

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Special and Revolving Funds of the University of Hawaii

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. In many cases, revenues in these funds consist of general fund revenues set aside and no longer available for appropriation and legislative scrutiny. 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 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 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 governed by the appropriations process and thus lessen the Legislature's control of the budget.

This review was of 46 special and revolving funds within the University of Hawaii. Of these, 25 were established by statute and 21 were established administratively by the university. 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.

Recommendations and Response

Of the 25 special funds established by statute, we recommended that 9 be repealed, 1 be discontinued, a sunset date be established for 1, and 14 be continued. Of the 21 established administratively, we recommended that 6 be discontinued, 2 be continued but be required to pay for all costs of the programs, and 13 be continued.

The university does not concur with the third criterion used in this review—that the fund demonstrate the capacity to be financially self-sustaining. It believes that the ability to be self-sufficient was not the primary consideration in establishing many of the special and revolving funds. The university therefore disagrees with our recommendations to repeal or discontinue funds that failed to meet the criterion of self-sufficiency.

We examined the statutory or administrative basis for each fund in applying the criteria. We distinguished between those funds created for a specific purpose within a larger program or incidental to that program and those funds that were integral to a program. For example, we had recommended that the Student Health Center (Services) Revolving Fund be continued even though the center receives general fund support, but we had recommended that the Laboratory Animal Service Special Fund be discontinued because of the amount of general fund support it receives.

The law establishing the Student Health Center Revolving Fund intended that the fund be used to replenish pharmaceutical and laboratory supplies and associated services on a cost recovery basis. The fund accomplishes this. General fund support for staffing and other costs of the center are not part of the purpose of the fund and were not included in the determination of self-sufficiency. On the other hand, we recommended the discontinuance of the Laboratory Animal Service Special Fund because the fees charged did not recover personnel costs necessary for the service. This fund was administratively established. It was not limited to the cost of the animals. Therefore the criterion of self-sufficiency was applied to all costs, including those for personnel.

The university concurs generally with our recommendations to continue certain funds. It concurs with our recommendation to continue the Summer Session Special Fund but does not believe that unneeded cash balances should be returned to the general fund. This fund had year-end cash balances of \$5.6 and \$6.3 million at June 30, 1990 and 1991, respectively. The university submitted a detailed expenditure plan for the use of the funds in an attachment to its response which calls for the expenditure of all but \$12,000 by 1993. The plan, along with individual comments to our draft report by university departments, is available for review at our office.

Finally, the university has concerns that some of our recommendations to repeal funds that are not self-sustaining will cause internal budgeting problems for the university. But its concerns do not challenge the rationale for limiting the use of special funds as a financing mechanism in state government.

The Department of Budget and Finance concurs with our recommendations to repeal the Algal Mass Culture Facility, Snug Harbor; Oahu, Revolving Fund; and to discontinue the Systemwide Rental of UH Property Revolving Fund and the UH-Manoa Campus Health Instructional Resource Unit Special Fund. It also concurs with our recommendation to establish a sunset date for the Systemwide Computer Services Special Fund. Where the university has indicated that our recommendations would have significant negative impacts, the department believes further review and assessment is necessary. The department contends it weighs each program's ability to generate sufficient revenues from program beneficiaries to sustain operations in its assessment of special and revolving funds.

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