

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. 11-04, December 2011

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 fourth 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 third 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 31 funds and accounts we reviewed this year, 10 were revolving funds, 12 were trust funds, and nine 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. In addition, a revolving fund must reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the related program and be an appropriate financial mechanism for the program or operation, as well as demonstrate the capacity to be self-sustaining. 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 or its management, or whether the program should be continued. However, we did find that three of the 31 funds and accounts reviewed did not meet the applicable criteria and/or may not be properly classified.



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 Governor, Office of the Lieutenant Governor, and Hawai'i State Public Library System did not submit written responses. The Office of Hawaiian Affairs agreed with our review of its funds.

The Department of Education agreed with most of our conclusions but disagreed with our finding that the Federal Revenue Maximization Program Revolving Fund lacked clear linkage between the benefits sought and the charges made upon the users or beneficiaries of the program. However, we stand by our conclusion as linkage cannot exist between the benefits sought and the charges made upon the users or beneficiaries of the program if the fund does not impose any charges upon the users or beneficiaries of the program. The department also disagreed with our finding that the Food Distribution Program Revolving Fund lacked clear linkage between the benefits sought and the charges made upon the users or beneficiaries of the program. We altered our analysis of this fund based on additional information provided by the department; however, we were ultimately unable to provide a conclusion as the fund has yet to be implemented.

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