

OVERVIEW

Review of Revolving Funds, Trust Funds, and Trust Accounts of the Judiciary and the Departments of Commerce and Consumer Affairs, Hawaiian Home Lands, Health, and Human Services

Report No. 01-07, April 2001

Summary

Section 23-12, HRS, requires the State Auditor to review all existing revolving and trust funds every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund, and the degree to which each fund achieves its stated purpose. These reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of the revolving and trust funds of the Judiciary and the Departments of Commerce and Consumer Affairs, Hawaiian Home Lands, Health, and Human Services.

Revolving funds are often established with an appropriation of seed money from the general fund. Revolving funds must demonstrate the capacity to be self-sustaining. Activities commonly financed through revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. *Trust funds* invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. A pension fund is an example of a trust fund. *Trust accounts* are typically a separate holding or clearing account for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 97 funds and accounts we reviewed this year, 26 were revolving funds, 43 were trust funds, and 28 were trust accounts. We used criteria developed by the Legislature and developed by our office from a review of public finance literature. The revolving funds, trust funds, and trust accounts must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, revolving funds must exhibit linkage between its benefits and charges and be an appropriate financing mechanism for the program or operation. A trust fund must also provide benefits or services for its intended beneficiaries and meet the statutory definition of a trust fund. For each fund or account reviewed, we present a five-year financial summary, the purpose of the fund or account, 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 audit the agencies' financial data.

Responses

We transmitted a draft of this review to the Judiciary and the Departments of Commerce and Consumer Affairs, Hawaiian Home Lands, Health, and Human



Services. We also transmitted a draft to the Hawaii Health Systems Corporation, since it is administratively attached to the Department of Health.

The Judiciary thanked us for soliciting its input but did not provide any comments on our draft report.

The Department of Hawaiian Home Lands generally agreed with our findings and provided clarification of two fund names used in the footnotes of our draft report.

The Department of Human Services disagreed with our conclusion that the Randolph-Sheppard Revolving Account should be classified as a trust fund. It noted that a “trust fund” has legal implications that are unwarranted under the terms of the fund. We disagree. This fund does not meet the linkage requirement of a revolving fund. The fund receives commissions on income from vending machines owned by individuals or companies that installed them (not blind vendors). Blind vendors are allowed to keep revenues they earn from their stands and do not deposit them into the fund. The fund operates more like a trust fund because the fund is designated for certain persons (blind vendors) who have a vested beneficial interest. Blind vendors receive benefits, training, business management services, and establishment of new vending facilities from this fund.

The Department of Commerce and Consumer Affairs, the Department of Health, and the Hawaii Health Systems Corporation did not submit written responses.