

OVERVIEW

Report on the Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation

Report No. 02-15, October 2002

Summary

Section 23-12, Hawaii Revised Statutes, 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 and claimed 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 departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.

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 with 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 assets held for those who will benefit from the trust fund. A pension fund is an example of a trust fund. *Trust accounts* are typically separate holding or clearing accounts 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.

We reviewed a total of 37 funds and accounts: nine revolving funds, 11 trust funds, and 17 trust accounts. We used criteria established 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 originally created and not require continuing general fund appropriations. In addition, revolving funds must reflect a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, 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 include 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 departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. All agencies except the Department of Human Resources Development submitted written responses by the requested deadline.

The Department of Labor and Industrial Relations generally agreed with most of our review of its funds. However, the department disagreed with our conclusion to transfer unneeded fund balances from the Special Fund for Disability Benefits to the general fund. We continue to point out that the \$7.6 million fund balance is far in excess of the approximately \$77,000 it needs for annual expenses.

The Department of Public Safety also concurs with most of our review of its funds. However, it takes exception to our conclusion that the Controlled Substance Registration Revolving Fund lacks a clear link between benefits sought and the source of its revenues. After considering the department's argument, we continue to maintain that fees imposed on those handling or manufacturing prescription drugs have no direct link to the benefits of paying for the cost of an electronic accounting system and staff.

The Department of Taxation agreed with our review of its funds, and responded that it will close the Unsettled Tax Collections – 1st Division – Honolulu Account and seek a change in the statutory designation of the Tax Reserve Fund.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830