
Management Audit of the Legal Aid Society of Hawaii

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

Report No. 97-10
April 1997

THE AUDITOR
STATE OF HAWAII

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Submitted by

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Foreword

This is a report of our audit of the Legal Aid Society of Hawaii. This audit was conducted pursuant to Act 305, Session Laws of Hawaii, 1996, which directed the Auditor to conduct a management audit of the Legal Aid Society of Hawaii and recommend whether the society should continue [sic] to receive moneys from the Indigent Legal Assistance Fund created by Act 305.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Legal Aid Society of Hawaii.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

The Legislature has demonstrated a commitment to ensuring the availability of legal services for the poor and disadvantaged by providing funding to legal service organizations such as the Legal Aid Society of Hawaii (society). With the decline in federal funding support for such programs in the early 1980s, the Legislature increased its level of financial support, becoming a major funding source. However, continued state support at the same level is no longer assumed given the state's own fiscal problems.

To address this issue, the Legislature created the Indigent Legal Assistance Fund in Act 305, Session Laws of Hawaii (SLH) 1996. This fund provides additional state support for legal service organizations by imposing surcharges on selected civil legal actions. The surcharges, which went into effect on July 1, 1996, are deposited into the fund. Approximately \$400,000 will be deposited into the fund for FY1996-97 which is administered by the Office of Community Services in the Department of Labor and Industrial Relations. Qualified legal service organizations can begin receiving grant moneys from the fund starting July 1, 1997.

Eligible legal service organizations are generally nonprofit agencies that have provided civil legal services to the indigent (e.g., poor, elderly, disabled) statewide for at least a year prior to application. These agencies include the Legal Aid Society of Hawaii, the Native Hawaiian Legal Corporation, Hawaii Lawyers Care, and the Maximum Legal Services Corporation.

This report is a response to a provision of Act 305, SLH 1996, that directs the Auditor to conduct a management audit of the Legal Aid Society of Hawaii and recommend whether the society should continue [sic] to receive moneys from the fund. While the Legal Aid Society of Hawaii is not the only eligible agency for these funds, the impetus for the audit was legislative concern that the society may be participating in activities that exceed the scope of its mission.

Background of the Legal Aid Society of Hawaii

The Legal Aid Society of Hawaii, created in 1950, is a private, nonprofit corporation that provides civil legal services to the poor. A Board of Directors sets policy, hires and evaluates the executive director, and monitors the society's program performance. The society's mission states that:

“LASH [Legal Aid Society of Hawaii] is a community based law firm whose mission is to empower both low income and disadvantaged people and to achieve justice in society through high quality legal representation, systemic, legislative, and administrative advocacy, community education and outreach.”¹

The mission is currently under review by the Board of Directors to reflect the expansion of services and activities currently undertaken by the society.

A management team, consisting of an executive director, comptroller, litigation coordinator, and managing attorneys for each full-time office, administers the society. Exhibit 1.1 illustrates the society’s current organizational structure. The society is restructuring its organization to reflect new projects and responsibilities.

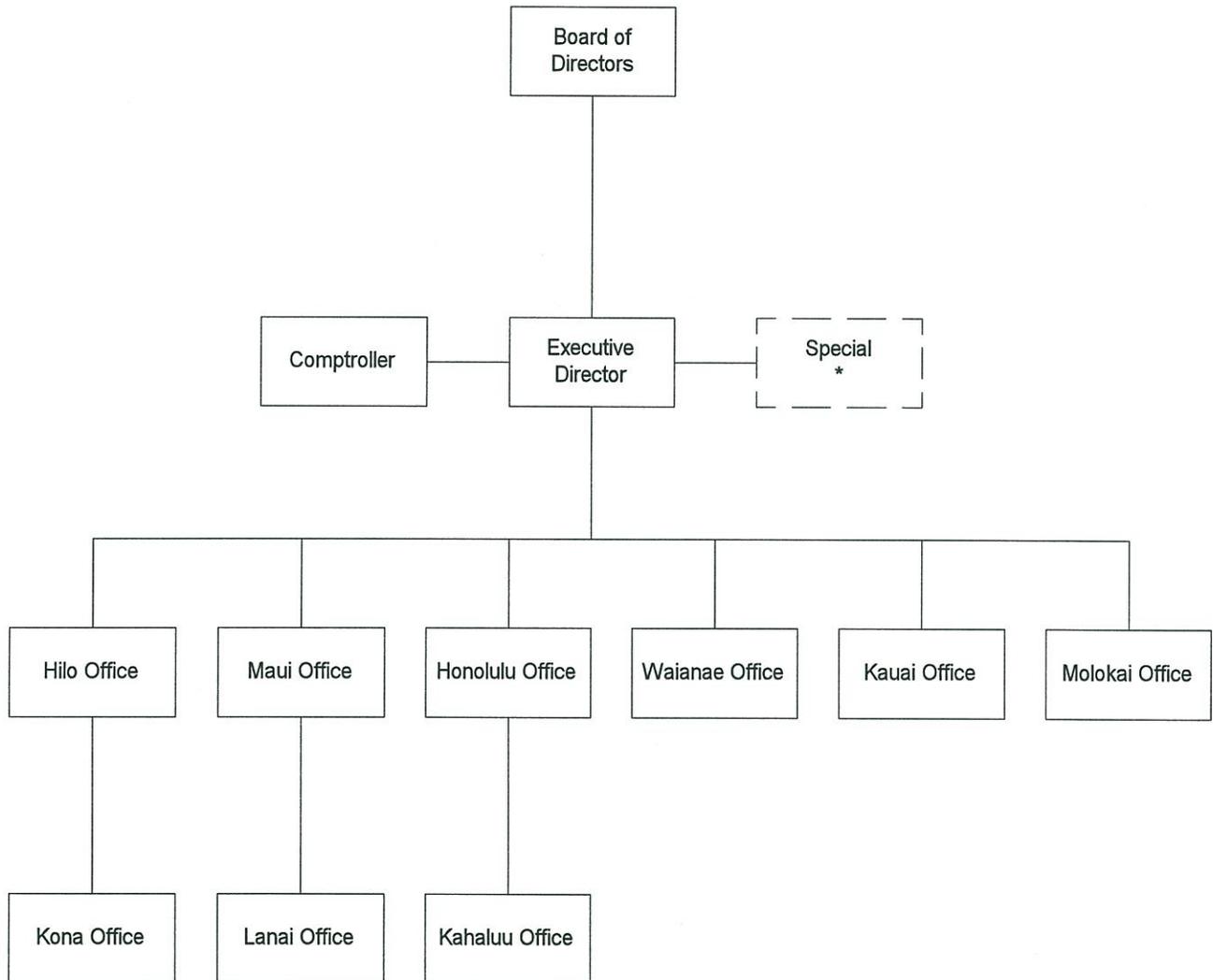
Statewide, the society’s staff consists of 46 paid positions operating in nine offices on six islands. In addition, 51 volunteers assist with clerical duties, office support, and work on specific projects. Fifteen of those volunteers are part of the Americorps program and serve in paralegal and attorney positions. The society’s main office is located in downtown Honolulu. The other two offices on Oahu are located in Kahaluu and Waianae. Offices are also located in East Hawaii, West Hawaii, Kauai, Maui, Molokai, and Lanai. The Kahaluu, Kona and Lanai offices are administered by the Honolulu, Hilo and Maui offices, respectively.

The organization of the Legal Aid Society of Hawaii meets the characteristics of an agency eligible to apply for indigent legal assistance funds as specified in Act 305. As described above, the society is a nonprofit organization with more than a year of experience providing legal services to the indigent and operates exclusively in Hawaii. The society has a governing board with members who have no material conflict and serve without compensation. Further, the society has bylaws and policies that describe the manner in which business is conducted, including policies on nepotism and management of conflict of interest. Finally, the society is licensed and accredited in accordance with county, state, and federal government requirements.

The society provides a variety of services

Typically, eligibility for the society’s services is based on client income. Free civil legal services are provided to applicants whose incomes are at or below 125 percent of federal poverty level. Also, an applicant’s problem must fall within the priorities set by the Board of Directors. Approximately half of the society’s cases deal with family problems such as domestic violence. Other types of cases include welfare benefits, landlord-tenant disputes, consumer rights, and seniors issues. In FY1995-96, the society closed approximately 10,000 cases.

Exhibit 1.1
Legal Aid Society of Hawaii



* Special projects/units that report directly to the Executive Director including:
State Supplemental Security Income (SSI) Project
Fair Housing Project
Intake Unit

The Legal Aid Society of Hawaii has been expanding the scope of services offered in conjunction with its efforts to find additional funding sources. For example, the society's "Senior Legal Hotline" provides assistance to anyone who is 60 or older regardless of income level. Additionally, the society has initiated several fee-for-service programs in which legal services provided are billable. Examples of fee-for-service arrangements include:

- A contract with the Teamsters Union to provide selected civil legal services for its members as specified in the Teamsters' benefits package.
- Programs to provide limited legal services to "gap group" individuals or those who fall between 125 percent and 250 percent of the federal poverty level. The gap group is identified as not qualified for free legal services, but unable to afford private-sector legal services.

In addition to services provided to individuals, the Legal Aid Society of Hawaii has also engaged in "administrative advocacy" (representing clients at administrative hearings) on behalf of the poor, often against government agencies. Most recently, the society filed a class action lawsuit against the Department of Human Services on behalf of general assistance recipients who were in danger of losing their benefits. However, the Legal Services Corporation, the organization through which most federal funds for legal aid groups is distributed, recently determined that administrative advocacy and legislative advocacy (lobbying) were restricted activities, and no organization receiving federal funds through the Legal Services Corporation could use *any* of its funds, regardless of source, to engage in such advocacy practices. In response to this restriction, the society recently joined with legal services providers in California, Alaska, and several other private groups and individuals in a lawsuit against the Legal Services Corporation, seeking to overturn the restrictions. A federal judge has granted a preliminary injunction against the Legal Services Corporation to allow the legal aid organizations involved in the suit to participate in advocacy activities.

Diversification of society's funding

Over the past few years, the Legal Aid Society of Hawaii experienced significant cuts from its two largest funding sources, the federal and state government. To compensate for this loss in funding, the society has aggressively sought alternate sources of funding. Consequently, the society receives funds from 28 sources.

The society's total budget for FY1996-97 is about \$3 million. Approximately \$837,000 in federal funds is received through the Legal Services Corporation. State general funds of approximately \$1.1 million are obtained through a purchase of service contract with the Department of Labor and Industrial Relations' Office of Community Services.

Prior audit noted management problems

In our December 1991 report, *Management Audit of the Legal Aid Society of Hawaii* (Report 91-20), we found that the Board of Directors was handicapped by its large size and rigid composition and failed to systematically carry out some of its oversight responsibilities, such as holding management accountable for results. We also found that the society's management was rigid and overly centralized, resulting in inefficient and, at times, counterproductive administrative procedures. The 1991 audit concluded with a number of recommendations to improve the society's management practices.

Objectives of the Audit

The objectives of this audit were to:

1. Identify management controls of the Legal Aid Society of Hawaii that help it to fulfill its mission, goals, and objectives.
2. Assess whether the management controls of the Legal Aid Society of Hawaii are adequate to ensure effective and efficient operations.
3. Assess whether the Legal Aid Society of Hawaii has controls in place to meet the criteria set forth in Act 305, Section 4, SLH 1996.
4. Make recommendations as appropriate.

Scope and Methodology

We reviewed the Legal Aid Society of Hawaii's operations statewide. The scope of the review was from FY1991-92 to the present. All of the society's offices were visited.

We followed up on the recommendations of the prior report *Management Audit of the Legal Aid Society of Hawaii* (Report 91-20). We focused only on those recommendations addressing or relevant to management practices.

We reviewed legislative testimony, memoranda, financial reports, grant proposals, documents, and other forms. We conducted interviews with staff at the Legal Aid Society of Hawaii, members of its Board of Directors, staff from organizations that provide funding for the society and other providers of civil legal services to the poor. We also reviewed case file docket sheets to assess the eligibility determination process.

Our work was performed from November 1996 to March 1997 in accordance with generally accepted government auditing standards.

Chapter 2

Improvements Are Evident But Accountability Needs to Be Strengthened

This chapter presents the findings and recommendations of our audit of the Legal Aid Society of Hawaii. The society has addressed a number of findings and recommendations in our previous report, but has not adequately evaluated its programs. In addition, the society faces new demands associated with the diversification of its funding base. We found that the society has not adequately assessed how securing these funds impacts the society's programs and operations.

Summary of Findings

1. The Legal Aid Society of Hawaii has implemented a number of improvements in the management of its operations.
2. The Legal Aid Society of Hawaii's management practices have not kept pace with its information needs. The society's current management practices do not provide adequate information to managers. It has difficulty tracking funding proposals at local offices and it does not assess how obtaining those funds will impact services.
3. The Legal Aid Society of Hawaii's method of program evaluation is inadequate. Current program evaluation methods do not evaluate the society's entire operation, making it difficult to determine how effectively the society meets its mission. Program evaluation consists primarily of a small sample of client satisfaction surveys that have not been conducted on a regular basis.

The Legal Aid Society of Hawaii Has Implemented Improvements in the Management of its Operations

Our previous report, *Management Audit of the Legal Aid Society of Hawaii* (Report 91-20), addressed the society's management practices. These management issues can be grouped into the following categories:

1. The Board of Directors' management oversight demonstrated through periodic assessments of the executive director;
2. Utilization of more effective management practices such as increased staff input into the decision-making process and decentralization of some responsibilities where appropriate;
3. Effective use of computers to support operations; and

4. Use of program evaluation as a management tool to measure effectiveness.

We reviewed actions taken by the Legal Aid Society of Hawaii since 1991 and found management implemented a number of operational changes based upon our previous findings and recommendations. However, a number of management issues still need to be addressed.

Board of Directors is starting to evaluate the executive director

Our previous audit of the Legal Aid Society of Hawaii noted that the American Bar Association standards for providers of legal services to the poor recommend the periodic and ongoing evaluation of the executive director in order to ensure accountability for program operations. We found the society failed to meet this standard and recommended that the Board of Directors take corrective action.

Our present audit found that the evaluation committee, one of ten committees of the Board of Directors, is responsible for evaluating the society's executive director. Subsequent to our 1991 report, the committee conducted an evaluation of the previous director in 1992. That executive director left the society in 1993, and the current director joined the society in August 1994. The evaluation committee initiated an evaluation of the present executive director in October 1996 and was scheduled to complete it in January 1997; however, the committee had not done so by the end of our fieldwork in March 1997. There is insufficient information to assess the criteria or the quality of the evaluation and whether the evaluation will be periodic and ongoing.

Several management concerns have been addressed

Our 1991 audit found that centralized management practices inhibited effective and appropriate staff participation in decision making. Furthermore, centralized decision-making practices placed unnecessary limitations on field office operations. We found in the current audit that management has addressed these concerns and has made some improvements. Specific improvements include the encouragement of staff input into management decisions and the decentralization of statewide operations to increase branch office efficiency.

Staff have more input into management decisions

We found previously that Legal Aid Society of Hawaii's staff commonly complained that they lack input into agency operations. This contributed to low staff morale and a high turnover rate. We recommended the society ensure staff input into management decisions and actions.

The Legal Aid Society of Hawaii made improvements in this area. A principal means of soliciting staff input is through the *Barometer for*

Periodic Measurement of Morale & Management Effectiveness Survey.

In 1989, the board began to use the survey which was subsequently revised in 1991. The survey was most recently used in October 1996 to solicit staff input as part of the evaluation of the executive director.

Staff input has also been solicited when management revised the society's priorities in 1995. The executive director asked managing attorneys, as well as their staff, to rank the importance of their client services. Program priorities were further discussed at a staff retreat in November 1996.

Some program operations have been decentralized

In our last audit, we found that the society's decision making was overly centralized. Branch offices lacked the ability to adjust operations to meet individual conditions and improve efficiency. They could not even order their own supplies. We recommended delegation of responsibilities where appropriate.

We found in the current audit that the present director has taken a number of steps to decentralize and delegate decision making. Basic administrative decision-making functions, such as obtaining office supplies, were delegated to individual offices. Each branch office has also been given the responsibility of controlling its own budget for making travel arrangements and purchasing office supplies, maintaining its own office inventory, and negotiating its office lease.

The society has computerized some of its operations

In 1991, we concluded that the Legal Aid Society of Hawaii's office computerization was inadequate to meet and support the society's activities. We recommended that a committee be assigned to develop a program for computerizing appropriate operations.

The society has taken steps to computerize its operations. A technology committee was formed in 1994 to review and assess the computerization of such areas as case intake, timekeeping, accounting, and client conflict checks. In addition, 37 computers have been purchased to improve staff's access to computer equipment.

Another computerization initiative has been the implementation of the Information System for Legal Aid Network Statewide Hotline, or ISLANS project. ISLANS was created to serve as a central referral service for those seeking assistance from legal service organizations. Funded in FY1995-96 with a grant from the Hawaii Justice Foundation, ISLANS utilizes a central, trained staff that take calls from clients referred by affiliated programs. The society is currently working to improve the ISLANS by incorporating an automated legal information telephone system into ISLANS and expanding its hours of operation.

The society has also taken steps to improve the personnel support for its computer systems. In August 1996, a computer program manager was hired to oversee computer related issues for the society. Computer issues previously handled by staff without formal computer training or contracted to outside consultants is now managed by the computer program manager.

Some areas still need improvement

The society's inadequate computerization in 1991 was essentially a failure by management to adequately assess and track its information needs. While computerization has improved, we found that the society has inadequate information about its funding sources. In addition, the society continues to lack effective program evaluation.

The Legal Aid Society of Hawaii's Management Practices Have Not Kept Pace With Its Information Needs

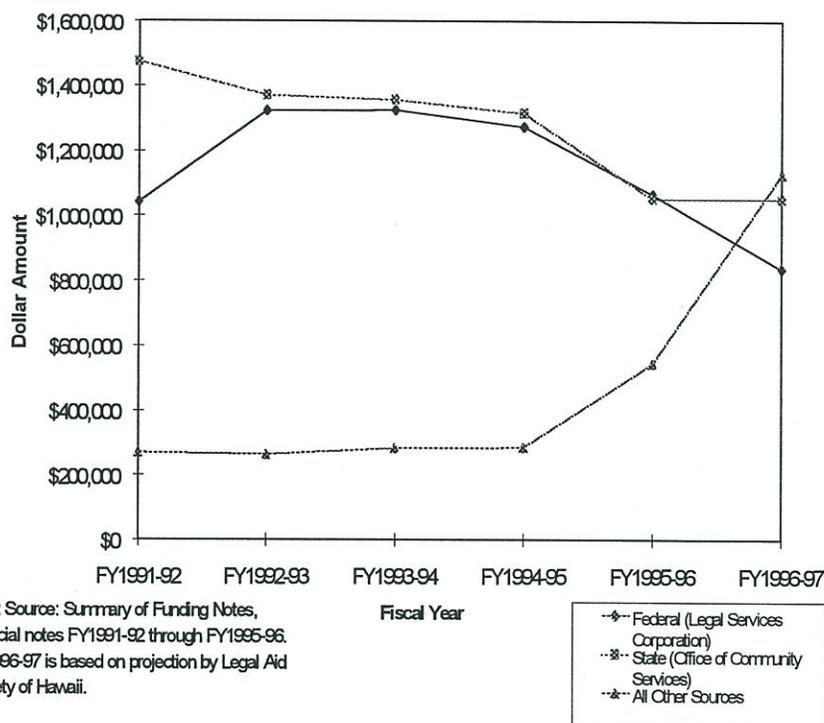
The society has embarked on an aggressive program to find new funding sources but has not developed adequate methods to assess the impact of a proposed fund on the society's operations. The society has traditionally relied on "non-specific" federal and state general funds that could be applied to virtually any aspect of the society's activities. The new alternative funding sources generally target specific projects or target groups, and have specific program requirements. The amount of funding from those new sources is also much smaller than federal and state funds the society has received which necessitates increasing the number of funding sources to maintain operations. The society lacks a consistent method of projecting the impact of potential new funding upon existing operations of the society. In addition, once a new funding source is obtained there is no assessment of how the fund actually affects the society's operations.

The society has intensified efforts to diversify funding

As illustrated in Exhibit 2.1, federal and state general funds for the Legal Aid Society of Hawaii began decreasing as early as FY1992-93. Funding decreased significantly in FY1995-96 when budgetary concerns resulted in reduced support from both the federal and state sources. A 1995 funding reduction by Congress to the Legal Services Corporation resulted in a 34 percent reduction of federal support to the society. State general fund support in 1995 was reduced by approximately 20 percent.

The society responded to these budget cuts by retrenching its staff and making an aggressive effort to diversify its funding base. Actual efforts to diversify funding got underway in 1994 after the arrival of the new executive director and in light of the significant cuts in funding from the federal (Legal Services Corporation) and state (Office of Community Services) government. The society now has 28 funding sources. These funding sources are varied, including additional federal funds from

Exhibit 2.1
Legal Aid Society Funding Trend for Grants and
Contracts, State and Federal Funding
(FY1991-92 to FY1996-97).



sources other than the Legal Services Corporation, purchase of service contracts with individual state agencies, private contracts and grants, donations, and a recently implemented fee-for-service program. For FY1996-97, the new funding sources are projected to constitute approximately 40 percent of the society's total budget.

The society has not assessed the impact of funding sources

While the society has had success in finding alternative funding sources, it has been less successful in determining the impact of these funding sources on the society's operations. We found that assessment of potential funding sources as well as assessment of sources already obtained is inadequate.

When considering a potential new source of funding, the impact of the funding source's requirements on the society's operations must be considered as well as the amount of funding to be provided. Society operations include both the legal services provided as well as the support needed to provide the legal services and administer the fund.

As shown in Exhibit 2.2, many of the new funding sources for FY1996-97 are for relatively small amounts, ranging from approximately \$3,000 to approximately \$109,000. Each of the new funding sources is generally tied to a specific project or target group. For example, the State Supplemental Security Income (SSI) Contract with the State Department of Human Services is used solely to assist clients on state general assistance to apply for Supplemental Social Security benefits, and the contract for the Queen Liliuokalani Children's Center - Molokai is intended to service clients of that children's center. These specific target groups may be subpopulations of the poor, the society's overall target group. However, in other instances, the purpose for taking on a new funding source, such as the Teamsters contract, may be to generate revenues that can be used to service the poor, rather than servicing the poor directly. In each situation, assessing the potential impact upon the society would serve a useful means to evaluate the potential fund.

Efforts to assess impact are inconsistent

The society lacks guidelines for evaluating how potential funding sources will help the agency. Some proposals are very detailed, whereas others are vague. For example, the Lanikila project, a recently negotiated contract with the Hawaii Housing Authority to provide on-site legal assistance for residents, was examined in detail before the society secured funds. The assessment included the projected number of hours of service, the number of cases to be handled by the society, and how the success of the project would be determined. Such an assessment permitted the society to project the impact of the contract upon its resources.

In contrast, a fee-for-service contract with the Hawaii Teamsters and Allied Workers, Local 996 was not evaluated. There was no estimation of the number of cases to be handled or the projected workload for the society. Society officials noted that the contract is open-ended because historical data was suspected to be inaccurate. However, the society entered into a contract without the ability to project the impact of the contract on its resources. Since the society did not estimate the number of cases to be handled and established no ceiling, the society cannot determine whether the funds obtained from the contract will be sufficient to provide the contracted services. This particular contract was obtained to provide supplemental funds to the society, but does not necessarily address the primary mission of the society because clients are outside the society's target group.

Monitoring the direct and support services provided for small contracts would indicate whether the cost of services provided is exceeding the amount of the contract. For example, monitoring one contract may show that the cost of services is more than the revenues from the contract, in which case, the advisability of continuing such a contract should be

Exhibit 2.2
Legal Aid Society of Hawaii Funding for FY1996-97

Funding Source	Approximate Amount	Notes
Legal Services Corporation - Basic Field	\$ 782,588	* calendar
Legal Services Corporation - Migrant	54,332	* calendar year
State of Hawaii	1,052,400	*
Aloha United Way	108,697	*
Hawaii Island United Way	3,000	*
Hawaii Office on Aging	61,123	*
Maui Committee on Aging	30,000	*
Hawaii Justice Foundation	99,000	
Hawaii Justice Foundation	20,000	
Life Foundation	16,500	
Federal Administration on Aging	99,483	~
State Supplemental Security Income (SSI) Contract	100,000	* max amount
Office of Hawaiian Affairs (Molokai and Waianae)	100,000	* max amount
Maui County Community Development Block Grant	10,000	**
Kauai County Community Development Block Grant	30,000	**
Kauai YWCA	10,000	*+
Guardian Ad Litem - Maui	35,000	**
Guardian Ad Litem - Kauai	30,000	**
Guardian Ad Litem - Molokai	7,500	**
Queen Liliuokalani Children's Center - Waianae	30,000	
Queen Liliuokalani Children's Center - Molokai	40,000	
Federal Housing & Urban Development Grant	88,134	~
Private Bar Contributions	40,000	
GAP Group - Oahu	15,000	
GAP Group - Maui	30,000	
GAP Group - Kauai	15,000	
GAP Group - Hawaii	10,000	
Teamsters Prepaid Contract	100,000	* max amount
Total	\$3,017,757	

- * Estimated amounts
- + Pending approval
- ~ On the federal fiscal calendar (Oct. 1 - Sept. 30)
- ** On state fiscal calendar (June 30 - July 1)

Source: Legal Aid Society of Hawaii.

weighed. Similarly, contracts to provide services to clients that are outside the basic mission of the society, should result in increased revenues available to the society, without placing an undue pressure on legal services to the poor.

Management has difficulty keeping track of new funding proposals

We found that the society has difficulty tracking new funding sources once they have been added to the society's funding base. These problems stem in part from a failure to adjust existing systems to deal with potential complications associated with the increased number of funding sources. Individual society offices may now solicit their own additional funds. However, all funds are deposited with the central office which acts as a repository or administrator for all funds. Offices that submit expenditures and accounts are charged accordingly.

The society as an entity, not individual branch offices, is ultimately responsible for the fulfillment of a contract. As such, the society's main office in Honolulu should have ready access to information on all contracts obtained by branch offices. However, during a recent annual financial audit, the society was unable to locate copies of all funding proposals as requested by the financial auditors. We encountered similar problems during our audit.

Contracts were often unavailable and two of those that were available were unsigned by an approving authority. In our 1991 audit, we supported the delegation of responsibilities when they could be carried out more productively, efficiently, and cost effectively at lower levels. However, there are still functions such as the disbursing and monitoring of funding resources that are more appropriate at the central office level. The society needs to differentiate the latter functions.

Society has difficulty meeting reporting requirements

We further found that the society has difficulty meeting the reporting requirements of new funding sources. Each new funding source generally requires the recipient to account for the expenditures of funds. These requirements vary. Some require a report on how funds were expended; others require submission of a report before funding is released. Our review found that the society was experiencing difficulty in meeting some report requirements. For example, the society must submit reports to the Department of Human Services to be reimbursed for services provided under the State Supplemental Security Income (SSI) contract. The society has found it time-consuming to compile the information required to submit for financial reimbursement. A society staff member noted the difficulty in providing reports to comply with a Maui Title III contract because required information was not readily available. The society's FY1995-96 financial audit noted that reports for the Hawaii Office on Aging and the Department of Health and Human Services were not submitted on time.

The Legal Aid Society of Hawaii's Program Evaluation Methods Continue to be Inadequate

Program evaluation is an essential management tool

Our 1991 audit found that the Legal Aid Society of Hawaii did not systematically review program performance. We recommended that responsibility for program evaluation be specifically assigned by the board and that a system to monitor performance on a regular basis be developed and implemented. Our current audit found that while the board has established that program evaluation is not a board responsibility, a systematic program evaluation method has yet to be developed and implemented.

The need for legal service providers such as the Legal Aid Society of Hawaii to conduct program evaluation is clearly established by the American Bar Association. The association's *Standards for Providers of Civil Legal Services to the Poor* (Standard 3.7) states that: "A legal services provider should periodically review its entire operation to determine if it is providing high quality representation to its clients and is accomplishing its objectives as determined by its priorities and other policies, and as agreed with its funding sources."¹ In addition, the American Bar Association's *Standards for the Monitoring and Evaluation of Providers of Legal Services to the Poor* states that such an evaluation is an assessment of "the efficiency, effectiveness and/or quality of a service provider through the collection and analysis of data and information related to the provider's operation."²

The standards further suggest that program evaluation include a review of provider relations with clients, internal systems and procedures, the representation of clients by staff and private practitioners, the effectiveness of the delivery system employed to address identified priorities, and governance of the provider. The program evaluation can include assessing client satisfaction with services, reviewing reports produced internally for management purposes, reviewing reports from funding sources, and feedback from judges and attorneys who observe provider practitioners. Another method suggested by the General Accounting Office includes determining the cost and time required to provide specific level of services, such as advice or brief service in particular types of cases, such as entitlement cutoffs or landlord-tenant cases.

The Legal Aid Society of Hawaii's mission is to provide "high quality legal representation." Further, "high quality legal services" is a specific goal of the society's 1992-1997 five-year plan of action. Quality, which can be defined as "the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs,"³ can be difficult to determine because of the subjectivity of the term. However, one way the society can assess its quality of services is through an overall evaluation of its operations.⁴ Program evaluation is an essential method to assess the society's quality of services and in turn the extent to which it is meeting its mission.

This is particularly relevant to the society since it has recently undergone a number of changes including: 1) an expanded mission, 2) a diversification of funding sources, and 3) an increase in the type and manner of services provided. Our interviews with the society's management, board of directors, and staff revealed that not everyone was clear about how the society ensured that it was providing quality services. This was not surprising given the fact that the quality assurance procedures have not been formally developed and communicated and systematic program evaluations have not been conducted.

Current program evaluation methods are inadequate

The Legal Aid Society of Hawaii does engage in some program evaluation, but such evaluations are inadequate to assess quality of services. The society's proposal to the Office of Community Services for the Indigent Legal Assistance Fund states that the society's primary method of program evaluation is a client satisfaction survey. The proposal also notes that costs of services are reviewed, but that the society needs to further develop its computer system to conduct this analysis more effectively. Finally, the society notes that it relies on program evaluation conducted by outside agencies such as the Office of Community Services to complete its program evaluation efforts. We found that while these methods may be helpful, they are inadequate and incomplete.

The client satisfaction survey is a limited tool

The client satisfaction survey is the Legal Aid Society of Hawaii's primary method of program evaluation and determining whether it is providing quality services. Surveys are mailed quarterly to randomly selected clients. Prior to 1995, the client satisfaction survey consisted of eight questions, of which only one asked the client to evaluate the quality of services provided. Clients were also provided space to write any additional comments they wished on the survey response form.

Completed surveys were tabulated and distributed to the society's board and management, and filed in the board's evaluation committee records. We found no evidence that any action was initiated by the society as a result of the survey.

In 1994 the client satisfaction survey was revised to its current format. The current survey now asks the client to rate various factors such as: 1) the ease of reaching staff, 2) how well staff understood the problem, 3) the clarity of staff's response, 4) how the client was treated, and 5) whether the problem resolution was satisfactory.

Despite these improvements, the survey is still an inadequate evaluation tool. The survey is now in a postcard format. It is no longer possible to easily collect extensive written comments. In addition, the survey is not conducted on a regular basis. Quarterly surveys were conducted between

January 1992 and September 1993. After that no survey was conducted for another two years (eight quarters). A survey was distributed for the October to December 1995 quarter, but since then no other survey was mailed until January 1997.

Finally, as with all mail surveys, a low response rate affects the validity of the results. Only 13 percent of the sample responded to the most recent survey conducted in 1995.

Since the client satisfaction survey is the primary way that the society assesses the quality of services, the society must ensure that the surveys are conducted at a minimum on a quarterly basis. Additionally, the society should realize that these surveys are limited. They provide an important, but limited, perception of the program's operation and quality of services.

Assessment of outcomes and costs is too limited

The Legal Aid Society of Hawaii states in its proposal for the Indigent Legal Assistance Fund that in 1996 it initiated measures to quantify the outcomes of its services. However, this analysis is limited to a determination that under state contracts, such as the State Supplemental Security Income (SSI) project, the society's efforts had resulted in \$1.7 million in direct reimbursements to the state. The society notes that it would like to expand this type of analysis in the future, but is limited by a shortage of funds and staff.

The society's 1992-1997 plan of action states that analyses of the cost of providing services were to be initiated in 1992. The plan of action's second objective - providing high quality services - states that the board and society's management will annually assess the cost per case for each office. We found no evidence that such cost analyses have been initiated. The failure to initiate this type of cost analysis means that the society is unable to determine the costs of providing services relative to the revenue generated.

Reliance on evaluations conducted by funding sources is insufficient

Finally, the society notes in its Indigent Legal Assistance Fund application that periodic evaluation from outside funding sources is the third major element in its program evaluation efforts. Specific references were made to periodic monitoring visits by the United Way and State Office of Community Services as a source of "detailed guidance on the program's strengths and weaknesses." Our review indicates that in fact program evaluation by outside funding sources is inadequate.

We found that the only funding source that had conducted a thorough program evaluation was the Legal Services Corporation. Its last review was completed in 1992. The Department of Labor and Industrial Relations' Office of Community Services does complete reviews, but these are largely focused on the society's financial controls, whether the society has met proposed caseloads, and some program issues such as whether offices are open statewide and the implementation of the computerized intake system. The Office of Community Services did not conduct an overall evaluation of the society's programs.

Finally, although the United Way does receive the annual financial audit of the society for review and conducts a brief site visit prior to allocating funds, the United Way also does not perform an overall program evaluation. While periodic reviews by or for external funding sources can provide useful information, we found that the level and scope of the external evaluations does not contribute to meaningful program evaluation for the society.

A meaningful program evaluation should embrace the American Bar Association standard that a review of the society's entire operation is conducted on a regular basis (e.g., every two years). Such an evaluation would include in addition to the quarterly client satisfaction surveys and external review, the cost analyses of services provided, case file reviews, and other methods suggested in the standard. Completion of a comprehensive evaluation would assist the society in determining the most effective and efficient means of utilizing its limited resources to meet its mission and objectives.

Conclusion

The Legal Aid Society of Hawaii has made significant improvements since our last audit in December 1991. Actions have been taken to involve staff in decision making and authority has been delegated in a number of instances to a more appropriate level. Technological and computer support needed to support office functions has also improved and there is evidence that the board is attempting to fulfill its oversight responsibilities. However, the society continues to lack an effective program evaluation system and has not made the changes necessary to reflect the changing nature of its sources of funds.

Despite these shortcomings, we conclude that there is no significant reason at this time why the Legal Aid Society of Hawaii should not be eligible to receive moneys from the Indigent Legal Assistance Fund created in Act 305, SLH 1996. Act 305 does specify the characteristics a potential applicant for the Indigent Legal Assistance Fund should possess. The society currently fulfills these requirements.

Act 305 also requires that an applicant have a “sound financial management system” in place and a method of ensuring that quality services are provided. We identified several management issues concerning the effective management of the growing number of funding sources and limitations to the present program evaluation system. We conclude that these conditions are not sufficient to question the society’s eligibility for funding under the provisions of Act 305; however, monitoring the society’s efforts to improve in these areas is needed.

Recommendations

1. The Legal Aid Society of Hawaii should develop a formal monitoring and evaluation system to improve its ability to manage and assess its diverse funding base. This should include a methodology to assess the impact and desirability of new funding sources and a system to monitor and evaluate existing funding sources. At a minimum, the system should include:
 - an assessment of how proposals help meet specific goals and objectives;
 - the projected impact that the new proposal will have on existing staff workload; and
 - how the funding will improve the society’s service delivery.
2. The Legal Aid Society of Hawaii needs to ensure that client satisfaction surveys are conducted on a quarterly basis and should develop a formal and comprehensive method of program evaluation that periodically evaluates the society’s operation as a whole.
3. Should the Legal Aid Society of Hawaii be selected as a recipient of the Indigent Legal Assistance Fund, the Office of Community Services in the Department of Labor and Industrial Relations should require the society to submit a report by January 31, 1998 outlining how it has improved its practices in the collection and use of financial and management information.

Notes

Chapter 1

1. Memorandum to Cheryl Tokunaga, Analyst, Office of the Auditor, from Victor Geminiani, Executive Director, Legal Aid Society of Hawaii, Subject: Mission statement, December 6, 1996.

Chapter 2

1. American Bar Association, *Standards for providers of civil legal services to the poor*, 1986, p. 3.18.
2. American Bar Association, *Standards for the monitoring and evaluation of providers for civil legal services to the poor*, 1991, p. 9.
3. Ricky Griffin, *Management*, 3rd edition, Boston, Houghton Mifflin Co., 1990, p. 649.
4. Douglas J. Besharov (ed.), *Legal services for the poor: A time for reform*, Washington, D.C., The AEI Press, 1990, p. 133.

Response of the Affected Agency

Comments on Agency Response

We transmitted drafts of the report to the executive director and the president of the Board of Directors of the Legal Aid Society of Hawaii on March 27, 1997. A copy of the transmittal letter sent to the board is included as Attachment 1. A similar letter was sent to the executive director. The Board of Directors' response is included as Attachment 2.

The board stated that it was pleased with the positive findings of the report. However, the board provided several comments which it felt were necessary to clarify the nature of the society's program. The board felt that our statement that the primary means for assessing program evaluation was through client satisfaction surveys seriously understated the variety of methods used to evaluate the program. The society does not disagree with our finding that client satisfaction surveys is the primary program evaluation tool. Our report does identify and discuss a number of other evaluation techniques utilized by the society. However, we note that while these techniques are helpful, they do not constitute a formal, periodic, and comprehensive evaluation of the program. Our concern remains that the society has not developed a systematic methodology for program evaluation since our previous report. We also note an anomaly in the board's annual reports of case statistics that were attached to its response to our draft. The society uses a reported poverty population in 1996 that was exactly the same in number and distribution as in 1995. The reported numbers of case closings were also identical in those two years. These kinds of numbers are unlikely to be the same over two years, yet the board presents them in defense of its evaluation efforts.

The board also disputed our finding that there was inadequate caseload and financial impact consideration before committing to many of its new funding sources. In particular, the board took exception to one example, the fee for service contract with the Teamsters. However, it was society staff who noted to us that the historical data was unreliable and therefore the probable impact of the Teamsters' contract could not be determined. Further, during our fieldwork the society did not provide evidence to support its contention that there was lengthy and thorough analysis of the contract. In addition, no copy of the contract itself was available until we asked for its printout.

The response also suggested several points of clarification, some of which were included in the report. However, we did not change the pagination. The draft report did not contain misnumbered pages. Those were deliberately left blank, to reflect their final position in the report, and this was so communicated to the society.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

March 27, 1997

COPY

Michael W. Gibson, Esq.
President, Board of Directors
Legal Aid Society of Hawaii
1108 Nuuanu Avenue
Honolulu, Hawaii 96817-5119

Dear Mr. Gibson:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Management Audit of the Legal Aid Society of Hawaii*. We ask that you telephone us by Monday, March 31, 1997, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, April 4, 1997.

The Executive Director of the Legal Aid Society of Hawaii, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

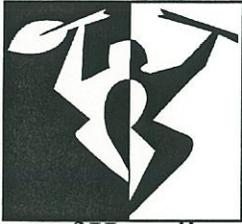
Sincerely,

A handwritten signature in cursive script, reading "Marion M. Higa".

Marion M. Higa
State Auditor

Enclosures

Legal Aid Society



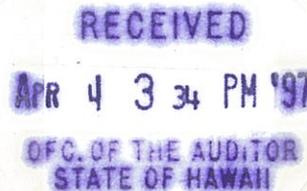
- of Hawaii -

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 Mailing Address: P.O. Box 37375 • Honolulu, Hawaii 96837-0375
 1108 Nu'uuanu Avenue • Honolulu, Hawaii 96817-5119

Michael W. Gibson, Esq.
 President, Board of Directors

M. Victor Geminiani, Esq.
 Executive Director

April 4, 1997



Marion M. Higa
 Office of the Auditor
 State of Hawaii
 465 S. King Street, Suite 500
 Honolulu, HI 96813

Dear Ms. Higa,

On behalf of the Board of the Legal Aid Society of Hawaii (LASH) I want to thank you for an opportunity to comment on the draft report of the management audit of LASH. I also wish to express our appreciation to you and the other members of the review team for the care that was taken during the various office visits to minimize any disruption to client service.

The Board is quite pleased with the positive findings contained in the report concerning program management. We request the following comments be considered in the finalization of the draft. The report will receive wide circulation and will impact LASH's reputation with private and public funders as well as the general population. The following suggested changes in the report are driven by the Board's strong desire to ensure an accurate picture of the program.

The organizational chart on page 3 might be slightly modified to better describe the relationships of the Executive Director to a few special projects underway in LASH. Those special projects are the fee for service managed by Tucker Dacey and the intake unit headed by Laura Thielen. Both are directly reportable to the Executive Director and exist as units separate from the Honolulu office.

The last sentence on page 4 reads that the state provides funding of "approximately \$1.1 million." The exact figure is somewhat lower and is actually \$1,052,000. This financial support has been reduced over the past three years from \$1,480,000 due to the state's economic difficulties. We believe the size of this reduction and the loss of an additional \$450,000 from the federal government demonstrates the financial pressure on LASH. The current reality is that there are virtually no new funding sources for the general delivery of legal services to the poor. The funds

A UNITED WAY AGENCY

available for these purposes are limited to providing specific services or operating carefully defined projects. All of these funds come with conditions attached to their use. The program has been successful in transitioning to a more solid financial base by pursuing these limited opportunities.

There appear to be pages misnumbered in the report since our draft contains no pages for page 6 and page 20. A call to your office has confirmed these pages are not missing from the report but rather indicated a misnumbering of pages.

On page 7, the report lists three findings. The third finding states in part that "program evaluation consists primarily of a small sample of client satisfaction surveys." This statement seriously understates the variety of methods historically underway in LASH to evaluate the activities of the program. Other evaluation methods in addition to the results of client surveys include:

- An annual financial audit conducted by the firm of Grant Thornton, the findings of which are thoroughly reviewed by the management and Board.
- An annual comparison of case statistics by office, poverty population, budget and case handler. These annual comparisons are distributed to the Board and managers, and conclusions are widely discussed. A copy of the last two annual comparisons are included as attachments with this report.
- The progress on reaching the goals established in the program's 5-year plan developed by the Board in 1992 is monitored. Virtually all goals have been met.
- At most Board meetings a project underway in the program is highlighted by a report from the staff member responsible for the project's implementation, and the Board thoroughly discusses the progress of the activity.
- The evaluation of the Executive Director by the Board involved extensive input from all staff and Board members as well as a substantial survey of those outside of the program who are in a position to evaluate the outcomes of program activities. The results of these survey initiatives were overwhelmingly positive. This information was shared with the full Board.

On pages 10 through 14, the report suggests that the program, in some cases, does not sufficiently assess the impact new projects might have on existing services. The draft report uses as an example the recent Teamsters contract. Before considering the contract, the Executive Director attended, in May 1996, on a scholarship, the National Conference on Pre-Paid Legal Services to become better educated about the delivery systems and cost issues present in pre-paid

contracts. After the training the program undertook an extensive analysis. That analysis included:

- The careful review of the previous two years' billings on the Teamsters contract, which gave the program detailed information on how many and what types of cases were handled during the previous two years, as well as the exact revenues collected.
- The Board's Fee For Service Committee thoroughly reviewed and approved the proposal, economics and staffing of the project prior to its submission.
- The program's accounting staff carefully prepared staff and non-personnel cost projections and determined costs to be approximately \$50.00 per hour of attorney service. The contract reimburses LASH at the rate of \$120.00 per hour so that each hour of service generates funds for use in supporting free legal services to the low-income population.
- The Board's Budget Committee and the Board review and approve the staffing, costs and projected revenues before any significant changes are made to program costs in order to implement a new project.

The draft report's findings on page 12 that neither cases nor the financial impact were estimated is incorrect. The program not only completed a lengthy and thorough analysis before entering into the contract in November of 1996, but it also accurately determined that there would be no negative impact on existing client services since the work under the contract would more than pay for itself, be undertaken by additional staff who would exclusively implement this contract and would be able to produce funds to subsidize free services to eligible clients. The report also suggests that the clients served under the Teamsters contract are "outside the Society's target group." As expected, we have found that the overwhelming majority of clients served under this contract fall within the economic range of the GAP group (persons over 125% but below 250% of poverty) which is part of LASH's target population. The contract provides LASH a chance to provide services to this group with the plan rather than the client paying for the assistance.

LASH has successfully faced difficult challenges over recent years as the program was required to do more with less. Productivity, staff morale, delivery systems and external relationships are all in excellent condition in the face of a loss of over 30% of program resources. This drain of resources has necessitated an extensive search for new funding. With new funding sources will inevitably come new directions and activities. Change is required in these difficult times.

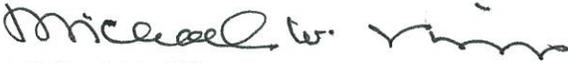
The Executive Committee of the Board has met to discuss the draft report and has requested that I make these recommendations for modifications to the final report. They also wish to express

Page 4
Marion M. Higa
April 4, 1997

their strong commitment to further discuss the final recommendations your office makes and to adopt appropriate procedures to implement any required changes.

Thank you again for an opportunity to comment on the draft.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael W. Gibson". The signature is fluid and cursive, with the first name being the most prominent.

Michael W. Gibson
President, Board of Directors

cc: Board of Directors

ATTACHMENT A

BUDGET POVERTY POPULATION

OFFICE	BUDGET	LESS OTHER INCOME	LESS OTHER EXPENSES	ADJUSTED BUDGET	POVERTY POPULATION	CASE CLOSINGS W/PBI	W0/PBI
HONOLULU	\$991,762	\$198,000	\$129,423	\$754,334	45542	3516	2764
HALENAE	\$103,140			\$103,140	7561	629	539
HLO/KONA	\$402,861	\$102,000		\$300,661	16776	1472	1409
	\$0			\$0		0	0
HAWI	\$221,198	\$38,000		\$183,198	6363	954	954
HLOKAI	\$108,322			\$108,322	1350	421	421
HNAI	\$15,501	\$6,000		\$9,501	138	68	63
HUAI	\$199,457			\$199,457	3640	828	828
HHALUU	\$98,779			\$98,779	6990	503	592
	\$2,140,820	\$254,000	\$129,423	\$1,757,392	68360	3391	7485

OFFICE	BUDGET	POVERTY POPULATION	CASE CLOSINGS W/PBI	W0/PBI	% of poverty pop. served
HONOLULU	42.92%	51.54%	41.39%	36.93%	6.07%
HALENAE	5.87%	8.56%	7.50%	7.20%	7.13%
HLO/KONA	17.11%	12.99%	17.54%	18.82%	3.40%
	0.00%	0.00%	0.00%	0.00%	0.00%
HAWI	10.42%	7.29%	11.37%	12.75%	14.99%
HLOKAI	6.16%	1.53%	5.02%	5.62%	31.19%
HNAI	0.54%	0.16%	0.81%	0.91%	49.28%
HUAI	11.35%	4.12%	9.87%	11.05%	22.75%
HHALUU	5.62%	7.91%	5.99%	6.71%	7.18%
	100.00%	100.00%	100.00%	100.00%	8.47%

BUDGET - POVERTY POPULATION

OFFICE	BUDGET	LESS OTHER INCOME	LESS OTHER EXPENSES	ADJUSTED BUDGET	POVERTY POPULATION	CASE CLOSINGS W/PBI	WO/PBI
HONOLULU	\$1,265,971	\$108,000	\$129,428	\$1,028,543	45542	3516	2764
WAIANAE	\$115,663			\$115,663	7561	629	539
HILO/KONA	\$451,916	\$102,000		\$349,916	16776	1472	1409
	\$0			\$0		0	0
MAUI	\$256,287	\$38,000		\$218,287	6363	954	954
MOLOKAI	\$129,154			\$129,154	1350	421	421
LANAI	\$20,970	\$6,000		\$14,970	138	68	68
KAUAI	\$224,163			\$224,163	3640	828	828
KAHALUU	\$115,426			\$115,426	6990	503	502
	\$2,579,550	\$254,000	\$129,428	\$2,196,122	88360	8391	7485

OFFICE	BUDGET	POVERTY POPULATION	CASE CLOSINGS W/PBI	WO/PBI	% of poverty population
HONOLULU	46.83%	51.54%	41.90%	36.93%	6.07%
WAIANAE	5.27%	8.56%	7.50%	7.20%	7.13%
HILO/KONA	15.93%	18.99%	17.54%	18.82%	8.40%
	0.00%	0.00%	0.00%	0.00%	0.00%
MAUI	9.94%	7.20%	11.37%	12.75%	14.99%
MOLOKAI	5.88%	1.53%	5.02%	5.62%	31.19%
LANAI	0.68%	0.16%	0.81%	0.91%	49.28%
KAUAI	10.21%	4.12%	9.87%	11.06%	22.75%
KAHALUU	5.26%	7.91%	5.99%	6.71%	7.18%
	100.00%	100.00%	100.00%	100.00%	8.47%

RATIO OF CASE HANDLERS TO POVERTY POPULATION

OFFICE	POVERTY POPULATION	CASE HANDLERS	RATIO
OAHU	60093	15.5	3877 TO 1
HAWAII	16776	7	2397 TO 1
MAUI	6363	3	2121 TO 1
MOLOKAI	1350	2	675 TO 1
LANAI	138	1	138 TO 1
KAUAI	3640	3	1213 TO 1
	88360	31.5	2719 TO 1

COUNTY	NATIVE HAW'N POVERTY POP	CASE HANDLERS	RATIO
OAHU	91967	15.5	5933 TO 1
HAWAII	23120	7	3320 TO 1
MAUI	15919	6	2653 TO 1
KAUAI	7736	3	2578 TO 1

1996 REPORT