the audit report and does not provide any additional information on the subject. Habilitat also concedes that the law was violated and that the loans made to Vincent Marino as part of these transactions were therefore improper. Habilitat states, however, that mistakes were unwittingly made and that the purpose of the transactions was legitimate and beneficial to Habilitat.

We stand by our assessment that the transactions were improper.

Purpose of Business Ventures. Habilitat takes issue with the audit report's discussion of the purposes of Habilitat's various business activities. In this discussion, we point out that there seem to be dual purposes which are not necessarily compatible: (1) to generate income for the organization so that it can achieve its goal of "self-sufficiency" and (2) to provide vocational training for residents of Habilitat. We further point out that uncertainty regarding the priority between these

two goals causes problems in the management of these activities. We also indicate that generating income seems to be taking precedence over the provision of vocational training.

In its response, Habilidadat counters with the following arguments: (1) “[v]ocational training is not ‘another objective’ [of the business enterprises, but] *THE* objective,” (2) the meaning of the term “self-sufficiency” as it has been used by Habilidadat has been misinterpreted, and (3) profit cannot have been the motivation for undertaking these enterprises because most of them have been unprofitable.

With regard to the first two arguments, we believe Habilidadat’s own words provide a better answer than anything we might say. These points have been discussed frequently in Habilidadat’s annual reports. Set forth below are some representative excerpts taken from several different volumes of these annual reports:

Vol. 3 (1973–1974)

“Habilidadat is striving to achieve financial self-sufficiency within the next two years, and the main avenue to this goal is expansion of its Sales Department.

...

“Besides helping us get closer to the time we will be truly self-reliant, the Habilidadat Sales Department is giving valuable training and work experience to many residents who may choose this as a career after completion of the program. The training process for our people in sales is thorough and extensive and standards of performance are completely professional.”

Vol. 4 (1974–1975)

“In just over a year the Sales and Marketing Division has become a strong part of Habilidadat, helping to establish financial self-sufficiency.

...

“The sales team canvasses the local business community, regularly, and also makes business promotional trips to neighbor islands, and several mainland cities periodically. There is an increased optimism that the work of the sales division will be able to support the organization financially within five years.

“The sales division not only provides a financial contribution to Habilidadat, but it is also a learning center for re-entry residents who can absorb valuable sales training and experience.”

Vol. 5 (1975–1976)

“Just as important is the operation’s efforts to become a self-reliant organization.

“Essentially, Sales and Marketing will solidify the economic foundation necessary to the program’s survival.”

Vol. 6 (1976–1977)

“The Sales Division is important in many ways. It helps Habilitat practice what it preaches—self reliance—by channeling profits back into salvaging more lives. It serves as a learning center to teach Re-entry residents vocational skills and offers career opportunities to program graduates.”

Vol. 7 (1977–1978)

“It’s a good thing that the goal of economic self-reliance was built into Habilitat from the start. The way things are going, the sooner we become independent of State and Federal funding, the better.”

In addition to the foregoing widely publicized statements, our review of the minutes of meetings of Habilitat’s board of directors indicates that when business activities came up for consideration, most of the discussion centered around the revenue-producing potential of these businesses. In fact, at one point the board authorized the establishment of a for-profit subsidiary which would handle the management of the businesses that were expected to be profit-producing. Therefore, we feel Habilitat is being disingenuous when it denies that revenue production is a goal of its business enterprises and when it comes up with an entirely new definition of what it means by “self-sufficiency.”

Approval of Expense Vouchers. Habilitat comments that expenses incurred by the executive director “have been consistently approved by an appointed member of the Board of Directors since early 1976.” This statement does not jibe with any of the information supplied to us during the audit. While it is true that in 1976 a member of Habilitat’s board was designated to approve these expenses, the effect of this action seems to have diminished over time to the point that such approval was no longer being exercised at the time of our audit.

For example, when this responsibility was transferred from one board member to another at the end of 1976, the member assuming the responsibility filed the following disclaimer with the board:

“At our meeting of December 20, 1976, the Board passed a resolution requiring me to approve Vincent Marino’s expense account vouchers. I am pleased to accept the assignment, contingent on this explicit understanding:

“In ‘approving’ these vouchers I do not imply that I have checked or verified reported expenses for amount, applicability to business, or validity; only that the items and amounts seem to me to be reasonable and consistent.

“If more rigid interpretation is desired please give me a formal guideline which I will follow. Otherwise I consider this my authorization to act with responsibility limited as described.”

At the time of our audit, this person was no longer a member of the board of directors. There is no indication in the board meeting minutes that this responsibility was ever passed on to another board member. Moreover, no mention is made in Habilitat’s general policy and procedure governing employee expenses of the procedure to be followed in the handling of expenses incurred by the

executive director. When asked about this omission, Habilitat's general manager informed us that the executive director advised the board of directors when he was going on trips but that the executive director's expense accounts were "reviewed" by Habilitat's controller.

In the absence of documentary evidence to the contrary, we had to assume that the general manager's statement was correct and that the executive director's expenses were not being approved by a member of the board of directors. We hope this deficiency has now been corrected.

Conflict of Interest. Habilitat in its response categorically states that Vincent Marino "never voted on matters affecting his compensation, fringe benefits, or those of his family." Habilitat concedes, however, that Marino did "sometimes" initiate such actions. Moreover, it states that "[i]t is possible that misunderstanding exists on this matter only because the minutes kept of board meetings in Habilitat's earlier years are acknowledged to be somewhat lacking in detail."

In cases such as this, the official written record as reflected in the board meeting minutes is the only basis available for passing judgment. In terms of detail, the early minutes are not significantly less detailed on formal actions taken than the more recent minutes. Over a long period of time, however, the minutes show abstentions on some occasions when these matters were voted upon, but indicates no abstentions in many other instances. In almost every case, Vincent Marino was a participant in the meetings.

Thus, it has to be assumed that Marino did indeed vote on matters affecting the economic interest of himself and his family.

In brief, the formal record does not support Habilitat's contention in this case.

Nepotism. To counter our discussion concerning evidences of nepotism within Habilitat, Habilitat in its response takes the position that qualification takes precedence over all other considerations in any application of this term.

We hold that this is an overly narrow and unreasonable use of the term, nepotism—particularly in reference to positions supported entirely or largely out of public funds. While it is probably true that the problems associated with nepotism are likely to be made worse if the persons employed are unqualified or incompetent, it is also true that serious problems can occur even when highly qualified relatives and friends are employed. For example, even persons with the best of intentions may unconsciously accord unequal and unfair treatment to those who are their relatives or close friends, in comparison to their treatment of all others in the same organization.

In the case of Habilitat, the situation is made more serious by the fact that Vincent Marino sits on the board of directors and has been able to wield such a dominant role within the organization. In the absence of any clear policies and procedures on the matter and of a real arm's length relationship between the executive director and the board of directors, no one can be sure that all members of the Marino family and all other related persons within Habilitat have been selected strictly on their merits and not on the basis of their relationships. Considering that Habilitat is so heavily dependent upon public funds, we do not feel this is a healthy situation from a public policy point of view.

Employees Serving on Board. Habilitat, in commenting on Habilitat employees serving on Habilitat's board of directors, asserts that only two employees other than Vincent Marino have ever

sat on Habilitat's board of directors. This assertion is seriously at variance with the official records of Habilitat as set forth in minutes of meetings of Habilitat's board of directors and general membership. According to these records, at least eight employees have served on the board of directors.

During the time periods when the employees served on the board, a number of formal votes were taken relative to compensation and benefits for Habilitat employees. More often than not, however, the minutes of the board meetings do not record the employees as abstaining from voting.

Resource Used for Stipends. Habilitat offers one explanation here of the source from which it obtained funds to pay large stipends to its residents under the "red tag" program. However, this explanation not only is unreasonable but also is not consistent with the explanation provided in Habilitat's comments on chapter 12. In this instance, Habilitat indicates that during the time when residents received no stipends or very small stipends, it held in reserve the welfare payments received by such residents (except for the small amounts paid out in stipends) and then used these reserves to pay the large stipends received when the residents were in the advanced stages of the rehabilitation program.

This explanation is unreasonable for two reasons. One is the fact that most of the welfare funds received on behalf of these residents was, or should have been, used to defray the costs of their room, board, and maintenance. In addition, Habilitat's accounting system was not set up in such a manner that it could possibly have kept track of building up such reserves and then paying them out to the affected individuals in the form of stipends.

Besides being unreasonable for the reasons stated above, this explanation does not fit with the statement made in the comments on chapter 12 where Habilitat says that all welfare payments were placed in a common pool which Habilitat felt it could use at its complete discretion.

Financial Management Reporting System. While acknowledging past deficiencies in the area of financial management, Habilitat in its response indicates that significant improvement has been made in the past couple of years—particularly in terms of involvement by its board of directors in major organizational matters and financial decisions. It further states that its board of directors is satisfied with the present financial information system which Habilitat claims has been functioning since mid-1977.

We agree that a number of improvements in Habilitat's financial management had been made between 1977 and 1978. We hope, too, that this trend of improvement has continued during 1979 since the completion of the field work on our audit. Nevertheless, it must be recognized that significant inadequacies still existed in fiscal year 1978. This is abundantly evident from the number of discrepancies in the financial management area disclosed during the course of our audit and reported herewith.

With regard to Habilitat's financial management reporting system, we acknowledge that during at least part of fiscal year 1977 fairly detailed financial reports were generated and provided to Habilitat's board of directors. However, the most recent of such reports which Habilitat was able to supply to us was the one submitted to the board in March 1977. No such reports were given to us for fiscal year 1978 and we were advised that such did not exist. For the last six months of 1978 (during part of which time we were conducting our field work on this audit), no such reports could be prepared because no budget was developed and submitted to the board until late November 1978.

In view of the foregoing, we believe the audit report accurately describes the status of Habilitat's financial management operations through the end of 1978.

Resignation from the Board. Habilitat states that to the best of its knowledge, no member of Habilitat's board of directors have left the board due to differences with Vincent Marino concerning compensation and benefits affecting him. To broaden that knowledge, we set forth below some excerpts from Habilitat board meeting minutes and from a letter of resignation filed with the board meeting minutes:

From one letter dated November 8, 1971:

"Secondly, although somewhat related, is my dissatisfaction with the past necessity of wasting limited time needlessly in clarifying the apparently contradictory images our organization often presents to the community—that is, that of an organization unable to provide for the most basic needs of our residents but sufficiently funded to compensate our staff more generously than do other similar organizations locally. I am seriously concerned with the values of our staff and the priorities they project as role models for our residents. Their apparent preoccupation with salary and apartments and with symbols of power and authority that frequently appear to be diametrically opposed to the values we hope to import to our residents."

From the minutes of the board meeting held on July 8, 1974:

"2. A motion was duly made, seconded and unanimously carried that the Board accept with deep regret the resignation of Jerry Greenspan [who had been president of Habilitat] as a member of the Board of Directors and as President of the Board. Among the reasons for his resignation were the compensation level and benefits received by the Executive Director."

In addition to the foregoing, two other former board members whom we interviewed expressed similar sentiments as contributing to their departure from Habilitat's board of directors.

Safeguards on Funds Earmarked for Capital Purpose. We find Habilitat's response to be confusing and contradictory relative to our finding regarding Habilitat's failure to place proper safeguards on funds earmarked for capital purposes. Habilitat states that the accounting system does adequately provide for the proper classification and segregation of funds received as well as the identification at all times of funds restricted as to use. Habilitat points out that unexpended restricted funds have always been covered by assets, such as marketable securities, which have substantially exceeded the balance of such restricted funds.

First, Habilitat's statement that restricted capital funds have always been safeguarded is incorrect. As of June 30, 1978, the capital fund restricted balance was \$177,820 which represented the net receipts from the 1977 and 1978 telethons. However, as of June 30, 1978, Habilitat had only \$109,547 in cash and marketable securities in the capital fund to cover this restricted balance of \$177,820. This shortfall is the result of interfund transfers which Habilitat agrees cannot be repaid without seriously affecting the operations and programs of Habilitat.

Second, although Habilitat states that the accounting system adequately controls the use of restricted funds, it takes exception to the validity of this formal accounting system. Habilitat seems

to be saying that the formal accounting system is meaningless. To wit: (1) the capital fund is not a capital fund because many of the receipts earned by this fund are not necessarily earmarked for capital improvements; (2) a secondary, but equally important, purpose of the capital fund is to subsidize the general fund and the sales and marketing department's vocational training activities; and (3) the third fund—that pertaining to the sales and marketing division—is really a subdivision of the capital fund.

In essence, Habilitat is saying that there is one fund and that the accounting system is simply a formality.

Allocation of Administrative Costs Among Funds. Habilitat agrees that it was in error by failing to allocate administrative costs among the various funds during the fiscal year ended June 30, 1978. However, Habilitat states that even had all administrative costs been properly allocated in the fiscal year ended June 30, 1978, the general fund would still have incurred a substantial deficit; consequently, it would be impossible for any such charges to be improperly borne by the government. Further, according to Habilitat, the general fund very frequently requires subsidization by the capital fund. Habilitat sees no significant impropriety in this entire matter of administrative cost allocations and interfund transfer as long as restricted funds are not used for purposes other than intended, and as long as government funds are not used for nonclinical requirements.

Habilitat's response again shows the lack of regard it has for its own formal accounting system.

It appears that Habilitat's performance relative to administrative costs and allocations and interfund transfers fails to meet its own definition of impropriety. Habilitat did transfer funds out of the capital fund in excess of the restricted fund balance, and Habilitat did use government funds for nonclinical requirements in the form of improper stipend payments to red tag residents.

Documentation Supporting Expenditures. Habilitat in its response states that "[t]o the best of our knowledge, reimbursement vouchers for travel, business meals and entertainment are generally adequately documented."

During the conduct of our audit, we found the supporting documentation to be inadequate. In many cases, there was no evidence to indicate that the expenditure had even been incurred. For example, there were two business luncheon reimbursements to the executive director amounting to \$568 for which no receipts were provided and no indication given as to where the money was spent or who was entertained.

DEPARTMENT OF SOCIAL SERVICES AND HOUSING'S RESPONSE

While acknowledging the existence of certain problems noted in the audit report, DSSH in its response takes issue with and comments on several of our findings. DSSH has also brought to our attention a minor error in the preliminary audit report which we have now corrected in the final report. These several matters are discussed below.

Program Monitoring by DSSH. DSSH appears to agree that its monitoring is less than satisfactory, but then goes on to cite limited manpower resources as preventing the agency from spending sufficient time for on-site reviewing and assessing each contractor's performance. No on-site visitations to Habilitat were made by DSSH's POS monitors from November 1976 until

February 1979. Moreover, by DSSH's own admission to Habilitat at the time, the 1976 evaluation was hasty and superficial (for example, only one resident's record was reviewed) and should have been followed up shortly by a more thorough review. Yet, some 26 months elapsed before another visit was made, and this occurred only after considerable controversy had arisen and a great deal of publicity and public attention had been focused upon Habilitat. In the interval, monitoring was confined entirely to the receipt and review of written quarterly activity reports submitted to DSSH by Habilitat.

DSSH takes issue with our conclusion that little, if any, improvement had been made to correct deficiencies (relating to the monitoring of POS contracts) that were brought to DSSH's attention by a consultant in 1977. Based upon our audit findings, we fail to see how any claim for great improvement could be substantiated.

Coordination of Governmental Efforts in the Field of Substance Abuse and Addiction. DSSH in its response stresses the categorical nature of most public funding and indicates that it is extremely difficult, if not virtually impossible, to get program administrators to think or act beyond the narrow confines of their individual categorical programs. DSSH concedes, however, that such a fragmented approach leaves important policy and management areas unsupervised and unscrutinized. Rather than suggesting any answers, DSSH simply poses additional questions regarding the fixing of responsibility and accountability in such cases.

We do not find such a response to be adequate or acceptable. In the first place, the categorical programs pertaining to Habilitat are much more intimately interrelated than DSSH's response would tend to imply. In some instances, the same personnel administer more than one of the categorical programs. In other instances, qualification for one program is dependent upon qualification under another program. Hence, program interaction takes place whether or not this is administratively recognized and properly taken into account.

Second, while it is true that programs are set up categorically, it is also true that many related programs are placed under a single department. One of the main purposes of such an organizational arrangement is to bring about needed coordination among related programs. Thus, it is DSSH's responsibility to insure that adequate coordination is achieved among all categorical programs under its jurisdiction.

Third, with respect to interrelated programs which are separated by departmental jurisdictional boundaries, it is the responsibility of the affected departments mutually to develop effective means of coordination among related programs. In the case of programs relating to substance abuse, the legislature has statutorily assigned to DOH (section 321-193, HRS) the responsibility to "[c]oordinate all substance abuse programs" and to "[p]repare, administer, and supervise the implementation of a state plan for substance abuse." In view of this assignment, DOH should take the leadership in achieving coordination among programs in the field of substance abuse and addiction.

Question of Exercising Formal Control over Private Agencies Receiving Large Amounts of Individually Related Support Payments. DSSH questions whether it can or should try to exercise some type of formal control over or hold financially accountable organizations, such as Habilitat, which receive and expend large amounts of government funds designated to go to individuals. The department makes much of the point that many of its programs are geared to provide support to individuals and that, technically, it is dealing only with individuals in carrying out these

programs. Hence, there is no way to recognize or accommodate “middleman-type” organizations, such as Habilitat, in the relationship between DSSH and individuals participating in the programs unless the individuals are incompetent and incapable of handling their own funds. In short, DSSH seems to be saying that it should close its eyes completely as to how Habilitat uses the large sums of money flowing into Habilitat from such DSSH-administered programs as general assistance and food stamps.

In this case, we feel DSSH is taking an overly narrow, restrictive, and unrealistic view of its authority and responsibility. Dealing with individuals in an institutional setting can be quite a different matter from dealing with individuals who are truly independent and in control of managing their own private lives. To ignore this difference is neither a reasonable nor responsible course to follow.

For example, in the case of Habilitat, residents receiving welfare assistance are certified as incapacitated in terms of being able to hold a job. When they enter Habilitat, they grant a power of attorney to Habilitat and they place their daily lives under the full control and management of Habilitat. Habilitat then receives their welfare and food stamp payments on their behalf; the residents do not even have to see the welfare checks before the checks are deposited to Habilitat’s account. From that point on, Habilitat exercises complete discretion over the disbursement of the funds received. As the audit report points out, such funds may end up being used for purposes other than providing food, shelter, and maintenance for the designated welfare recipients. For instance, such funds are apparently the source from which stipends were paid improperly to participants in the “red tag” program.

Under such circumstances as these, we feel that it is seriously deficient on the part of DSSH to maintain the fiction that it is dealing only with individuals and that it has no obligation to hold Habilitat accountable for proper management of welfare payments received by Habilitat. In fact, in at least one instance, DSSH itself has recognized its authority and responsibility in this area and has held Habilitat—rather than the individuals involved—accountable for the illegal receipt of welfare payments. This is the case cited in DSSH’s response where DSSH sought and recovered from Habilitat funds which had been paid to ineligible welfare recipients who were residents at Habilitat.

In summary, we reiterate our recommendation that DSSH take appropriate steps to exercise more effective control over private agencies which are the indirect, as well as direct, recipients of substantial amounts of social welfare funds.

Correction of Discussion Concerning Restrictions on Salary Increases Allowed Under POS Contracts. DSSH has called our attention to an error in the preliminary audit report which has been corrected in the final report. Involved is a discussion in the audit report concerning apparent circumvention of DSSH’s guidelines governing the amount of salary increases allowable under the POS contracts. In the preliminary draft we indicated that the guidelines set a limit of 8 percent on salary increases and we attributed the guidelines to requirements imposed upon the State by the federal government. The limit specified in the guidelines was 6 percent, not 8 percent, and the initiative for the limit apparently came from DSSH, not the federal government.

DEPARTMENT OF HEALTH'S RESPONSE

The department of health has confined its comments only to chapter 4 of the report. The chapter discusses the difficulties in evaluating a program where knowledge, information, and agreement are lacking. Although DOH in its response expresses general agreement that there is a great deal we do not know about the subject of substance abuse and addiction and about the role which agencies like Habilitat do, can, and should play with regard to this subject, the department takes issue with several particular points. Specifically, the department's comments relate to: (1) the definition of substance abuse, (2) sparsity of data relative to drug abusers, (3) social costs relating to the drug program, and (4) adequacy of monitoring Habilitat's drug treatment activities.

Definition of Substance Abuse. DOH—after characterizing attempts to be more precise and definite in this field as “futile”—says that it takes a “heuristic” approach where substance abuse is regarded to include any use of psychoactive substances which causes dysfunction in some area of life. Such a definition of its sphere of concern is, of course, so open-ended and all encompassing as to be virtually meaningless as a guideline for program action.

Accuracy and Completeness of DOH Data on Substance Abusers. After being unable to provide us with any clear picture of the substance abuse and addiction problem in Hawaii while we were conducting the audit, DOH now seems to feel it has a firmer grasp on the situation. As evidence, it states that it has collected and analyzed over a period of one year data from over 30 treatment units in the State. The department claims that this activity now provides “an impressive and complete picture of the substance abuse treatment population in Hawaii.” If so, however, this is only part of the total picture. Still left unknown is the extent, severity, and effects of substance abuse and addiction among the much larger portion of the population which does not come into contact with any of the treatment units.

Even the accuracy and completeness of the data are subject to question and challenge. This is true for at least two reasons. One is the fact that there is no independent verification of any of the information fed into DOH's information system. DOH must rely upon Habilitat and the other treatment units for the information it receives. Such information is generally obtained through interviews with clients. Due to a variety of factors, there can be no assurance that such information is reported correctly and consistently—especially when there is no verification or quality control mechanisms built into the system.

Another reason why DOH's information system cannot be accepted as completely accurate is the fact that compliance with confidentiality requirements makes it impossible to identify and screen out duplications resulting from clients becoming involved with more than one of the treatment units. It is known that some individuals go from one treatment program to another, but the extent of this movement is unknown. Some distortion is bound to occur whenever the same persons are counted as separate individuals every time they enter different treatment programs. So long as the extent of the distortion remains unknown, any overall data on the subject must be approached with great caution.

Determining the Social Costs of Drug Abuse. DOH in its reply denigrates any effort to determine the social costs of drug abuse on the grounds that it would be prohibitively expensive to carry out and, if done, would prove no more useful than the present method of estimating—or, as more accurately described, the present method of “guesstimating.” DOH then proceeds to state an off-the-wall estimate that “transfers for heroin purchase in Hawaii are between \$20 and \$60 million

per year” and uses the lower amount of this range to justify all the rehabilitation efforts now being carried on in the State.

Such statements betray a number of weaknesses and fallacies. First, it is hard to say what the costs would be of trying to make such a determination if no real effort has ever been made to carry out such a task. Therefore, there does not seem to be any adequate basis for automatically rejecting efforts in this area because of the high costs involved.

Second, we find it a bit astonishing that anyone in DOH’s position would be willing to assume automatically that researched and refined information would be no more helpful than unsubstantiated estimates. Third, we are also astonished at how carelessly DOH throws around estimates—really “guesstimates”—in an area where so little basis exists for making estimates.

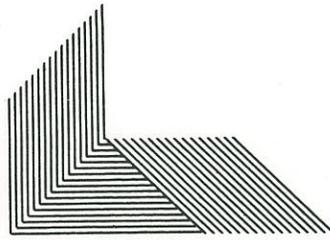
Program Monitoring. Although DOH in its response mentions limited manpower resources and the department’s relative newness in the field of substance abuse as factors inhibiting its monitoring performance, it focuses most of its discussion upon the monitoring activities it does perform. The exhaustive detail in which some aspects of these activities are described makes it difficult, however, to winnow out the main points of the discussion. For example, the response contains one quotation almost three pages long regarding objectives and implementation of a management systems development project undertaken for DOH by a consulting firm. Similarly, more than a page is devoted to a description of a training program put on by DOH for personnel in agencies such as Habilitat.

As can be seen from DOH’s response, the alcohol and drug abuse branch (ADAB) is placing great emphasis upon the development and implementation of an elaborate recordkeeping system built around an individual record for each client in each participating program. A review of DOH inspectors’ quarterly reports on visitations made to Habilitat reveals a similar emphasis—they strive very diligently to make sure all required forms are in the files and are properly filled out. However, one will search in vain to find in these quarterly reports any clear or comprehensive picture of what is happening or not happening at Habilitat in terms of program management and program development.

Perhaps the best indication of the inadequacy of these prior monitoring efforts is provided by DOH itself. Recently, a separate branch of DOH has made an inspection of Habilitat for purposes of licensing the facility. This inspection turned up a large number of deficiencies requiring correction—including a number in the area of program direction and management which should be matters of keen concern to ADAB. Yet, none of these deficiencies were ever hinted at in ADAB’s quarterly reports on Habilitat extending back several years.

Thus, ADAB in its monitoring efforts either was unable to detect these deficiencies—despite their clear relevance to Habilitat’s program—or chose not to do anything about them. In either event, the results cannot help but reflect adversely upon the effectiveness of ADAB’s program monitoring.

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
465 S. KING STREET, RM. 500
HONOLULU, HAWAII 96813



ATTACHMENT A

CLINTON T. TANIMURA
AUDITOR
RALPH W. KONDO
DEPUTY AUDITOR

August 10, 1979

Mrs. Karen White, President
Habilitat, Inc.
P.O. Box 801
Kaneohe, Hawaii 96744

C
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Dear Mrs. White:

Enclosed are four copies of our preliminary report of the *Management Audit of Habilitat, Inc.* These copies are for review by members of the Board of Directors of Habilitat, Inc. Two copies of this report have been transmitted to Mr. Vincent Marino, Executive Director of Habilitat, Inc. As is customary, we have also distributed copies of this preliminary report to the Governor, the presiding officers of both houses of the Legislature, and the directors of the state agencies (Department of Social Services and Housing and the Department of Health) affected by the audit.

The report contains a number of recommendations. We would appreciate receiving your comments on the recommendations, including the actions that have been taken or will be taken with respect to the recommendations. We request that you submit your written comments to us by Wednesday, August 29, 1979. Your comments will be included as part of the final report.

Since the report is still not in its final form and changes may possibly be made to it, the circulation of this report should be restricted solely to those officials of your organization whom you might wish to call upon to assist you in your response. Public release of the report will be made by our office after the report is published in its final form.

If you wish to discuss the report with us, we will be pleased to meet with you, at our office, on or before Wednesday, August 22, 1979. Please call our office for an appointment. If we do not hear from you, we will assume that a meeting is not necessary.

We appreciate the assistance and cooperation extended to us during the examination.

Sincerely,

Clinton T. Tanimura
Legislative Auditor

Enclosures

Vincent Marino
Founder and
Executive Director



Post Office Box 801
Kaneohe, Hawaii 96744
Phone: 235-6411

September 26, 1979

RECEIVED

Mr. Clinton T. Tanimura, Auditor
Office of the Auditor
State of Hawaii
465 S. King Street
Room 500
Honolulu, HI 96813

SEP 28 3 09 PM '79

OFFICE OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Tanimura:

Enclosed are the comments assembled by Habilitat's Board of Directors and staff on the preliminary report of the Management Audit.

Both the basic text and the recommendations have been studied thoroughly. Although we take exception to a great deal of the material in the body of the report, we find most of the recommendations to be essentially sound.

It should also be of significance that many changes have been made since the period of the audit (up to the end of the 1977-78 fiscal year), particularly in the financial area. These changes were initiated primarily at the recommendation of our auditor, Clay and Ohata. Enclosed is a copy of a letter of September 14, 1979 from Mr. Rex Clay verifying that the weaknesses previously pointed out have been corrected. This is one of the many examples of Habilitat's attempt to comply with recommendations made to the organization.

It is our obligation to point out that many of the statements in the audit lead us to believe that the authors of the report do not fully understand the complexity of the field of treating drug abusers and persons with character disorders. For instance, they appear to be measuring Habilitat's business enterprises by "normal business standards" and refer to organizational instability as a negative factor, when to change quickly and frequently is necessary in a therapeutic community. We are proud of our 30% to 40% success rate, an extremely high percentage of success in this particular field and

Board of Directors

Karen White
*President and
Chairperson*

Vincent Marino
Vice President

Mona Altiery
Secretary

Jerry Fellows
Treasurer

Members

Charles McLaughlin
Jean Cornuelle
Randy Vitousek, Esq.
Frank Haines
Rev. Stephen Hanashiro
Russell Francis

Ex-Officio Associate Members

Edward Taubman
Marvin Rubenstein

Vincent Marino
Founder and
Executive Director



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Mr. Clinton T. Tanimura
Page 2
September 26, 1979

resent remarks such as "Habilitat is apparently helping some people"...."some indications and many claims....of success".

The names and professional qualifications of those staff members of your office who conducted the evaluation of the treatment aspect of our organization should be included in the audit; so that the legislators can put the report in proper perspective.

In conclusion, we understand that it is your obligation to publish our complete comments and the additional back-up information transmitted herewith when you finally publish the audit.

Very truly yours,

A handwritten signature in cursive script, appearing to read "F. Haines", written in dark ink.

Francis S. Haines
Acting President of the Board

FSH:bd
Encl.

Board of Directors

Karen White
*President and
Chairperson*

Vincent Marino
Vice President

Mona Altiery
Secretary

Jerry Fellows
Treasurer

Members

Charles McLaughlin
Jean Cornuelle
Randy Vitousek, Esq.
Frank Haines
Rev. Stephen Hanashiro
Russell Francis

Ex-Officio Associate Members

Edward Taubman
Marvin Rubenstein

**COMMENTS BY HABILITAT'S
BOARD OF DIRECTORS
ON THE MANAGEMENT AUDIT OF HABILITAT, INC.**

(Designations of pages have been changed to conform to the pages of this final printed report. In addition to these comments, Habilitat submitted supplemental materials which are described on page B-64. The supplemental materials are not reprinted here due to their length. However, the supplemental materials are available for inspection in the office of the legislative auditor.)

Chapter 1 – Introduction

Page 3, left column, paragraph 3 – Habilitat offers an alternative statement of objectives for the audit which reads as follows:

The objectives of this audit were:

1. To destroy the credibility of Habilitat by attempting to define it in a medical-psychological modality, which does not apply.

(Refer to Congressional Report on Drug Abuse and Trafficking in the State of Hawaii, which is attached.) [Exhibit A]

Chapter 2 – Background: Basic Characteristics of Habilitat

Page 5, left column, paragraph 2 – Habilitat proposes the deletion of this paragraph and the substitution of the following:

Habilitat is a very simple and easily explainable entity. Habilitat is simply a therapeutic community which utilizes the concept of “ohana”, the extended family, and it is designed to take an individual who is unable to manage his life and teach him to be a person who is productive, responsible and self-sufficient. Habilitat is considered a survival school.

Page 7, left column, beginning with first paragraph under heading, “Therapeutic Community,” and extending to the entire section under heading, “Conceptual base underlying the therapeutic community approach” – Habilitat proposes the deletion of all these paragraphs and the substitution of the following:

Habilitat operates under the concept of “ohana” (the family) that utilizes the concept of “ho’oponopono”, derived from ancient Hawaiian culture, wherein the family meets together to work out difficulties and problems that affect individual members. The group stays together until such difficulties and problems have been resolved. Habilitat has been called a “College of Survival,” and this is accomplished in an extended family atmosphere. Following is an excerpt taken from a pamphlet printed by the 95th Congress, 2d session in 1978, entitled Drug Abuse and Trafficking in the State of Hawaii:

“Perhaps one of the most successful of these programs is Habilitat—a residential therapeutic community which provides vocational job training. Basically, the program emphasizes a change in life-style; the individual is taught to be independent and self-reliant. Habilitat is unique because of the number of private business enterprises providing financial support and vocational rehabilitation opportunities for its participants. The treatment offered at Habilitat cannot be considered traditional in the medical or psychiatric sense, and, as a therapeutic community, its techniques have been emulated elsewhere.”

Copy of report is attached.

See exhibit “A” [*A copy of the congressional report which is cited*]

Page 7, right column, last paragraph (continuing on page 8) – Habilitat proposes the deletion of this paragraph and offers the following comment:

These are not psychological and sociological procedures being carried out. An excerpt from Congressional Report, *Drug Abuse and Trafficking in the State of Hawaii* (copy attached), states:

“One of the most successful of the drug treatment programs in Hawaii is Habilitat. Habilitat is a residential therapeutic community which provides vocational job training. The program rejects traditional approaches and emphasizes a change in lifestyle.”

It should be noted that according to Habilitat’s approach, the problems of the individual can be worked out through communication with other members of the ohana.

Page 8, beginning left column, section relating to induction – Habilitat offers as an alternative to the paragraph describing Habilitat’s induction process the following:

(See Exhibit “B”) [*16 pages of Habilitat’s induction forms*]

Induction – (Induction forms attached.) Although the resident must come into the program “clean,” it should be noted that Habilitat will make arrangements with local facilities for de-toxification if necessary. While undergoing the intake process, all applicants are given a full orientation of the program rules, regulations and expectations. These cardinal rules include—no violence or threats of violence; no use of drugs or chemicals; and no stealing. These rules apply to both staff members and residents. In sharp contrast with other institutions, physical and chemical restraints or the need for such, have never occurred at Habilitat. In the almost nine years of its existence, there has been only one very minor incident of violence. It should also be understood that Habilitat is a voluntary program—there are no gates or bars, and an individual is free to leave at any time. It should also be emphasized that Habilitat cannot be compared with other drug rehabilitation programs, which are actually drug maintenance programs, since the most difficult type of program is the one which is drug free.

Page 8, right column, first paragraph under heading, "Treatment" – Habilitat proposes the deletion of this paragraph describing Habilitat's treatment program and the substitution of the following:

Treatment. Habilitat does not engage in psychiatric mind control techniques. It is, in fact, an extended family (ohana), where the family is continually in touch on a 24-hour basis with each of its members. The treatment phase is the heart and soul of the program and is expected to last generally from 9 to 12 months. Habilitat residents are not at present, nor have they ever been, involved in the operation of the program. One of the main concepts of the ohana is that everyone in the ohana works and contributes to the maintenance of the facility and the group. Everyone contributes starting out with whatever they can contribute and gradually working up to more responsible contributions. The goal is an equitable exchange. Habilitat has found this to be the best way to restore self-respect in the individual.

Page 8, right column, last paragraph (continuing on page 9) – Habilitat offers the following comment on the discussion of the encounter game technique which it uses:

The concept of "ho'oponopono." In ancient Hawaii, insanity was quite rare. The stability of the family was maintained by a family meeting known as ho'oponopono. During this meeting, generally led by the head of the family, problems and pilikia were discussed and resolved to the satisfaction of all concerned. The ho'oponopono could last for many hours and included periods of singing, dancing and prayer to lighten the seriousness of the situation. However, members were protected and were able to say anything, short of violence or threats of violence, without fear of reprisal.

Page 9, left column, paragraph 3 – Habilitat offers the following comment concerning its high school education program:

(Refer to Exhibit "C") (Habilitat graduation picture attached). *[Picture of one group of Habilitat's high school graduates]* Habilitat has produced at least 221 graduates. In 1977 the program lost its funding for its educational program as a result of the firing of two of the teachers by Vincent Marino—one, for making sexual innuendoes to female students, and the other for undermining and ridiculing the program and its residents. At this time Habilitat is only partially funded for adult education and must provide 80% of its teacher's salaries.

Page 9, beginning left column, first three paragraphs under section headed, "Re-entry" – Habilitat proposes the deletion of the first two paragraphs of the description of its re-entry program and the substitution of the following:

Re-entry. The final phase has as its purpose the re-entry of the residents back into the larger community. At this particular time, a resident has remained drug-free for a minimum period of a year, and is expected of course, to remain drug-free for the duration of the program. This fact makes Habilitat particularly different from medical-psychiatric programs, in which

the residents would not have been drug-free for this period. While this is considered to be the most difficult of the phases, it has proven to be the most successful. At this time the resident will begin to learn and put into use the tools of survival. He is required to open a bank account and must save a minimum of 1/3 of his stipend. It should be noted that while the responsibility level of the work performed by the resident has increased, he is still not paid a salary. The work performed, however, is on a higher level aimed at true vocational development. The stipend is intended to teach the individual the value of money, and the art of budgeting and saving. He will be encouraged to continue with higher education if he so desires. Outside excursions are arranged and special instruction is given in sex education and survival techniques, such as learning to fill out an income tax return or purchase an automobile. Residents are also trained in how to present themselves in job interviews, and the difference between wants and needs is stressed in the learning process of making decisions. At this time the resident is also encouraged to become involved in outside activities, with regular trips to public libraries, athletic events and other social events such as University of Hawaii plays, movies, etc. He is also required to attend an Alcoholics Anonymous meeting once a week to give him exposure to another similar concept and to warn him of the possibility of exchanging a drug habit for an alcohol habit.

It is preferred, but not always possible, that residents in the re-entry phase live at a facility separate from that used for treatment. This is because of the large number of residents and the lack of funding. While it is true that residents are allowed free evenings, they leave the facility in the company of other residents.

Page 9, right column, paragraph 2 – Habilitat proposes the deletion of this paragraph and offers the following comments with respect thereto:

The auditor has attempted to minimize the scope of post-re-entry specialized vocational training away from the facility. Of the approximately 200 graduates of Habilitat, it is true that approximately 12 have been trained as beauticians. Others have attended night classes at various community colleges for training as secretaries, typists, stenographers, accountants, computer programmers, business managers, have been trained in the culinary arts, graphics and arts, automotive mechanics, architectural landscaping, creative writing, languages, law, medicine, marketing, aviation, agriculture and other fields. Among Habilitat's residents are several on dean's lists, and among the graduates, two have received B.A. degrees, and one has received a Master's Degree.

Page 10, left column, paragraph 1 – Habilitat proposes the deletion of this paragraph and comments as follows:

Although Habilitat has indeed had psychiatrists and/or psychologists on past boards, these people at no time had input into the day-to-day operation of the program. The formulation of the clinical program of Habilitat has been successfully accomplished by persons who have suffered the physical, emotional and spiritual pain and problems of drug addiction, alcoholism, etc. We have found that one of the reasons for the success of the program is because of its reliance upon graduates to guide the physical, emotional and spiritual development of its residents. Habilitat considers its clinical by-products to be professionals in their field. Habilitat's graduates speak only to the professionalism of the program itself.

Page 10, left column, paragraph 2 – Habilitat offers the following comment concerning the decisionmaking process observed in Habilitat’s clinical operations:

It should be noted that this is a direct attempt to discredit the methods by which decisions are reached. The executive director by all means reserves the right to veto any decision which could potentially harm the organization or affect the well being and safety of the residents.

Page 10, beginning left column, last paragraph – Habilitat offers the following comment regarding the youthful age of its resident population:

Refer to Exhibit “A” [*The congressional report cited*]. It should be noted that over 50% of Hawaii’s population is under 30 years of age, which is also the high-risk bracket for drug abuse; (Reference: Congressional Report, *Drug Abuse and Trafficking in the State of Hawaii*, page 7, copy attached.) Nationally, the average life span of a drug addict is 35 years. There are very few old heroin addicts or people who have hard core addiction problems. Once again, Habilitat operates in the correct area.

Page 10, right column, paragraph 2 – Habilitat proposes the deletion of this paragraph relating to the staffing of Habilitat and offers the following comment:

Residents are not now, nor have they ever been, considered as employees.

Page 12, left column, paragraph 2 – Habilitat proposes the deletion of this paragraph relating to its fundraising and solicitation activities and offers the following comment:

No telethon of Habilitat’s has netted over \$200,000 in donations. Furthermore, the focus of our annual telethon has always been education and prevention as well as to raise funds. Habilitat sponsors a luau on an annual and sometimes bi-annual basis, but never twice a year. The tone of this paragraph is an obvious attempt to disparage our custom of inviting the community to help us celebrate the high school graduation of our residents.

Page 12, beginning left column, last paragraph – Habilitat proposes the deletion of this paragraph describing the general use made of revenues obtained through Habilitat’s sales and fundraising activities and offers the following comment:

Revenues are used in whatever area of the program they are needed at the time, except for those specifically earmarked for capital improvements, i.e., trust and foundation monies.

Page 12, right column, paragraph 1 – Habilitat offers the following comment concerning this paragraph which describes Habilitat's overall cash flow and funding structure:

Capital fund includes such departments as lawn and garden, Progressive Design, fund raising, etc.

Page 12, right column, paragraph 2 – Habilitat proposes the deletion of this paragraph concerning the amount of government support received by Habilitat and offers the following comment:

The revenue of direct government funding in relationship to audited revenues of the General Fund as stated in the audited financial statements for the fiscal years '77 –'78 are 45% and 55% in comparison to gross revenue percentage of 98%.

Page 12, right column, paragraphs 3 and 4 (continuing on page 13) – Habilitat offers the following comment concerning these two paragraphs which describe the types of governmental financial support received by Habilitat:

A review of 70 files chosen at random revealed a daily drug use cost of a low of \$55 and a high of \$450. The average daily cost of usage for these 70 people was \$125 per day. This means that each person has to steal property and/or merchandise valued at approximately four times the amount of the average daily use, or \$500. Based on these figures, the cost to the community is \$35,000 per day. Over a one year period, Habilitat will have saved the community almost \$13 million in stolen property alone, not to mention the savings in crime prevention, and trauma to the victims, family and friends of the drug addict. We believe Habilitat is the most cost effective program in the state, with a cost per year per resident of \$7,200, such as Hawaii State Prison, Hawaii State Hospital, HYCF, ATF and other programs who utilize psychiatric/medical conventions with their exorbitant costs. Furthermore, graduates of Habilitat go on to become productive, taxpaying citizens. It should also be noted that the average lifespan of the hard core addict is 35 years. The average age of Habilitat's graduates is 23. Assuming that each graduate drug addict would have continued a drug dependent lifestyle for 12 more years, the projected saving to the community is astronomical.

Page 13, left column, paragraph 1 – Habilitat offers the following comment concerning this paragraph which describes some specialized types of welfare received on behalf of a limited number of Habilitat's residents:

What would be the cost to the government, welfare, the community if all these individuals were not with Habilitat, yet receiving welfare and not reaping the self-reconstructing benefits we offer. For that matter what would it cost to have 129 individuals receiving medical/psychiatric attention for even 5 hours a week?

Page 13, beginning left column, last paragraph – Habilitat proposes the deletion of this paragraph relating to Medicaid assistance received by participants in Habilitat's program and offers the following comment:

Employees of Habilitat have a choice of HMSA medical coverage or Kaiser. These medicaid payments are not reflected in the financial reports because they are not Habilitat expenses.

Page 13, right column, paragraph 2 – Habilitat offers the following comment on this paragraph describing the Habilitat I facility located in Kaneohe:

The major facility which Habilitat has purchased on an agreement of sale is its Habilitat I installation on the shores of Kaneohe Bay.

Page 13, right column, last paragraph – Habilitat proposes the deletion of this paragraph describing its use of a state-owned facility in Kaneohe and offers the following comment:

Habilitat pays a nominal rent, pays all utilities, and has invested money for the upkeep, maintenance and improvement of this state-owned facility.

Page 14, left column, paragraph 2 – Habilitat offers the following comment concerning the two staff houses in Kailua owned by Habilitat at the time of our audit:

It is documented intention of Habilitat to retain this residence [of the executive director] on a long-term basis. The other staff house in Kailua was sold on May 1, 1979, at a profit of approximately \$30,000.

Page 14, beginning left column, last paragraph – Habilitat offers the following comment concerning Vincent Marino's role in the organization:

The statement that Habilitat is a projection or embodiment of Vincent Marino is an attempt to invalidate the contribution of many people to Habilitat since its inception in 1971—not the least of whom are its graduates who have accomplished in similar fashion what Vincent Marino has done for many years to rid themselves of drug addiction and become tax-paying citizens. Others who should be noted are the board of directors, staff members of the business community and many entertainment personalities. All these and more must be taken into consideration when defining what makes up Habilitat.

Page 14, right column, paragraph 2 – Habilitat proposes the deletion of this paragraph relating to participants in the creation of Habilitat and offers the following comment:

Thirty-three percent of Habilitat's original employees are presently employed.

Page 14, right column, last paragraph – Habilitat proposes the deletion of this paragraph summarizing Vincent Marino's role in the organization and offers the following comment:

Habilitat has many spokespersons and representatives, including an in-house public relations person, community services department, sales and marketing people who represent Habilitat here and on the mainland, the acquisitions teams and the board of directors.

Use of word "father" is an obvious attempt to substantiate [*last paragraph, left column, page 14*]. Mr. Marino has never made a unilateral decision which would affect the total organization without the counsel of either the board of directors, or key staff, or both. This is an obvious attempt to discredit and/or invalidate the contributions of the board and the staff, who collectively spend hundreds of hours initiating policy, procedures, etc. The vicious innuendoes contained in the last sentence of this paragraph are an embodiment of the nature of vicious attacks on Vincent Marino contained throughout this report.

Chapter 3 – Introduction (Part II)

Page 17 – Habilitat proposes deletion of the entire section, "Summary of Findings," and offers the following comments:

Habilitat embodies 500 to 600 years of first hand experience in the area of substance abuse and addiction, unlike medical/psychiatric fields where directors and clinical staff have no personal reality of the emotional pain and suffering and spiritual travail of heroin addicts. Habilitat's experience is best exemplified by the fact that it has produced some 221 valuable final products from the program.

(Attach copies of building master plans related invoices, expenditure reports, etc.) (Refer to Exhibit "D".) [*Habilitat's Exhibit "D" consists of nine pages of various documents, letters, and financial summaries relating to expenditures which Habilitat has made or plans to make for capital acquisitions and improvements.*]

Chapter 4 – Obstacles to and General Lack of Evaluation of Habilitat's Program of Treatment, Rehabilitation, and Prevention.

Page 18, left column, first paragraph – Habilitat proposes to add the following words to the last sentence of the first paragraph:

"which they do."

Page 18, section under "Summary of Findings" – Habilitat proposes to delete the entire section under the heading, "Summary of Findings," and offers the following comments:

It is obvious that the lack of agreement as to the use or degree of use of substances acceptable or unacceptable exists primarily in the medical/psychiatric field. Habilitat does not engage in such muddled medical "double think". There is no acceptable degree of substance use or abuse.

Habilitat does not engage in probing cause and effect evaluations such as, "I took dope because my mother smoked cigars." This is another obvious medical/psychiatric convention. We are not concerned whether a person shot dope because his mother smoked cigars; we are concerned with the person's desire and motivation to discontinue his self-destructive lifestyle.

There are no obstacles pointed out by this audit for Habilitat to remove. Habilitat has no obstacles to the evaluation of its program in any way.

Page 18 to 22, section under "Obstacles to Effective Program Evaluation of Habilitat's Performance – Habilitat proposes the deletion of almost the entire section which contains a discussion on the obstacles that stand in the way of making an effective evaluation of Habilitat's performance in the field of substance abuse and addiction. Habilitat comments as follows:

The following paragraphs "Obstacles to Effective Program Evaluation of Habilitat's Performance" (pg. [18] through [20] inclusive) certainly do not apply to Habilitat or its functions. This too, could only be applicable to a facility which follows the medical model.

Pages [20] through [22] in Chapter 4. This chapter is not applicable to Habilitat but is typical of the kind of thinking which has made the medical/psychiatric field a total failure in the area of treating drug abuse. Philosophizing, analyzing, criticizing, categorizing, and double-talking has created an inability to recognize a successful result when they see one. Habilitat has a majority of graduates who are off drugs, and are responsible, productive, tax-paying citizens. Habilitat has its own definition which we live by and it works.

[Scarcity of reliable usable data]

The attached documents clearly show that our record keeping is not only adequate, but exemplary. Not only have Habilitat's files been held up as models for other programs, as stated by Dr. Fred Glaser, Director of Toronto's Drug Addiction Research Center, but we have also been commended by ADAB. (Article attached.) Dr. Glaser is a physician, psychiatrist and expert in the field of drug and alcohol abuse. Due to the fact that it would take two to three years and approximately \$300,000 to conduct an in-depth follow-up study of Habilitat's graduates, if any agency would like to appropriate funds, Habilitat would be happy to provide any and all background information needed to conduct such a study. Habilitat is willing to match its graduates against any other institution in the state, be it public or private, for a comparison of success rates. (Refer to Exhibit "E".) *[41 pages of various materials—news clippings, curricula vitae, press releases, board of directors' minutes, correspondence, evaluation reports, etc.—relating to consultants who have visited Habilitat or have made evaluations of Habilitat's program.]*

[Narrow versus broad focus of Habilitat's program]

Habilitat helps people; it is not a symptom treatment facility. Unlike medical/psychiatric facilities who address the symptoms of drug addiction with psychotropic medication methods (mind altering chemicals), or substitute one addiction for another, as with methadone,

Habilitat is a drug abstinence program, which helps people reconstruct their lives in order to become self-reliant, self-respecting, productive individuals. The approach is applicable to a broad range of problems affecting people.

Habilitat does, in fact, presently have residents in the program under the age of 16. Habilitat offers a 14-year-old runaway the atmosphere of a safe, positive, encouraging, disciplined environment, unlike the environments of the state facilities where violence and fear is an everyday way of life.

The "hazy duality" exists solely in the hazy mind of the writer in that Habilitat could not be less interested in the meaning of its results relative to the treatment of drug abuse and addiction. We are more concerned with its meaning relative to the salvation of human life. Of the 221 graduates to date, 140 were in fact hard drug users. These statistics are worthy of comparison, specifically to other drug treatment programs. In addition, of our present population of 114 residents, 80 are classified as hard drug users, i.e., opiates and barbiturate users.

Page 22, right column, first paragraph under section, "Absence of Internal Program Evaluation" – Habilitat proposes the deletion of the paragraph and offers the following comment:

No real obstacles to effective program evaluation have been cited in this report.

Page 23, left column, paragraph 2 – Habilitat proposes the deletion of the paragraph relating to the number of outside evaluations made on Habilitat's program and offers the following comment:

In fact, at least six documented evaluations have been done by outside authorities since June, 1971. (See attached documentation: F. Natale, Dave Deitch, Fred Glaser, John Maher, Densen-Gerber.) (Refer back to Exhibit "E"). [41 pages of various materials—news clippings, curricula vitae, press releases, board of directors' minutes, correspondence, evaluation reports, etc.—relating to consultants who have visited Habilitat or have made evaluations of Habilitat's program.]

Page 23, left column, paragraph 3 – Habilitat proposes deletion of the paragraph which makes reference to Vincent and Vickie Marinos' association with another therapeutic program. Habilitat offers the following comment:

Vickie Marino was never a resident in any other therapeutic program other than Habilitat.

Page 23, beginning left column, last paragraph – Habilitat offers the following comment:

Among the favorable comments were the clinical record keeping, medical file, vocational training. (Refer back to Exhibit "E" – quoting Dr. Fred Glaser.)

Page 23, right column, paragraph 1, which quotes Dr. Glaser – Habilitat offers the following comment:

Misquote. Dr. Glaser said it should be a goal, not *Habilitat's* goal, to provide the wherewithal to perform follow-up research. He also said that the cost of such research projects would be approximately \$250,000 and would take anywhere from two to three years to complete.

Page 23, right column, paragraph 2 – Habilitat proposes deletion of the paragraph concerning lack of followup, and offers the following comment:

It has always been a policy of Habilitat to maintain contact with its graduates whenever possible.

Page 24, right column, paragraph 1 – Habilitat proposes deletion of the paragraph relating to assessments of the program externally and internally, and offers the following comment:

While it is true that external evaluations of Habilitat's performance are generally inadequate due to the state agencies' non-performance, Habilitat's assessment internally is a daily and on-going process via clinical staff meetings twice daily, department head meetings monthly, monthly organizational business encounter groups and weekly clinical meetings for the purpose of teaching staff development. This is all reported to the Board of Directors on a monthly basis.

NOTE: This is precisely why Habilitat has, on at least six separate occasions, used independent outside authorities to conduct clinical evaluations of this program.

Page 25, right column, paragraph 2, regarding the Comprehensive Annual Services Program Plan issued by DSSH – Habilitat offers the following comment:

Among similar programs in Hawaii, Habilitat is a forerunner of prevention and education. A good example of *prevention* is the annual telethon, whose primary purpose and objective is to educate the public. *Maintenance of rehabilitation services* is an ongoing project of Habilitat. *Establishment of new services where now lacking*, can be noted in such endeavors as Habilitat's past three proposals to operate the Hawaii Youth Correctional Facility.

Page 25, right column, last paragraph – Habilitat proposes deletion of the paragraph concerning the State's plan of priorities, and offers the following comment:

Habilitat has no need to wait for the state's plan of priorities to become "official" to implement the above mentioned plan. We are leading the state in the development of these priorities.

Page 27, right column, paragraph 3 – Habilitat offers the following comment regarding the lack of coordination between DOH and DSSH:

We have made countless requests that the two agencies coordinate and combine their efforts regarding the evaluation and monitoring of Habilitat. This would not only result in the desired efficiency, but would also allow Habilitat clinical staff time for the job they are being paid for, which is helping people, rather than doing paperwork.

Habilitat makes the same comment for the last paragraph on page 28 and the first paragraph on page 29.

Chapter 5 – An Assessment of Habilitat’s Program of Treatment, Rehabilitation, and Prevention

Page 31, beginning last sentence of left column – Habilitat makes a one-word comment relative to our first summary finding:

Biased.

Page 31, right column – Habilitat proposes deletion of our summary finding numbered 2b, and offers the following comment:

Habilitat has sought outside vocational training and career preparation experience and advice on several occasions. Refer to [page B-12 relating to the number of outside evaluations].

Page 32, left column, paragraph 1 – Habilitat proposes deletion of the paragraph relating to the tentativeness of claims of success of Habilitat’s treatment programs, and offers the following comment:

Because of obscure criteria the auditor used to evaluate the program and the invalidation he builds into each evaluation, the data the auditor seems to be showing is biased and shows an apparent inability to think with the data. If the auditor finds it difficult to substantiate such claims, he has no need to invalidate them either.

Page 32, left column, paragraph 3 – Habilitat proposes deletion of the paragraph relating to personal testimony as evidence of Habilitat’s success and offers the following comment:

Habilitat has 221 graduates. There are many other former residents, not included in that figure, who left the program prior to completion and are doing well, but for which Habilitat has taken no credit statistically.

Page 32, left column, last paragraph – Habilitat offers the following comment:

Among persons who are *not* critical of Vincent Marino and Habilitat, still more consider that Habilitat *AND* Vinny Marino *have* helped many persons in a very positive manner.

Page 32, right column, paragraph 1 – Habilitat proposes deletion of the first paragraph under the heading, “Quantification of Habilitat’s success rate,” and offers the following comment:

Quantifications of Habilitat’s success rate: Habilitat’s results are not comparable to other programs, not because of a lack of proper research controls as stated in the report, but rather due to the auditor’s inability to differentiate between Habilitat and other programs, his unwillingness to look at the figures and compounded by his inability to recognize a success result when he sees one, as evidenced by our 221 graduates. He also fails to distinguish between medical/psychiatric and therapeutic community approaches. This is a common blind spot, existing among state employees who are answerable, or collect their data, from the medical and psychiatric professions. Refer to [page B-4 relating to excerpt taken from congressional committee’s report,] where a report of the Select Committee on Narcotics Abuse and Control is quoted as follows: “The treatment offered at Habilitat cannot be considered traditional in the medical or psychiatric sense, and, as a therapeutic community, its techniques have been emulated elsewhere.”

Page 32, right column, paragraph 3 – Habilitat offers the following comment relative to our analysis of graduation statistics:

It must be understood that Habilitat’s criteria for ultimate success is infinitely higher than the medical/psychiatric “success” criteria and higher than any other drug/rehabilitation program.

Page 32, right column, last paragraph – Habilitat proposes deletion of the paragraph in which we caution about the use of statistics in comparing success rates between Habilitat and other programs, and Habilitat offers the following comment:

Our screening process is more qualitative, but even more important, is our ability to motivate the potential resident during the orientation process and maintain the level of motivation after admission into the program. Unlike other approaches, this occurs because we are skilled in motivating potential residents, and, in essence, draw a picture of the seriousness of their situation. Habilitat is the hardest program for a drug addict to enter, due to the complete abstinence from drugs, and the fact that it is completely voluntary. (Refer back to Exhibit “B”.) [Exhibit B includes 16 pages of induction forms used by Habilitat for the induction of new residents into its program.]

Page 33, left column, paragraph 1 – Habilitat proposes deletion of the paragraph, where we note that not all of Habilitat’s residents were dependent upon alcohol or drugs. Habilitat offers the following comment:

Again, as cited previously [on page B-11, *Narrow versus broad focus of Habilitat’s program*], Habilitat attacks the root of the problem, unlike medical/psychiatric fields, who deal usually with the symptoms.

Page 33, left column, paragraph 2 – Habilitat proposes deletion of the paragraph and offers the following comment:

Habilitat considers that all persons on hard drugs possess the “motivation”, but that it must be reached and drawn out of the person.

Page 33, left column, paragraph 3 – Habilitat offers the following comment relative to drop-outs:

Although we do not consider dropouts as “successes” and although they may be leading productive lives, Habilitat refuses to lower its high standards for the sake of good statistics.

Page 33, right column, paragraph 1 – Habilitat proposes deletion of the paragraph, and offers the following comment:

Habilitat does not subscribe to the “theory” that addiction is a biological imbalance in the individual. Habilitat considers it a symptom of social maladjustment or disorder.

Page 33, right column, paragraph 2 – Habilitat proposes deletion of the paragraph which raises questions regarding graduates who remain in the employ of Habilitat, and offers the following comment:

Graduates that have returned or have chosen to remain with the organization do so because they would like to contribute to an organization that they believe in. Why is the issue of graduates who remain in the employ of the organization brought up at all? Why, for that matter, do firemen, government employees, doctors, or any profession, remain in their particular job position for 10, 20 or 30 years? Is that not a “dependency”? Is the legislative auditor now attempting to perform a psychiatric evaluation of the employees of Habilitat? In the few instances that graduates have returned to the employ of Habilitat, they should not be considered to have done so from a biological weakness or any form of dependency, but simply because of an individual desire to be involved in something more meaningful with an organization which he or she believes in. Is the legislative auditor, in this paragraph, psychoanalyzing returning graduates, who he has never interviewed?

Page 33, right column, first paragraph, under the heading, “Deficiencies in Habilitat’s Program of Treatment, Rehabilitation, and Prevention” – Habilitat proposes deletion of the paragraph.

Page 33, right column, beginning last paragraph – Habilitat proposes deletion of the section entitled, “Lack of followup on and analysis of program results,” and offers the following comment:

Again, we must refer you to [page B-11, *Scarcity of reliable usable data*] wherein follow-up research is covered.

Page 34, left column, first paragraph under section headed, "Weaknesses in the area of vocational training and career development" – Habilitat proposes deletion of the paragraph and offers the following comment:

Unsubstantiated generality.

Page 34, right column, paragraph 1 – Habilitat proposes deletion of the paragraph about Habilitat's limited range of business activity and comments:

Unsubstantiated generality.

Page 34, right column, paragraph 2 – Habilitat proposes deletion of the paragraph regarding business ventures, and offers the following comment:

Vocational training is provided to residents in the re-entry phase of the program. We find it difficult to believe that after 17 months of intensive investigation, this audit was not able to identify and report the fact that vocational training does not occur in the Treatment phase. This leads us to seriously question the accuracy of this audit.

Habilitat's businesses have not proven profitable, nor were they intended to be, but they have definitely been successful in developing vocational training and work habits for the residents in re-entry.

Page 34, right column, paragraph 3 – Habilitat proposes deletion of the paragraph concerning the adequacy of Habilitat's vocational program, and offers the following comment:

It is not the goal of Habilitat to decide what the individual will be vocationally when he re-enters society. Our vocational training, along with providing a viable skill, is designed to teach good work habits, responsibility, business ethics, self-confidence, etc.

Pages 34 and 35 – Habilitat proposes deletion of the section entitled, "Conflict in objectives," concerning indications of conflict in Habilitat's objectives between self-sufficiency and vocational training to residents, and offers the following comments:

This goal is difficult if not impossible, businesses were for purposes of vocational training.

Unsubstantiated generality.

Refer to [comment above relating to adequacy of the vocational program]. It is Habilitat's firm contention that it is better to work and be productive than not to work. As is true in the business world, it is not always possible to gain employment in the job of one's choice. Does that mean one does not work? We believe that working and doing one's best in whatever positive way is available is far better than becoming a non-productive, non-taxpaying dependent on society.

When the individual reaches the point of latter post-re-entry, he or she has the decision to make regarding justifying a salary in the job he or she was trained for, or seeking employment elsewhere at the time of completion of the program. The point must be made clear that Habilitat is by no means an employment agency. If one chooses to be employed by Habilitat, this will only happen if the salary can be justified by his or her performance. If, on the other hand, the choice is to seek employment elsewhere, the proper arrangements and time are given to the resident to do so. At that point in the resident's growth, he or she should have acquired the self-respect and confidence to make a decision. Habilitat does not develop cripples by employing someone when it is not justified or by finding a job for someone in the outside community.

As stated above, Habilitat finds it unbelievably difficult to understand that the auditor took 17 months of intensive investigative time only to arrive at a point where rhetoric is written in place of facts. There is absolutely no doubt that the audit has geared itself to view the vocational training at Habilitat with tunnel vision. Re-entry residents are given the opportunity to be trained in the job of their choice. They are also encouraged to attend classes to enhance their knowledge in the specific field of their choice.

Page 35, right column, first paragraph under the section entitled, "Problem of a lack of competence in vocational guidance" – Habilitat proposes the deletion of the paragraph, but offers no comment to explain or support its proposal.

Page 36, left column, paragraph 1, regarding our discussion of an alternative approach to vocational training – Habilitat raises the question:

Where are these funds?

Page 36, right column, Habilitat makes the following comment to recommendation 1:

Refer to [page B-11, scarcity of reliable usable data].

Page 36, right column, Habilitat makes the following comment to recommendation 2:

We thank you for your suggestion.

Chapter 6 – An Assessment of Habilitat's Planning and Programming for Capital Improvements, Business Ventures, and Telethon Fundraising

Page 37, left column, paragraph 1 – Habilitat offers the following comment concerning the opening paragraph of this chapter:

As indicated in our response to the preceding chapters, we found a general lack of understanding by the auditor of Habilitat's clinical operations. We attribute this mainly to the lack of professional qualifications on the part of the legislative auditor's staff to perform audits on matters other than Habilitat's financial position and accounting transactions. Inasmuch as many of the observations, findings and recommendations contained in those chapters serve as foundations for what is presented in this chapter and succeeding chapters, lack of insight, inaccuracies and misunderstanding continue to prevail.

Page 37, left column – Habilitat makes the following references to the summary statement of findings:

[Finding No. 1:] Refer to explanation appearing on response [below].

[Finding No. 2:] Refer to explanation appearing on response pages [B-24] through [B-26].

[Finding No. 3:] Refer to explanation appearing on response pages [B-26 (bottom)] and [B-27 (top)].

Pages 37 and 38, relating to the section entitled, "Overall Shortcomings in the Area of Operational Planning and Programming for Capital Improvements and Business Enterprises" – Habilitat offers the following comments on our discussion of this subject:

Habilitat has made but four purchases of real property since its inception in 1971. The first such transaction involved the purchase of a residential home, situated on fee simple property in Kailua, for the use of Habilitat's Executive Director. The purchase price of this property was \$90,000; later approximately \$20,000 was installed in the way of improvements. The current estimated fair market value of this property is \$150,000.

The second real property transaction involved the purchase of 5.7 acres of land located in Kahaluu. For reasons outlined later, this property was subsequently disposed of at no loss to Habilitat.

On April 4, 1974, Habilitat acquired, under an Agreement of Sale executed with Mr. Henry and Mrs. Lulu Vincent, a 4-bedroom residential home, for the purpose of housing 6–8 program residents in the final stage of Habilitat's reentry program. Normally, such residential property would have been rented. However, because the Habilitat Board considered the owner's asking price of \$71,500 to be a bargain, it authorized the purchase of this property under an Agreement of Sale. It was sold in April, 1979 for \$108,200. After deducting expenses of the sale, Habilitat's profit was \$35,000.

The last parcel of real estate purchased by Habilitat occurred in early 1976 and involved the execution of an Agreement of Sale with Mrs. Mary Ann Bigelow for the property on which Habilitat's treatment facility is located. The cost was \$300,000. Conservative estimates of today's fair market value would be \$450,000.

In addition to the above, Habilitat's management and Board at various times since 1971, gave consideration to the possible purchase of 4 other parcels of property for use as a Habilitat's treatment facility.

In the light of the foregoing, we hardly think it fair to characterize Habilitat's real estate transactions as "many" and as "being erratic and often an unproductive expenditure of time, effort, and resources of the organization."

We disagree with this statement for reasons set forth in our responses appearing on pages [B-20 and B-21].

Page 38, beginning left column, the first three paragraphs under the section entitled, "Shortcomings Relating to Real Property Transactions and Capital Improvements" – Habilitat comments as follows:

See responses on pages [below, B-20 and B-21].

Pages 38 to 40, under section entitled, "Efforts to provide housing for program residents" – Habilitat offers the following comments:

The recommendations of the management consulting firm on this matter were adopted by the Habilitat Board of Directors shortly after receipt of the report of that firm. Habilitat's Board of Directors and key management personnel have worked closely with architectural firms and contractors since that time, with a view towards a well-planned facility addressing itself to Habilitat's present and future needs. We acknowledge that delays have occurred in the implementation of these plans. The impact of inflation on construction costs during the past several years has been unprecedented. As a result, Habilitat has experienced difficulty in raising enough money through its fund raising activities to keep up with the spiralling construction costs. As a solution to this problem, we recently decided to obtain long-term mortgage financing from a bank in conjunction with funds provided by our fund raising activities.

We think it noteworthy that Habilitat is the only drug/alcohol treatment rehabilitation program in the State which undertakes its own fund raising activities to satisfy capital requirements.

See above comments re plans developed by architectural and construction firms working in conjunction with the Habilitat Board and our debt-financing plans.

Between 1974 and 1978, Habilitat probably leased at least a dozen homes for the purpose of housing residents who were in the final reentry stage of the program. The leases were intentionally set for short term periods, never to exceed one year. This was totally compatible and consistent with Habilitat's clinical objectives for residents in the reentry stage of its program. There is obvious therapeutic value in preparing program residents for ultimate graduation into the mainstream by gradually phasing them thru a home-like environment as opposed to having them cope with an abrupt transfer from an institutionalized setting back into society.

We agree that the property was subsequently disposed of because it was learned that the cost of installing water lines and sewage disposal facilities would be prohibitive and that better planning might have obviated this purchase to begin with. However, the transaction resulted in no loss to Habilitat and Habilitat continued to earn interest on a sub-Agreement of Sale until the date the property was disposed of.

The fact is that the Pacheco Property was rented for the purpose of complying with what was then considered a requirement of a recently negotiated NIDA contract. At that time the City and County of Honolulu, Office of Human Resources, was the administrator of the NIDA contract. According to the administrators of the City and County of Honolulu who were involved with this NIDA contract, it was necessary for Habilitat to house residents covered by that contract in a facility separate and apart from Habilitat's other facilities. At the time it was also deemed prudent to include a provision granting Habilitat the option to purchase such property upon the expiration of the lease. This was considered a sound financial decision, for it did not commit Habilitat to a purchase but did provide it with the opportunity to purchase if two years hence it was considered a desirable location at an attractive price. Moreover, contrary to an opinion stated in the audit report, and as evidenced by the minutes of several Board of Directors' meetings, this two year lease transaction received much study by the Board before it was finally approved.

At no time whatsoever was the house ever contemplated for use as a "juvenile facility." Habilitat obtained a conditional use permit to occupy the house as its "NIDA facility."

In eight years time, Habilitat has seriously considered about four other parcels of property. The word "numerous" is therefore a gross exaggeration.

Pages 40 to 42, section entitled, "Transactions relating to the house for the executive director" – Habilitat provides the following commentary:

With respect to the acquisition of property located at 146 Ainoni Street in Kailua, which was originally designated as a residence for the Executive Director, we acknowledge that there was an unwitting violation of HRS section 416-21(a). However, from the outset this transaction was entered into in good faith and in what the directors believed was the best interests of the organization.

The transactions in question consisted of the following: Vincent Marino signed a DROA to purchase the property. The DROA did not indicate that he was signing as an officer of Habilitat. He was indicated as the buyer. However, Habilitat made the purchase under an Agreement of Sale with Mr. and Mrs. Albert and Diane Perry. It made a down payment of \$15,000. It then obtained a loan of \$20,000 from First Hawaiian Bank for the purpose of putting in a hollow tile wall and pool. From the outset, the home was occupied by the Marinos. At this point no loan had been made since Habilitat still held title to the agreement of sale and was simply providing a residence for its executive director.

In December, 1974, Habilitat assigned the agreement of sale to the Marinos. The stated consideration was that the Marinos would assume *all* the obligations under the agreement of sale.

Although it now appears that the transaction was improper, the following points should be borne in mind: First, there were a number of lawyers on the board at that time, and none of them realized that the transaction was improper. In fact, the assignment of agreement of sale was signed by the president of Habilitat at that time, who was a lawyer. In addition, the transaction was correctly and properly reported to the IRS when Habilitat filed its information return for the fiscal year ending June 30, 1974. The return was delinquent and was not filed until 1976, and it was in connection with the preparation and filing of the return that the problems regarding the 1974 transactions were first brought to the attention of the executive director and the board.

Also, it can be said that the purpose of the transaction was a legitimate one. The board did not view the transaction primarily as a loan. It viewed it as an incentive to the Executive Director to encourage him to remain with Habilitat for a period of three years. If he did not remain with Habilitat for a period of three years, he would be obligated to reconvey the property to Habilitat.

The audit also criticizes the board for its decision to repurchase the property from the Marinos and to permit them to use it rent and utility-free. We believe that there was nothing improper about the repurchase. In the opinion of counsel although the 1974 assignment of agreement of sale was improper, the transaction was not null and void, and Habilitat did not have the legal right to rescind it. The Marinos had purchased the property in 1974 in good faith and in reliance on the advice of counsel. Although they did not put up the down payment, they did make all the monthly payments on the property, which payments were in excess of the property's fair rental value. Accordingly, the Marinos were the legal owners of the property in 1977. They could have chosen to keep the house, to sell it to a third party for the highest price they could obtain or to agree to reconvey it to Habilitat.

The audit also mentions that Habilidadat gave the Marinos a second mortgage on the property. The audit does not criticize this but merely reports it. Since the Marinos were still liable on the mortgage loan to State Savings, it was prudent and reasonable for them to request the second mortgage on the property in the event Habilidadat defaulted on the mortgage loan. The granting of the second mortgage in no way prejudiced Habilidadat.

The audit concludes that the \$15,000 downpayment and the \$20,000 home improvement loan were "in effect advances for the benefit of Marino." This is misleading. The transaction served a useful purpose for Habilidadat—namely to insure that its executive director would be likely to remain with the organization for three years. If he did not remain for three years, he would have to reconvey the house. In the light of the success of the program and the highly competent manner in which the executive director has discharged his duties and responsibilities, it is difficult to quarrel with the decision of the Board of Directors to take steps to provide an incentive for Marino to remain with Habilidadat.

The audit presents a distorted and one-sided view of these transactions, choosing to ignore the benefit to Habilidadat. It can be said that when an individual receives compensation for services rendered, the individual personally benefits from the receipt of the compensation.

However, this ignores the fact that he has given fair value to the organization for the compensation. The question is not simply whether Vincent Marino personally benefited from the transactions, but whether Habilidadat also received a benefit from the transactions and whether the purpose of the transaction was to benefit Habilidadat or simply to do a favor for Marino. None of this changes the fact that the loans should not have been made. However, it is one thing to state correctly, as the audit does, that the loans were improper. It is another to state that the purpose of the loans was to personally benefit Vincent Marino.

The report refers to an approximate capital gain of \$11,000 realized by the Executive Director as a result of the resale back to the organization. However, the report fails to state that Marino could properly have realized a greater capital gain had he decided to sell the house to a third party on the open market. As of the date of this response, the estimated fair market value of the property is \$150,000.

A decision was made by the board that it would be unfair to the Marinos if, after purchasing the property in good faith, assuming all the obligations under the agreement of sale, and making the monthly installment payments, they were required to reconvey the property to Habilidadat at anything less than the lowest current market value contained in the three independent appraisals. Moreover, as stated above, entirely aside from considerations of fairness, the Board was advised that the assignment of agreement of sale was a completed fact, and that under the circumstances, the Board could not force the Marinos to reconvey the property.

In addition, it should be remembered that the Executive Director's current status of living in the residence rent and utility-free is in lieu of any salary increases for a period of three years.

Accordingly, throughout the entire sequence of events related to the Ainoni Street property, we believe it is clear that the Board of Directors at all times acted exclusively in what it believed were the best interests of Habilitat, and that with the sole exception of the 1974 loan, its actions in this regard were entirely proper. Nevertheless, the report clearly infers that the purpose of all the transactions was solely to benefit the executive director.

In the light of the above, we believe the board fulfilled one of its major responsibilities by assuring the continuity of the program by providing an incentive to the executive director, which virtually insured him staying on in his capacity as such. While it is acknowledged that the 1974 transaction was an improper method of accomplishing a proper goal, we believe that the statements contained in the legislative auditor's report relative to the absence of good faith in dealings with the executive director as well as statements emphasizing the executive director's personally benefiting from such transactions, constitute a one-sided and unfair characterization of the transactions relating to the Ainoni Street house.

Page 42, left column, last paragraph entitled, "Summary" – Habilitat makes the following comment:

Based on our foregoing responses, we do not think it fair to refer to Habilitat's involvement with real estate transactions as "very confusing and at times very questionable."

Page 42, right column, first two paragraphs under section entitled, "Shortcomings Related to Habilitat Business Enterprises" – Habilitat comments as follows:

The major reason for Habilitat's involvement in business ventures is to provide vocational and job training to program residents. For reasons set forth on response [below], profit was clearly not the motive for these ventures. From a therapeutic standpoint, the businesses are regarded as successful. Accordingly, from the business or fiscal standpoint, break-even and/or operating loss results are to be expected. Also see responses to Chapter 12.

Vocational training is not "another objective." It is *THE* objective. Realistically, the term "self-sufficiency" does not contemplate the financing of Habilitat's treatment and rehabilitative operations from the profits earned from small business operations and fund raising activities. A more accurate interpretation of the self sufficiency goal would relate to the ability of each small business to cover its own costs, i.e., to generate sufficient sales and gross profits to cover the operating expenses of vocational and job training. See response [below] for a comprehensive discussion on this matter.

Page 43, left column, section under heading, "Ventures that have floundered" – Habilitat makes the following comments:

It is common knowledge in the business world that most new profit-oriented businesses "flounder" or fold during the first year or two of their existence. Therefore, inasmuch as

Habilitat's business operations are not profit motivated and involve the incurrence of significant training expenses which could not be afforded by a conventional, profit-oriented small business operation, Habilitat has no reason to regret the nominal losses sustained by most of its small business operations.

We think it noteworthy that all of Habilitat's small business operations have been labor intensive and that capital expenditures have been virtually nil. This fact tends to document Habilitat's principal reason for being in such ventures, i.e., vocational and job training.

Again, Habilitat has not undertaken these business ventures for the primary purpose of generating profit. In effect, Habilitat is being criticized for being innovative. Innovation is synonymous with change, experimentation, a certain amount of trial and error. See previous response.

Page 43, left column, paragraph 6 – Habilitat comments as follows regarding our brief statement of their short-lived tailoring business:

The resident (graduate) in question was offered and accepted an attractive employment opportunity during the three week period in question. It was therefore deemed prudent to abandon this new undertaking. Habilitat suffered no loss as a result of this temporary venture, and it provided a graduating resident, who had a wife and four children to support, with "breathing time" in which to become gainfully employed.

Page 43, left column, last paragraph – Habilitat comments as follows on our reference to Habilitat's board meeting minutes regarding proposed business ventures:

This observation clearly invalidates audit report comments relative to the failure of the Board of Directors to participate in decisions affecting the undertaking of businesses.

Page 43, right column, section under heading "Questionable status of Habilitat's large-scale venture—advertising specialties" – Habilitat offers the following comments:

Habilitat considers its advertising specialties sales business an unqualified success. Again, we cannot measure success in terms of profit dollars. Our measurement of success involves the number of program residents and graduates who have benefited from the training they have received while assigned to this department.

For reasons stated earlier, and as explained in response page [B-24], it is illogical to measure Habilitat's success in this venture "in terms of the normal standards by which business enterprises are measured—namely profitability."

Again, we deny overall economic self-sufficiency as a goal. The department, for the most part, has demonstrated self-sufficiency by being able to raise revenue and gross profits sufficient to cover a majority of its expenses of operation.

Page 44, left column, paragraph 1 – Habilitat comments as follows concerning marginally successful business activities in which it has engaged:

These have been misconstrued as business ventures. In fact, they are fund raising activities, which generally require relatively small amounts of operating expenses.

Typically, fund raising activities of this kind generally “burn out” by the third year. The profits realized by these fund raising activities are used in part to subsidize small business ventures which, as pointed out earlier, are expected to lose or break even at best.

Page 44, left column, paragraph 2 – Habilitat comments as follows concerning a management consultant’s report on its business ventures:

The report of the management consultants was discussed at length by the Board. Many of the recommendations contained in that report have been adopted or implemented. Other recommendations are being considered or are now actively in the process of implementation. Bearing in mind that the report was submitted in early 1976, great strides have been made in areas such as comprehensive budgeting, results-oriented management, the hire of competent personnel to direct the organization’s business ventures, etc.

Page 44, right column, paragraph 1 – Habilitat comments as follows regarding actions taken on the consultant’s report referred to above:

We disagree with this observation for reasons discussed [above]. Many of the consultants’ recommendations have been adopted; other recommendations are in the process of implementation and/or are being considered.

Page 44, right column, paragraph 2 entitled, “Conclusion” – Habilitat comments as follows:

We agree with this conclusion because as indicated throughout our response, total financial self-sufficiency is not our goal.

Pages 44 and 45, first three paragraphs under the section entitled, “Shortcomings in Habilitat’s Approach to Its Telethon Fundraising Activity” – Habilitat comments as follows:

The first telethon held in March, 1976, having a duration of 14 hours, was clearly a success. The second telethon held for a duration of 20 hours, generated an increase of \$30,000 in revenue. The report fails to mention, however, that the disproportionate increase in expenses resulted from significantly higher costs of air time because of the more than 40% increase in air time purchased. The third telethon, held in March of 1978, was planned with a revenue goal of \$360,000 in mind. We acknowledge that there was a significant increase in expenses necessary to adequately gear up for the achievement of this goal. Again, however, the report fails to mention that Habilitat's decrease in revenue from this telethon activity was virtually crippled by the announcement of the "Probe of Habilitat's Finances" announced by a member of the Hawaii State Legislature shortly after the telethon was held. The timing of this announcement had a severely adverse affect on the collection of pledges received during the course of the telethon.

Page 45, right column, paragraph 1 – Habilitat comments concerning our suggestion that more emphasis be put on direct solicitation of funds from businesses and trusts:

These are sound suggestions. However, from the very outset Habilitat has made contact with corporations, financial institutions and other potential large contributors. We have also always utilized the mailing lists generated by prior telethons.

See response[s above relative to the telethons].

Page 45, right column, last paragraph – Habilitat comments as follows regarding the questionable productivity of its telethons:

The raising of funds is not the only goal of the telethon. Educating and otherwise informing the public of what Habilitat is for and what it does are also prime considerations. Education and information have been a recurrent theme throughout all the telethons. In fact, the most recent (1979) telethon thoroughly down-played the solicitation of money and emphasized informing the public of just what Habilitat is all about.

Page 46, left column, paragraphs 1a, 1b, and 1c – Habilitat comments as follows regarding the recommendations made in these three subparagraphs:

We will strive for further improvement in these areas.

Chapter 7 – Introduction (Part III)

Page 49 – Habilitat offers the following comments relative to the summary statement of findings:

[Finding No. 1:] We disagree. See our response on page [B-30, relative to the reporting system to the board and the board's involvement in financial and personnel matters].

[Finding No. 2:] We disagree. See our responses on page [B-35, relative to the rate of staff turnover, and B-38, relative to personnel policies].

[Finding No. 3:] A comprehensive discussion regarding Mr. Marino's "dominant role" begins on page [B-31]. Our comments relative to the "movement of persons" appear on pages [B-43 and B-44].

Chapter 8 – A General Assessment of Organizational Management and Personnel Administration

Page 50, under the "Summary of Findings" – Habilitat offers the following comments:

[First paragraph:] We feel that the audit report greatly exaggerates the amount of power and control exercised by the office of the Executive Director.

[Finding No. 1:] We disagree with this characterization of the Habilitat Board as impotent. In the last two to three years, the lines of authority and responsibility of both the Board and the Executive Director have been more clearly delineated. We feel that our response on page [B-30] covers the manner in which the Board exercises control over the office of the Executive Director.

There appears to be misunderstanding concerning the "narrow membership base." Again, because Habilitat operates in the tradition of the ohana, or extended family, it firmly believes that certain key personnel and/or graduates should have a voice in matters concerning its ohana at least once a year. In this context, the members are regarded as "elders."

[Finding No. 2:] For reasons expressed on pages [B-31 and B-32 (top)], we disagree with this observation.

[Finding No. 3:] This is untrue. Refer to pages [B-32, relative to conflict of interest issues, and B-39 (bottom), B-40 (top)].

Page 50, right column, last paragraph – Habilitat offers the following comment on the abdication of authority and responsibility by the board of directors of Habilitat:

As indicated earlier, we disagree. This matter is covered on page [B-30]. Moreover, as a practical matter, boards of directors generally have little to do with the day-to-day management of corporations, be they profit-oriented or non-profit. Board functions are generally limited to the making of policy and to rendering final decisions on unusual and/or highly significant matters. The chief executive officer of most effective corporations, whether large or small, is usually delegated a substantial amount of authority by its board. He is generally permitted great latitude so long as his actions are within the framework of board policy and in the pursuit of corporate goals and objectives established by the board.

Page 51, left column, paragraph 1 – Habilitat refers to its earlier comment:

See response on [page B-28, relative to “narrow membership base”].

Page 51, left column, paragraph 2 – Habilitat offers the following comment on the executive director’s membership on the board of directors:

We see nothing wrong with this.

Page 51, left column, paragraphs 3 to 5 – Habilitat refers to its comments made elsewhere:

See our responses on pages [B-31 and B-28, relative to “narrow membership base”].

Again, see page [B-28 under summary of finding, first paragraph] and our response on [pages B-30 and B-31].

Page 51, left column, paragraph 6 – Habilitat offers the following comment on the structural aspect of the organization:

See responses appearing on pages [B-30] and [B-31]. We believe that the primary responsibility of the Board involves such matters as the hire and fire of the Executive Director, the approval or disapproval of policy and procedure proposed by the Executive Director and his staff and policy initiated whenever necessary.

Page 51, left column, last paragraph – Habilitat refers to its comments made elsewhere:

See responses appearing on pages [B-28, B-38, and B-41].

Page 51, right column, paragraph 1 – Habilitat refers to its comments made elsewhere:

Refer to response page [B-30].

Refer to response pages [B-26, relative to a management consultant’s report, and B-30].

Page 51, right column, paragraph 2 – Habilitat offers the following comment:

We agree.

Page 51, right column, last paragraph – Habilitat offers the following comment on the employment and salaries of Frank Marino and Lila Marino:

For background on the employment of Frank Marino, refer to [page B-40]. Lila Marino's employment is explained [on page B-39].

Page 52, left column, paragraph 1 – Habilitat offers the following comment regarding fringe benefits of Vincent and Vickie Marino:

We acknowledge that a specific formal authorization for the use of company-leased automobiles by Vincent and Vickie Marino cannot be located in minutes of Board of Directors meetings. However, the board has always been well aware of this "fringe benefit", because the Marinos are on call 24 hours a day and must always have at their disposal a company-owned vehicle. Moreover, it is common practice in other rehabilitation programs utilizing the therapeutic community mode to authorize vehicles to its key personnel because of their 24-hour status. The organization does not pay for any of Marino's personal expenses. Marino's expense reports for travel and business meals have been consistently approved by an appointed member of the Board of Directors since early 1976.

Page 52, left column, paragraph 2 – Habilitat offers the following comment on the development of a personnel policy manual:

In early 1976, Habilitat did develop a comprehensive personnel policy manual. We acknowledge that this manual requires updating and a board committee was recently appointed to oversee such updating. Furthermore, as more fully discussed on response page [B-38], this manual was developed primarily for Habilitat's own internal use and not necessarily to satisfy requirements of funding agencies.

Page 52, left column, paragraphs 3 and 4 – Habilitat offers the following comments on the reporting system to the board, and the board's involvement in financial and personnel matters:

We disagree. There certainly is a reporting system in effect to keep the board informed of important organization, personnel and financial matters. Moreover, on each monthly board of directors meeting agenda there are two standard important items: the Executive Director's report and the Financial Manager's report. At these meetings, the Executive Director makes a detailed oral report on recent significant developments at Habilitat, problems he is encountering, and *requests for board approval on certain actions he wishes to undertake*. The Financial Manager's written report, which is generally mailed to each member of the board well in advance of each meeting, provides for a comprehensive analysis of budgeted vs. actual outcome for each of Habilitat's funds, i.e., General, Capital and Sales and Marketing funds. It is noteworthy that the Financial Manager's report is prepared wholly independent of and is never influenced by the Executive Director.

Considerable dialogue does occur at each board meeting on both the executive director's and the financial manager's reports.

The legislative auditor's reference to Vincent Marino's statements concerning a reduction in government funding and the concurrent reduction in staffing would appear correct based on an objective interpretation of the minutes as worded. Unfortunately however, some rather

important details related to Marino's statements do not appear in the minutes. For one thing, Marino was referring to an actual \$30,000 reduction in the POS (Title XX) contract with DSSH. It is true that there was not an overall reduction in government funding because the re-negotiated NIDA contract with DOH for that period was for an amount that more than offset the reduction in the POS contract with DSSH.

With respect to "large reductions he had made in staffing" this too should be clarified to mean that in fact a large reduction in payroll dollars actually occurred. Approximately five positions were eliminated during this cut-back period. More significantly, however, it was determined that several individuals receiving relatively high salaries could be replaced with lower salaried personnel without jeopardizing the organization's efficiency.

During the past 18 months, the Habilitat board has critically analyzed and assessed the degree of its involvement as Habilitat's governing body. In this connection, it has again reviewed recommendations contained in the report submitted by the management consulting firm in early 1976. It has also taken under advisement certain recommendations appearing in this legislative auditor's report.

Several of the recommendations contained in the legislative auditor's report were implemented before Habilitat's receipt of the audit report; several other audit report recommendations are now being considered by the board.

Page 52, right column, paragraph 1, relative to Marino's dominant role – Habilitat comments as follows:

Essentially, we do not argue with the legislative auditor's appraisal of Vincent Marino's role in this organization as dominant and powerful. However, we feel the legislative auditor, by reason of professional background and experience is unqualified to draw resulting critical/negative conclusions from this.

In order for one to fully appreciate Vincent Marino's role in this organization and the undisputed need for his type of personality, a thorough understanding must exist of Habilitat's complex and unique approach to the treatment and rehabilitation of its resident population.

Over 50% of Habilitat's resident population is court affiliated and an even larger percentage has been characterized as incorrigible by various authorities. Most of the residents will have tried several other softer, easier therapeutic approaches to the solution to their problems. The results were nil and the problems compounded. Habilitat's answer is a highly structured, very rigid programmatic approach. In our view, therefore, it is perfectly understandable that "a very dominant personality who exerts and asserts himself vigorously" would be the leader and driving force of the organization. As a recovered drug addict and ex-convict who "speaks their language", coupled with his dynamic personality and leadership qualities, we believe Marino is uniquely qualified for the position he has occupied since Habilitat's founding.

Page 52, right column, beginning last paragraph, section under heading "Organizational instability" – Habilitat offers the following comments:

The observation of "organizational instability" is superficially correct. However, if the legislative auditor had an understanding of how a therapeutic community operates, he would understand that rapid change—even abrupt change—is characteristic of the therapeutic community approach to things. One of the most important teachings of the program is to instill in the resident the ability to cope with and adapt to sudden environmental changes, without having to resort to his former lifestyle.

Not only is a high rate of personnel turnover to be expected in a therapeutic community, but it is in fact encouraged. The reasons for this are more fully discussed on response page [B-35].

The audit report comments on the "demise of the so-called red tag program" are patently incorrect, as explained on response page [B-35]. We found that changes were necessitated in the program involving residents in the advanced stage of Habilitat's reentry program, as the result of meetings initiated by Habilitat with DSSH, beginning on July 5, 1978. In this connection, it is vitally important to bear in mind that the term "red tag" was merely a transitory label to identify residents in the final stages of Habilitat's program. With respect to both clinical controls and vocational training, there was very little difference in the way the red tag program was administered when compared with the way residents in the last stage of the reentry program were treated before the red tag system and after the red tag system. We take vigorous exception to the statement that "the program was suddenly terminated."

Page 53, right column, paragraphs 1 through 3, on conflict of interest issues — Habilitat offers the following comments:

Mr. Marino has never voted on compensation or any other benefit concerning himself or his family. It is true that sometimes Marino himself initiated the request for such changes, but scrutiny of board minutes discloses that seldom were such actions taken lightly or approved of in rubber stamp fashion.

Again, Marino never voted on matters affecting his compensation, fringe benefits, or those of his family. It is possible that misunderstanding exists on this matter only because the minutes kept of board meetings in Habilitat's earlier years are acknowledged to be somewhat lacking in detail.

See job descriptions for Vincent, Victoria and Frank Marino appearing hereunder as Exhibits F, G and H. [Exhibit F, 3-page job description for Habilitat's executive director. Exhibit G, 2-page job description for Habilitat's clinical coordinator and director of females. Exhibit H, 3-page job description for Habilitat's vice president for sales and marketing.]

Page 53, right column, starting with last paragraph — Habilitat offers the following comments on the issue of nepotism:

Habilitat categorically denies the existence of any nepotism whatsoever in the organization, including members of the Marino family. By definition, the word "nepotism" applies to the

employment of relatives and close friends in positions for which such persons are not qualified. Throughout the report, the legislative auditor appears to have given no recognition to the position descriptions for each of the Marinos, i.e., the nature and extent of their responsibilities and duties and the manner in which they discharge such responsibilities and duties. If anything, members of the Marino family are under intense pressure to excel at their respective positions.

We find incomprehensible the reference to nepotism existing outside of the Marino family. While it is true that husbands and wives and brothers and sisters have gone through the program and have in some instances been employed by Habilitat, such individuals could not possibly have had anything to do with the hiring or firing of each other.

It is not uncommon for more than one member of a family to be involved with drug abuse. One might conclude from the legislative auditor's comments that Habilitat should not admit a suffering heroin addict into the program if the addict already had a friend or relative in the program.

Page 54, left column, last paragraph – Habilitat offers the following comments on the size of boards:

We adamantly disagree with the standards referred to involving a board of not less than 15 people. On November 30, 1978, several members of Habilitat's board of directors attended a workshop conducted by the Director of Program Operations, Division of Action's, Office of Voluntary Citizen Participation, Washington, D.C. At this conference, Ms. Barbara Sugarman, an authority on these matters, indicated that the ideal board would be 8–12 people. Also at this conference, Mr. Robert Kenny, of Bob Kenny Associates, a management consultant firm, indicated that a board consisting of 12–16 people would be the maximum number of board members necessary to efficiently govern a non-profit corporation. Both authorities went on to say that a membership in excess of these numbers would be unwieldy and accomplish little.

Page 54, right column, paragraph 2 – Habilitat offers the following comment on reason why Habilitat severed relationships with AUW:

The statement that AUW severed its relationship with Habilitat because of Vincent Marino's unwillingness to step down from Habilitat's board of directors is untrue. AUW did in fact recommend its relationship with Habilitat be terminated because of Habilitat's interest in undertaking its own fund raising activities. Accordingly, the budget review committee of AUW would have had a problem in continuing to authorize funding for the Habilitat program. This, incidentally, is the same reason that AUW discontinued its relationship with the Hawaii Chapter of the Muscular Dystrophy Association of America.

Page 54, right column, last paragraph – Habilitat refers to its comments made earlier:

See page [B-30].

Page 55, left column, paragraph 1 – Habilitat offers the following comment relative to the rejection of the consultant's report:

As indicated on our response to page [B-20], we do not agree that the consultant's report was rejected out of hand. However, because of the consulting firm's lack of specific experience with organizations such as Habilitat, some of the recommendations affecting the function of the Board of Directors could not be adopted.

Page 55, beginning left column – Habilitat offers the following comments on the "Recommendations":

[Recommendation No. 1:] Some time ago the Board did take very positive action concerning the prohibition of employees, (other than the executive director), parents of residents and government representatives from sitting on the Habilitat Board.

[Recommendation No. 2:] The Board will consider this recommendation.

[Recommendation No. 3:] The Board has already taken a number of steps in response to this recommendation, and definitely intends to establish a committee concerning itself with organizational management and personnel administration.

[Recommendation No. 4:] The Board will consider this recommendation.

[Recommendation No. 5:] The Board feels that the existing information reporting system is substantially improved. Based on the recommendations of the committee referred to in Item 3 above, it will strive for further improvement.

Chapter 9 – An Assessment of Habilitat's Personnel Practices

Page 56, on the "Summary of Findings" – Habilitat offers the following comments:

[Finding No. 1:] For reasons not clear to us, the auditor attempts to compute employee turnover in a manner which reflects negatively on Habilitat. This is fully discussed in our response beginning on page [page B-35].

[Finding No. 2:] We emphatically disagree with the auditor's findings on our personnel policies and practices for reasons stated [on pages B-30, relative to the personnel policy manual] and various sections of chapter 9, specifically [page B-38 (top) and page B-41].

[Finding No. 3:] For reasons set forth in our responses [on pages B-43 and B-44 (top)] we consider this finding absurd.

[Finding No. 4:] See our response on page [B-44].

Page 56, right column, paragraphs 1 to 3, Habilitat offers the following comments on the rate of staff turnover:

For reasons discussed on [this page and page [B-36 (top)], Habilitat does acknowledge a high rate of turnover amongst its employees and program residents in the vocational training stages of the program. Again, one must have a very clear understanding of the clinical techniques utilized by the Habilitat organization to fully comprehend the matter of turnover.

With respect to "squares", a high rate of turnover is understandable and certainly to be expected in Habilitat's unique work environment. It is very difficult to find and retain an individual possessing the necessary professional/occupational skills who can also adapt to the unusual work environment characteristic of a therapeutic community. An exceptional degree of patience on the part of staff personnel is required in the therapeutic community environment. Square supervisors are responsible for providing training and the teaching of good work habits to program residents. This is a condition of employment which they are not accustomed to. Thus no matter how well intentioned they might be at the outset, many simply do not have the personality trait of tolerance needed for the position they occupy. As the result, most squares are hired with the understanding that they are on a 90-day probationary status and that their willingness and ability to adapt to Habilitat's environment is just as important as their professional/occupational skills. It is perfectly understandable, therefore, that many are unable to bring this rare combination of skill and personality traits to their positions.

Page 57, left column, paragraphs following heading, "General personnel turnover situation" – Habilitat offers the following comments on personnel turnover during the period June 1, 1978 through November 30, 1978.

The report correctly states that Habilitat's staff numbered between 60–70 during the period June 1, 1978 to November 30, 1978. Our copies of State of Hawaii forms UC–B9 show that salaried employees during this period ranged between 53 and 67. However, Table 9.1 includes 15 red tag residents to arrive at total *staff* terminations of 38 during this period. These "38 terminations" are then compared to the aforementioned 60–70 staff to conclude that terminations were "... equalling more than half of Habilitat's total staff complement." Red tag residents are receiving job and vocational training and should not be treated as "employees" by any stretch of the imagination.

Habilitat does not include red tags in the 60–70 employees referred to earlier. The red tags were treated as residents in the final stage (reentry) of the program, and, like other residents in the reentry phases, they were receiving vocational training, learning work responsibility and thus, these "red tag" terminations were in fact normal, desirable, completions of the program by individuals returning to the community. Consequently, by including these 15, the rate of staff terminations to total staff during this period is grossly overstated by the legislative auditor.

Secondly, if the report desired to include red tags as staff in determining staff terminations of 38, then why didn't it do so in arriving at Habilitat's total staff complement? To compare

apples with apples, instead of oranges, the report should have included both red tags and salaried employees in determining "total staff complement" (as presented in the report, not by Habilitat). During the period June 1, 1978 to November 30, 1978, this number ranged between 70 and 90. Through the manipulation of numbers, the report appears to strain at coming up with a way to arrive at a negative statistical conclusion.

Page 57, right column, paragraph 2 – Habilitat offers the following comments on level of positions held by "red tags":

It is true that program residents (red tags) occupied lower level "positions". These "positions" were created strictly as training slots in conjunction with Habilitat's job and vocational training objectives. If Habilitat did not have job and vocational training as one of its program objectives, such positions would not exist. It is imperative for the legislative auditor to understand that the duties assigned to the red tags in training would not be necessary if Habilitat confined its therapy to treatment and did not have a reentry phase as part of its overall therapeutic approach.

Page 57, right column, last paragraph – Habilitat refers to its earlier comment:

See responses on [pages B-35, and this page (top)].

Page 58, left column, paragraph 1 – Habilitat refers to its earlier comment:

See response on [pages B-35, and this page (top)].

Page 58, left column, paragraph 2 – Habilitat offers the following comment on the relationship of government cutbacks to high turnover rates:

Even though, as discussed on [page B-35 and B-36 (top)] the rate of turnover was incorrectly calculated by the auditor, the Board does not consider a high turnover rate as a necessarily negative condition in a therapeutic community environment per explanations supplied [on page B-37].

Page 58, left column, paragraph 3 – Habilitat comments as follows:

We disagree for reasons expressed [on page B-35, relative to "red tag" terminations].

Page 58, left column, paragraph 4 – Habilitat refers to its comments made elsewhere:

See response on page [B-31 (top)]. Also see our entire response to Chapter 12.

Page 58, left column, paragraph 5 – Habilitat refers to its comments made elsewhere:

See response on page [B-31 (top)]. Also see our entire response to Chapter 12.

Page 58, right column, paragraphs 1 and 2 – Habilitat refers to its comments made elsewhere:

See response on page [B-31 (top)].

See response on page [B-31 (top)].

Page 58, right column, paragraph 4 – Habilitat refers to its comments made elsewhere:

The turnover of key financial personnel is explained in our response appearing [on pages B-35 (top), B-43 (bottom), and B-47 (bottom)].

Page 59, left column, paragraph 2 – Habilitat offers the following comments on the turnover in the general manager's position:

We explained the termination of one of the four individuals in question [on page B-43 (bottom)]. Terminations based on incompatibility are explained [on page B-35 (top)]. Terminations based on incompetence requires no explanation.

Page 59, left column, paragraphs 3 and 4 – Habilitat offers the following comment on Marino's role in financial management:

Although Marino must certainly be involved in the decision affecting the hiring of controllers and financial managers, all applicants for both positions resulted from "executive search" conducted by respected employment agencies and they were interviewed by outside financial consultants and by Board members before a final decision was made.

Page 59, right column, paragraph 1 – Habilitat offers the following comment on the recommendation regarding staff turnover:

Although the Board does not consider a high turnover rate as a necessarily negative factor in a therapeutic community environment, it is presently giving serious consideration to a more orderly approach to personnel matters. For reasons stated earlier, we disagree with the extent of the turnover rate as calculated by the legislative auditor.

Page 59, right column, paragraphs beginning under section headed, "Unclear, Unfair, and Otherwise Deficient Personnel Policies and Practices" – Habilitat offers the following comments on personnel policies and practices:

We disagree with the statement that the personnel manual was developed primarily to satisfy the requirements of the agencies granting funds. We do agree that it is time for the personnel manual to be updated and that continuous updating will be necessary in the future.

About the middle of 1976, Habilitat recognized that the very size of the organization necessitated the development and maintenance of a formal personnel administration system. No "personnel department" existed at the time, nor could one be established because funding was not available for a personnel staff position. Alternatively, in the light of the Board's increasing concern about personnel policies and procedures, the office of the financial manager was charged with responding to the Board's request for materials such as organization charts, job descriptions, and a personnel manual. As a result, a number of significant personnel policies and procedures were developed and implemented including: 1) a comprehensive personnel policy manual which described the company's position on matters such as hiring, firing, vacations, sick leave, leaves of absence, salary, salary increases, employee benefits, etc.; 2) a personnel folder for each member of the staff, designed to contain all data necessary for Habilitat's internal requirements, as well as compliance with various federal and state laws; 3) employment application forms to be filled out by all prospective employees prior to the hiring process; 4) meetings with all staff members to describe the personnel policy and procedure system of Habilitat as well as to respond to staff questions in this regard.

Page 60, left column, paragraphs 1 and 2 – Habilitat offers the following comment:

As chief executive officer of the organization, Marino has reserved the right to have the final say in all hirings and firings of staff members. This is considered essential due to the unique nature of the therapeutic community environment. One must have character traits and exhibit personal conduct compatible with what the program teaches, for all staff members are in daily and constant contact with residents of the program.

Page 60, left column, paragraph 3 – Habilitat offers the following comment:

See above comments relative to the institution of more formalized personnel practices in the summer of 1976. We are now undertaking a review of such policies and procedures, with a view towards updating and possible adoption of consultant recommendations where applicable and/or considered in the best interests of the organization.

Page 60, right column, paragraph 2 – Habilitat offers the following comment on nepotism:

As indicated on [pages B-32 (bottom) and B-33 (top)] Habilitat does not acknowledge the existence of nepotism within the organization. No one in the Habilitat organization has been selected for employment on the basis of blood relationships or any other type of relationship. The criteria for being a member of the Habilitat staff are the satisfactory discharge of one's duties and responsibilities and personality traits compatible with the organization's clinical goals and objectives.

Page 61, left column, paragraph 1 – Habilitat offers the following comment:

The final sentence appearing *[in this paragraph]* has absolutely no basis in fact. There have been a number of cases where a brother, sister, husband or wife of a program resident would enter the program for treatment of a substance abuse problem sometime after the resident was admitted to the program. In a number of cases a program resident has gone on to ultimately justify a salary as a member of Habilitat's staff. Sometime later, the brother, sister, husband or wife may have progressed through the program in a similar manner. How this could ever be construed as "nepotism", we cannot understand.

Page 61, left column, paragraphs 2 through 4 – Habilitat offers the following comments on the Marino family example of nepotism:

Strictly on the grounds of professional qualifications and personal compatibility with the Habilitat program, the Board of Directors has authorized Vincent, Vickie and Frank Marino to occupy their respective positions.

Vickie Marino successfully completed the Habilitat program. Prior to her marriage to Vincent Marino, she already occupied a key position on Habilitat's clinical staff.

Lila Marino successfully completed the Habilitat program. She was recommended to Frank Marino by her job training supervisor, and a key clinical person, for hire as a sales person on the staff of the advertising specialties sales organization, also known as the Sales and Marketing Department.

The salaries and employee benefits enumerated on this page are considered the bare minimum which would be required to attract and retain any person in the positions now occupied by the four Marinos.

We vigorously object to the manner in which the auditor attempts to evaluate Habilitat's motives for retaining the Marinos as employees. The alleged manner in which decisions are made within Habilitat has no relevance to the value of the services rendered by the Marinos or any other employees. See job descriptions appearing hereunder as Exhibits F, G, and H. *[Description of Exhibits F, G, and H are made on page B-64.]*

Page 61, right column, paragraph 1 – Habilitat offers the following comment on Vincent Marino's role in determining his own compensation and that of his family members:

Vincent Marino has always abstained from any Board action involving salaries and employee benefits for himself, Vickie or Frank Marino. Adjustments to Lila Marino's salary are based strictly upon recommendations and performance evaluations received from her immediate supervisor at Sales and Marketing.

Page 61, right column, paragraphs 2 and 3 – Habilitat offers the following comments on the salaries and fringe benefits of Vickie, Vincent, and Frank Marino:

Inasmuch as Vickie Marino is directly subordinate to Vincent Marino and because Frank Marino is directly subordinate to the organization's General Manager, we consider it quite appropriate for Vincent Marino to make recommendations to the Board of Directors relative to adjustments to salary and employee benefits of those personnel.

Other than Vincent Marino, there were two cases of Habilitat employees serving on the board of directors. In one case during 1976 and 1977, the person occupying Habilitat's second-ranking management position (Area Director) served on the board. There was another instance of a person occupying a middle management position on Habilitat's staff who served on the board for ten months from November, 1976 through September, 1977. Again, they never "participated in and voted on actions where their interests have been affected." We object to the manner in which the audit report is worded in this regard, for it implies that many Habilitat employees are elected to the board for the purpose of satisfying self-serving interests.

Apparently no investigatory work was performed by the legislative auditor on the background and circumstances surrounding the hire of Frank Marino as vice president in charge of the Sales and Marketing operation. Had routine audit inquiries been made, it would have been determined that Frank Marino was originally hired as a temporary stop-gap measure to fill a position that had been suddenly and unexpectedly vacated by the then director of the sales and marketing operation. Vincent Marino called upon his brother to fill this vacancy because his brother did in fact have extensive background experience in the field of sales and marketing. Because he was very familiar with his brother's expertise in this area and because he could not locate anyone locally to fill that position, he understandably called upon his brother to assist in a time of extreme need. It should be further noted that the sales and marketing division was in its formative stages at the time and could not go for any period of time without direction from an individual with the professional experience and training background possessed by Frank Marino. Although the Board did not receive a written job description concerning Frank Marino's job until some time after he was hired, it was fully familiar with the nature and extent of his duties and responsibilities by virtue of its familiarity with the position at the time it was authorized in early 1974.

Page 62, left column, paragraphs 1 and 2 – Habilitat offers the following comments on other family relationships:

As pointed out earlier, we acknowledge that there have been several cases where members of more than one family have gone through the Habilitat program and were later hired as Habilitat staff members. We find no conflict in this practice, for the personnel involved have nothing whatsoever to do with the hiring, firing, or granting of salary adjustments or other benefits to each other. We, therefore, cannot comprehend why the legislative auditor views this practice in a critical light. Moreover, we are bewildered and question the motivation behind a statement such as, "There may have been even more, but due to differences in names, they have escaped detection. The interrelationships extend to the Board of Directors, the paid staff and the resident population." This statement borders on the absurd.

In this connection we consider it vitally important to point out that no person can be hired as a member of the Habilitat staff unless he or she possesses the necessary professional or occupational skills necessary to discharge the duties of that position, and unless the character and personality traits of that person are compatible with Habilitat's therapeutic community environment.

Page 62, starting with the left column, last paragraph and continuing through paragraphs 1 and 2 on the right column – Habilitat offers the following comments on the lack of grievance and appeal procedures:

Vincent Marino has at all times maintained an open door policy with respect to employee grievances. That is, in the event an employee has a complaint or is in some way dissatisfied with his status, he is welcome to ask for an appointment with Marino, provided, however, he has observed proper organizational channels prior to doing so. Inasmuch as Marino is the founder of this organization and its chief executive officer, he is obviously empowered with the authority to terminate employees for reasons of incompetence. We find incomprehensible the auditor's statement that he has fired employees "for reasons ranging from incompetence to serious misbehavior to relatively *minor infractions such as returning to work from lunch with alcohol on one's breath.*" In an organization that is primarily dedicated to the treatment and rehabilitation of persons suffering from disorders arising from substance abuse, the use of alcohol during working hours by staff members represents a *major, intolerable infraction.* Even in such cases, however, an employee would generally not be terminated unless such behavior was a pattern. Instead, the employee would usually be invited to leave the facility until the following day. Moreover, at the time of hire each employee is advised that the consumption of alcohol during working hours will not be tolerated and the misuse of any chemical substances is clear grounds for immediate dismissal.

The use of staff encounter games in Habilitat does indeed permit employees with a "means of releasing their emotions about Marino and Habilitat and communicating to Marino their feelings about their job and pay situations." This "grievance procedure" would certainly not be available to any employee in a conventional business setting. Accordingly, the Habilitat employee is, in fact, permitted to avail himself of a grievance technique far superior to that offered in outside employer-employee relationships.

The Board of Directors will give consideration to a grievance and appeal process which might permit its review of staff grievances which still exist after handling by the executive director.

Page 62, right column, last two paragraphs – Habilitat responds as follows on the lack of a clear differentiation between employees and residents:

See response [on page B-35 (bottom)], wherein a comprehensive discussion of this whole matter appears. In brief, however, we feel that the legislative auditor's first paragraph on page [63] expresses very well and succinctly Habilitat's philosophy on this matter. Also see response to Chapter 12.

Page 63, left column, paragraphs 2, 3, and 4 – Habilitat offers the following comments on ambiguities surrounding the use of residents in the vocational program:

See response [on page B-46]. If Habilitat were not engaged in vocational and job training, the “positions” in question would not exist. Therefore, any reference to exploitation of residents is irrelevant and moot.

We find totally unacceptable and resent greatly the inference that Habilitat program residents might be exploited by Habilitat as a “free labor” resource. In our response appearing on page [B-24], and throughout Chapter 12, we discussed fully the reason for involving our residents in business operations.

Our residents are totally discouraged from developing an “overdependency” on Habilitat. Even if this were the case, however, would not a dependence on Habilitat be preferable to a dependence on heroin, criminal behavior or other antisocial actions?

Page 63, right column, paragraph 2 – Habilitat offers the following comment on the subject of self-sufficiency:

See response [on page B-24] where we deny profit making as the principal motivation for being in small business operations.

Page 63, right column, paragraph 3 – Habilitat offers the following comment on the use of residents as part of the work force:

For reasons expressed in our response to Chapter 12, Habilitat does in fact give careful consideration to these matters.

Page 63, right column, paragraph 4 – Habilitat offers the following comment on Habilitat’s working with government agencies:

We accept these suggestions as sound and have always attempted to follow them. As pointed out in our response on page [B-46], we would welcome increased frequency of meetings with officials of DSSH and DOH in order to fully disclose what we are doing and to assure our compliance with various federal and state rules and regulations.

Page 64, left column, paragraph 1 – Habilitat offers the following comment on recommendation number 1:

As indicated earlier the Habilitat Board of Directors is giving consideration to expansion and updating of the personnel policy manual and is also considering the implementation of recommendations contained in this report which it deems appropriate and consistent with Habilitat's overall goals and objectives.

Pages 64, starting with the left column under the heading, "Conflict of Interest in the Movement of Personnel Between Habilitat and Government Agencies" – Habilitat offers the following comment:

We find incredible the implication that Habilitat has been in a position to effect "transfers" of employees to government agencies and vice versa. The fact that an ex-government employee applied for and was hired to fill a vacancy with Habilitat or vice versa should hardly be used as grounds to support the contention that Habilitat has willfully manipulated the employment of such persons in a manner to benefit it in its relationships with government agencies.

Page 64, bottom of right column, relative to employment of former city and county employee – Habilitat comments as follows:

In mid-1977 Habilitat hired a former employee of the City and County of Honolulu, because that individual possessed the necessary qualifications that Habilitat was seeking to fill a vacancy in its funds administration office. The person in question had an extensive background with the negotiation and administration of government contracts. He also had a very strong administrative background in other areas. His hire occurred some months after the elimination of his position by the City and County of Honolulu. Habilitat had nothing whatsoever to do with the elimination of his position with the City and County of Honolulu. Instead, federal authorities of the National Institute of Drug Abuse (also known as NIDA), decided to transfer administration of its contract to the Department of Health, State of Hawaii. We hasten to add that Habilitat had nothing whatsoever to do with influencing Washington to make this change. The legislative auditor characterizes this whole transaction as the "transfer of a Honolulu official to Habilitat." Habilitat steadfastly maintains that it hired a person who had qualifications far superior to those of any other applicant to fill an existing vacancy. Habilitat is not an agency or instrumentality of the state government. The use of the word "transfer" is therefore grossly inappropriate.

Page 65, right column, paragraph 1, relative to employment of Habilitat's former business manager – Habilitat comments as follows:

In mid-1977 Habilitat found it necessary to terminate the employment of its then business manager. Ironically, the reasons for this termination relate directly to critique appearing earlier and later in this report relative to inadequacies in Habilitat's accounting systems and financial management areas. The person in question, though generally a very able administrator, did not possess an accounting education and experience background necessary for Habilitat to overcome its shortcomings in this area. Accordingly, in the light of Habilitat's need for accounting and financial expertise, a decision was made to terminate this person's employment with Habilitat and to hire a certified public accountant. In recognition of her attitude and exceptional dedication to duty, together with consideration for the fact that she had no job

opportunity immediately available, she was given severance pay amounting to three months' salary. The legislative auditor nevertheless again chooses to characterize this personnel action as a "transfer of Habilitat's business manager to DOH."

Some time later we became aware that Habilitat's former business manager had been hired by the State of Hawaii. Initially, we were totally unaware of what her position would be with the State of Hawaii. Still later we learned that she had indeed been hired as a program specialist with the *newly*-formed Alcohol and Drug Abuse Branch of the DOH.

Page 65, bottom of right column, relative to employment of Habilitat graduate by DSSH – Habilitat comments as follows:

This is another instance in which we strenuously object to the use of the word "transfer." The person in question is a graduate and former employee of the Habilitat program, who terminated her employment with Habilitat on November 22, 1977. We understand that she was on the rolls of the unemployed for approximately six months. It was later learned that she had been hired to work with DSSH. Again, initially, we did not know in what capacity. We later learned that she had been assigned responsibilities that included the review and processing of welfare applications submitted by new residents of the Habilitat program. In this connection, we know of no instances of favoritism being extended. Indeed, we would have much preferred another worker to be assigned to the processing of Habilitat's resident applications.

Page 66, left column, last paragraph – Habilitat offers the following comment on the recommendation on conflict of interests in the hiring of personnel by Habilitat, DOH, and DSSH:

In the light of the foregoing, Habilitat does not contemplate any action on these recommendations. We will continue to seek employees who are best qualified to fill vacancies. We cannot, of course, act upon the recommendations contained in this report related to the practices of DOH and DSSH on this matter.

Page 66, right column, paragraphs 1 to 3 – Habilitat offers the following comments on the inadequacy of government surveillance of Habilitat's personnel policies and practices:

We object to the term, "Government Surveillance".

We agree that agencies have a responsibility to insure that all funds are properly used, that legal requirements concerning the use of the funds are met and that the funds are used specifically for the purposes authorized. We feel that this is substantially accomplished through the mediums of monthly and/or quarterly activity reports which compare actual expenses with approved budgeted amounts, and periodic monitoring visits by qualified personnel of the state government. Moreover, ever since its incorporation as a non-profit corporation, the Habilitat Board has appointed an independent C.P.A. firm to perform a certified financial audit of its financial statements and accounting records.

Eight percent of Habilitat's annual POS contract amount with DSSH has been withheld by DSSH for the purpose of "program monitoring". The Alcohol and Drug Abuse Branch of the DOH has routinely performed quarterly program evaluations of Habilitat. This included quarterly visits by members of the ADAB staff, which performed scrupulous analyses of clinical records and interviews with members of the staff and program residents.

Page 66, last paragraph, right column, and page 67, left column, paragraphs 1 and 2 – Habilitat offers the following comments on career preparation and vocational training:

Career preparation and vocational training aspects of the Habilitat program have been thoroughly explained to DOH and DSSH. Both departments appear fully conversant with what we are doing in this area, and have in fact been very complimentary about our efforts. No other drug/alcohol rehabilitation program in the state has anything resembling Habilitat's reentry program and its emphasis on preparing potential graduates for future work situations outside of Habilitat.

As the legislative auditor himself points out in Chapter 9, Habilitat's business operations are typically unprofitable and have exceedingly high rates of turnover. As far as Habilitat is concerned, this is a planned situation, for if profit and self-sufficiency were Habilitat's principal motive for being in these businesses, a paid professional staff would be hired and no career and vocational training would be provided for the program's residents. Because of the very confused interpretation made by the legislative auditor in this whole area of career preparation and vocational training, a comprehensive history and explanation thereof appears in our response to Chapter 12.

Page 67, starting on the left column, last paragraph, and right column, paragraphs 1 to 3 – Habilitat offers the following comments on the circumvention of budget guidelines governing POS contracts:

We disagree with the implications of the statement that, "Habilitat does not show the total actual salaries paid to many of its employees". Other than the salary of Vincent Marino, we can recall but two or three instances where salaries reported for purposes of our Title XX POS proposal to DSSH were lower than actual salaries paid. This was done strictly to comply with instructions received from DSSH relative to the maximum salaries it would consider funding *for purposes of the contract*. Based on the explanation received from DSSH in support of this treatment, we are somewhat inclined to agree with their reasoning. According to officials of DSSH, only that portion of an employee's time devoted to "social service purposes" can qualify for public funding. The lower amount so determined then serves as the basis for calculating POS funding. For example, assume that an employee earning \$20,000 per year spends 80% of his time on social service matters. DSSH would then want us to report \$16,000 as qualifying salary. Assume further that 75% of that employee's social service time is involved with activities covered by the Title XX (POS) contract. Accordingly, \$12,000 would be funded under the POS contract. In summary, therefore, we are dealing with three salary figures: (1) actual salary received by the employee, (2) qualifying social service salary, and (3) percent of social service salary applicable to the Title XX POS contract.

At no time has Habilitat ever requested funding under the POS or NIDA contracts for time not actually spent by an employee in connection with services provided under those contracts.

We do not understand the legislative auditor's statement that, "government funds from other sources should be allowed to be used to circumvent restrictions imposed upon the use of POS contract funds". In the fiscal year ended June 30, 1978, through an accounting and administrative oversight, Habilitat failed to allocate portions of certain salaries applicable to the capital fund and sales and marketing fund. Otherwise, Habilitat has done its best to properly allocate and charge its various activities based on time expended by its staff personnel. Even with respect to fiscal year ended June 30, 1978, the point raised is rather moot, inasmuch as the general fund sustained an operating deficit well in excess of \$100,000. Thus, had proper accounting allocations been made, a significant deficit would still have existed in the general fund. Moreover, the general fund has been subsidized numerous times by the capital fund, because available government funding was insufficient to finance Habilitat's treatment and rehabilitation operations.

Page 67, right column, last paragraph – Habilitat offers the following comment:

We emphatically disagree with the statement that, "many of the jobs within Habilitat's administrative structure have been filled not with regular employees but with residents in the treatment program". As explained in our response to Chapter 12, none of the positions occupied by residents in the reentry phase of Habilitat's program would exist if Habilitat did not have as part of its rehabilitative process career preparation and vocational training. Hence, if Habilitat did not consider the reentry phase of its program essential to the survival of its graduates, Habilitat's paid staff would, in fact, be reduced and there would be no program residents occupying positions.

Page 68, left column, paragraphs 1 and 2 – Habilitat offers the following comments on stipends paid to residents:

We disagree with this interpretation of stipend payments. Insofar as Habilitat is concerned, they are very clearly a distribution from the resident's own welfare checks, as discussed more fully in our response to Chapter 12. Habilitat erred in thinking that the undisbursed portion of a resident's welfare check while he was in treatment could be paid to him at a later date, i.e., when he was in the advanced stages of reentry. This, in turn, resulted in the misunderstanding that has taken place with respect to larger stipends, which for several months exceeded the sum total of the residents' welfare check and food stamps.

Page 68, right column – Habilitat offers the following comments on the recommendations:

[Recommendation No. 1:] We would welcome further meetings with DSSH and DOH in order to clarify any doubts and to re-emphasize the importance of career preparation and vocational training to the success of Habilitat's total program. However, we do not agree that residents receiving such training could possibly be subject to Habilitat's personnel policies and practices, because they are not employees.

[Recommendation No. 2:] Inasmuch as we do not regard reentry program residents as staff personnel, we do not see how we could accept a recommendation regarding their being subject to Habilitat's personnel policies and practices.

Chapter 10 – Introduction (Part IV)

Page 71, summary statement of findings – Habilitat offers the following comment:

We disagree with these findings and present a full discussion relative to same in our response to Chapters 11 and 12.

Chapter 11 – An Assessment of Overall Financial Arrangements at Habilitat

Page 72, paragraphs under heading, “Summary of Findings” – Habilitat offers the following comments:

[Finding No. 1:] We acknowledge some weaknesses in this area during Habilitat’s formative years. We feel, however, that recognition should have been given to the significant improvement that has taken place in the last two or three years in terms of the active involvement of Habilitat’s Board, particularly in financial matters.

[Finding No. 2:] Again we feel that recognition should have been given to the substantial improvement that has occurred in Habilitat’s fund accounting system. As discussed later, monies for capital improvements are earmarked, and except for an error in fiscal year ended June 30, 1978, administrative costs are allocated accurately among the funds.

[Finding No. 4:] Habilitat has had a good budgeting system since 1976. We acknowledge late preparation of the July 1, 1978, budget because it was necessary to replace the positions of financial manager and controller in June, 1978.

[Finding No. 5:] We do not understand what this means.

Page 72, right column, last paragraph – Habilitat comments as follows:

We agree.

Page 73, left column, paragraph 2 – Habilitat offers the following comments concerning the fiscal year the audit focused on:

The fiscal year ended June 30, 1978, was an unfortunate one for the legislative auditor to select for we do not feel it does justice to the present high quality of Habilitat’s finance and accounting staff. As pointed out earlier, we found it necessary to replace both the financial manager and controller in June, 1978, because of professional inadequacies and personality incompatibility. Accordingly, many of the weaknesses or deficiencies noted by the legislative auditor no longer exist. Moreover, many of the weaknesses and deficiencies that existed during the fiscal year ended June 30, 1978, did not exist in the previous fiscal years.

Page 73, right column, first three paragraphs under heading, "Lack of Leadership and Nonfulfillment of Responsibilities by Habilitat's Board of Directors and the Executive Director" – Habilitat comments as follows:

Again, the Board acknowledges some past inadequacies. It does feel, however, that significant improvement has occurred in the past couple of years, particularly in the degree of its involvement with major organizational matters and financial decisions.

The Board wishes to point out, however, that as volunteer members of the governing body of a non-profit corporation, there are certainly limits to what it should be expected to do. It is the Board's opinion that its primary responsibility should lie in the establishment of policies, the appointment of qualified people to key executive positions, and the setting of general "ground rules" by which such key executive staff are permitted to operate.

The day-to-day management of the organization should be delegated by the Board to its executive director. He should be free to discharge his duties and responsibilities as long as he does so within the parameters established by the Board. This philosophy is true with most large non-profit organizations as it is also true of national and international profit making organizations.

Page 74, left column, paragraphs under heading, "Failure to organize itself" – Habilitat comments as follows:

The Board recently established two permanent committees; a finance and audit committee, and a public relations committee. These two committees will operate in the areas assigned to them and maintain ongoing close contact with appropriate Habilitat staff personnel. They will be expected to periodically report their observations and recommendations to the Board as a whole at its monthly meetings.

We are in basic agreement with these suggestions as indicated in our responses [above]. For a number of years the Habilitat Board has selected an independent CPA firm to perform an objective financial audit of Habilitat's financial statements and books of account.

Page 74, right column, first paragraph – Habilitat comments on the delineation of decisions to be made by the board:

Refer to [pages B-28 (bottom), B-30 (bottom), and above, relative to establishment of two permanent committees].

Page 74, right column, paragraph 2 – Habilitat comments on the 1976 recommendations of the management consulting firm:

The Board is presently reconsidering the recommendations made by the management consulting firm in 1976, and expects to formulate definitive policy statements in this connection in the near future.

Page 75, left column, paragraphs under heading, "Failure to establish information system" – Habilitat comments as follows:

We do not feel that this observation is current. Since mid-1977, the Board has required very detailed (line by line) operating budgets for all three funds. Each significant line item must be supported by a narrative explanation describing how amounts were determined. Further, each month Habilitat's financial manager is required to submit to the Board financial statements for each fund to facilitate comparison of actual results with budgeted amounts. Moreover, the financial manager is charged with the responsibility for providing a narrative explanation for significant variances from the budget.

During the last year the Board has appointed ad hoc committees to assist the executive director when it became necessary to search for and select personnel for key management positions.

We feel that the minutes of the board meetings during the past year would tend to support our contention of the Board's enhanced activity, particularly in the areas of asset management, employee benefits and capital expenditures. Accordingly, the Board insists on detailed background and/or substantiation for all significant financial actions which the executive director proposes. It is not uncommon to repeatedly defer any action until the Board feels satisfied that it has been furnished sufficient data from which to make a responsible decision.

Page 75, left column, last paragraph – Habilitat offers comment on the resignation of past board members:

To the best of our knowledge no board member has resigned for the reasons stated here. The process by which Marino's proposals are presented and accepted or rejected are explained in detail [on pages B-30 (bottom) and B-39 (bottom)].

Page 75, right column, first paragraph, relating to the board's ready acquiescence – Habilitat comments as follows:

We disagree. Habilitat's business ventures and the purposes they serve are discussed on response pages [B-24 and B-25]. Its real estate dealings are discussed on pages [B-19, B-20, and B-21]. The auditor's inaccurate statements relative to telethons are responded to on page [B-27]. Finally, we vigorously object to the accusation concerning mishandling of government funds.

Page 75, right column, paragraphs 3 and 4 – Habilitat refers to its earlier comments concerning the board's reporting system:

See [page B-30].

Page 75, right column, last paragraph – Habilitat refers to its earlier comments concerning Marino's involvement in financial management:

See our response [page B-37].

Page 76, left column, first paragraph – Habilitat offers the following comments:

We agree with the last sentence of this paragraph. However, we feel that the changes referred to are a positive reflection of Marino's refusal to compromise the principles, standards and values of the organization.

Page 76, left column – Habilitat offers the following comments on the recommendations:

[Recommendation No. 1:] As pointed out earlier, we agree and have established such a committee.

[Recommendation No. 2:] As indicated earlier the Board is in the process of formulating written policies in this area.

[Recommendation No. 3:] We feel that current management and financial information systems are substantially adequate. From time to time the Board may require supplementary information as addenda to the financial statements.

[Recommendation No. 4:] We feel improvement has taken place in this area. There has been very little turnover in the finance and accounting areas since June, 1978.

Page 76, right column, paragraph 1 – Habilitat offers comments on the deficiencies in its fund accounting system:

The deficiencies referred to have been corrected. In this connection we refer to a letter dated September 14, 1979, from Clay & Ohata, CPA's appearing hereunder as Exhibit I. *[Exhibit I, 1-page letter of September 14, 1979, from V. Rex Clay, partner with Clay and Ohata, certified public accountants, to Habilitat's board of directors stating that, based upon his firm's examination of Habilitat's financial statements completed on September 4, 1979, all of the internal control weaknesses referred to in a previous letter of May 5, 1978, have been corrected]*

Page 77, left column, section under heading, "Failure to place proper safeguards on funds earmarked for capital purpose" – Habilitat comments as follows:

See [page B-52 (top) and B-52 (bottom)].

While it is true that Habilitat does not establish a separate bank account for each separate activity of the capital fund, we feel that the accounting system does adequately provide for the proper classification and segregation of funds received.

Accordingly, through the medium of the accounting system we feel that our funds restricted as to use are adequately identified at all times.

We disagree that telethon funds are the only funds identified as restricted for capital improvements. The only other major source of funds received into the capital fund for capital improvements are those from private trusts and foundations.

Further, we believe the legislative auditor is taking a too literal interpretation of the term "capital funds" because many of the receipts earned by this fund are not necessarily earmarked for capital improvements. A secondary, but equally important, purpose of the capital fund is to subsidize the general fund and the sales and marketing department's vocational training activities. Frequently, monies received from government are insufficient to finance Habilitat's clinical operations. Thus it is necessary to transfer money from the capital fund to the general fund. Frequently the Sales and Marketing Division, because of the substantial hidden expenses involved with its career development and vocational training activities, requires financing beyond the gross profits generated by its sales revenues.

Indeed the capital fund might be regarded as a depository for any funds other than governmental. In fact, the "third" fund—the Sales and Marketing Division, is really a subdivision of the capital fund. The only reason that it has been set apart from the capital fund is because of its significance as a revenue generator of more than one million dollars per year.

Oftentimes for example, there are significant delays in Habilitat's collection of amounts due from the State of Hawaii under POS and DOH contracts. Delays of two or three months are not uncommon, particularly during the transition time occurring between fiscal years. Accordingly, Habilitat has no alternative but to loan unrestricted funds from the capital fund to the general fund in order for the general fund to continue financing the company's clinical operations.

With further reference to the alleged misuse of restricted funds, we think it crucial to point out that Habilitat's unexpended restricted funds have always been covered by assets, such as marketable securities, which have substantially exceeded the balance of such restricted funds.

In the light of the foregoing we quite agree with the legislative auditor's statement on [page 77]: "In fact it is questionable whether the amounts owed can ever be paid back without seriously affecting the operations and programs of Habilitat. We base this conclusion on the weak financial position of the general fund and the sales and marketing fund." We fail, however, to see why this should be viewed by the legislative auditor in a critical light. We know of no other rehabilitation program in this state which makes an effort to partially finance its operations with funds raised from other than government sources.

Page 77, right column, paragraph 2 – Habilitat comments on the financial picture of the general fund at June 30, 1979:

As evidenced by audited financial statements for the fiscal year ended June 30, 1979, Habilitat's general fund had an excess of revenues over expenses of \$141,511. This increased the general fund balance to a positive figure of \$56,982.

Page 77, right column, last paragraph – Habilitat offers the following comment:

We wish to reiterate that all funds raised from the private sector for the express purpose of acquiring and constructing additional facilities for the residents of the program are being and will be used only for such purposes. As indicated above, the so-called capital fund is used to account for a significant amount of funds not designated for capital improvement purposes. Important examples would include monies raised from other fund raising activities such as the Home Grown albums, Christmas tree sales, Celebrity Cookbook sales (prior to the fiscal year ended June 30, 1978), special benefit dinners and movie premieres. Although Habilitat is free to use funds raised by these activities for other program purposes, much of the money has in fact been expended on capital improvements.

Page 78, left column, paragraphs under the heading, "Failure to allocate administrative costs" – Habilitat comments as follows:

We agree that Habilitat was in error by failing to allocate administrative costs among the various funds during the fiscal year ended June 30, 1978. We attribute this failure to the persons occupying the positions of financial manager and controller during that period. They were terminated in July, 1978. The present financial manager and controller have taken steps to correct this condition and we are confident that administrative overhead items are being accurately determined for each department and allocated accordingly. We take exception, however, to the legislative auditor's statement that this past "overloading of the general fund is particularly significant when it is recognized that all monies from government sources received by Habilitat are paid into the general fund, and constitute about 98 percent of the total receipts of the general fund. To the extent that charges are improperly made against the general fund, the burden is borne by government." Our analysis discloses that even had all administrative costs been properly allocated in the fiscal year ended June 30, 1978, the general fund would still have incurred a substantial deficit; consequently, it would be impossible for any such charges to be improperly borne by the government. Further, as indicated in an earlier lengthy discussion, and as pointed out by the legislative auditor himself, the general fund very frequently requires subsidization by the capital fund.

In any event, we see no significant impropriety on this entire matter of administrative cost allocations and interfund transfers as long as restricted funds are not used for purposes other than intended, and as long as government funds are not used for non-clinical requirements.

Page 78, right column, paragraph 2 – Habilitat offers its comments relative to our recommendations as follows:

[Recommendation No. 1:] Although diversion of funds contributed by donors has never occurred, we have added additional safeguards in this connection.

[Recommendation No. 2:] We have taken appropriate corrective action.

Page 78, right column, first four paragraphs under the heading, “Deficiencies in Habilitat’s Accounting Controls” – Habilitat comments as follows:

In the beginning of this chapter, the legislative auditor indicated that the focus of his audit was for the fiscal year ended June 30, 1978. On page [79] the legislative auditor points to deficiencies existing during the fiscal year ended June 30, 1977. We are sure that he is aware that such deficiencies were substantially eliminated subsequent to June 30, 1977. In this connection please refer to Exhibit “I” which is a letter from Clay & Ohata, CPA’s attesting to the correction of internal control weaknesses noted in prior years.

Page 79, left column, last paragraph – Habilitat comments as follows:

We recognize the magnitude of the shortcomings mentioned by the legislative auditor on page [79] and page [80]. Others are in the process of being corrected. In this connection we again refer to Exhibit “I”, a letter from the public account firm of Clay & Ohata, concerning internal control improvements noted by that firm during the course of its audit for the fiscal year ended June 30, 1979.

Page 80, left column, first paragraph – Habilitat offers its comments concerning controls over long distance telephone calls:

A long distance phone call log has been inaugurated and, with the exception of the special WATS line, requires prior approval of such calls. The name of the party making the call, the name of the party or organization receiving the call and the amount of time consumed in making the call, are included in the record.

Page 80, left column, paragraph 3 – Habilitat offers the following comment relative to travel policies and procedures:

All travel allowances or expense reimbursements require proper expense documentation such as airline tickets, invoices from hotels and car rental agencies.

Page 80, left column, paragraph 4 – Habilitat offers the following comment relative to lack of documentation on travel expenses:

We disagree, for the reason given [*below relative to vouchers for entertainment expenses*].

Page 80, right column, paragraph 1 – Habilitat offers the following comment regarding controls over business lunches:

The Board is considering the development of a formal policy governing business lunches and entertainment expenses.

Page 80, right column, paragraph 3 – Habilitat offers the following comment:

We agree that some of this expense should have been charged to other funds, particularly the telethon account. For reasons expressed earlier, this condition existed in the year ended June 30, 1978, and has been corrected.

Page 80, right column, last paragraph – Habilitat offers the following comment regarding vouchers for entertainment expenses:

To the best of our knowledge, reimbursement vouchers for travel, business meals and entertainment are generally adequately documented.

Page 81, left column, paragraph 2 – Habilitat offers the following comment regarding undeposited cash receipts at the Baltimore office:

We agree that this was technically improper. It was, however, an isolated instance.

Page 81, left column, paragraphs under the heading “Failure to account for all government funding” – Habilitat offers the following comments:

With respect to the legislative auditor’s comments appearing on pages [81 and 82] relative to the receipt of welfare checks and food stamps by “red tag” residents, perhaps the more appropriate accounting treatment would have been to record such receipts in Habilitat’s general fund prior to the distribution of same to the “red tags”. We regard this as strictly an administrative oversight, because there was a definite and significant therapeutic objective motivating the turnover of the welfare checks and food stamps to the “red tags”. We elaborated on the clinical reasoning behind this in our response to Chapter 12. Briefly stated, however, one of our clinical goals is to instill in the prospective graduate an appreciation for the handling of money and personal budgeting. Nevertheless, as the legislative auditor himself points out, this procedure had no net effect on the financial position of Habilitat, nor could it ever be construed as a misuse of government funds.

Page 82, right column, paragraph 2 – Habilitat offers the following comment on our recommendation relating to the development of an accounting manual:

Habilitat is considering the development of an accounting manual in the near future.

Page 82, right column, last paragraph – Habilitat offers the following comment concerning recommendation number 1:

Corrective action has been taken or is in the process of being implemented.

Page 83, left column, first paragraph – Habilitat offers the following comment concerning recommendation number 2:

This weakness no longer exists.

Page 83, left column, paragraph 3 – Habilitat offers the following comment concerning budget preparation:

We are acutely aware of the importance of a timely preparation of the annual budget. Our goal is to have, at the very least, a preliminary budget in the hands of the Board of Directors by each April. We do not feel that the situation which existed with respect to the July 1, 1978, budget should be considered as characteristic of Habilitat's budgeting process. As stated earlier, changes were made in the two top finance/accounting positions in June and July of 1978. The new management was compelled to give priority to strengthening the internal control system with a view toward correction of the very weaknesses pointed out by the legislative auditor in this report. In addition the accounting staff had to give prompt attention to preparing for the annual audit to be performed by an independent outside CPA firm. As a result, therefore, the budget could not be given its usual high priority.

Page 83, left column, last paragraph – Habilitat offers the following comment on our recommendation:

We are in total agreement with the recommendation. The present accounting system does provide for the monitoring of performance against budgeted amounts.

Page 83, right column, paragraphs under the heading, "Lack of coordination" – Habilitat offers the following comment:

Habilitat would not only welcome, but would most certainly encourage, increased coordination in this area. Indeed, we wonder why a single state agency cannot be established to administer contracts with drug/alcohol rehabilitation programs and to provide monitoring services therefor. If the state were to do some consolidating and streamlining in this area it is

our firm belief that the various programs, as well as the state, would benefit substantially. If this were done, it would eliminate the duplication, triplication and quadruplication of numerous proposals, forms, reports, statistics, ad infinitum. More important, it would certainly tend to enhance communication so that programs such as Habilitat would “know the ground rules before the game begins”. We look forward to the legislative auditor’s future recommendations in this connection.

Page 84, left column, paragraphs under the heading, “Inadequate approach to budgeting and resource allocation” – Habilitat comments as follows:

Habilitat’s thoughts on this matter are expressed [in the previous comment]. We believe a single state agency is the best solution to these problems.

Page 84, left column, paragraphs 3 and 4 – Habilitat offers comments on the budget proposals submitted to DSSH and DOH:

We disagree with this statement. About the fourth or fifth month of each calendar year Habilitat submits proposals together with underlying itemized budgets to DSSH and DOH for the services it proposes to provide during the ensuing fiscal year. Typically we are advised of the probably amount available before submission of the proposal and related budgets. Available amounts are rarely sufficient to cover the full range of services we would like to offer.

As is the case with any company, agency or other instrumentality which uses an operating budget as a financial control tool, there will always be variances from such budgets, i.e., actual expenditures above or below budgeted amounts. It is perfectly logical, therefore, to request that underbudgeted line items be funded from overbudgeted line items. That is, in those instances where a reasonable explanation can be presented for expenditures which exceeded a specific budgeted amount, we should be able to appeal to DOH or DSSH for approval of a budget revision which permits the use of funds from a budgeted item which appears greater than what actual expenditures will be by the end of the contract period. We could understand the auditor’s statement on this matter if drug and alcohol rehabilitation programs generally had available to them funds that exceeded, or at the very least equalled, their minimum funding requirements.

Page 84, right column, first paragraph – Habilitat offers the following comment:

We disagree because Habilitat, as well as all other drug/alcohol rehabilitation programs in this state, is not receiving adequate funding to fill the state’s needs in these areas. Accordingly, it would be difficult, if not impossible, for any program not to do an “effective job in utilizing the funds made available to them”.

Page 84, right column, paragraphs under the heading, “Inadequate approach to contract administration” – Habilitat offers the following comment:

We feel it more appropriate for DSSH and DOH to respond to the material contained in these paragraphs.

Page 85, left column, last paragraph – Habilitat offers the following comment on its communications with DSSH:

By virtue of significantly improved communications between DSSH and Habilitat, resulting from the meetings and correspondence referred to in Chapter 12, and other sections of this report, we feel that considerable improvement has been made in this area. Again, Habilitat would welcome anything in the way of more frequent and meaningful dialog with DSSH to assure that it is indeed complying with federal and state rules and regulations governing the use of welfare, food stamps and POS monies.

Page 85, right column, paragraphs under the heading, “Inadequate approach to certifying incapacity so that Habilitat residents can qualify for government assistance” – Habilitat offers the following comment:

In the absence of evidence to the contrary, we believe that the professional ethics of outside private psychiatrists retained by Habilitat should be considered a control device. The report alleges that there is a “built-in financial incentive for the private psychiatrist to certify and recertify as many residents as possible”. Whether or not the psychiatrist would recertify a Habilitat resident, the psychiatrist has really nothing to gain financially. If he were not to recertify a Habilitat resident, thereby influencing Habilitat to discharge such resident, the space would then be available for a new resident requiring certification by the psychiatrist.

Page 86, right column, paragraph 1 – Habilitat offers the following comments on the recommendations:

[Recommendation No. 1:] We highly endorse this recommendation.

[Recommendation No. 2:] We agree.

[Recommendation No. 3:] We agree.

[Recommendation No. 4:] We agree; however, this in no way implies that Habilitat has ever knowingly misused general assistance, food stamps and other similar governmental payments.

[Recommendation No. 5:] We agree.

Chapter 12 – Specific Problem Areas Involving Financial Transactions by Habilitat

Habilitat's comments on this chapter are not, for the most part, directed at and related to specific statements made in the chapter. Instead, Habilitat describes at length the history, purpose, and activities of the vocational training program, known as the "red tag" program. Thus, Habilitat's comments are shown below as a single response to the chapter:

In this chapter, which deals almost exclusively with the job and vocational training aspects of the program, also known as the "red tag" system, the audit report contains its most serious accusations. At the same time, it is unique among all chapters in the magnitude of its inaccuracies and misunderstandings of Habilitat's therapeutic methods.

The report implies that Habilitat has ulterior motives for instituting and maintaining job and vocational training. Indeed, Habilitat is accused of using the program "as a means of meeting Habilitat's employment needs at the expense of the government". The report goes on to suggest that Habilitat did improperly obtain and use government funds to finance job and vocational training programs. Finally, and most significantly, it charges Habilitat with concealing facts about these programs.

In order to place this entire matter in its proper perspective, we think it essential to present a detailed background and history underlying the institution of job and vocational training programs.

Several years ago, as the result of a critical self-evaluation of our treatment and rehabilitation programs, we concluded that the failure and recidivism rates of program graduates were unacceptably high in relation to the effectiveness standards we had set for ourselves. We determined that the primary reason for this condition related to a far too abrupt reentry back into the mainstream of society. The "culture shock" experienced by residents then graduating appeared to be even more traumatic than the emotional changes experienced by them when they entered the program. Further, a large majority of the graduates had never before experienced a work environment situation and the self-discipline related thereto.

Consequently, a reentry phase of greater duration, emphasizing acclimatization to a work environment and the development of self-confidence in the performance of work tasks was deemed the best solution to the reentry problems being encountered by program graduates. The restructured reentry program thus had its foundation in two primary elements:

- (1) A duration of from 12 to 18 months, subdivided into three phases that provided for a systematic, very gradual reentry process. The subphases were identified as pre-reentry, reentry and post-reentry. It is at the post-reentry phase, incidentally, that a resident became a "red tag". These sub-phases of the reentry program were characterized by a slow, progressive relaxation of clinical controls and the concurrent granting of additional freedom to the residents.
- (2) Upon transfer from the pre-reentry to the reentry phase of the program, each resident was encouraged to submit a proposal, along the lines of a job application,

for a position with one of Habilitat's several departments. At that time Habilitat provided job and vocational training opportunities in the clinical area, woodshop, farm, advertising specialty sales, accounting department, and general administration. Subject to a thorough clinical evaluation of the resident's suitability for the department requested in the proposal, the resident was so assigned, if and when an opening existed. If, in the opinion of clinical management, the position and/or department requested by the resident would prove therapeutically counter-productive, the resident would, of course, be assigned elsewhere.

It is possible that confusion and misinterpretation relative to Habilitat's motives with respect to its job and vocational training programs arise from the seeming conflict between those program objectives and Habilitat's publicly stated objective of self-reliance. At this juncture, we think it crucial to point out that realistically the concept of "self-reliance" extends and is limited to the internal financial requirements of each separate small business operation. In other words, as a practical matter, a small business operation of Habilitat is and should be considered successful if it is able to sell enough products or services to yield a *gross profit* sufficient to cover the expenses of its operations. The most significant expense of these operations is, of course, the high cost of providing job and vocational training to reentry residents and the rapid personnel turnover associated with such training.

It appears therefore that the term "self-reliance" has been misunderstood to mean that Habilitat has as a primary goal the financing of *all* operations from profits of small business operations. As will be pointed out later, profits don't exist, nor can profits be reasonably expected to result from operations having as a primary objective the teaching of basic job skills and personal disciplines connected with same.

We think that the following factors demonstrate Habilitat's contention that job and vocational training are clearly Habilitat's primary purpose for which it engages in small business operations:

- (1) The financial statements of Habilitat's small business operations for all fiscal years that job and vocational training have been in effect disclose consistent losses.
- (2) To the maximum extent possible, Habilitat's small business operations are staffed with residents undertaking job and vocational training. It is important to bear in mind that the overwhelming majority of the residents had never experienced a disciplined work environment and possessed no occupation skills. Thus, one would expect operational and employee inefficiency so great that it would be considered intolerable in any business enterprise having profit as its principal reason for existence. Hence, if profit were the primary motive behind the establishment of the businesses, skilled outsiders would obviously have been hired in greater numbers, thereby reducing the number of training opportunities available for program residents.
- (3) As pointed out in an earlier section of the audit report, Habilitat was criticized for the exceedingly high rate of turnover in its business operations. This turnover, however, was a planned development because the "red tag" resident would normally

be expected to terminate red tag status within 3–9 months. Accordingly, no business having profit as its primary goal would ever want a turnover of this magnitude.

- (4) Irrespective of how short a time a resident had been in the red tag status, the resident would be recommended for graduation from the program when the clinical staff thought he or she was ready to go on to higher education, a job outside of Habilitat, or, when possible, a salaried position with Habilitat. This, of course, also included residents who were performing their vocational training tasks very competently. An organization with profit as its primary motivation would not have encouraged or compelled such persons to leave the business.

In the light of the above, the accusation contained in the audit report that Habilitat was using the red tag program as a method of meeting its employment requirements, i.e., Habilitat had red tags available to fill positions, thereby precluding the need to hire “squares” is patently false. The fact is that if Habilitat did not consider job and vocational training programs an integral part of its rehabilitative efforts, and as indispensable to the success of those efforts, it would confine itself strictly to a “treatment” program of 12–15 months duration and graduate its residents back into society, and Habilitat would not have to fill any positions from the ranks of its resident population.

Further, in this connection, on page 189, the audit report states that “the primary objective of the red tag program was staff training and induction rather than treatment”. We vigorously object to this interpretation because the whole philosophy underlying the teaching of self-discipline, self-confidence and becoming acclimated to a work environment would, of course, involve acquainting the resident with how an employee in most organizations is treated. Accordingly, having their names on organization charts, having personnel folders, having a “paycheck”, and “hiring and firing” would all lend themselves to the achievement of this purpose.

We think Habilitat’s endeavors in this area are worthy of commendation for it has received highly favorable recognition from authorities in the field of rehabilitation and from the Congress of the United States in its Report of the Select Committee on Narcotic Abuse and Control, Ninety-fifth Congress, Second Session. (See Exhibit A.) [*Exhibit A, Drug Abuse and Trafficking in the State of Hawaii, A Report of the Select Committee on Narcotics Abuse and Control, U.S. House of Representatives, 95th Congress, 2nd Session (1978).*]

In order to strengthen the whole concept of job responsibility, a stipend program was introduced providing for gradual increases in the amount of stipends, depending on merit and increased job responsibilities. At this point, it is vitally important to point out that Habilitat considered the resident as still undergoing treatment. The fact that the primary phase of the program is referred to as “treatment” and the next phase as “reentry” should not be permitted to obscure this. The fact is that despite the above nomenclature, the sum total of all therapy received by a resident while in Habilitat does constitute the Habilitat treatment and rehabilitation program.

It is also crucial to point out that stipends have always been considered a distribution partial or in whole, of welfare checks, and food stamps. *Never* were stipends ever paid from funds received under the Title XX, Purchase of Services contract or NIDA contract. In this connection, we believe confusion arose as the result of a mistake on Habilitat's part in the payment of certain stipend amount. This mistake was brought to our attention during the first meeting, referred to later, with representatives of the DSSH, Kaneohe branch. It was at that time we learned that payments to certain individuals in the most advanced stages of the red tag program could be construed as improper because the total amount of stipends and food stamps exceeded the sum total of the resident's own welfare check and food stamps. Hence, according to the DSSH interpretation, any amount received over and above the total of welfare checks and food stamps in a given month should have been reported by the resident as "income." Habilitat was genuinely surprised to hear of this interpretation. We had theretofore considered the total of all welfare checks and food stamps received from program residents as a common pool, subject to disbursement as Habilitat saw fit. We thought it perfectly reasonable to pay residents, nearing graduation from the program, stipends of an amount greater than their individual welfare check and food stamp coupons when they had displayed through merit and attitude justification for a higher monthly stipend. We further supported this thinking by referring to the very low stipend amount received by the resident during earlier phases of the program. Indeed, during the first 9–12 months of the program, no stipends are or were received.

In any event, Habilitat's improper payment of excessive stipends to some reentry residents for a period of approximately fourteen months – not "several years" as stated in the audit report – was corrected as soon as Habilitat was advised of its error.

Off Island Trips By Reentry Residents

During the past several years, Habilitat has routinely sent carefully selected reentry residents on off-island sales trips. Such trips represent a very, very significant period for the resident in terms of his or her progress. The therapeutic value of such trips cannot be overstated. In our opinion they place the red tag resident in a situation representing an acid test of the program's effectiveness. If the resident, as the result of Habilitat's treatment and rehabilitation program, can demonstrate that he or she can successfully handle the emotional changes inherent in entering a strange town and meeting and selling products to strangers, a significant rehabilitative achievement has unquestionably occurred.

Habilitat can be justifiably proud of the results produced by the sales trips referred to above. Certainly, it would have nothing to hide with respect to such trips. Habilitat therefore emphatically denies any attempt to conceal these trips from anyone, despite memoranda discovered by the legislative auditors which might lead one to think that such an attempt had been made.

Long before the announcement of a legislative audit, Habilitat had evidence of its openness on this matter with the DSSH Purchase of Services Division and with the Alcohol and Drug Abuse Branch, Department of Health. Moreover, the trips are recorded in Habilitat's resident files as a significant clinical event. These files are subject to inspection by representatives of those agencies in the course of their monitoring and evaluation visits.

The annual Habilitat magazines of 1976, 1977 and 1978 contain articles featuring the advertising specialty sales operation and make mention of sales trips *by* reentry residents and the opening of a Baltimore sales office. The total number of magazines distributed to persons and organizations during this three year period *approximates 50,000*. (See Exhibit J.) [*Exhibit J, a reproduction of page 10 from Habilitat's 1976 magazine relating to Habilitat's sales program.*]

As noted earlier, Habilitat did err in failing to notify the public assistance department of DSSH. There is a material difference, however, between failing to inform and the wanton concealment of information. This subject is covered at greater length in the following section.

Communications With Public Assistance Department of DSSH

Because of a growing frequency of misunderstandings between Habilitat and the Kaneohe branch of DSSH, particularly with respect to residents in the reentry phase of the program, Habilitat requested, in late June, 1978, a meeting with officials of that branch. The express purpose of that meeting was to substantially enhance communications between DSSH and Habilitat in general, to exchange as much information as possible on specific issues in question and to respond as completely as possible to whatever questions DSSH had concerning Habilitat's program activities. The meeting was held on July 5, 1978, and the outcome was described by both parties as very beneficial, particularly in establishing a good communications system. The meeting was followed up by exchanges of correspondence and by still another meeting in November of 1978.

After the meeting of July 5, 1978, Habilitat promptly initiated a number of steps to assure its compliance with Welfare laws as communicated and interpreted to Habilitat at the July 5th meeting. For example, we began to notify DSSH at least ten days in advance of reentry resident departures on off-island trips. We agreed that no resident would ever be off-island for more than sixty days on such trips. New stipend schedules were drawn up and implemented which conformed to the Welfare laws which were interpreted to us by representatives of DSSH.

We strenuously object to references concerning Habilitat's lack of openness concerning the red tag program. As mentioned earlier, Habilitat is justifiably proud of this program, and it has been the subject of coverage in its annual magazine, a publication circulated to the public at large. This program has been mentioned innumerable times during the course of Habilitat's three telethons. Habilitat's clinical records, which are subject to examination by monitoring officials of DSSH and DOH, fully disclose the status of residents at all times, including "red tag" assignments and off-island trips. Further, at the July, 1978, meetings with representatives of DSSH's Kaneohe branch, mentioned a number of times throughout this reply, and also at meetings held in the month of February, 1979, with representatives of DSSH's Purchase of Services Department, very full and meaningful discussions were held on the matter of "red tag's" off-island trips, etc. Habilitat made every effort to provide as much disclosure as possible concerning these matters.

We concede that confusion and misunderstanding did at one time exist – even within Habilitat itself – with respect to definitions, duration and characterization of job and vocational training programs. As will be explained in greater detail later, this was an innovation which proved to be the difference between mediocrity and excellence. A certain amount of trial and error was therefore to be expected, for Habilitat was indeed pioneering a concept which was to receive national recognition.

Habilitat may have unwittingly violated the welfare law by providing some reentry residents (red tags) with stipends and other benefits which exceeded the sum total of monthly welfare checks and food stamps applicable to their circumstances. However, Habilitat did take immediate steps to correct this error as soon as it became aware of same.

Habilitat did send some reentry residents on off-island trips primarily for reasons of therapy and rehabilitation. When it became aware that it was required to give DSSH sufficient advance notice of such trips, and to limit such trips to a maximum of 60 days, it promptly began doing so.

Habilitat's past failure to give DSSH advance notice was a mistake, committed out of ignorance of DSSH rules and regulations.

**SUMMARY OF BACKUP INFORMATION
TRANSMITTED WITH HABILITAT'S COMMENTS ON THE
PRELIMINARY REPORT ON THE MANAGEMENT AUDIT OF HABILITAT, INC.**

In addition to the comments set forth above, Habilitat transmitted other backup information which is summarized below.

1. A copy of the publication entitled *The Habilitat 7*, which is Habilitat's annual report for 1977-1978.
2. Exhibit A, *Drug Abuse and Trafficking in the State of Hawaii*, A Report of the Select Committee on Narcotics Abuse and Control, U.S. House of Representatives, 95th Congress, 2nd Session (1978).
3. Exhibit B, 16 pages of induction forms used by Habilitat for the induction of new residents into its program.
4. Exhibit C, a reproduction of a photograph of one of the groups of Habilitat residents which received high school graduation certificates.
5. Exhibit D, 9 pages of various documents, letters, and financial summaries relating to expenditures which Habilitat has made or plans to make for capital acquisitions and improvements.
6. Exhibit E, 41 pages of various materials (news clippings, curricula vitae, press releases, board of directors' minutes, correspondence, evaluation reports, etc.) relating to consultants who have visited Habilitat or have made evaluations of Habilitat's program.
7. Exhibit F, 3-page job description for Habilitat's executive director.
8. Exhibit G, 2-page job description for Habilitat's clinical coordinator and director of females.
9. Exhibit H, 3-page job description for Habilitat's vice president for sales and marketing.
10. Exhibit I, 1-page letter of September 14, 1979, from V. Rex Clay, partner with Clay and Ohata, certified public accountants, to Habilitat's board of directors stating that, based upon his firm's examination of Habilitat's financial statements completed on September 4, 1979, all of the internal control weaknesses referred to in a previous letter of May 5, 1978, have been corrected.
11. Exhibit J, a reproduction of page 10 from Habilitat's 1976 magazine relating to Habilitat's sales program.

GEORGE R. ARIYOSHI
GOVERNOR



ANDREW I. T. CHANG
DIRECTOR

LAWRENCE K. KOSEKI, DSW
DEPUTY DIRECTOR

RICHARD PAGLINAWAN
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF SOCIAL SERVICES AND HOUSING
P. O. Box 339
Honolulu, Hawaii 96809

August 31, 1979

RECEIVED

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OFFICE OF THE AUDITOR
STATE OF HAWAII

Mr. Clinton T. Tanimura, Auditor
Office of the Legislative Auditor
465 S. King Street, Suite 500
Honolulu, Hawaii

Dear Mr. Tanimura:

Thank you for making available the preliminary draft of the Management Audit of Habilitat for our review and comments. In general, we find the Audit report to be quite comprehensive in its description and coverage of the Habilitat's operations. Our overall reaction to the Audit report with its numerous recommendations is that it provides us with a useful tool in strengthening our management capabilities as they relate to all aspects of handling our Purchase of Services contracts in general and our purchase of services contract with Habilitat in particular.

Our comments are addressed toward the underlying problems and issues raised by the report and on selected audit findings and recommendations.

Effective Program Evaluation

The Audit report notes that "the greatest obstacle to effective evaluation of performance in the field of substance abuse and addiction is the general lack of consensus and knowledge about the use and abuse of various mind-affecting substances". It goes on to say "it is virtually impossible to set appropriate objectives and to establish effective standards or measures of performance by which to evaluate programs to combat substance abuse and addiction". However, both DSSH and DOH are scored in the Audit report for not developing "preciseness out of imprecise data" or a more effective evaluation approach within a sphere of many unknowns.

We are in universal agreement that the state of art of program evaluation of all social or human services is at the imprecise data stage. We have been utilizing observable secondary indicies or indicators to infer certain primary individual, familial changes or modifications or improvement. We are well aware that we have a long way to go in order to bring "preciseness" into the program evaluation area.

Currently, we have made efforts to at least minimally monitor (programmatic but not fiscally) the Title XX POS contracts, i.e., compliance with contract provisions. Given the reality of resources allocated for POS monitoring function, our staff is able to spend about two to three days at the maximum for onsite reviewing and assessing each POS contractor's performance. Within the limited man-days spent in the assessment process, the veracity of the data presented by the POS contractor to our program monitors is not designed to be and cannot be tested in detail. However, the Audit report tends to dismiss these efforts as ineffective or "not evaluation". This raises the issue as to what constitutes acceptable evaluation efforts. Since there exists a lack of consensus as to what is involved in evaluation, we could agree that the management audit conducted by the Legislative Auditor on Habilitat might represent the standard evaluation approach. If the Legislative Auditor's Office could provide us the total number of man-days spent by their staff and the costs involved in completing the audit of Habilitat, we can assess our current resources as well as determine our future resource requirements to conduct the kind of audit suggested by the report. In addition, sharing your evaluation design, criteria for measurement and standard of performance would be helpful to us. We currently have 63 POS contracts involving 82 public and private agencies. Using the Habilitat auditing requirements or standard, we could with adequate resources plan to have one-third of the total agencies evaluated (program/fiscal audit) per year or each POS service provider audited once every three years. We would monitor the agencies between the audits involving less intensive and less extensive review and assessment approaches.

Program Objectives

Services funded under the provisions of Title XX must meet one or more of the five "National Goals" set within the law itself. These are:

1. Achieving or maintaining economic self-support to prevent, reduce or eliminate dependency;
2. Achieving or maintaining self-sufficiency, including reduction or prevention of dependency;
3. Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interest or preserving, rehabilitating or reuniting families;
4. Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; or
5. Securing referral or admission for institutional care when other forms of care are not appropriate or providing services to individuals in institutions.

The program mission for the Public Welfare Division of the Department of Social Services and Housing is to remove individual and social barriers that prevent individuals from attaining and maintaining the maximum feasible level

of personal and social functioning, including maximum capability for self-support, self-care and personal independence.

Four of the national goals - Self-support, Self-sufficiency, Community-based Care and Institutional Care, are related to states of being or conditions of living which reflect varying levels of personal independence. They take into account the range of individual needs of the recipients.

The fifth national goal, protective care for children and adults and strengthening families, relates to individuals as well as families. Social services in this context are viewed as means rather than ends in themselves.

Services are directed toward some specific end or impact for the client. It allows for different levels of individual capability and aspiration. Goal achievement occurs when an individual is helped to attain or maintain one of the four goal states. Social services are also provided to assist a person to maintain his self-sufficiency and personal independence. Services in this case are considered to be preventative and serve to prevent people from regressing to more dependent states of living. For example, homemaker services often assist an individual to remain in family and Self-Care as an alternative to Institutional Care.

Goals are related to individuals. A family may have several goals depending upon its individual members. If a service plan is developed and a goal established, the individual is defined as a "primary client". It is understood that spill-over effects or impacts to individuals other than the primary client sometimes occur in the delivery of services. Attention, however, is focused on the primary client for whom the service is specifically provided in order to achieve an established goal.

As can be readily seen, the national goals are widely shared by other human services programs and agencies in both the public and private sectors. And while other human service agencies can embrace those same goals, our views about program goals, program objectives and service objectives can be best illustrated by using the day care services for children program. There exists a Federal Inter-Agency Day Care Requirement (FIDCR) which sets up the program performance standards for the day care operation, i.e., staffing requirements, nutrition, health, safety, social services, etc. Our POS day care provider may meet all of the FIDCR and may be operating a quality program. However, unless the participating parent(s) of the child in such day care are being released for employment, the day care program is not considered effective from our Title XX program perspective. Where then should we focus our evaluation efforts? Should it be on the degree to which the day care program met the FIDCR standards or on the number of parents employed because day care services were provided their small children to "free" them to seek employment? While worthy national goals usually can mobilize consensus, program objectives and cost effective measures often bring about contentions, disagreements and dilemmas.

Multiple Funded Agencies/Categorical Nature of Funds

Habilitat receives public funds from multiple sources, i.e., cash payment (GA), food stamps, medicaid (Title XIX), social services (Title XX), NIDA, and

CETA. Public funds are considered categorical in nature, with its own eligibility criteria, allowable expenditures, differing accountability forms and requirements. For example, an individual eligible for medicaid or food stamps may not be eligible for social services or those eligible for social services may not be eligible for cash payment. Thus, each funding source maintains its own requirements and cannot be subsumed under another fund source, making the much sought after "coordinated" approach by DSSH and DOH as well as other funding agencies extremely difficult if not virtually impossible. In relation to federal operations, the representatives are identified by funding sources so that those federal representatives involved in Title XX social services program do not inquire nor explore non-Title XX areas when making on-site visitations. At our state level, our social services program monitors, in making on-site visitations, confine themselves to Title XX areas. A question, for example, which may be asked after reading the Audit report is--who is responsible for assessing the Habilitat's private fund raising activities? Is DSSH the appropriate agency or should it be the Consumer Protector or possibly the Department of Regulatory Agencies?

In a multi-funded program, each program area by funding source conducts case reviews or case evaluations in light of its own program requirements and mandates. Generally, however, the management or administrative areas of the multi-funded program are not scrutinized. Who among the multiple sources of funds should be responsible for the evaluation and management audits? Who makes the determination as to what source of funding is responsible for the management/administrative audit? These are but a few of the questions which present dilemmas and barriers in seeking a desirable level of coordination and an integrated monitoring and evaluation system.

Selected Audit Findings

1. The conclusion (pages 4-18 and 4-19) that the Department did little or no follow-up on the deficiencies identified in the 1977 consultant's report is not accurate. The deficiencies listed on the bottom of page 4-18 are:

a. No systematic recording of program monitoring activities.

The Purchase of Service Unit has developed a systematic method of recording program monitoring visits. Forms have been developed to obtain data from DSSH branch units, DSSH case records, provider agency case records, recipient interviews, and provider agency staff.

b. No reporting system which provides client impact or goal achievement information routinely to the program monitoring staff.

The Purchase of Service Unit revised the quarterly activity report which was being used in 1977 to meet the recommendations of the consultant's study. The current quarterly activity report, which each POS provider mails to the POS Unit, does have information on goal achievement by each provider.

The Department may also be able to eventually obtain goal achievement data from the SSIS system.

c. No program monitor assigned to approximately one-third of the providers.

When the 1977 consultant's study was being conducted, one of the three

program monitor positions was not filled. That was the reason for one-third of the contracts not being assigned to a program monitor.

Currently, since all three program monitor positions are filled, all purchase of service contracts are assigned to a program monitor.

Another section of the report (page 4-19) states that DSSH has failed to monitor the resident population at Habilitat. The Purchase of Service Unit has monitored the number of residents at Habilitat through the quarterly activity reports. Further, during fiscal year 1979, Habilitat did service the total number of persons under the contract.

The Auditor's report, therefore, which states that the Department was not aware of the number of persons served under the purchase of service contract, is not correct.

2. The assertion made on pages 9-23 that the Purchase of Service Unit circumvented federal guidelines regarding salary increases for contract support positions is not supportable by facts as we know them.

First, there are no federal rules which state that salary increases for contract staff must be limited to eight percent per year. Second, salaries for staff of private agencies are established by that agency's Board of Directors. The Department of Social Services and Housing does not have the authority to establish salaries for staff in private agencies.

It would, therefore, be possible for private agencies to approve a large salary increase for its staff, and transfer their increased cost to the Department's purchase of service contract.

In order to avoid the transfer of large salary increases by private agencies to the purchase of service contract, the Purchase of Service Unit, under Title XX, would not fund a salary increase greater than 6 percent for fiscal year 1979.

Should any private agency decide that its staff deserved a salary increase greater than 6 percent, that agency would be responsible for obtaining other funds to pay for such increases. The 6 percent salary increase guideline was established by the Purchase of Service Unit to control the cost of services funded by the Department.

3. Several assertions implying the Department's inadequate monitoring and evaluation efforts as being complacent, not caring and not being particularly excited appear rather harsh. Despite the many insights and citations provided us in relation to our deficiencies, we have monitored and corrected specific irregularities with vigor. One such example involved an agreement with Habilitat to serve inmates who were furloughed from correctional facilities without any cost to the State. Subsequently after learning that Habilitat did not honor this agreement (i.e., by applying for financial and social service assistance on behalf of the inmates), the Department sought and recovered ineligible Title XX and general Assistance payments amounting to \$2,086.47 and \$3,628.91 respectively. As a result, more specific guidelines relating to the restricted

use of financial and Title XX funds and the ineligibility of inmates and wards of correctional institutions were formulated; this also led to increased communication, collaboration and coordination between the Public Welfare and Corrections Division relating to existing agreements within the Department. Another example of the Department's strident effort was its success in introducing and obtaining legislative authority to designate the Department's own physician for disability determination when questionable diagnoses were apparent. In Habilitat's case, the use of its own physician in certifying disability cases presented a potential conflict in our view and therefore, seeking a second physician's opinion was a judicious alternative with which the legislature apparently agreed.

4. We would like to clarify that in regard to financial assistance (General Assistance) and Food Stamps (page 2-15 of the report), General Assistance flows indirectly to Habilitat instead of directly as the report states. There is no GA vendor payment unless the individual is incompetent and is incapable of handling his/her funds. The payee is the eligible applicant or recipient as he/she is accountable to GA regulations to maintain eligibility. The recipient is a "free agent" and has control of his GA check and is responsible for meeting his obligation to the landlord or facility as any other welfare recipient. Thus, the payee of GA is the eligible applicant or recipient.

In addition, it is correct that neither GA payment or Food Stamp bonus is intended to be used as stipends. The GA payments and food stamps are for basic living requirements of shelter, food and personal essentials. Given this, the receipt of stipend constitutes income available for his support. The GA program does not exempt stipend as income and therefore is regarded as a resource in determining eligibility. The recipient is responsible for reporting receipt of this income and failure to do so is an alleged fraud and basis for DSSH to refer this matter to the Attorney General's (AG) Office for action. The DSSH Branch unit is required to identify these cases, gather facts, and prepare suspected fraud report for referral to the AG. In reference to the point that Habilitat acted as an agent for residents to receive welfare payments (page 11-27), it should be noted that money payments are made directly to the individual applicant or recipient and not to the facility. However, whether the individual chooses to have the facility act as his agent is an agreement made between the two parties.

The Audit Report asserts that no move has been initiated to establish a definite relationship with Habilitat through contract or otherwise under which Habilitat's role would be clearly designated and Habilitat could be held fully accountable for all of its actions affecting payments received on behalf of individuals (page 11-27). Under current rules and regulations relating to money payments to recipients for their basic living requirements, a contract with Habilitat would not be an appropriate accountability mechanism. Presently the recipient and not the facility is accountable to the Department for maintaining eligibility even though it appears all of the recipients have given Habilitat the Power of Attorney. Habilitat's accountability will need to be determined with the consultation of the Attorney General's Office and a determination made as to whether

August 31, 1979

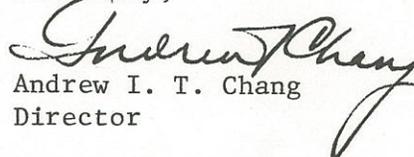
Habilitat can be held liable under 346-34, Frauds, Penalties, which states in part "Any person who by means of wilfully false statement or representation or by impersonation or other fraudulent device...aids or abets any other person to obtain public assistance to which he is not justly entitled...shall be guilty of fraud".

As to the report's recommendation calling for the establishment of controls that ensure proper utilization by Habilitat of General Assistance, food stamps and other similar government payments that are made to and received by Habilitat in behalf of Habilitat's residents, it should be reiterated that the money payment program deals with recipients' eligibility for benefits and not the facility's; therefore our establishing controls to ensure proper utilization of benefits by Habilitat would not be in order. On the other hand, there is a special law under the Food Stamp Act which deals with residents of drug addiction or alcohol treatment centers and where controls are a requirement. The recipient can only apply for, purchase, and use food stamp coupons through the non-profit private organization which runs the facility as his "authorized representative". The authorized representative must sign the food stamp application form and is responsible for notifying the Department of any changes in the individual's income and resources, including notification that the individual left the center. In addition, the organization is responsible for over-issuance caused by misrepresentation and assumes liability for food coupons. New food stamp regulations also require DSSH unannounced visit once a year to verify presence of person listed. The organization must send monthly list of persons on food stamps and must buy food for residents and therefore cannot convert the stamps to cash.

In view of the breadth, scope and complexities of the audit report, it was most difficult to respond to each and every issue, finding and recommendation. However limited our response, we have shared our major concerns and inherent dilemmas posed by the audit findings as well as attempted to clarify several inaccuracies and misinterpretations. Because of our philosophy and receptivity to viewing management audits as contributing toward better administration and management of our Department, we will continue our future analysis of the report with the aim of translating the many recommendations into a corrective action plan. Some immediate actions (e.g., policy initiatives with the Department of Health regarding licensing and certificating process) have already been taken. In addition, meetings, internally and with other affected agencies have begun to focus on intermediate and long-range corrective actions. While certain actions can be administratively pursued, we foresee other issues and problems requiring the promulgation of rules and regulations as well as being addressed through legislative policies. An example of a potential State policy is the consideration of statutes relating to standards governing the purchase of services, grants and subsidies.

Again, thank you for the opportunity to review and comment. If there are further questions regarding our response, please let me know.

Sincerely,


Andrew I. T. Chang
Director

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GOVERNOR OF HAWAII



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Deputy Director of Health

August 29, 1979

In reply, please refer to:

File: _____

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State of Hawaii
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RECEIVED

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OFFICE OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Tanimura:

This is in reply to your letter of August 10, 1979 regarding the findings of the Management Audit of Habilitat, Inc.

By way of introducing our comments, I would like to share with you some observations of Jerome Jaffe, M.D., the first Director of the White House Special Action Office for Drug Abuse Prevention and now with Columbia University. Dr. Jaffe has noted that despite their short comings, drug treatment programs have created some useful models for delivering services in contrast to other areas of medical care. "These innovations have brought about sharp reductions in costs, as well as the involvement of personnel who are often uniquely qualified to demonstrate concern and empathy for those seeking treatment. But these advantage have come at a cost that is still difficult to estimate. The task of demonstrating (the relationship between treatment and improved behavior) is not impossible, but it is far more complex, costly and time consuming than was imagined..... If the public was led to believe that clear answers about effectiveness were in the offing, we should concede that our judgment on the matter was badly flawed we are still far from knowing whether the magnitude of the difference in outcome for those so treated is worth the cost of the treatment".¹

Chapter 3-1: Summary of Findings No.-1
4-1: Summary of Findings No.-1
4-14: Paragraphs 3 and 4
4-19: Paragraph 2

Criticisms in these sections address two separate issues: 1) the state of the art of substance abuse research, and 2) the Department's performance in monitoring substance abuse rehabilitation efforts at Habilitat.

There is no question that research into substance abuse is sorely lacking. This is not unique to Hawaii or even to the mainland. Substance abuse is a

¹The Swinging Pendulum: The Treatment of Drug Users in America, Handbook on Drug Abuse, National Institute on Drug Abuse 1979

Mr. Clinton T. Tanimura
August 29, 1979
Page 2

multi-faceted complex phenomenon that involves several scientific disciplines and as the report notes, research is confounded by changing political and social factors.

Definitions of substance abuse are elusive, and differentiating between substance use, misuse, abuse and addiction is a futile task. Rather than become embroiled in such a thankless situation, the Department utilizes a heuristic definition of substance abuse; to wit, substance abuse is any use of psychoactive substances to the extent that such use causes disruption in any area of life functioning, e.g., health, social relations, school or job.

We take issue with the criticism that conflicting definitions make it impossible to reach any agreement regarding the problems requiring public attention in this field. By defining substance abuse as use related to dysfunction in some area of life, we believe it has a solid philosophical base from which to attack the problem.

As to the criticism that there is a "sparsity of data...concerning addicts(?) in general" the Department of Health has been steadily increasing its knowledge of substance abusers in Hawaii. For the last year, the Alcohol and Drug Abuse Branch has routinely analyzed data from over thirty treatment units in the state and we believe we have at our disposal an impressive and complete picture of the substance abuse treatment population in Hawaii.

As to our performance in collecting and analyzing data regarding Habilitat's residents, we have been collecting data on Habilitat's residents since 1976. We know how many people entered the program, their ages, sex, school and employment histories and detailed substance use histories. We know how long people remained in the program, under what circumstances they left, whether they completed schooling or skill training at the facility, and the extent to which people were using and/or abusing drugs at discharge.

The Alcohol and Drug Abuse Branch has conducted a workshop on client follow-up and has served notice to programs that they must submit follow-up plans to the Department for review and implementation. We intend in the first phase of client follow-up to allow programs to chose their own goals for evaluation, subject to our approval.

Relative to the extent of drug use, the Department will shortly conduct a statewide survey.

During the interim, we have developed synthetic estimates of alcohol use broken down by health planning catchment areas. We have estimates of incidence of heroin use based on treatment populations. These "lag estimates" based on Hawaii's past history of heroin use have proved quite valid.

It is our opinion that the report confuses reliability and validity and has gotten hopelessly enmeshed in such terms as addiction and substance dependency.

Mr. Clinton T. Tanimura
August 29, 1979
Page 3

Undertaking the determination of the social costs of drug abuse would require an inordinate amount of resources and expense to develop with any amount of accuracy and would, in cases where it has been attempted prove no more useful than estimates.

We can for example estimate that transfers for heroin purchase in Hawaii are between \$20 and \$60 million per year, taking into account theft, sales of illegal drugs and prostitution. We submit that even the low estimate justifies all rehabilitation efforts and suggest that \$20-\$60 million is just monetary costs and given political and social factors would not appreciably impact decision-making in this area.

Chapter 4-16: Paragraphs 2 and 3
4-21: Paragraph 3

The document referred to as the "State Plan" and subsequent updates have been developed in accordance with plan development and format guidelines specified by the Department of Health, Education and Welfare (DHEW). Conformance to and approval under these guidelines are a prerequisite to being eligible for both operational and treatment service funding from DHEW. As was indicated in discussions during the course of the audit, current available funding is composed of Federal categorical treatment and/or operational funds and corresponding State matching funds. The document discusses what was or was not achieved during the previous fiscal period and what is being proposed for the coming fiscal year. That the Department, with the concurrence of those who participated in an all day public review conducted by the Hawaii Advisory Commission on Drug Abuse and Controlled Substances (HACDACS) developed overall priorities was by way of indicating that should appreciable discretionary funding become available to the State, criteria for allocation would be based on the intent of the priorities. The data and information collected from sources such as emergency rooms, law enforcement and treatment programs give us indicators and trends relative to the problem(s). Programs throughout the State, based on their work within their locales and with their treatment population, have given us insight into needs albeit perceived. Because of continued limited funding to date, elaborate primary and alternative strategies were not developed.

Chapter 4-2: Summary of Findings No. 2
4-6: Paragraph 2
4-13: Paragraphs 2 and 3
4-15: Paragraph 1
4-17: Paragraphs 2 and 3
4-18: Paragraph 3
4-19: Paragraph 5
4-24: No. 4 c.

Touche-Ross & Co., Los Angeles, California, has been contracted by the National Institute on Drug Abuse since 1976 to monitor and evaluate states'

Mr. Clinton T. Tanimura
August 29, 1979
Page 4

administration of Statewide Services Contracts (SWSC) awarded. This is accomplished through annual on-site visits to state agencies to review and provide indicated technical assistance in the areas of programmatic, administrative, and fiscal management of the SWSC including state agencies monitoring procedures of sub-contracts.

Changes implemented since the first Touche-Ross review was conducted in December, 1977 have resulted in a shift in emphasis from a review of subcontractor programmatic accomplishments to a review of programmatic accomplishments, clients in treatment, the kinds of services delivered, frequency, in accordance with the Federal Funding Criteria, Drug Treatment Services and Central Intake Units, and quality of counseling and/or services delivered. In its report of January, 1978 to the National Institute on Drug Abuse dated January 23, 1978, Touche-Ross indicated:

"This letter concludes the first phase of our MSD (Management Systems Development) assignment for the Hawaii SSA. Our engagement focused on improving three major areas of ADAB's operations; specifically, program monitoring and evaluation, financial management, and management information and reporting systems. The overall objectives of our assistance during the first phase were to:

- o Implement a program review methodology by adapting the SWSC Program Review Manual to ADAB's requirements and to train the Program Monitors in its use.
- o Develop internal and external management reporting systems which included monthly reports of monitoring results, identification of subcontractor problems and corrective action steps, quarterly reports to be submitted to NIDA, and other external management reports, as appropriate.
- o Develop a manual financial management system which included the design of reports to record subcontractor revenues and expenditures as well as internal and external financial information.

We believe that we were able to attain the above objectives. The results of our efforts are contained in the three enclosed manuals, the contents of which have been discussed with (The Division of Community Assistance, Region E) and ADAB ... management and staff. The following summarizes our efforts and the content of each document:

- o Implementation of Program Review Methodology

During this task much of our effort focused on training and discussing the potential scope and

content of program reviews with ADAB personnel, particularly the Program Monitors. Because the Hawaii SSA is in its first year of operation and personnel responsible for performing program reviews were only recently hired, a graduated approach to the program review methodology was developed. In other words, while the overall content of a program review will be comprehensive, the scope of review of each major area of a program's operation will be limited to the topics identified in the enclosed guide. Once the Program Monitors and programs become more familiar with this review process, ADAB ... management will increase the scope of review of each major area. The SWSC Program Review Manual will be used to identify additional areas of review.

o Internal and External Management Reporting Systems

Since ADAB's external management reporting requirements are limited to submitting a monthly financial report to the NIDA Contracts Officer, and a quarterly progress report to the NIDA Program Development Specialist, a single management reporting system to meet both internal and external needs was developed. This system includes quantitative results, identification of problem areas, corrective action steps, and results of corrective action steps for those service providers identified as deficient in the prior monthly report, for the following:

- SWSC Slot Utilization Status
- SWSC Financial Status
- Site Visit Report
- SWSC Contracting Status

In addition, ADAB ... management expressed a desire to collect certain statistical data for planning and evaluation purposes. The forms to collect and report such data, together with instructions for their completion are contained in the enclosed document.

o Financial Management Systems

A financial management system was developed for use by ADAB which includes:

- Procedures and forms to review and record subcontractor revenues and expenditures.
- A monthly report which summarizes actual expenditures by subcontractor and compares these amounts to an average monthly budgeted amount. This report also shows cumulative expenditures-to-date.
- Procedures to reconcile ADAB's records with those maintained by other State agencies, where appropriate.
- Recommendations for modifying existing subcontractor reimbursement claims to ensure consistency with the line item detail contained in each program's contract. This consistency should facilitate the ADAB review process.
- Procedures for subcontracts to complete the monthly expenditure reports and reimbursement requests.

At the time of our field work, an Accountant had not yet been hired. Therefore, we reviewed all reimbursement claims submitted to ADAB and computed total expenditures by major subcategory (i.e., personnel, operating, and equipment) for each subcontractor. In addition, we reviewed payments to subcontractors. As a result of these activities we identified several discrepancies in both reported expenditures and the ADAB record of amounts paid. These discrepancies were identified by subcontractor and are contained in the enclosed document."

The on-site monitoring criteria package as developed by Touche-Ross and utilized by the Department covers all of the modalities and/or environments of drug treatment services, drug education and drug prevention. Departmental monitors utilize only the applicable areas of review according to the type of drug program that is being monitored. By the evidence of active client files, counselors' documentation, and supervisory review of client drug treatment, the monitor is able to assess if appropriate services are being rendered by the program. Further reviews of an intake screening report of the client, written reports of personal, social, legal, educational, vocational, and medical history of the client, a development of an individual treatment plan for the client in which the client actively participated in the formulation, and documented treatment counseling interactions will enable the monitor to determine if appropriate services or treatment is being delivered, and to what degree of success in each individual client's case - the monitoring review by Departmental personnel is both an individualized review of clients, and an overall review of the drug treatment program.

In regard to criticism that our monitoring is more concerned with form than substance (9-19, Paragraph 5) the purpose of having a Client Record System is aimed at enhancing the therapeutic effort of the counseling staff. The overall purpose is to record and organize relevant client information in order to develop an effective treatment plan to meet the need of each client. It is a tool to foster and maximize positive change in client behavior, attitudes, and life-styles, and not just a data collection effort.

By having an effective client record system, it ensures that relevant client data are obtained by the counselor or intake worker. It further organizes the data collected to facilitate the identification of significant client problems.

The Clinical Record System is the core mechanism of communication and review among all program staff concerned with client treatment e.g., medical staff, live counselors, other specialist, etc. Client records serve as primary source documents for researchers conducting outcome and follow-up studies, epidemiological surveys, and evaluations of certain types of treatment.

The Client Record System will serve the counselors, as a source of information for reporting direct services to clients, and the program managers, as a means of verifying reported activity.

Towards increasing the skills of counselors in 1977, the Department implemented a training program. To date approximately 635 individuals have been trained in modules that included:

FACTS ABOUT DRUG ABUSE - Developed by the National Institute on Drug Abuse, the course attempts to deal with both the confusion and emotional overtones of the term "drug abuse". The course is a basic course, designed for those who lack knowledge of the areas listed below. They are essential areas that need to be understood if one chooses to engage in substance abuse prevention, treatment, rehabilitation, education efforts, or simply wishes to increase knowledge of substance abuse in order to sharpen his/her perspective about the current substance abuse problem in this country. The topic areas that are covered in this course are:

- Historical evolution of drug use
- Types of drugs
- Drug Effects
- Alcohol and Marihuana
- Social and legal responses to substance use
- Treatment efforts
- Drug Myths
- Drug dependence
- Evolution of polydrug abuse
- Roles of families, schools, communities,
and peer groups related to drug abuse prevention

COUNSELOR TRAINING: SHORT-TERM CLIENT SYSTEMS - The extent to which a counselor is effective in this role, both in the eyes of his clients and of

Mr. Clinton T. Tanimura
August 29, 1979
Page 8

his program, is dependent upon many factors. One major factor is the quality of the counselor's helping skills. It is toward this end that this course was developed by the National Institute on Drug Abuse to train counselors in basic listening and repoding skills in the areas of empathy, values and attitudes, and problem solving.

It is not the purpose of the course to teach counseling theory. Most counselors, whether professional (degreed) or paraprofessional, can state the principles of effective helping relationships, empathy, and so on. Few can actually demonstrate effective responses that reflect these principles. Therefore, this is a "how-to-do-it" course.

Whether the training is used as a vehicle to meet the new credentialing requirements for drug abuse counselors, or as ongoing inservice work, or as an introductory or refresher course, the intent is to significantly improve the quality of drug treatment services by enabling counselors to establish and maintain more effective helping relationships with their clients.

ASSESSMENT INTERVIEWING FOR TREATMENT PLANNING - Federal Funding Criteria for drug treatment programs require that individualized treatment plans be specified for all clients. To assist programs in meeting this requirement, this course was developed to train counselors in the use of a focused, well-organized interview that will facilitate gathering the information needed to develop a treatment plan. For the purposes of this course, it is assumed that assessment interviewing for treatment planning is not an intake process. Rather, it is conducted after intake as part of the client's initial involvement in the treatment process.

Chapter 4-20: Paragraphs 2 and 3
4-21: Paragraph 4
4-22: Paragraph 1
4-24: Nos. 3 and 4

Although the specifics of Federal mandates that regulate the allocation of funds differ, and Federal regulations governing the confidentiality of clients relative to the provision of services and the maintenance of information for administrative and managerial purposes restricts this Department's utilization of such information, the Department will work with the Department of Social Services & Housing to afford closer, more effective coordination of funds administration and monitoring.

We take great exception to statements to the effect that very little of significance is being done to monitor program performance, that the Department is not fulfilling its responsibilities in monitoring, that we are content to let situations continue, that we condone certain policies and practices, and that we are indifferent as to our responsibilities and obligations.

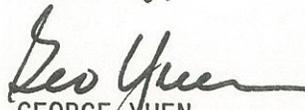
We also take exception to the statement that "all of the information contained in (Chapter 12) was available had they made an effort to seek it

Mr. Clinton T. Tanimura
August 29, 1979
Page 9

out." Although the Department does not have the manpower to devote several months exclusively to one program, that, as the report goes on to say, "Personnel within the government agencies from time to time expressed concerns and raised questions about some of the matters discussed in (Chapter 12)" attests to the fact that the Department has made every effort, given limited resources to diligently monitor the expenditures it funds. In view of the fact that the program is relatively new in the Department, I firmly believe that our Alcohol and Drug Abuse Branch staff has done a very good and conscientious job. I do not believe it is deserving of many of the criticisms contained in your audit.

This response is offered by way of clarifying statements and activities that transpired or were discussed with your staff. In general, we feel the report is balanced and well-written. 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.

Sincerely,


GEORGE YUEN
Director of Health

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