

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Special and Revolving Funds of the Departments of Commerce and Consumer Affairs, Education, Health, and Human Services

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 numbers of these funds and their effect on the fiscal integrity of the State. Of approximately 140 existing funds, 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 35 special and revolving funds within or administratively attached to four departments: the Departments of Commerce and Consumer Affairs, Education, Health, and Human Services. 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 14 funds, the lapsing of the balances of 2 others to the general fund, the modification of 5 others, and the continuation of 14.

Recommendations and Response

Department of Commerce and Consumer Affairs. Of the department's nine funds, we recommended that eight be continued and one be repealed. Of the three to be continued, we recommended the department adjust its fee

structures to more closely approximate the cost of services provided. The department agrees with all of our recommendations except one. It believes that the Insurance Examiner's Revolving Fund should not be repealed because the situation has changed since our review, and the fund is now being used as intended.

Department of Education. Of the department's ten funds, we recommended that two be lapsed to the general fund, three be repealed, two be modified, and three be continued. The department concurs fully with six of our recommendations, concurs in part with one, and does not concur with three. It does not concur that unneeded cash in the School Special Fees Special Fund should be transferred to the general fund. It states that the year end balances are the result of collections made at the end of the one school year and are expended the next school year. We found this was not the case. In 1991 expenditures of the fund were \$250,000 less than the June 30, 1990 cash balance and the cash balance had increased to about two times the 1991 receipts. The department's disagreement with the recommendations to repeal three other funds is based principally on the argument that the activities need the flexibility of special or revolving funds and without them, there is no incentive to adjust fees to cover costs.

Department of Health. Of the department's 11 funds, we recommended that 9 be repealed and 2 be continued. the department concurs with most of our recommendations. It disagrees that the Environmental Response Revolving Fund should be repealed and the program budgeted through the general fund. It believes the fund should be continued to demonstrate its need. We found that the Division of Community Hospitals, *as currently operated*, is not self-sustaining and should therefore be made part of the normal budget process. The department disagrees with our recommendation that the Facility Administration Fund and the Public Health Facility Special Funds be repealed. In part the department points out that this might cause the statutory general fund expenditure ceiling to be exceeded, and that dependence on general fund support eliminates incentives to collect moneys due the State.

Department of Human Services. Of the department's five funds, we recommended that four be continued and one be repealed. The department did not respond to our recommendations.

As required by Act 240, the Department of Budget and Finance was provided a copy of this report for review and comment. The department restated its position that program evaluations need to be performed to determine whether the programs are meeting their legislatively mandated purposes, and only then can judgments be made as to whether special or revolving funds are still warranted.

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