

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Special and Revolving Funds of the Judiciary and the Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety

Summary

In Act 240, SLH 1990, the Legislature directed the Auditor to evaluate most of the special and revolving funds in existence as of July 1, 1990, and to review legislation proposing new funds. Special and revolving funds are financing mechanisms created outside the general fund to support specific programs and activities. The Legislature voiced its concern about the growing number of these funds and their effect on the fiscal integrity of the State. Of approximately 140 existing funds specifically created by statute, 75 were created within the past eight years. This represents more than a 100 percent increase over all previous years.

Experts have questioned the benefits of special funds. As larger sums of money are set aside in this way and not lapsed to the general fund, there can be a cumulative effect on the overall financial condition of government. Special funds can give agencies full control of their unappropriated cash reserves, provide a way to skirt the general fund expenditure ceiling, and over time erode the general fund. The experts say that special funds are likely to hamper budget administration.

From a legislative perspective, they are less desirable because they are not fully controlled by the appropriations process and thus lessen the Legislature's control of the budget.

This review was of 25 special and revolving funds within the Judiciary, and the Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety. The review of the fund in the Department of the Attorney General is due June 30, 1992. We have advanced the reviews of the remaining funds, which were due 1993 to 1995. In evaluating the funds, we used two criteria provided by Act 240—whether the fund continues to serve the purpose for which it was originally created and whether it reflects a clear link between the benefit sought and charges made upon the beneficiaries of the program. To this we added a third—that the fund demonstrate the capacity to be financially self-sustaining:

We recommended the repeal of 8 funds, the modification of 3 others, and the continuation of 13. We also recommended that 1 be allowed to sunset.

Recommendations and Response

Judiciary. Of the Judiciary's two funds, we recommended that both be continued but that unneeded cash be transferred from the Judiciary Driver Education and Training Fund to the general fund. The Judiciary concurs with our recommendation

to continue the Supreme Court Law Library Special Fund but believes it should be a revolving fund instead of a special fund.

Attorney General. We recommended that the Criminal Forfeiture Fund be allowed to sunset July 1, 1993 and the balance of the fund be transferred to the general fund. The department does not agree with our recommendation. It agrees that the fund cannot meet the criterion of linkage, but it believes that this criterion should not be applied to this fund.

Labor and Industrial Relations. Of the department's five funds, we recommended the repeal of one and the continuation of four. We recommended that one of the four be modified with unneeded cash transferred to the general fund. The department did not respond to our recommendations.

Land and Natural Resources. Of the department's seven funds, we recommended that five be repealed, one be continued, and one be continued but modified to transfer unneeded cash to the general fund. The department agreed with our recommendations to continue the one fund and the repeal of four funds. It agreed with our recommendation to continue the Special Land and Development Fund, but it does not agree with our recommendation that unneeded cash be transferred to the general fund. It believes that the cash must be retained to satisfy potential losses due to default of mortgages involving state lands. It did not agree with our recommendation to repeal the Industrial Park Special Fund, saying that more time is needed for the fund to fully operate as intended.

Personnel Services. We recommended that the Revolving Fund for In-Service Training Programs and Activities be repealed. The department does not agree with our recommendation. The department states that although the fund has been operated as an internal service account, it plans to make the revolving fund more self-sustaining in the future.

Taxation. We recommended the Tax Reserve Special Fund be continued. The department agreed with our recommendation.

Transportation. Of the department's six funds, we recommended the continuation of five and the repeal of one. The department made no comment on our recommendations.

Public Safety. We recommended the continuation of the department's two funds but the Corrections Division should make the Correctional Industries Revolving Fund self-sustaining. The department agrees that the program should be self-sustaining.

Budget and Finance. The department generally supports the departments' disagreements with our recommendations. It also disagrees with our recommendation to repeal the Special Premium Supplementation Fund of the Department of Labor and Industrial Relations. The department feels that uncertainties in the business climate may place more demands on this fund.

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