

# OVERVIEW

## ***Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources***

Report No. 03-13, October 2003

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### **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 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 third review of the revolving funds, trust funds, and trust accounts of the departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.

*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 74 funds and accounts: 22 revolving funds, 23 trust funds, and 29 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.



## Responses

We transmitted a draft of this review to the departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources. We received written responses from the Department of Agriculture and the Department of Budget and Finance. The Department of Accounting and General Services and the Department of Land and Natural Resources agreed with our review of their funds, and declined to submit a written response.

The Department of Agriculture noted that the Waiahole Water System Revolving Fund, Section 163D-15.5, HRS, is self-sustaining, a term we have added to the report.

The Department of Budget and Finance agreed with our review of its funds.

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