

OVERVIEW

Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs

Report No. 02-05, February 2002

Summary

Section 23-12, Hawaii Revised Statutes (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 or account, and the degree to which each fund or account achieves its stated purpose. These reviews are scheduled so that the funds and accounts administered by each state department will be reviewed once every five years. This is our second review of the revolving funds, trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs and our first review of the Office of the Lieutenant Governor and Hawaii State Public Library System.

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 35 funds and accounts we reviewed this year, 7 were revolving funds, 18 were trust funds, and 10 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.

Recommendations and Response

We transmitted a draft of this review to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs. The Office of Hawaiian Affairs was the only agency to submit a written response to our draft report.

The Office of Hawaiian Affairs agreed with our review of their funds. The office agreed with our conclusion that the Mauna 'Ala Repository for Royal Native Hawaiian Remains Fund did not meet the criteria of a trust fund. Also, the office agreed with our comments regarding the Native Hawaiian Rights Fund and noted that remedial action is being taken to comply with our comments.

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