



Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

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Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands

Report No. 15-15, December 2015

Ten special funds, revolving funds, and trust funds were reviewed

Two trust funds did not meet the definition of a trust fund

Our review of special funds, revolving funds, and trust funds of the Department of Hawaiian Home Lands (DHHL) found two trust funds did not meet the definition of a trust fund.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. This is our fifth review of the trust funds of DHHL. It is our first review of DHHL special funds since enactment of Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to include reviews of all special funds statewide.

Special funds are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Revolving funds, such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining. Trust funds, such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held for the benefit of those with a vested interest in the assets. Trust accounts are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

Long-outstanding contracts unnecessarily commit funds

We noted FY2015 fund balances were committed to several contract encumbrances made more than five years ago. We found 86 old contract encumbrances totaling almost \$4.6 million at the end of FY2015.

Reporting shortfall

We also noted inconsistent adherence by DHHL when filing statutorily required reports for non-general funds and for administratively created funds and accounts. Accurate and complete reporting, as well as timely closing of funds, will greatly improve the Legislature's oversight and control of these funds and provide increased statewide budgetary flexibility.

Agency response

The department generally agreed with our findings. However, it provided clarification on two trust funds and reported that it has closed 78 of 86 long-outstanding contracts, worth more than \$3.8 million. It also disagreed with our conclusion that it did not report all funds to the Legislature as required by law. The department said it is still in the process of completing its reports and that since the reports are due November 27, 2015, it is not remiss in this reporting requirement. We reiterate that our review refers to FY2014 reporting requirements, which were due in November 2014.