EXECUTIVE SUMMARY

Performance Audit of Ho'ike: Kaua'i Community, Inc. (Ho'ike)

In April 2011, the Governor signed into law Act 19 (SLH 2011) which, among other things, requires the Department of Commerce and Consumer Affairs (DCCA), through its Cable Television Division (CATV), to conduct an annual performance audit, also known as a management audit, of each of the state's four public, educational, and governmental ("PEG") access organizations for the three years from July 1, 2011 through June 30, 2014. In response to the Act's requirement, CATV contracted with the Certified Public Accounting firm of Merina & Company, LLP (MCO) to conduct the performance audits.

MCO has organized their audit and reporting into five sections

- Introduction
- Management and Oversight
- Operations
- Financial
- Compliance

The performance audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards for performance audits contained in *Government Auditing Standards* (Yellow Book), issued by the Comptroller General of the United States.

The most significant comments and recommendations for improvement resulting from our audit are presented below.

Management and oversight significant comments and one recommendation include:

- For the period from January 1, 2006 through June 30, 2011:
  - The Board of Directors exercised due diligence in their governance.
  - Ho'ike's management team appears to have the appropriate experience and knowledge for the size of the PEG.
  - Ho'ike separately tracks the data used to compile the annual report for the new Kilauea satellite location in order to evaluate the performance of that location.

- We recommend Ho'ike develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.

- Ho'ike should consider using experienced outside consultants to aid them in developing a strategic plan.

Operations significant comments and recommendations include:

Operating Facilities

- In May 2011, Ho'ike opened its first satellite media center in Kilauea to provide a facility, equipment and services to the north shore community. Building community involvement and awareness is what Ho'ike views as fulfilling the organization's core purpose.

- The manner in which Ho'ike has reached out and been involved in community needs across the Island, indicate an evident commitment to fulfilling what Ho'ike sees as the organization's core purposes.

- Ho'ike has adapted well to changing user needs and the opportunities for service brought about by the Internet.

- Ho'ike's success in building community awareness to meet the needs on the Island which are informational and also social, is one of the positive marks of its particular character, and is arguably well in line with its mission and what Ho'ike sees as the organization's core purpose.

- Ho'ike should develop a marketing strategy to focus on drawing new residents in to use Ho'ike services and equipment. The marketing strategy should include creating a curriculum for the classes offered for residents that clearly explains the services and value in what Ho'ike has to offer.

Transition from Analog to Digital and High Definition (HD)

- In February 2011, Ho'ike made the transition from analog to digital. The digital equipment has the capability to convert digital to HD in the future with minimal additional costs. Although there's no timeline for the conversion to HD on Kauai, this places Ho'ike in a position to provide these services in the future, when necessary.

Metrics: The Measurement of Results

- Ho'ike has kept and reported operating statistics useful for regulators and management.

Financial significant comments and recommendations include:

Financial Ratios

- Overall, Ho'ike's financial metrics shows a consistent pattern of a conservative use of funds. Ho'ike has done well in expending within their budget.

- Per Ho'ike's Managing Director, the organization has been discussing options for a new location for its main office or another satellite location. The savings over the years could contribute to the purchase of a new main office location.

Items Identified By Ho'ike's Independent External Auditors

- The audits for the fiscal years 2006, 2008 and 2010 did not identify any deficiencies in internal control or management advisory comments.

- The audit required for fiscal year 2010 was not completed until February 21, 2012. Ho'ike should ensure that audits are scheduled and performed timely. Failure to perform timely audits creates exposure to not fulfilling their fiscal responsibilities. In addition it increases the risk that material misstatements would not be timely detected and corrected.

Compliance significant comments and recommendations include:

- It appears that Ho'ike is making a conscious effort to meet its reporting deadlines outlined in its August 25, 1999 agreement with DCCA and December 22, 2003 letter from DCCA.

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MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

INDEPENDENT AUDITOR'S REPORT

We have completed the performance audit, also referred to as a management audit, of Ho'ike: Kauai Community Television (Ho'ike) for the period January 1, 2006 through June 30, 2011. The purpose of the performance audit was to examine and report on the sufficiency of Ho'ike's organizational, planning, budget and operating documents, Ho'ike's compliance with applicable laws, regulations, and its contract with DCCA, and to analyze selected operational and financial parameters.

We conducted our performance audit as required pursuant to Act 19 (SLH 2011) which was passed by the Hawaii State Legislature in April 2011 and in accordance with auditing standards generally accepted in the United States of America and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Merina & Company

Merina & Company, LLP
June 14, 2012

5499 AMY STREET • WEST LINN, OREGON 97068 • PHONE: (503) 723-0300 • FAX: (503) 723-9946 WWW.MERINACPAS.COM

Chapter 1

INTRODUCTION

Section 1(h) of Act 19 (SLH 2011)[1] sets out audit requirements for each Public, Educational, and Governmental (PEG) access organization as follows:

> "The department [meaning DCCA] shall conduct an annual management and financial audit of the access organization designated under this section."

The performance audit, also known as a management audit, for Ho'ike: Kauai Community Television (Ho'ike) has been completed. This performance audit does not include the financial audit called for in the HRS.

We performed the performance audit for the five years ended December 31, 2006 through December 31, 2010 plus the six months ended June 30, 2011. This time frame was selected because if only one year is audited it would most likely give an inaccurate picture of the organization. At a minimum, three years of data should be analyzed but five years of data provides a more accurate picture when analyzing trends. Due to the value added in capturing the most current status of the organization, this audit included the first two quarters of 2011.

The performance audit objectives, scope, and methodology are detailed below:

Audit Objectives

The objectives of the performance audit were to:

- Assess the sufficiency of Ho'ike's organizational, planning, budget and operating documents
- Assess Ho'ike's compliance with applicable laws, regulations, and its contract with DCCA
- Document and report on selected operational and financial parameters
- Make recommendations as appropriate

[1] Hawaii Revised Statutes (HRS), codified as Chapter 440G §440G-8.3

Audit Scope

The scope of the performance audit covered:

- Organizational and governing documents currently in place
- Laws, regulations, and Decisions and Orders currently in force
- Operational and financial data for the last five years

Audit Methodology

Our audit was conducted between November 2011 and January 2012. We conducted interviews with Ho'ike personnel and representatives from the DCCA. We performed the majority of our procedures at Ho'ike's headquarters at its Lihue facility.

We obtained support to substantiate interviewees' statements. Audit procedures also included examination of pertinent policies and procedures, strategic and operating plans, reports, agreements, and other documents to assess adherence to those policies and procedures as well as adherence to various governing authorities. We also obtained and read the Board of Directors' minutes.

This audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objects. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Auditor's Access to Information

At the onset of our audit we submitted an information request detailing the documents and other pertinent information we would require. We timely received that information in hard copy as well as by e-mail. Our performance audit was conducted with the full cooperation of all parties involved. We had unfettered access to all information we deemed necessary to conduct the performance audit.

Chapter 2

MANAGEMENT AND OVERSIGHT

Board of Directors, Management Team, and Oversight

Background

Since 1992, Ho'ike has provided PEG access on Kauai. Ho'ike's mission statement is:

- "To promote and provide fair and equal access opportunities to the residents of Kauai in presenting non-commercial programs via public, education and government channels."

Findings

Board of Directors

In September 2006 Ho'ike amended its By-Laws to eliminate (1) the requirement that the Director of DCCA appoint six board of director members and (2) the authority of the Director of DCCA removal at any time, with cause, any member of the Board.

Ho'ike's Board of Director Committees, which has been in place since 2006, includes:

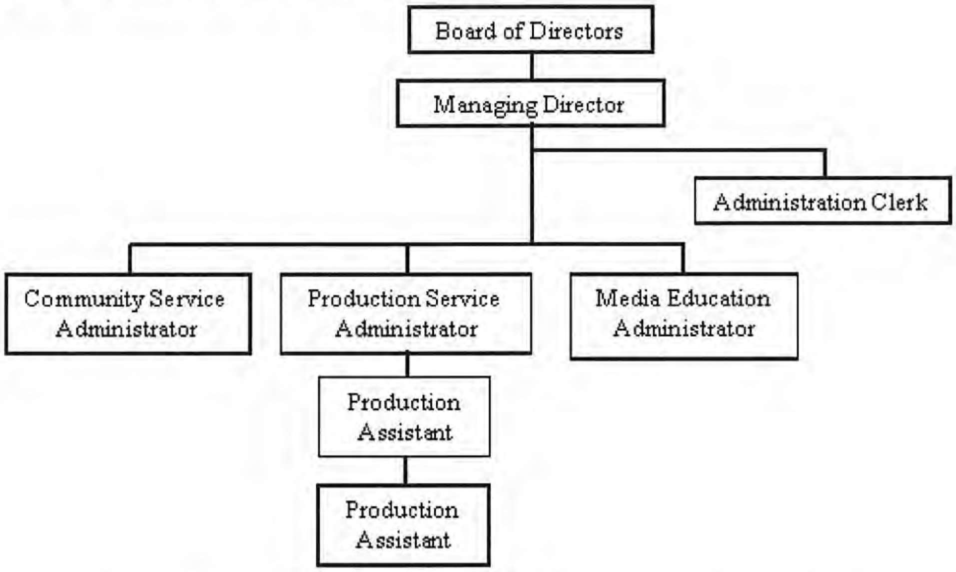
- Finance Committee;
- Development Resource Committee;
- Legal Affairs Committee; and the
- Personnel Committee.

The Finance Committee is responsible for all capital assets and other existing financial resources of the organization, and maintaining current Fiscal Policies and Procedures. The Development Resource Committee assists the Managing Director in long-term growth planning through identifying and developing funding sources, engaging in fundraising as needed and evaluating strategies for the success of current projects. The Legal Affairs Committee is responsible for reviewing all matters that affect the corporation's standard operating procedures. The Personnel Committee is responsible for all personnel matters including annual evaluation of the Managing Director, monitoring staff evaluations, reviewing and revising the Personnel Handbook and being a resource to the Managing Director on personnel matters.

Ho'ike's Board of Directors meets six times a year, at least once each quarter and the Board Committees meet on a regular basis and/or as needed.

Management Team

Ho'ike's organization chart is outlined below:



The personnel within Ho'ike have been relatively consistent during the period January 1, 2006 through June 30, 2011.

Oversight

Prior to 2005, Ho'ike developed a "Strategic Plan for Self-Sufficiency 2005-2010" as required by DCCA. Per Ho'ike, this is not a strategic plan but a self-sufficiency plan and does not detail measurable goals or triggers for implementation. Ho'ike has not developed a strategic plan. However, annually the Managing Director, as approved by the Board, develops an operational plan that outlines goals for the upcoming year in the areas of administration, public access, education access and government access. The operational plan is included in the annual report that is presented by the Managing Director to the board after each fiscal year end. Within the annual report is a section for the "Annual Activity Report" and the "Year End Activity Report".

The "Annual Activity Report" includes a quarterly analysis of programming hours for public, government and educational access channels, a summary of complaints, outreach and marketing efforts, and a summary of revenues for the fiscal year. The "Year End Activity Report" includes a multi-year analysis on key performance measures (ie. number of facility visits, internet users served, studio usage hours, training courses held, programs cablecast, program hours, etc.), salary benefit cost allocations, equipment usage analysis by type for the fiscal year and the operational plan. The

Managing Director prepares these reports and presents this information to the Board for review.

Comments/Recommendations

For the period from January 1, 2006 through June 30, 2011:

- Ho'ike maintained detailed meeting minutes that show the Board of Directors due diligence and governance of the organization.
- Ho'ike's management team appears to have the appropriate experience and knowledge for the size of the PEG.
- Ho'ike should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.
- Ho'ike should consider using experienced outside consultants to aid them in developing a strategic plan.

Chapter 3

OPERATIONS

Operating Facilities

Background

Since its incorporation in 1992, Ho'ike has maintained as part of its stated core purpose the "preservation, development and enhancement of the diversity of thought, culture and heritage within Hawaii," and with that, the facilitation of "lifelong learning and the community's participation in the democratic process." From a planning point of view, the strategy of how to achieve this purpose for the future years should be contained in Ho'ike's strategic planning process, described in Chapter 2 of this report.

Findings

Operationally, Ho'ike has sought to achieve its purposes, and carry out its mission, through establishing a central operating facility in Lihue and getting involved in communities around the island of Kauai. The Managing Director and staff of Ho'ike attend various community events throughout the year to build awareness about the organization, build relationships with residents, and provide coverage as requested. The Managing Director is also on the Chamber of Commerce and other Boards for non-profit organizations.

In May 2011, Ho'ike opened a new satellite location in Kilauea. This location provides computers for editing and equipment for checkout to producers in the north shore community. Both of Ho'ike's facilities provide training for residents to become certified producers for access to Ho'ike facilities, equipment and assistance in producing. Ho'ike attempts to provide its services according to the specific character and needs of particular local communities on the island, considering its diversity of social cultures, political traditions, economic situations, and ethnic makeup.

Any member of the public or the representative of any social service agency may become trained in the use of production and editing equipment, and produce television programs intended for cable casting on local cable television channels. Government agencies may arrange for the use of Ho'ike staff and equipment to record legislative or other meetings for cable casting on cable channels.

Comments/Recommendations

- In May 2011, Ho'ike opened its first satellite media center in Kilauea to provide a facility, equipment and services to the north shore community. Building community involvement and awareness is what Ho'ike views as fulfilling the organization's core purpose.

- The manner in which Ho'ike has reached out and been involved in community needs across the Island, indicate an evident commitment to fulfilling what Ho'ike sees as the organization's core purposes.

- Ho'ike has adapted well to changing user needs and the opportunities for service brought about by the Internet.

- Ho'ike's success in building community awareness to meet the needs on the Island which are informational and also social, is one of the positive marks of its particular character, and is arguably well in line with its mission and what Ho'ike sees as the organization's core purpose.

- Ho'ike should develop a marketing strategy to focus on drawing new residents in to use Ho'ike services and equipment. The marketing strategy should include creating a curriculum for the classes offered for residents that clearly explains the services and value in what Ho'ike has to offer.

Transition from Analog to Digital and High Definition

Background

In February 2011, the organization transitioned from using old analog equipment to using new equipment that processes electronic audio and video signals digitally, with the capability of transmitting video programming in High Definition (HD) with minimal additional equipment and cost. Ho'ike contracted with a national broadcast technology company to purchase the equipment, set it up and provide training for employees.

Findings

The transition to digital was smooth and overall the digital equipment has provided a number of efficiencies (i.e. reducing the amount of time editing, converting files, etc.). Prior to the transition, programs made with digital cameras and editing equipment have had to be translated back to analog format for distribution on the PEG channels on the Oceanic cable system. Lacking the digital server-based playback system that could accommodate and process programming by means of available digital telecommunications paths, Ho'ike had to have tapes, DVDs, hard drives and thumb drives brought physically to the facility for playback.

Ho'ike purchased the equipment with the capability of transmitting video programming in High Definition (HD) with minimal additional equipment and cost. However, it should be noted that in order for the transition to HD programming to become fully effective, it needs to be complemented by Oceanic system upgrades to permit transporting HD signals between Ho'ike and the Oceanic headend. Per Ho'ike's Managing Director, Oceanic has not indicated any time schedule for converting to HD.

Comment/Recommendations

- In February 2011, Ho'ike made the transition from analog to digital. The digital equipment has the capability to convert digital to HD in the future with minimal additional costs. Although there's no timeline for the conversion to HD on Kauai, this places Ho'ike in a position to provide these services in the future, when necessary.

Metrics: The Measurement of Results

Background

Ho'ike has kept records of its activities since its inception. Measurement and reporting of results is an integral part of the management and operation of any organization. However, this process was sharpened when DCCA required Ho'ike, as part of its contract, to provide a specific set of reports (i.e. an Annual Activity Report, a Year-End Activity Report, and an Executive Summary). In accordance with this requirement, Ho'ike, among other efforts of accounting for its activities, has been keeping and annually reporting to DCCA detailed statistics on the following key elements of its operations:

- Total Hours of Programming: First Run, Repeat, and Submitted but Not Aired

- Programming by Origin: Locally Produced, Non-Locally Produced, and Bulletin Board

- Programming By Source: First Run Hours from PEG Sectors in the Categories of Dropped off for Play, PEG Trained and Certified Producers, and Hours Created by Ho'ike (Open Mic and Created by PEG)

- Video Production Training: All Locations

- Number of Students Trained and Certified as Producers: All Locations

Findings

As a result, it is possible to identify operating trends useful for Ho'ike management to know as well as for regulators and other stakeholders. For example, the following information on trends was constructed for analysis from some of the available statistics:

	2006	2007	2008	2009	2010
Total Hours of Programming	36,040	35,040	35,136	35,287	34,959
Hours of Locally Produced Programming	12,376	12,334	12,276	12,178	12,381
Students trained in Ho'ike classes	58	66	69	83	118

The reports provided to DCCA are based on the performance of Ho'ike as a whole. However, given that Ho'ike just opened a new location, it's a matter of interest how the new location performs individually. Per the Managing Director, Ho'ike is separately tracking the data used to compile the annual report for the new Kilauea satellite location in order to evaluate the performance of that location.

We found Ho'ike's focus on metrics lies primarily on the reporting requirements to DCCA. The Managing Director has consistently tracked and monitored the quantitative data and presents it to the Board in a way that is aligned with Ho'ike's mission. However, Ho'ike needs to emphasize on setting goals and identifying measurable outcomes.

Comment/Recommendations

- Ho'ike has been successful in keeping and reporting statistics useful for both regulators and management in the past.
- Ho'ike separately tracks the data used to compile the annual report for the new Kilauea satellite location in order to evaluate the performance of that location.
- As noted in Chapter 2, Ho'ike should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.

Chapter 4

FINANCIAL

This performance audit does not include a financial audit. A financial audit is the verification of the financial statements of an organization, with an expression of an audit opinion. This performance audit includes an analysis of Ho'ike's financial ratios and items identified by Ho'ike's independent external auditors and is not a verification of Ho'ike's financial statements.

Ho'ike's Financial Ratios

Background

Financial ratios are useful indicators of an organization's performance and financial health. Financial ratios can be used to analyze and to compare an organization's financials to those of similar organizations.

To be truly comparable, however, the organizations should be of similar size, age, located in the same area or locale, and have similar missions and programs. In the case of Ho'ike, there is a lack of organizations in the same locale of similar size and with similar programs. Ho'ike is smaller than the other three Hawaii PEGs and offers different programs than the other PEGs. In addition, due to the widely varying situations of PEG organizations with respect to local needs, franchise requirements, levels of volunteer activity and other factors, there exists no set of standards for comparison of PEGs which is commonly accepted in the national PEG arena. Accordingly, the analysis conducted for this report will be limited to tracking Ho'ike's performance and financial position over time relative to itself. Accordingly, the ratios developed for Ho'ike include:

- Current Ratio

  The current ratio, also referred to as the working capital ratio, is current assets divided by current liabilities.

  $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

  A high current ratio is of particular interest to creditors since it tends to reduce their risk. On the other hand, a high current ratio may indicate that an organization is either overfunded or that it is accumulating assets for future expansion.

- Quick Ratio

One drawback of the current ratio is that it includes inventory that may contain items that are used over several years or that are difficult to liquidate quickly or have uncertain liquidation values. The quick ratio is an alternative measure of liquidity that excludes inventory and prepaid expenses.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

Accordingly, the current assets used in the quick ratio are cash, investments, current accounts receivable, and current notes receivable. The quick ratio is also referred to as the acid test.

- Cash Ratio

The cash ratio is the most conservative of the liquidity ratios. It excludes all the current assets except the most liquid i.e. cash and cash equivalents, and investments (securities).

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents} + \text{Investments}}{\text{Current Liabilities}}$$

The cash ratio is an indication of the organization's ability to pay off its current liabilities if for some reason immediate payment were demanded.

- Liquid Funds Indicator

The liquid funds indicator measures an organization's operating liquidity and is computed as follows:

$$\text{Liquid Funds Indicator} = \frac{(\text{Net Assets} - \text{Net Property and Equipment}) \times 12}{\text{Total Expenses}}$$

A high liquid funds indicator could point to a lower cash funding urgency and excessive savings. A lowering of the liquid funds indicator over time is likely a sign of a planned capital equipment improvement program.

- <u>Program Ratio</u>

  The program ratio measures the relationship between direct program expenses and the organization's total expenses. Total expenses account for direct program expenses and management and general expenses (overhead).

$$\text{Program Ratio} = \frac{\text{Program Services Expenses}}{\text{Total Expenses}}$$

  Younger organizations will likely have lower program ratios than more mature organizations as they set up the infrastructure to deliver their services. Over time, organizations should see increasingly higher program services ratios. If not, their overhead may need to be examined.

- <u>Savings Ratio</u>

  The savings ratio revels the rate of a nonprofit's cash and investments accumulation by measuring the relationship between savings (cash and cash equivalents, and investments balances) and total expenses.

$$\text{Savings Ratio} = \frac{\text{Total Revenue} - \text{Total Expenses}}{\text{Total Expenses}}$$

  The savings ratio is an important factor in an organization's long term viability, high ratios may indicate excess funding. The savings ratio should be considered in conjunction with the liquid funds indicator. If the organization has low liquid funds indicator, a higher savings ratio would be desirable.

Most ratios by themselves are not particularly meaningful. They should be viewed as indicators, with several of them combined to paint a picture of an organization's situation. Ratios of non-profit organizations are, by their nature, typically limited to measures of liquidity, program expenditures, and overhead.

Findings

We have computed the ratios described above for Ho'ike's fiscal years ended December 31, 2006 through 2010. The results are presented in the table below.

	2006	2007	2008	2009	2010
Current Ratio	21.6	46.1	101.6	160.9	206.2
Quick Ratio	21.2	45.2	100.5	159.6	205.0
Cash Ratio	16.6	35.4	87.6	158.3	200.1
Liquid Funds Indicator	9.3	16.2	21.1	29.0	39.6
Program Ratio	0.7	0.7	0.7	0.6	0.7
Savings Ratio	0.3	0.5	0.4	0.5	0.6

The first three ratios, the Current Ratio, Quick Ratio, and Cash Ratio, are known as liquidity ratios. Ho'ike's three liquidity ratios demonstrate a uniform pattern of increase from 2006 through 2010. This reflects the organization's conservative approach to spending and expanding.

The last three ratios, the Liquid Funds Indicator, Program Ratio, and Savings Ratio, are measures of Ho'ike's operating efficiency in terms of utilization of available resources to meet its perceived needs of the community as set out in its Mission Statement.

The liquid funds indicator shows continual increase from 2006 through 2010. This is consistent with the pattern exhibited by the three liquidity ratios.

The program ratio has been relatively constant over the years. This indicates that Ho'ike has been able to hold general and administrative expenses from increasing in relation to total expenses which leaves more resources available to further its goals and purpose.

The savings ratio shows a slight continual increase from 2006 through 2010. This is consistent with the pattern exhibited by the three liquidity ratios. In short, the organization is continually saving more money than it is spending.

Comments/Recommendations

- Overall, Ho'ike's financial metrics shows a consistent pattern of a conservative use of funds.

- Per Ho'ike's Managing Director, the organization has been discussing options for a new location for its main office or another satellite location. The savings over the years could contribute to the purchase of a new main office location.

- As noted in Chapter 2, Ho'ike should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan on how use of funds will contribute to achieving those future goals.

Items Identified By Ho'ike's Independent External Auditors

Background

Independent external auditors who complete a financial statement audit consider the organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organizations internal controls. These financial statement audits are not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. The two reportable deficiencies include:

- A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

External auditors of an entity's financial statements are required to document, in writing, if they identify internal control deficiencies that are considered material weaknesses or significant deficiencies. These reports are required by Statement on Auditing Standards 112 or Statement on Auditing Standards 115 (SAS 112/115).

If an independent external auditor identifies any internal control deficiencies that do not rise to the level of a material weakness or a significant deficiency, they may issue management advisory comments. These comments are typically made in writing to those charged with governance (i.e. Board of Directors). They generally include comments, suggestions and/or recommendations that strengthen internal controls and foster operating efficiencies.

Findings

Ho'ike is only required to have an audit each even calendar year and a compilation of the financial statements is done each odd calendar year where no audit is performed. For the period from January 1, 2006 through June 30, 2011 Ho'ike had audits for the fiscal years ending December 31, 2006, 2008 and 2010. During the performance audit fieldwork Ho'ike was in the process of having the audit for the fiscal year ending December 31, 2010 completed. The audit was not completed until February 21, 2012. Ho'ike did not receive any SAS 112/115 reports or management advisory comments for the fiscal years ending December 31, 2006, 2008 and 2010.

Comments/Recommendations

- The audits for the fiscal years December 31, 2006, 2008 and 2010 did not identify any deficiencies in internal control or management advisory comments.
- The audit required for fiscal year 2010 was not completed until February 21, 2012. Ho'ike should ensure that audits are scheduled and performed timely. Failure to perform timely audits creates exposure to not fulfilling their fiscal responsibilities. In addition it increases the risk that material misstatements would not be timely detected and corrected.

Chapter 5

COMPLIANCE

Analysis of Ho'ike's Compliance with Applicable Laws, Regulations, and its Contract with DCCA

Background

On August 25, 1999 Ho'ike entered into an agreement with the State of Hawaii through its DCCA. As part of the agreement, Ho'ike is responsible for the management and operations of the Kauai PEG access facilities and equipment including channels, facilities and equipment, training, marketing, support services, and insurance. On December 3, 2003 Ho'ike agreed to some changes to the activity reports via a teleconference call with DCCA. These changes were summarized in a letter dated December 22, 2003, titled "Re: Renewal of Contracts and Changes to the Activity Report".

In addition, Ho'ike is required to file reports with DCCA in order for DCCA to monitor Ho'ike's compliance with the provisions of the agreement. The reporting requirements for the period January 1, 2006 through June 30, 2011 are as follows:

1. Amendments to the articles of incorporation and by-laws no later than 30 days after approval by the board of directors.

2. A roster of the board of directors and officers and their respective term of office no later than 30 days after Ho'ike's annual meeting or no later than 30 days after a change in board membership when the change occurs other than at the annual meeting.

3. Annual financial statements no later than 90 days following the close of each odd numbered calendar year.

4. Annual audited financial statements for each even numbered calendar year no later than 30 days after acceptance by the board of directors.

5. An annual operational plan and budget on or before November 1.

6. Ho'ike shall also develop and periodically update a strategic or long-range planning document for a period of not less than three years, and shall submit a copy of such document no later than 30 days after acceptance by the board of directors.

7. Complete equipment inventory upon execution of the Agreement, and thereafter an annual update on or before November 1 of each year.

8. An annual activity report due February 28 of each calendar year which shall include, but not limited to, the following information:

    a. Executive Summary

    b. Public Access Programming

    c. Governmental Programming

    d. Educational programming

    e. Summary of all channel outages from maintenance records including total hours and reasons therefor.

    f. Facility Use

    g. Training

    h. Summary of complaints including the nature of the complaints and the actions taken.

    i. Summary of outreach and marketing efforts.

    j. Summary of revenues from sources other than GIT including the amounts, sources, and purpose of funds.

9. An annual year end activity report due February 28 of each calendar year.

Ho'ike is also required to designate one bank account for operations and another account for capital acquisitions (facilities and equipment). Ho'ike shall be responsible for administering the accounts, and shall not commingle operating funds with capital funds without prior written approval of the Director (DCCA).

Findings

As described in Chapter 1, Ho'ike's Board of Directors and their current and past management teams have taken their responsibility for the management and operations of the PEG access facilities and equipment including channels, facilities and equipment, training, marketing, support services, and insurance seriously.

Ho'ike's compliance with its reporting requirements for the period January 1, 2006 through June 30, 2011 is summarized in the below:

1. No amendments to the articles of incorporation were noted. One amendment to the by-laws was made in September 2006 and was not submitted within 30 days after approval by the board of directors. The amendment was submitted to DCCA 34 days after approval by the board of directors.

2. All rosters of the Board of Directors and officers were submitted no later 30 days after Ho'ike's annual meeting. However, MCO noted several instances where changes in board membership were made, during the period January 1, 2006 through June 30, 2011, and an updated roster of the Board of Directors and officers was not submitted to DCCA.

3. All the annual financial statements for odd numbered calendar years were not submitted within 90 days following the close of each year.

   All of the annual audited financial statements for even numbered calendar years were submitted no later than 30 days after acceptance by the board of directors, with the following exceptions:

   a. The 2008 annual audited financial statements had a report release date of September 30, 2009, but there was no documentation of acceptance by the board of directors, per review of the board of director's minutes. Based on the report release date the audited financial statements were submitted to DCCA late on November 19, 2009.

4. All of the annual operational plans and budgets were submitted on or before November 1.

5. The board of directors did not approve any strategic or long-range planning documents during the period.

6. All of the equipment inventories were submitted on or before November 1.

7. All of the annual activity reports were submitted by February 28 following the close of each calendar year.

8. All of the annual year end activity reports were submitted by February 28.

During the performance audit nothing came to our attention to suggest that there were any other instances of non-compliance with laws or regulations.

Comments/Recommendations

- It appears that Ho'ike is making a conscious effort to meet its reporting deadlines outlined in its August 25, 1999 agreement with DCCA and December 22, 2003 letter from DCCA. However as noted above, Ho'ike should ensure that all the requirements of its contract with DCCA, specifically their audited financial statements, should be met on a timely basis.

- As noted in Chapter 2, Ho'ike should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.

- As noted in Chapter 4, the audit required for fiscal year 2010 was not completed until February 21, 2012. Ho'ike should ensure that audits are scheduled and performed timely. Failure to perform timely audits creates exposure to not fulfilling their fiscal responsibilities. In addition it increases the risk that material misstatements would not be timely detected and corrected.