

OVERVIEW

Update of the 1992 Summary of Special and Revolving Funds

Report No. 01-12, July 2001

Summary

The Office of the Auditor conducted an update of its 1992 *Loss of Budgetary Control: A Summary Report of the Review of Special and Revolving Funds* (Report No. 92-14). Report No. 92-14 provided an overview of five reports issued in 1991 and 1992 that reviewed all special and revolving funds in existence as of July 1, 1990 in the following agencies:

- Department of Accounting and General Services
- Department of Agriculture
- Department of the Attorney General
- Department of Budget and Finance
- Department of Business, Economic Development and Tourism
- Department of Commerce and Consumer Affairs
- Department of Defense
- Department of Education
- Department of Health
- Department of Human Resources Development
- Department of Human Services
- Department of Labor and Industrial Relations
- Department of Land and Natural Resources
- Department of Public Safety
- Department of Taxation
- Department of Transportation
- University of Hawaii
- Judiciary

This update examined all special and revolving funds created since July 1, 1990 that are administered by, or are administratively attached to, the same 18 agencies. The update also included a review of significant operational changes for those funds reviewed in our prior 1991 and 1992 reports.

Since July 1, 1990, 71 special and revolving funds have been repealed or discontinued. However, our update found that a majority (106 out of 166) of the special and revolving funds previously reviewed were still in existence as of July 1, 1999. Few of the 106 special and revolving funds have undergone significant changes since they were last reviewed. We found 31 special and revolving funds previously reviewed in 1991 and 1992 that were in existence as of July 1, 1999 that still did not meet all established criteria. The FY1999-2000 ending cash balance of these 31 funds totaled approximately \$77.4 million.

We also found that 132 special and revolving funds have been statutorily or administratively created since July 1, 1990 but 25 of these funds have since been repealed or discontinued. The aggregate cash balance of the special and revolving



funds created after July 1, 1990 and still in existence as of June 30, 2000 totaled approximately \$220 million. However, we found that 38 of these special and revolving funds did not meet all criteria of a special or revolving fund and held over \$19 million outside the general fund.

Despite the proliferation of special and revolving funds, there are many methods available to the Legislature to strengthen its control over non-general funds. To strengthen its oversight, the Legislature could reconsider the recommendations set forth in Report No. 92-14 or related options outlined in our Report No. 01-04, *A Review and Identification of Fiscally Related Powers Conferred Upon or Assumed by the Executive Branch*. In addition, we found several state legislatures that have implemented other methods to enhance their control over non-general funds that the Legislature could consider exploring.

Recommendations and Response

We recommended that the Legislature consider repealing or discontinuing the 69 special and revolving funds that do not meet established criteria. In addition, we recommended that consideration be given to transferring a portion of the excess cash balances of 12 special and revolving funds to the general fund. Finally, we recommended that the Legislature consider implementing the recommendations set forth in Report No. 92-14, exploring the options set forth in our Report No. 01-04, and assessing the possibility of implementing similar actions that other state legislatures have taken to strengthen non-general fund oversight.

In a collective response prepared by the Department of Budget and Finance, the executive agencies did not concur with our recommendations to repeal or discontinue certain funds or to lapse a portion of the excessive cash balances of other funds. The Judiciary, in a separate response, also noted its disagreement with our recommendation to lapse a portion of one of its special funds to the general fund. Due to the length, the individual responses of the 18 agencies have not been included as attachments to the report but are on file at our office.

Although the executive agencies did not entirely concur with our recommended amendment to the statutory definition of special and revolving funds, they did agree that the present definitions as stated in Section 37-62, HRS, may need to be revised. The executive agencies also agreed that Section 23-11, HRS, should be amended to include a requirement that proposals to establish special or revolving funds be supported by evidence of need. Finally, the agencies concurred with our recommendation that the Legislature explore methods to strengthen oversight of non-general funds to the extent that these methods do not conflict with the governor's ability to carry out constitutional and statutory responsibilities.

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