

MEMORANDUM

To: Kamehameha Schools Bishop Estate
Board of Trustees
From: Nā Kumu o Kamehameha
Subject: Peterson Consulting LLC
Date: May 14, 1998

Since May of last year, we have initiated significant changes to improve our school. An outcome of wider community efforts that appeared hopeful to us was the set of recommendations Judge Yim offered the Board in his December 4, 1997, report to the Probate Court. We recall that the Board publicly accepted each of these recommendations in principle. A key recommendation was that the Board "immediately engage an independent, neutral, professionally-qualified expert to nominate, screen and retain a foundation/organization to conduct ... a thorough management audit of the Kamehameha Schools education institution" and a "thorough audit of the educational functions and programs of Kamehameha Schools." In response to this, we understand the Board majority hired Peterson Consulting LLC (Peterson) to conduct this audit.

We recognize that the Board has already contracted Peterson, and therefore we convey our concerns to 1) deter future contracting of individuals under the circumstances which occurred; 2) offer our assistance and cooperation in the challenging task before Peterson; and 3) request clarification of various aspects of Peterson's audit. Our concerns focus on the process by which Peterson was hired and possible resulting outcomes of that flawed process.

1. How was Peterson Consulting LLC selected?

Public court documents indicate that on February 24, 1998, the Board made its final decision to select Peterson. This was done without seeking a recommendation from "an independent, neutral, professionally-qualified expert," thus violating a key provision of Judge Yim's directive. No request for proposal (RFP) was submitted to other entities whom Trustee Stender, President Chun, or Nā Kumu o Kamehameha suggested to conduct the audit.

Individuals from other groups were contacted only by telephone. Before providing a response to the telephone inquiry, these individuals, and the larger groups with which they were associated, would have expected to receive a formal RFP. On February 23, 1998, a draft RFP was presented to the Board, but this was not distributed to potential auditors. Similarly, the kinds of information necessary to evaluate potential auditors was not provided to anyone prior to the February 24 Board meeting. Indeed, even Peterson's proposal to the Board was dated February 25, 1998, the day *after* they were selected (see Attachment A).

Concerns raised:

- Critical aspects of Judge Yim's recommendations were ignored. Judge Yim's recommendation would have afforded integrity to the selection process and a positive starting point for the firm chosen.
- Suggestions from those who are most in touch with the students and the educational mission (e.g., President Chun and Nā Kumu o Kamehameha—composed of teachers, educational administrators and professional staff who work with preschool-grade 12 students) were not afforded serious consideration.
- An agency which was to serve in a crucial capacity was hired without a full evaluation of its abilities or a comparison of these abilities with other groups via competitive bids.

2. Is Peterson Consulting LLC the most appropriate agency to conduct an educational audit?

Judge Yim established that the audit should serve to "assist the Kamehameha School Ohana and Trustees to collaboratively create an education/operational strategic plan that will position and guide Kamehameha Schools and Hawaii's children into the next millennium."

The *I Mua Insider* reported on March 20, 1998, that Peterson has "a broad base of academic and real-world training and experience" in areas including "educational programs" such that one might assume it capable of meeting Judge Yim's outlined goal. Instead, Peterson's own presentation on their web site (www.pcit.com; Attachment B) introduces the group as providing "services which allow clients to manage the economic aspects of commercial problems, disputes, claims, or litigation" the result of which "can reduce risk, save time, increase productivity, and reduce costs." Peterson goes on to suggest that it can assemble "specialized teams bringing accounting, economic, financial, engineering, computer, lending and investment expertise" to their clients. A list of 19 of their client categories does not include educational institutions. Nowhere on Peterson's web site are educational services or experience mentioned. Peterson's February 25, 1998, letter to the Board, confirms that it has experience in "assisting ... in management audits, investigations, forensic discovery, trials and appeals."

We understand that Peterson is a reputable organization and we trust that they will do a professional job. However, we recognize that the team Peterson assembled and that the Board majority hired will have significant challenges before them. The following can be noted from the resumes they submitted to the Board (see Attachment A, Tab B). Three team members have extensive finance and business-related experiences but no education training or experience. Only two of the five members have experience in educational matters. One such member deals primarily with bilingual education and minority students, particularly those in the Hispanic and Asian communities. The other lists a majority of experiences involving special education students.

Concerns raised:

- Given all the resources at the disposal of the Board, and all the educational experts in the state and nation, the Board's selection of Peterson for the vital role they will play is questionable at best. This leads many to ask what criteria were used in selecting Peterson.
- Peterson's selection as the auditor has placed its team in a highly challenging role for which it is less than well suited. The team includes individuals who are clearly competent and qualified but in arenas having little to do with the educational environment and Hawaiian foundation of Kamehameha. They will have a tremendous task ahead of them to learn the background necessary to adequately meet Judge Yim's intended goals for an audit of Kamehameha Schools' management, educational functions, and educational programs.

3. How will Peterson Consulting LLC conduct the audit?

While we have been provided a general, vague response to this question, specific questions remain unanswered: 1) How will Peterson select those they interview? 2) Will confidentiality and protection from retribution be guaranteed for those who are interviewed? 3) What other systematic forms of data gathering and analysis will occur? 4) Will suggestions regarding the auditing process be considered? 5) Will further experts deemed helpful be added to Peterson's team? 6) What will be the timing of the various facets of the audit? 7) How will the summer break affect Peterson's ability to have access to the range of informants and data that it might need to complete its audit and report? 8) Who will be allowed to see the final report (Peterson has guaranteed the trustees confidentiality)? 9) Will there be a process for individuals wishing to comment on the report? 10) How will the report be used? 11) What guarantees and monitoring mechanisms will be in place to ensure that recommendations in the report are followed?

Concerns raised:

- School-level stakeholders should have been included in designing (or evaluating the planned design) of the auditing process, which has not occurred.
- Without answers to the above questions, it is difficult for anyone to evaluate the validity, integrity, and relevance of the auditing process or to suggest means to improve that process.

What is too late to change at this point (concerns raised regarding Peterson's selection), we document now with the intent of diminishing the likelihood that similar dilemmas occur in the future. We emphasize that Nā Kumu o Kamehameha continues to hope that any effort to improve our school, including Peterson's audit, will follow appropriate collaborative processes to assure intended outcomes. Once more, we offer our expertise, energy, and commitment toward that effort which we believe if done well will forward the goal of Kamehameha to best serve its students.

Lastly, we ask that we be provided with answers to the questions raised in item 3 above as soon as possible. If detailed answers are not available by the close of the school year, we respectfully

request an acknowledgment of receipt of this memorandum. Further, if any answers are readily at hand, we ask that they be provided by May 26 so that the information can be shared with Nā Kumu members before the summer break. Correspondences can be directed to Nā Kumu o Kamehameha's representatives Gary Obrecht, Charlene Hoe, Kāwika Eyre, and Kēhau Abad care of 2002 Makiki Heights Drive, Honolulu, Hawai'i 96822. An e-mail address that can also be used is abad@concentric.net.

Mahalo nui for your consideration of the matters we present in this correspondence.

cc: Michael Chun
Patrick Yim
Philip Rowley
Margery Bronster

HONOLULU ADVERTISER, AUGUST 8, 1998

LETTERS

BISHOP ESTATE**Master's report shows dismal truth**

Court-appointed master Colbert Matsumoto and the accounting firm of Arthur Anderson recently revealed that the Bishop Estate trustees' investment performance during fiscal years 1994, 1995 and 1996 was dismal.

During a period when large foundations and educational trusts throughout the nation were generating total returns in the vicinity of 20 percent, the Bishop Estate trustees' overall return was MINUS 1 percent.

This squarely contradicts estate-paid ads in which the trustees have claimed outstanding returns. The latest such ad appeared in the Au-

gust 13, 1998 Honolulu Advertiser on page A-8.

Immediately below an eye-catching banner headline: "The True Bottom Line at KSBE" — was a graphic that seemed to suggest that the estate has had a sizable "bottom line" in each of three recent years, and that the trend is upward.

The trustees' figures inappropriately combined investment losses with gains from the involuntary sale of land. The latter tell us nothing about the investment performance of trustees who did not acquire the land and did nothing to enhance its value. Also, the second and third figures in the ad represent three-year and four-year results.

So what at first glance appears to be a meaningful illustration, actually amounts to a

"one apple to three oranges" comparison.

Hopefully, readers have learned by now to take with the grain of salt anything these trustees claim in the way of investment results.

**Gladys Brandt, Walter Heen
Sam King, Randall Roth**