

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 Hawai'i State Public Library System, and Office of Hawaiian Affairs

Report No. 06-08, November 2006

Summary

Section 23-12, Hawai'i 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 for each fund or account, an evaluation of the original intent and purpose of each fund or account, and a determination of the degree to which each fund or account achieves its stated and claimed purpose. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our third review of the revolving and trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs. This is our second review of the funds and accounts administered by the Office of the Lieutenant Governor and Hawai'i 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 financed by 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 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.

Of the 33 funds and accounts we reviewed this year, 10 were revolving funds, 15 were trust funds, and 8 were trust accounts. We used criteria developed by the Legislature as well as criteria developed by our office from a review of public finance and accounting literature. These funds must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, a revolving fund must reflect a linkage between benefits sought and charges made upon users and also be an appropriate financial mechanism for the program or operation. A trust fund must also meet the statutory definition of a trust fund. For each fund, we present a five-year financial summary, the purpose of the fund, 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.



Responses

We transmitted a draft of this review to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs.

The Office of the Lieutenant Governor and Hawai'i State Public Library System were in general agreement in their exit conferences and did not submit responses.

The Office of the Governor offered no comments.

Although the Board of Education did not submit a response, the Department of Education did submit a response and agreed with our conclusion that the After-School Plus Program Revolving Fund did not meet the criteria of a revolving fund. The department noted that it would evaluate the need to amend the statute to comply with fund requirements.

The Office of Hawaiian Affairs agreed with our review of its funds.

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