

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Revolving and Trust Funds of the University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism

Summary

Section 23-12, Hawaii Revised Statutes (HRS) requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This report is the second required under the law.

Section 37-40, HRS, exempts revolving and trust funds from the biennial appropriations process. The use of these funds, therefore, often does not receive the degree of legislative scrutiny given to the use of general funds that are subject to appropriation by the Legislature. The Legislature considered it prudent to require the Auditor to review these funds so that it could assess the continuing need for revolving and trust funds.

Revolving funds are often established with an appropriation of seed money from the general fund. They are supposed to be self-sustaining. Activities financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. Trust funds account for assets held by the State for the benefit of others. They may include donations to be used for specific beneficiaries. Many trust funds are actually trust accounts established by the comptroller because of limitations in the state's Financial Accounting and Management Information System (FAMIS). The trust accounts serve as separate holding or clearing accounts for state agencies or as an accounting device to credit or charge services, for security deposits, or other costs.

This year we reviewed 49 revolving and trust funds and trust accounts. We used criteria developed by the Legislature and developed by our office from a review of public finance and accounting literature. The criteria for these funds are that they continue to serve the purpose for which they were created and do not require continuing general fund appropriations. In addition, revolving funds must show a linkage between benefits and charges made on users.

For each fund or account, we present a five-year financial summary, the purpose of the fund and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We did not evaluate the performance standards established by agencies for the funds as requested by Section 23-12, HRS, since none of the agencies had established performance standards. We assumed they were meeting performance standards if they were meeting the purpose for which they had been established and our criteria.

Responses

The University of Hawaii responded that it had reviewed our report and found no errors in fact. It noted, however, that although state statutes exempt revolving funds from the appropriation process, the University as a matter of practice has always submitted revolving fund budgets to the Legislature.

The Department of the Attorney General does not agree with our conclusion that the Criminal Forfeiture Fund be allowed to lapse on the sunset date of July 1, 1996. It agrees that the fund cannot meet the criterion of linkage, but it believes that this criterion should not be applied to this fund. It seems to be confused that our conclusion the *fund* be allowed to sunset means we recommend the end of the forfeiture *program*. This is not the case—we believe the fund should be allowed to sunset so that forfeiture moneys not required to be distributed to the counties be subject to the legislative appropriation process. The department also provided some clarifying information on the Temporary Deposit—Child Support Enforcement Services Trust Account that we have incorporated in the report.

The Department of Business, Economic Development and Tourism responded that our statement that the Petroleum Products Control Revolving Fund does not meet the second and third criteria does not seem to take into account the intended use of the fund. The department states that the fund is intended for the benefit of the general public and was never intended to be financially self-sustaining. These comments only confirm our conclusion that the fund does not meet the second and third criteria for revolving funds. The department does not agree that the operations of the Hawaii Community Development Revolving Fund are more consistent with a special fund than a revolving fund. We still contend that the operations of this fund should be subject to the legislative appropriations process since there is no corpus to be revolved and preserved. The department provided some clarifying information that we have incorporated in the report related to the Private Contributions and Grants Trust Account.

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