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# **Review of Revolving and Trust Funds of the University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism**

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawaii

Report No. 94-19  
November 1994

**THE AUDITOR**  
STATE OF HAWAII

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Submitted by

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## Foreword

This is a report on our review of revolving and trust funds used by or administratively attached to the University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism.

Section 23-12, Hawaii Revised Statutes, requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This report is the second required under the law.

We wish to acknowledge the excellent cooperation extended by the officials and staff of the Department of the Department of the Attorney General, the Department of Business, Economic Development and Tourism, and the University of Hawaii.

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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This is a report on our review of revolving and trust funds of the Department of the Attorney General, the Department of Business, Economic Development and Tourism, and the University of Hawaii.

Section 37-40, Hawaii Revised Statutes (HRS), exempts revolving and trust funds from the biennial appropriations process. The use of these funds, therefore, often does not receive the degree of legislative scrutiny given to the use of general funds that are subject to appropriation by the Legislature. The Legislature considered it prudent to require the State Auditor to review these funds so that it could assess the continuing need for revolving and trust funds.

Section 23-12, HRS, requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are scheduled so that the State Auditor will review the funds administered by each state department once every five years. This report is the second required under the new law.

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## Background

In its simplest form, the financing of state government involves raising money through taxes, appropriating legislatively the moneys needed to run state programs, and tracking the use of the moneys. But parallel processes complicate the raising, spending, and accounting for moneys used to finance government. Among these processes is the use of special and revolving funds. The funds are called by different names and are used for many different purposes, but they all share a tendency to skirt many of the standard procedures developed to raise, spend, and account for public moneys through the State's general fund.

### *Review of special and revolving funds*

In 1990, in Act 240, the Legislature required our office to conduct a review of special and revolving funds and to recommend whether they should be continued, modified, or repealed. The Legislature was concerned that the proliferation of these types of funds had diverted resources from the general fund and, as a result, had weakened the Legislature's control over public moneys. Moneys deposited to and spent from special and revolving funds are not subject to the same level of legislative scrutiny as those that are deposited to and expended from the general fund.

During the short legislative session, a limited number of staff must review programs and assist legislators in deciding on how to allocate scarce resources. Since staff cannot review all programs, they focus on those programs over which the Legislature has funding authority—programs funded with general fund appropriations—and give less scrutiny to those programs funded by other kinds of appropriations. In view of the proliferation in the number of special and revolving funds and their cumulative impact on the overall financial picture of the state, the Legislature requested the review in Act 240.

We have now completed the review of special and revolving funds required by Act 240. The results of those reviews were presented in five separate reports issued in 1991 and 1992. We reviewed 166 special and revolving funds and recommended that 70 of them be repealed, discontinued, or sunsetted in the future. We also found that many funds held cash balances far in excess of program needs and recommended that excess cash be transferred to the general fund.

### ***Current review of revolving and trust funds***

Section 23-12, HRS, expands on the concept in Act 240. Instead of *special* and revolving funds, it now requires our office to review existing revolving and *trust* funds at least once every five years.

These funds are exempt from the appropriations process and statutory controls over their use are limited—they only cannot be expended or obligated (1) in excess of amounts available, or (2) for any purpose contrary to the intent of the fund. Otherwise, the funds may be expended without legislative appropriation or allotment.

The Legislature has expressed concern that many of these funds may no longer be necessary and amended Chapter 23, HRS, to require our office to review all revolving and trust funds at least once every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund, and the degree to which each fund achieves its stated purpose. The review must also evaluate performance standards established for each fund by each agency.

Our current review is modeled after our previous reviews of special and revolving funds. It updates the reviews of revolving funds that we had done under Act 240 and adds a five-year financial summary to each of them. We then review all trust funds established under either statutory or administrative authority.

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## Description of Revolving and Trust Funds

### *Revolving funds*

Section 37-62, HRS, defines revolving funds as those “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which [are] replenished through charges made for the goods or services or through transfers from other accounts or funds.”

Revolving funds are often established with an appropriation of seed money from the general fund. 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. The state motor pool fund is another example of a revolving fund. The fund purchases and maintains the State’s fleet of motor vehicles and is replenished by charges to state agencies for the use of the vehicles.

### *Trust funds*

State statute and the comptroller define trust funds differently. The statute calls a trust fund a fund and the comptroller calls it a self-balancing group of accounts, but both definitions agree that trust funds account for assets held by the State for the benefit of others. 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 one example of a trust fund. Contributions and payments into the fund are to be held to benefit beneficiaries of the pension fund. Tenants’ security deposits are held in trust fund accounts. Until forfeited or returned, the deposits are the property of the tenants and should be accounted for accordingly.

### *Trust accounts*

Because of limitations in the state’s Financial Accounting and Management Information System (FAMIS), the comptroller routinely establishes trust accounts as separate holding or clearing accounts for state agencies. Often it is an accounting device to credit or charge agencies or projects for payroll or other costs. The comptroller maintains a trust fund ledger with entries for all transactions relating to each trust account. “Each account in the Trust Fund Ledger shows the receipts, payments, and other entries affecting the account.”<sup>1</sup> Most trust accounts that we reviewed were established administratively. Some are clearing accounts that agencies are authorized to hold outside the State Treasury.

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## Criteria for Reviewing Revolving and Trust Funds

We used the same criteria to review *revolving funds* as we had used in our prior review of special and revolving funds.<sup>2</sup> The criteria for revolving funds are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Reflects a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriations process; and
- Demonstrates the capacity to be financially self-sustaining.

The first and second criteria were taken from Act 240, SLH 1990. The third criterion of being financially self-sustaining was developed by our office from a review of public finance literature. A revolving fund “earns” its status to be exempt from the legislative appropriations process by demonstrating that it can meet all of its operating expenditures through its own program revenues. Infusions of general fund appropriations should not be necessary to meet its objectives.

We did not evaluate the performance standards established by agencies for the funds as requested by Section 23-12, HRS, since none of the agencies had established performance standards. For both revolving and trust funds, we assumed they were meeting performance standards if they were meeting the purposes for which they had been established and our criteria.

The criteria used to review *trust funds* are the extent to which each fund:

- Continues to serve the purpose for which it was originally created;
- Provides the benefits or services originally intended to the beneficiaries; and
- Requires no general fund appropriation.

The first two criteria were taken from the first two objectives of Section 23-12, HRS, asking for (1) an evaluation of the original intent of each fund, and (2) the degree to which each fund achieves its stated purpose. The third criterion assesses whether the fund depends upon general fund appropriations. If general fund appropriations are needed to finance its activities (as opposed to providing seed moneys only), classification of the fund as a trust fund may not be warranted.

Similar criteria were used for the review of *trust accounts*. These are the extent to which each account:

- Continues to serve the purpose for which it was created; and
- Requires no general fund appropriation.

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## Objectives of the Review

1. To identify and review each of the revolving and trust funds of the Department of the Attorney General, the Department of Business, Economic Development and Tourism, and the University of Hawaii.
2. To provide a five-year fiscal summary for each fund reviewed.

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## Scope and Methodology

This review examines those funds administered by or administratively attached to the Department of the Attorney General, the Department of Business, Economic Development and Tourism, and the University of Hawaii.

We researched the legislative history or other supporting documents to determine each fund's intent and purpose. We also reviewed, as appropriate, the administrative rules, financial audit reports, agency financial reports, and other documents. To gain an understanding of fund operations, we interviewed key fiscal and program personnel. The financial information shown for the five years are unaudited amounts obtained from the agencies. We then applied the criteria explained in this chapter.

Our work was performed from June 1994 through October 1994 in accordance with generally accepted government auditing standards.



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# Chapter 2

## University of Hawaii

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This chapter presents the results of our review of twenty revolving funds and seven trust funds used by the University of Hawaii (UH). 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. We present alphabetically first those funds established under statutory authority followed by those funds established under administrative authority.

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### Funds Established Under Statutory Authority

#### Animal Research Farm, Waialea, Oahu Revolving Fund, Section 304-8.5, HRS

##### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$240	\$137	\$155	\$198	\$113
Receipts	388	420	460	415	441
Appropriations	0	0	0	0	0
Interest	15	9	6	3	2
Expenditures	(506)	(411)	(423)	(503)	(441)
Transfers	0	0	0	0	0
Ending Balance	\$137	\$155	\$198	\$113	\$115

This fund was created in 1974 to account for expenditures and revenues from the sale of livestock raised on the research farm. The fund continues to serve the purpose for which it was created. Fees collected when livestock are sold for slaughter are used to pay for feed and other supplies for the livestock quartered at the facility. There is a direct link between the purchase of the livestock and the revenues they generate. The fund is also self-sustaining. Receipts from the sales cover the cost of raising the livestock. The fund meets all three criteria for revolving funds.

### Center for Labor Education and Research Revolving Fund, Section 304-37, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$3	\$20	\$22	\$26	\$26
Receipts	16	2	3	1	6
Appropriations	0	0	0	0	0
Interest	1	1	1	1	1
Expenditures	0	(1)	0	(2)	(1)
Transfers	0	0	0	0	0
Ending Balance	\$20	\$22	\$26	\$26	\$32

The purpose of this fund was to account for the fees, charges, and other moneys collected for the operations of the Center for Labor Education and Research. Created in 1976, the fund continues to serve this purpose. The fund receives contributions from labor unions for specialized education and training of workers and leaders of trade unions. There is linkage because union contributions are used to provide professional education to trade union members. The fund is also self-sustaining. This fund meets all three criteria for revolving funds.

### Child Care Programs Revolving Fund, Section 304-8.91, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$93	\$103	\$115
Receipts	0	373	397	369	397
Appropriations	0	0	0	0	0
Interest	0	4	4	3	2
Expenditures	0	(284)	(391)	(360)	(394)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$93	\$103	\$115	\$120

This fund was created in 1986 to account for the revenues and expenditures of providing for the operations, construction, and renovations of child care centers established by the UH. The program is currently managed by UH-Manoa. This fund continues to serve the purpose for which it was created. The link between the benefits sought and the charges made upon the users is direct—those who receive the benefits of child care pay for the service. The fund does not meet the

third criterion—it is not self-sustaining. The law originally required the program to be self-supporting but the requirement was removed by Act 344, SLH 1989. Teaching and administrative personnel costs are paid from general fund appropriations. The fund will continue to require support from the general fund and is not expected to become self-sustaining. The fund therefore does not meet all the criteria for revolving funds.

### Conference Center Revolving Fund, Section 304-8.94, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$220	\$293	\$287
Receipts	0	449	770	534	455
Appropriations	0	0	0	0	0
Interest	0	5	10	6	5
Expenditures	0	(311)	(587)	(561)	(340)
Transfers*	0	77	(120)	15	8
Ending Balance	\$0	\$220	\$293	\$287	\$415

\*Transfers are for receipt and repayment of loans and administrative fees for conducting conferences.

This fund was created in 1990 to account for fees, charges, and other moneys collected by the conference center. The fund serves the purpose for which it was created. The center provides the UH system, state and municipal governments, and private organizations with planning, budgeting, support, and implementation of activities and services for seminars, conferences, symposia, and institutes. Fees are charged to cover direct and administrative costs for each event. The link between the benefits and the charges is direct because those who receive services are charged fees. The fund is self-sustaining—fees charged more than cover conference costs. The fund therefore meets all three criteria for revolving funds.

### Discoveries and Inventions Revolving Fund, Section 304-8.92, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$2,558	\$4,718	\$4,415	\$4,239	\$4,294
Receipts	3,008	1,115	507	620	834
Appropriations	0	0	336	475	0
Interest	395	276	208	113	89
Expenditures	(1,243)	(1,694)	(1,227)	(1,153)	(1,779)
Transfers	0	0	0	0	0
Ending Balance	\$4,718	\$4,415	\$4,239	\$4,294	\$3,438

This fund was created in 1988 to account for the receipts and disbursements of funds used to develop technologies that have potential commercial value and to support the administration of technology transfer activities at the UH. In 1989, the purpose of the fund was expanded to encompass facilitating economic development through education and research undertaken at UH. The fund continues to serve the purposes for which it was created. It supports technological development activities. There is some linkage between the benefits sought and the charges made upon the users because those who use the new technology pay royalties or fees for the technology. The program is not self-sustaining. Since 1988, general funds earmarked for deposit into the revolving fund have totaled \$9.2 million. Act 297, SLH 1991, specified that 4 percent of the total indirect overhead funds generated by the UH for research and training purposes should be deposited into this fund. The deposits were first made in FY1991-92 and are scheduled to terminate at the end of FY1995-96. In FY 1993-94, receipts for this revolving fund totaled \$833,778. Of this total, \$394,120 or 47 percent were from the deposits of the 4 percent indirect overhead receipts. The fund does not meet all the criteria for revolving funds.

### Research and Training Revolving Fund, Section 304-8.1, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$1,811	\$2,633	\$2,667	\$1,971	\$2,395
Receipts	5,328	5,070	5,295	5,525	4,926
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(4,506)	(5,036)	(5,991)	(5,101)	(4,416)
Transfers	0	0	0	0	0
Ending Balance	\$2,633	\$2,667	\$1,971	\$2,395	\$2,905

This fund was created in 1974 to support research and training activities that would stimulate further research. The fund continues to serve the purpose for which it was originally created. Fifty percent of the indirect overhead costs reimbursed from federal contracts and grants are deposited into this fund. The fund does not meet the second criterion of linkage—those who receive support from the fund do not pay into the fund. Revenues to the fund are from federal reimbursements for indirect overhead costs or those costs incurred by UH that are not specifically attributable to a specific federal grant or research project. They include electricity, telephone, and various facilities expenses that are being paid for with general fund appropriations. The fund uses one half of its receipts for research/training seed money, travel grants for faculty and staff, emerging programs and equipment, and fund administration. The fund gives the remaining one half of its receipts to the units generating the federal revenues. Payments from federal contracts and grants are intended to reimburse UH for indirect overhead costs that are normally paid for from the general fund. This fund does not meet all the criteria for a revolving fund.

### Seed Distribution Program Revolving Fund, Section 150-41, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$43	\$49	\$39	\$30	\$28
Receipts	43	43	50	49	55
Appropriations	0	0	0	0	0
Interest	3	3	1	1	1
Expenditures	(40)	(56)	(60)	(52)	(41)
Transfers	0	0	0	0	0
Ending Balance	\$49	\$39	\$30	\$28	\$43

This fund was created in 1975 to enable the seed distribution program to meet the demand for seeds. The fund continues to serve the purpose for which it was originally created. This fund is used for the cultivation and production of vegetable and garden seeds. The fund is also used for research and development directly related to such cultivation and production. The seeds are developed by the College of Tropical Agriculture and Human Resources and sold to farmers, homeowners, seed companies, and state and federal agencies. A direct linkage exists between the benefits sought and the charges made because users are charged for the seeds that they purchase. The fund is also self-sustaining because prices are set to recover seed costs. It therefore meets all three criteria for a revolving fund.

### State Higher Education Loan Fund, Section 304-91, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$874	\$895	\$848	\$723	\$652
Receipts	740	808	826	1,015	1,115
Appropriations	436	333	304	398	270
Interest	34	39	15	9	6
Expenditures	(1,189)	(1,227)	(1,270)	(1,493)	(1,332)
Transfers	0	0	0	0	0
Ending Balance	\$895	\$848	\$723	\$652	\$711

Act 230, SLH 1969, established this low-interest, long-term deferred repayment loan program for qualified students of UH or the community colleges. The fund continues to serve the purpose for which it was created. Loans are made at 3 percent simple interest to qualified students who are enrolled at least half-time in a degree program. There is a link between the benefits sought and the charges made to the users because those who receive loans are required to pay the principal and interest. While increased loan demand has required additional general fund seed money, the fund is self-sustaining as loans are repaid with interest. The fund meets all three criteria for revolving funds.

### Student Health Center Revolving Fund, Section 304-8.2, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$38	\$14	\$21	\$37	\$46
Receipts	67	77	91	89	93
Appropriations	0	0	0	0	0
Interest	2	1	1	1	1
Expenditures	(93)	(71)	(76)	(81)	(118)
Transfers	0	0	0	0	0
Ending Balance	\$14	\$21	\$37	\$46	\$22

The fund was created in 1974 so that the Student Health Center could replenish pharmaceuticals and laboratory supplies provided to students and other users of the health center on a cost recovery basis. The fund continues to serve the purpose for which it was originally created. Fees are collected for the costs of materials such as pharmacy items and laboratory supplies. The relationship between the benefits sought and

the charges made is direct because students and others who receive services are charged fees which are then deposited into the fund. The fund is self-sustaining with respect to the costs of pharmacy and laboratory services and supplies. Additionally, the salary of one pharmacist is paid from this fund. This fund meets all three criteria for revolving funds.

### Transcript and Diploma Revolving Funds, Section 304-8.3, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$402	\$412	\$355	\$285	\$308
Receipts	180	188	201	209	217
Appropriations	0	0	0	0	0
Interest	29	26	15	7	7
Expenditures	(199)	(271)	(286)	(193)	(160)
Transfers	0	0	0	0	0
Ending Balance	\$412	\$355	\$285	\$308	\$372

The funds were created in 1974 so that UH could retain fees received to defray the costs of transcripts and diplomas. A fund at each of the campus units in the system continues to serve the purpose for which the funds were originally created. The funds are used to cover the cost of printing diplomas and hard cover cases with the UH emblem and for the generation and distribution of transcripts. There is a direct link between the fees charged and the benefits derived by the recipients of the transcripts or diplomas. These funds are self-sustaining. All direct costs of diplomas and transcripts are paid out of the revolving funds. The funds meet all three criteria for revolving funds.

### University of Hawaii Alumni Revolving Fund, Section 304-8.97, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$24	\$43
Receipts	0	0	56	26	0
Appropriations	0	0	0	0	0
Interest	0	0	0	1	1
Expenditures	0	0	(32)	(8)	(33)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$24	\$43	\$11

This fund was established by Act 162, SLH 1991 to account for the proceeds from alumni activities and donations from alumni. The expenditures are for alumni activities and programs. Revenues are entirely from external user fees. In addition to alumni donations and activities fees, the fund accounts for UH Alumni Association membership fees. The fund continues to serve the purpose for which it was created. The relationship between the benefit sought and charges made upon the users is direct because the revenues provided by the alumni are used to conduct activities and programs for them. This fund is also self-sufficient. It therefore meets all three criteria for revolving funds.

**University of Hawaii at Hilo Intercollegiate Athletics Revolving Fund, Section 304-8.7, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$72	\$120	\$163	\$192	\$180
Receipts	160	203	\$190	\$195	\$225
Appropriations	0	0	0	0	0
Interest	5	9	7	4	3
Expenditures	(117)	(169)	(168)	(211)	(242)
Transfers	0	0	0	0	0
Ending Balance	\$120	\$163	\$192	\$180	\$166

This fund was created in 1985 to account for the receipts and disbursements for UH-Hilo student intercollegiate athletic events. The fund continues to serve the purpose for which it was created. User fees are charged for basketball, baseball, volleyball and sports camps. There are no user fees for other sports such as softball or golf. The link between the benefits sought and the charges made upon the users is direct—those who attend intercollegiate athletic events are charged fees that are deposited into the fund. During our prior review, we found that the athletic program was not self-sustaining. Act 280, SLH 1993, repealed the fund effective June 30, 1994. However Act 151, SLH 1994 amended Act 280 and restored the fund. The athletic program continues to receive general fund appropriations and is not self-sustaining. For FY1993-94, the program received \$622,435 or 73 percent of the total receipts from general fund appropriations. Further, general fund appropriations continue to pay for the construction of athletic *facilities*. The fund does not meet all the criteria for revolving funds.

### University of Hawaii at Manoa Intercollegiate Athletics Revolving Fund, Section 304-8.7, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$4,096	\$4,130	\$3,812	\$4,264	\$5,460
Receipts	6,633	6,538	7,224	8,560	8,053
Appropriations	0	0	0	0	0
Interest	208	204	145	80	93
Expenditures	(6,807)	(7,060)	(6,917)	(7,444)	(7,928)
Transfers	0	0	0	0	0
Ending Balance	\$4,130	\$3,812	\$4,264	\$5,460	\$5,678

This fund was created in 1985 to account for the disbursements and receipts derived from UH-Manoa student intercollegiate athletic events. The fund continues to serve the purpose for which it was created. User fees are charged for football, men's basketball, men's baseball, women's volleyball, women's basketball, and men's volleyball. The link between the benefits sought and the charges made upon the users is direct—those who attend intercollegiate athletic events are charged fees that are deposited into the fund. During our prior review, we found that the athletic program was not self-sustaining. Act 280, SLH 1993, repealed the fund effective June 30, 1994, but Act 151, SLH 1994, amended Act 280 to restore the fund. The athletic program continues to receive general fund appropriations and is not self-sustaining. Further, athletic *facilities* continue to be funded through general fund appropriations. This fund does not meet all the criteria for a revolving fund.

### University of Hawaii at Manoa Laboratory School Summer Programs Revolving Fund, Section 304-27, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	THIS FUND WAS NOT CREATED UNTIL JUNE 22, 1994				
Receipts					
Appropriations					
Interest					
Expenditures					
Transfers					
Ending Balance					

This revolving fund was recently established by Act 239, SLH 1994, so the fund is not operational. The purpose of the revolving fund is to finance the operational cost of summer programs conducted at UH-Manoa Laboratory School. Fees generated by the summer activities are to be deposited in the revolving fund. The summer school program funds were previously part of University of Hawaii Student Activities Revolving Fund. An independent audit questioned whether this is an appropriate use of the Student Activities Revolving Fund. The creation of a separate revolving fund will resolve this problem. There is linkage. The users of the summer school programs will pay costs of the programs. This new fund is not operational, but the programs have been self-sustaining in the past. This fund meets all three criteria for a revolving fund.

**University of Hawaii Housing Assistance Revolving Fund,  
Section 304-8.96, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$1,314	\$2,570
Receipts	0	0	1,332	1,344	1,213
Appropriations	0	0	0	0	0
Interest	0	0	0	53	67
Expenditures	0	0	(18)	(141)	(252)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$1,314	\$2,570	\$3,598

Act 297, SLH 1991, established this revolving fund to implement UH housing assistance master plan and to account for all transactions of the UH housing assistance program. As a recruitment and retention incentive for faculty, the fund provides financial assistance in the form of loans not to exceed \$50,000 for mortgage down payments and/or monthly mortgage assistance payments. Expenditures are also used for the administrative staff and operations of the Office of Faculty Housing and Assistance Services. Act 297 specified that 12 percent of the total indirect overhead funds generated by UH for research and training purposes would be deposited into this fund. The deposits were first made in FY1991-92 and are scheduled to terminate at the end of FY1995-96. There is some linkage between the benefits sought and the charges made upon the users because those who receive the mortgage loans will be required to repay the loans plus interest. The program is not self-sustaining. The expenses of the administrative staff and operation of the Office of Faculty Housing and Assistance Services

must be paid from this fund. The repayment of loans with interest will not be sufficient to cover these costs. This fund does not meet all the criteria for revolving funds.

### University of Hawaii Student Activities Revolving Funds, Section 304-8.6, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$1,343	\$1,723	\$1,715	\$1,793	\$2,064
Receipts	2,293	2,222	2,266	2,410	2,323
Appropriations	0	0	0	0	0
Interest	125	117	89	189	94
Expenditures	(2,022)	(2,337)	(2,277)	(2,351)	(2,573)
Transfers*	(16)	(10)	0	23	(28)
Ending Balance	\$1,723	\$1,715	\$1,793	\$2,064	\$1,880

\*Transfers represent temporary advances to and repayment from other programs. Also, a transfer from UH-Hilo to the Hawaii Community College Student Activities program.

To account for disbursements and receipts from the compulsory student activity fees collected for student organizations and activities, a separate fund was established in 1980 for each of the campus units. The funds continue to serve the purpose for which they were originally created. At UH-Manoa, full-time and part-time students are assessed a student activity fee each semester. Students attending the summer session pay a fee for each session. The fees are prorated to the Associated Students of University of Hawaii or the Graduate Student Organization, Board of Publications, Broadcast Communication Authority, Campus Center Operations (Bond Fund), Campus Center Board, and Student Activities Program Fee Board. At UH-Hilo, UH-West Oahu, and UH-Community Colleges, full-time and part-time students also are assessed student activity fees that are prorated to student organizations and activities. There is a direct link between the fees paid by students and the benefits they derive from the student organizations and activities. The funds meet all three criteria for revolving funds.

### University Parking Revolving Fund, Section 308-2, HRS

This fund was created in 1964 to account for parking fees and fines assessed for designated parking areas. The UH-Manoa Parking Revolving Fund is part of the Revenue-Undertakings Revolving Fund

under Section 306-10, HRS. The funds for the UH-Community Colleges and UH-Hilo are discussed separately below.

**University Parking Revolving Fund—UH-Community Colleges**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$151	\$161	\$204	\$230	\$242
Receipts	129	150	145	117	101
Appropriations	0	0	0	0	0
Interest	13	13	9	6	5
Expenditures	(132)	(120)	(128)	(111)	(136)
Transfers	0	0	0	0	0
Ending Balance	\$161	\$204	\$230	\$242	\$212

The purpose of this fund was to account for parking fees and fines assessed for designated parking areas. Created in the 1960s, the fund continues to serve its original purpose. Honolulu, Kapiolani, and Kauai Community Colleges currently charge parking fees and fines. There is a link between the benefits sought and the charges made upon the users because those who use parking areas are charged fees or fines which are then deposited into the fund. The fund is also self-sustaining. The fund meets all three criteria for revolving funds.

**University Parking Revolving Fund—UH-Hilo**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$64	\$81	\$101	\$113	\$117
Receipts	12	15	17	20	154
Appropriations	0	0	0	0	0
Interest	5	6	5	3	3
Expenditures	0	(1)	(10)	(19)	(140)
Transfers	0	0	0	0	0
Ending Balance	\$81	\$101	\$113	\$117	\$134

The purpose of this fund was to account for parking fees and fines assessed for designated parking areas at UH-Hilo and Hawaii Community College. Created in the 1960s, the fund continues to serve this purpose. Receipts are from fees collected for parking permits and fines for violations of parking and driving rules. There is a direct link

between the benefits sought and the charges made upon the users because those who park or drive on campus are charged fees or fines that are then deposited into the fund. The revolving fund is self-sustaining since it covers operating costs. The fund meets all three criteria for revolving funds.

### University Revenue-Undertakings Funds—UH-System, Section 306-10, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$17,961	\$19,999	\$20,766	\$22,088	\$25,268
Receipts	31,708	33,142	35,726	40,242	44,519
Appropriations	0	0	0	0	0
Interest	1,410	1,411	1,112	661	680
Expenditures	(31,077)	(33,770)	(35,501)	(39,901)	(40,747)
Transfers*	(3)	(16)	(15)	2,178	0
Ending Balance	\$19,999	\$20,766	\$22,088	\$25,268	\$29,720

\*Transfers include voluntary and mandatory transfers to the Renewals and Replacements Fund and the Retirement of Indebtedness Fund.

In 1971, these funds were established to account for all revenue-producing entities of UH for which bonds had been issued. The UH has established various funds for its revenue-producing projects. They include: UH-System Bookstores, Faculty Housing Program, UH-Manoa Campus Center, UH-Manoa Parking, Student Housing (Manoa, Maui, Hilo), Onizuka Center for International Astronomy, Mauna Kea Observatory Complex Power Lines, and Telecommunications System. The funds continue to serve the purpose for which they were created. There is a direct link between the user fees charged for each of the projects and the benefits accrued to the users. For each project, the Board of Regents has imposed rates, rents, fees, and charges for the use and enjoyment of the projects and revises the charges as necessary to keep the funds self-supporting. The funds meet all three criteria for revolving funds.

**Vocational and Technical Training Projects Revolving Funds, Section 304-8.4, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$810	\$1,029	\$1,025	\$1,057	\$1,080
Receipts	1,456	1,591	1,750	2,069	2,365
Appropriations	0	0	0	0	0
Interest	64	70	44	26	21
Expenditures	(1,301)	(1,599)	(1,762)	(2,044)	(2,455)
Transfers*	0	(66)	0	(28)	28
Ending Balance	\$1,029	\$1,025	\$1,057	\$1,080	\$1,039

\*Transfers from UH-Hilo to the Hawaii Community College Vocational Education Program. Transfers also represent temporary advances to and from other programs. In addition, a transfer of \$65,884 was made in FY1990-91 to the State Corrections Office after the Community Colleges Hoomana Program which provided training for prison inmates was terminated.

To account for receipts and disbursements for services provided as part of the vocational and technical training projects at the community colleges, a separate fund was established in 1974 for each of the community colleges and at the UH-Hilo. The funds continue to serve the purpose for which they were created. Each of the community colleges and UH-Hilo has specialized vocational and technical projects for which they collect fees. There is a direct link between the fees paid and the benefits received by the users. Expenditures for materials and supplies for the projects and replacement and repair of tools and equipment are directly related to the fees charged the students. The funds are self-sustaining—fees are structured to recover costs. The funds meet all three criteria for revolving funds.

**Funds Established Under Administrative Authority**

**University of Hawaii—East-West Center Support Trust Fund, Section 304-2, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$610	\$742	\$649	\$729	\$807
Receipts	422	316	413	462	614
Appropriations	0	0	0	0	0
Interest	41	47	30	16	16
Expenditures	(331)	(456)	(363)	(400)	(344)
Transfers	0	0	0	0	0
Ending Balance	\$742	\$649	\$729	\$807	\$1,093

This fund was created in 1980 to promote cooperative and collaborative data collection and research projects between UH and the East-West Center. The East-West Center derives its revenues from the federal government and private donations. The East-West Center contracts with UH for the usage of facilities, libraries, faculty, research, security, computer, and health services. The beneficiaries are primarily the East-West Center grantees or students. The trust fund serves the purpose for which the fund was originally created and continues to serve the intended beneficiaries—East-West Center grantees or students. The fund receives no general fund appropriations.

### University of Hawaii Financial Aid Scholarships Trust Funds, Section 304-7, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$891	\$730	\$928	\$1,100	\$1,061
Receipts	85	94	78	16	21
Appropriations	0	0	0	0	0
Interest	668	1,001	964	889	233
Expenditures	(899)	(891)	(865)	(914)	(269)
Transfers*	(15)	(6)	(5)	(30)	(21)
Ending Balance	\$730	\$928	\$1,100	\$1,061	\$1,025

\*Transfers are the return of unused income distributions to the endowment fund.

This fund was created in 1925 to award financial aid scholarships to students based on scholastic achievement and financial need. Trust funds have been established at each of the campus units in the system. Some scholarships are awarded for academic excellence regardless of financial need. Recipients of scholarships are not expected to provide services to the institution nor are they expected to repay the awards. Revenues are from private gifts and donations given directly to the funds or transferred from endowment funds. The trust funds serve the purpose for which the funds were originally created and continue to serve the intended beneficiaries—students who receive scholarships. The funds receive no general fund appropriations.

### University of Hawaii Gifts and Donations Trust Funds, Section 304-7, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$464	\$566	\$656	\$1,578	\$1,325
Receipts	185	166	221	304	81
Appropriations	0	0	0	0	0
Interest	132	191	198	195	171
Expenditures	(215)	(267)	(286)	(747)	(780)
Transfers*	0	0	789	(5)	(8)
Ending Balance	\$566	\$656	\$1,578	\$1,325	\$789

\*Transfers in from the quasi-endowment fund and transfers out for indirect cost recoveries to the Private Funded Contracts and Grants Trust Fund.

This fund was created in 1925 to account for the revenues and expenses of gifts and donations received from sources other than the Legislature or any federal appropriation. The moneys or other property received from external sources generally are for specific purposes or for the benefit of specific programs. These funds serve the purposes for which the funds were originally created and continue to serve the intended beneficiaries—the students and faculty of the programs to which gifts and donations are made. The funds receive no general fund appropriations.

### University of Hawaii Intercollegiate Athletics Scholarships Manoa, Section 304-7, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$(10)	\$2	\$(11)	\$4	\$0
Receipts	627	772	873	898	918
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(615)	(785)	(858)	(902)	(922)
Transfers	0	0	0	0	0
Ending Balance	\$2	\$(11)	\$4	\$0	\$(4)

This fund was created in 1985 to account for the financial transactions of the Intercollegiate Athletic Department's Scholarship Fund. These funds are used specifically for scholarship (textbooks, tuition and fees, housing, meals, tutorial service) and medical/dental expenses for eligible male and female student athletes. Revenues to the fund are

from Ahahui Koa Anuenue (a chartered booster organization), the Honolulu Stadium Endowment Fund, Rainbow Fever donations, and donations from various other sources. This fund serves the purpose for which it was originally created and continues to serve the intended beneficiaries—male and female student-athletes. The fund receives no general fund appropriations.

### University of Hawaii Okinawa Program Trust Fund Section 304-2, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$100	\$99	\$118	\$97	\$227
Receipts	465	499	507	547	407
Appropriations	0	0	0	0	0
Interest	7	10	8	2	5
Expenditures	(423)	(437)	(479)	(379)	(229)
Transfers*	(50)	(53)	(57)	(40)	(28)
Ending Balance	\$99	\$118	\$97	\$227	\$382

\*Transfers are returns of unspent moneys to the granting agency.

This trust fund was created in 1968 to account for the revenues and expenditures to administer a western-style postgraduate medical education program at the Okinawa Prefectural Chubu Hospital in Okinawa, Japan. The Okinawa Prefecture provides the revenues for the program. UH of Hawaii School of Medicine expends the moneys for postgraduate medical training to residents at the hospital. The fund serves the purpose for which it was originally created and continues to serve the intended beneficiaries—the residents who undergo training and the Okinawa Prefecture community. The fund receives no general fund appropriations.

### University of Hawaii Press Revolving Fund, Section 304-8, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$2,231	\$2,785	\$3,353	\$4,052	\$4,421
Receipts	3,085	3,594	3,548	3,446	3,643
Appropriations	0	0	0	0	0
Interest	144	175	109	151	113
Expenditures	(2,675)	(3,201)	(2,958)	(3,228)	(4,061)
Transfers	0	0	0	0	0
Ending Balance	\$2,785	\$3,353	\$4,052	\$4,421	\$4,116

The purpose of this fund is to account for the receipts and disbursements of the various services of the University of Hawaii Press. The press publishes scholarly books on Hawaii, Asia, and the Pacific, and provides typesetting and other printing related services. The fund continues to serve the purpose for which it was created. Revenues to the fund are from the sale of publications and from production services (i.e., equipment typesetting). There is direct linkage—those who want publications and services pay for them. General fund appropriations pay for the costs of certain university press employees, and warehouse and basic supplies. The UH Press received over \$810,000 in general fund appropriations for FY1993-94. Since the fund has a substantial cash balance and demonstrates the capacity to be self-sustaining, it appears that all operating expenses of the UH Press could be paid by the revolving fund.

**University of Hawaii Private Funded Contracts and Grants Trust Funds, Section 304-2, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$2,580	\$4,705	\$2,965	\$2,792	\$3,388
Receipts	17,904	21,310	24,751	26,215	24,608
Appropriations	0	0	0	0	0
Interest	248	208	197	95	108
Expenditures	(16,078)	(23,311)	(25,185)	(25,764)	(27,848)
Transfers*	51	53	64	50	23
Ending Balance	\$4,705	\$2,965	\$2,792	\$3,388	\$279

\*Transfers are for indirect cost recoveries from the Contracts with Foreign Governments and Gifts and Donations programs.

This trust fund was created in 1919 to account for the revenues and expenses for sponsored research or training contracts and grants from other than the federal government. Trust funds have been established at each of the campus units in the system. The vast majority of the research or training services is being provided at UH-Manoa. Typical agreements provide for the scope of service or research to be provided, project duration, technical and financial reports, and level of funding. State agencies and private individuals, organizations, and foundations provide the extramural revenues for the funds. The moneys are used for specific research-related services provided by the UH faculty and students. These funds serve the purpose for which the funds were originally created and continue to serve the intended beneficiaries—the individuals and organizations who contract for specific research related services. The funds receive no general fund appropriations.

**University of Hawaii Short-Term Loans Trust Fund,  
Section 304-7, HRS**

<b>Financial Data for Fiscal Years 1990-94 (in Thousands)</b>					
	<b>FY1990</b>	<b>FY1991</b>	<b>FY1992</b>	<b>FY1993</b>	<b>FY1994</b>
Beginning Balance	\$53	\$53	\$68	\$78	\$73
Receipts	127	153	166	169	229
Appropriations	0	0	0	0	0
Interest	4	4	3	2	1
Expenditures	(131)	(142)	(159)	(176)	(206)
Transfers	0	0	0	0	0
Ending Balance	\$53	\$68	\$78	\$73	\$97

The Short-Term Loans Fund was created in 1925 to provide students with emergency fund to meet expenses incident to their schooling. The source of the trust fund is private gifts and donations. No interest is charged on short term loans as the loans are supposed to be repaid as soon as possible. The fund serves the purpose for which it was originally created and continues to serve the intended beneficiaries—the students. The fund receives no general fund appropriations.



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# Chapter 3

## Department of the Attorney General

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This chapter presents the results of our review of one revolving fund, one trust fund, and five trust accounts used by the Department of the Attorney General. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, 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. We present alphabetically first those funds and accounts established by statutory authority followed by those accounts established under administrative authority.

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### Funds Established Under Statutory Authority

#### Child Support Enforcement Trust Fund, Section 576D-10, HRS

##### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$3,513	\$4,099	\$3,504	\$3,107	\$4,200
Receipts	37,532	46,720	56,960	62,182	70,246
Appropriations	0	0	0	0	0
Interest	185	171	124	71	58
Expenditures	(37,116)	(47,465)	(57,433)	(61,117)	(70,358)
Transfers	0	0	0	0	0
Bank Charges	(15)	(21)	(48)	(43)	(22)
Ending Balance	\$4,099	\$3,504	\$3,107	\$4,200	\$4,124

The purpose of this trust fund is to account for the collection and disbursement of court ordered child support payments. The source of the receipts is the non-custodial parents who pay for child support. The beneficiaries of the disbursements are the children of the custodial parents. This fund serves the purpose for which it was originally created and continues to serve the intended beneficiaries—the children of the custodial parents. The fund receives no general fund appropriations.

### Criminal Forfeiture Revolving Fund, Section 712A-16(4), HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$69	\$122	\$408	\$567	\$595
Receipts	234	336	1091	740	517
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(181)	(50)	(943)	(1163)	(858)
Transfers*	0	0	11	451	441
Ending Balance	\$122	\$408	\$567	\$595	\$695

\*Transfers are from the Seized Funds-Final Disposition Pending Trust Account

This fund was created in 1988 to account for one half of the net proceeds of all property forfeited for offenses for which forfeiture is provided by law. The other half is to be distributed to units of state and local governments responsible for the arrest and prosecution of the person forfeiting the property. The fund is to be used to pay (1) the expenses incurred in seizing, maintaining, or selling forfeited property, (2) awards for information leading to civil or criminal proceedings, (3) supplemental funds to state and county agencies for law enforcement purposes, and (4) the cost of training and educating law enforcement officers. The fund continues to serve the purpose for which it was created. Forfeited property and money are distributed to state and local governmental units for the education and training of law enforcement officers, including staff of the Department of the Attorney General and the county prosecuting attorneys. However, there is no linkage since receipts are derived from property forfeited and not from charges on those who benefit from the fund. The fund is self-sustaining since expenditures cannot exceed receipts. The fund has a sunset date of July 1, 1996. Since the fund does not meet all three criteria for a revolving fund, the fund should be allowed to lapse on the sunset date.

### Hawaii Criminal Justice Commission Trust Account, Section 28-10.6(a)(5), HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$36	\$35	\$28	\$9	\$11
Receipts	69	51	59	3	39
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(70)	(58)	(78)	(1)	(38)
Transfers	0	0	0	0	0
Ending Balance	\$35	\$28	\$9	\$11	\$12

This trust account was established in 1985 under the predecessor agency, the Hawaii Criminal Justice Commission, to deposit monetary donations from private sources. In July 1990 the commission was sunsetted and was officially renamed the Crime Prevention Division of the Department of the Attorney General. This account continues to be used to deposit private donations and foundation grants and to expend such funds for crime research, training, prevention, and education. Registration fees for the various training events sponsored by the division are also deposited in this account. This trust account serves the purpose for which it was created.

### Accounts Established Under Administrative Authority

#### Criminal Forfeiture Bond Holding Account

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$26	\$26	\$52	\$53	\$31
Receipts	0	31	38	29	18
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(5)	(37)	(51)	(29)
Transfers	0	0	0	0	0
Ending Balance	\$26	\$52	\$53	\$31	\$20

This trust account was established to serve as a temporary holding account for bond moneys posted by a person who has an alleged property interest in property seized for administrative forfeiture. By filing a claim with a cost bond, an alleged owner of seized property can shift the pending administrative forfeiture case to court for a judicial determination. If the claimant fails to prove that claimant's interest is

exempt from forfeiture, the claimant must pay the government's costs and expenses incurred during the judicial proceeding. This trust account is being used as a holding account and serves the purpose for which it was created.

### Litigation Settlement Clearance Account

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$20	\$26	\$20	\$21	\$177
Receipts	7	0	51	170	5,847
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(1)	(6)	(50)	(14)	(5,413)
Transfers	0	0	0	0	0
Ending Balance	\$26	\$20	\$21	\$177	\$611

This trust account was established to serve as a clearing account to facilitate the holding and timely disbursement of funds for settlements in litigation cases involving the State and other co-defendants such as state employees. In certain cases, the co-defendants may prefer to provide the State with funds that are deposited in this account to be used to settle the case. Settlement funds received on behalf of the State are disbursed from this account according to the terms of the settlement agreement. The fund experienced a large increase in activity in FY1994, primarily because of the receipt of settlement funds related to the construction design problems at Aloha Stadium. This trust account is being used as a clearing account and serves the purpose for which it was created.

### Seized Funds-Final Disposition Pending Trust Account

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$481	\$126
Receipts	0	0	492	219	522
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	(123)	(95)
Transfers*	0	0	(11)	(451)	(441)
Ending Balance	0	0	\$481	\$126	\$112

\*Transfers are made to the Criminal Forfeiture Revolving Fund

This trust account was established to serve as a temporary holding account for funds seized for forfeiture by law enforcement agencies. The funds are held on deposit pending administrative or judicial resolution of the forfeiture case. If the seized funds are ordered forfeited, the funds are transferred to the Criminal Forfeiture Revolving Fund. If not forfeited, the funds are returned to the owner. This trust account is being used as a holding account and serves the purpose for which it was created.

### Temporary Deposit-Child Support Enforcement Services Account

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$578	\$1,161	\$1,366	\$1,426	\$2,824
Receipts	1,110	896	563	2,440	1,444
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(527)	(691)	(503)	(1,042)	(2,726)
Transfers	0	0	0	0	0
Ending Balance	\$1,161	\$1,366	\$1,426	\$2,824	\$1,542

This trust account was established as a temporary deposit account for incentive payments from the federal government for the Child Support Enforcement Agency's role in collecting child support payments. These revenues are shared with counties that participate in the establishment and enforcement of child support obligations. Funds from this account have been used to offset a portion of the State's cost for developing and implementing a new automated child support computer system. This fund is being used as a temporary deposit account for all incentive revenues. Our *Financial Audit of the Department of the Attorney General*, issued in November 1992, concluded that the incentive payments that are not shared with the counties should be transferred to the general fund. The Legislature, through the General Appropriations Act of 1993, is allowing the department to expend moneys in this fund during the fiscal biennium 1993-95.



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# Chapter 4

## Department of Business, Economic Development and Tourism

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This chapter presents the results of our review of ten revolving funds, one trust fund, and four trust accounts used by or administratively attached to the Department of Business, Economic Development and Tourism (DBEDT). For each fund or account, 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. We present alphabetically first those funds and accounts established by statutory authority followed by those accounts established under administrative authority.

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### Funds Established Under Statutory Authority

#### Hawaii Capital Loan Revolving Fund, Section 210-3, HRS

##### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$4,796	\$3,111	\$4,137	\$5,234	\$6,683
Receipts	1,676	1,728	2,335	3,030	1,539
Appropriations	1,000	1,700	0	0	0
Interest	407	249	166	107	125
Expenditures	(4,768)	(2,651)	(2,404)	(2,688)	(2,083)
Transfers*	0	0	1,000	1,000	1,000
Ending Balance	\$3,111	\$4,137	\$5,234	\$6,683	\$7,264

\* Transfers from the Large Fishing Vessel Revolving Fund (\$2.8 million) and from the Small Fishing Vessel Revolving Fund (\$200,000).

The original purpose of this fund was to help diversify the state's economy by making loans to small businesses. Created in 1963, the fund provides loans to small businesses in manufacturing, wholesaling, retailing, service industries, and community-based long-term care. In 1989, \$1 million was appropriated and earmarked for the long-term care business. Act 267, SLH 1991, amended the Capital Loan Revolving Fund, Section 210-3, to receive underground storage tank fees collected by the Department of Health. The fees are to be used to make loans to owners to repair or replace storage tanks and for cleaning up releases from the tanks.

The fund continues to serve its original purpose by making loans to businesses. There is a link between the benefits sought and the charges made upon the users because those who receive loans must repay the principal and interest. At June 30, 1994, this fund had 70 loans outstanding totaling \$13,455,970. The fund is self-sustaining because payments of principal and interest will replenish the fund and enable additional loans to be made. The fund therefore meets all three criteria for revolving funds.

**Hawaii Community Development Authority Revolving Fund, Section 206E-16, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$5,019	\$10,174	\$13,010	\$12,436	\$16,740
Receipts	5,570	5,689	4,385	13,353	4,223
Appropriations	0	0	0	0	0
Interest	374	749	460	472	532
Expenditures	(789)	(3,602)	(5,419)	(9,521)	(6,561)
Transfers*	0	0	0	0	1,848
Ending Balance	\$10,174	\$13,010	\$12,436	\$16,740	\$16,782

\*Transfer from HCDA Special Assessment Reserve Fund.

The original purpose of this fund was to support the activities of the Hawaii Community Development Authority. Since its creation in 1976, the fund has continued to serve its original purpose. The authority deposits all receipts and revenues to the revolving fund and uses the fund to develop underutilized urban areas. The authority currently is involved in the development of the Kakaako District. The fund links the benefits sought and the charges made. Property owners who benefit from infrastructure improvements are assessed their share of improvement costs. Individuals and businesses that receive loans under the relocation loan program must repay the loan principal and interest. Rental fees from tenants are used for community development programs. Developers of real property in Kakaako are required to dedicate land or facilities or make cash payments in lieu of land or facilities. These public dedication fees are used for community development programs. Developers of residential properties in the district are required to set aside 20 percent of their development as affordable housing. In lieu of setting aside a portion of the development, developers may pay a fee to the authority that the authority can then use to develop affordable housing. The authority has used these reserved housing fees to partially fund two affordable housing projects in the district. The fund is also self-sustaining—

receipts and revenues pay for the development costs. Although its operations are more consistent with a special fund than a revolving fund, the fund meets all three criteria.

### Hawaii Community-Based Development Revolving Fund, Section 210D-4, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$585	\$489	\$470
Receipts	0	0	0	0	22
Appropriations	0	900	50	391	333
Interest	0	12	20	0	0
Expenditures	0	(327)	(166)	(410)	(344)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$585	\$489	\$470	\$481

The original purpose of this fund, created in 1990, was to support a Hawaii community-based development loan and grant program to assist traditional and small community-based enterprises. Receipts for the fund consist almost entirely of appropriations from the general fund and the interest earned thereon. The fund has generated receipts totaling only \$21,556 from loan repayments. While some loans have been made, the fund has been used mainly for grants. The fund serves the purpose for which it was created. Grants and loans have been made to support community-based projects. However, there is no clear linkage because no user fees are charged under a grant program. Moreover, the fund cannot sustain itself because grants are not repaid. The fund therefore will require regular infusions from the general fund. The fund does not meet all the criteria for a revolving fund.

### Hawaii Innovation Development Fund, Section 211E-2, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$723	\$687	\$657	\$599	\$630
Receipts	0	8	8	14	84
Appropriations	0	0	0	0	0
Interest	64	32	34	17	15
Expenditures	(100)	(70)	(100)	0	(198)
Transfers	0	0	0	0	0
Ending Balance	\$687	\$657	\$599	\$630	\$531

This fund was originally established in 1981 as the Hawaii Invention Development Fund to promote inventions and other new products. The fund was renamed in 1987 and its purpose broadened to include early-stage financing for promoting new products, services, and technologies. The fund continues to serve its current purpose—providing loans to promote research, development, and production of projects that have growth potential. At June 30, 1994, this fund had four loans outstanding totaling \$393,376. There is a direct link between the benefits sought and the charges made upon the users because those who receive loans must repay the principal and interest. This fund is self-sustaining because principal and interest payments will replenish the fund and enable it to make other loans. The fund therefore meets all three criteria for revolving funds.

**Hawaii Interisland Airline Loan Guarantee Trust Fund,  
Act 332, SLH 1993**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$0	\$2,800
Receipts	0	0	0	2,800	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	71
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$2,800	\$2,871

Act 332, SLH 1993, created the Hawaii Interisland Airline Loan Guarantee Trust Fund to deposit reserve money for all loans guaranteed under the Act. The Act authorized DBEDT to guarantee loans made by private lending institutions to Hawaii interisland air carriers. The Hawaii air carrier must deposit, in cash, an amount equal to 20 percent of the principal balance of the loan guaranteed by the trust fund. The act provided that the required collateral had to be deposited in the trust fund by June 30, 1993. One interisland airline deposited \$2.8 million into the fund by that date. This money remained in the fund so the airline could apply for a loan guarantee of up to \$12.6 million. No other airline could apply for a loan guarantee because the collateral requirements were not met by June 30, 1993. This fund served the purpose for which it was created. Money was held in trust to guarantee repayment of loans. The money was returned to the airline and the trust fund was closed in September 1994.

### Hawaii Large Fishing Vessel Purchase, Construction, Renovation, Maintenance, and Repair Loan Revolving Fund, Section 189-23, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$2,580	\$3,146	\$3,831	\$3,424	\$2,861
Receipts	639	509	419	289	256
Appropriations	0	0	0	0	0
Interest	177	227	224	148	27
Expenditures	(250)	(51)	(50)	0	(48)
Transfers*	0	0	(1,000)	(1,000)	(2,800)
Ending Balance	\$3,146	\$3,831	\$3,424	\$2,861	\$296

\*Transfers: \$2.8 million to the Hawaii Capital Loan Revolving Fund and \$2 million to the General Fund.

This fund was created in 1965 to support the development and expansion of commercial fishing by making low interest loans available for the purchase, construction, renovation, maintenance, and repair of fishing vessels weighing at least five net tons. Due to increased competition from out-of-state vessels and decreased profitability in the local industry, the loan program has experienced a high delinquency rate. This has led the department to suspend accepting new loan applications for the purchase or construction of new vessels although some loans for repair, maintenance, and equipment conversion are still being made. In light of the minimal loan activity, a total of \$2.8 million has been transferred from this fund to the Hawaii Capital Loan Revolving Fund and \$2 million was transferred to the general fund.

The fund serves the purpose for which it was created. At June 30, 1994, the fund had 32 loans outstanding totaling \$3,003,298. The fund links the program benefits and the charges made upon the users. Those who receive loans repay the fund through principal and interest payments. These payments, coupled with minimal loan disbursements, have continued to sustain the fund, enabling the program to carry out its activities without infusions from the general fund. This fund meets all three criteria for a revolving fund. However, due to the changing state economy, perhaps this fund could be merged with the Hawaii Capital Loan Revolving Fund.

**Hawaii Small Fishing Vessel Purchase, Construction, Renovation, Maintenance, and Repair Loan Program Revolving Fund, Section 189-43, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$843	\$1,023	\$1,205	\$1,269	\$1,358
Receipts	123	107	43	53	44
Appropriations	0	0	0	0	0
Interest	57	75	64	36	13
Expenditures	0	0	(43)	0	0
Transfers*	0	0	0	0	(1,200)
Ending Balance	\$1,023	\$1,205	\$1,269	\$1,358	\$215

\*Transfers: \$200,000 to the Hawaii Capital Loan Revolving Fund and \$1 million to the General Fund

The purpose of this fund, created in 1975, was to provide the owners of small commercial fishing vessels (under five tons net weight) with the same financial assistance provided owners of large vessels. Due to poor economic conditions in the local commercial fishing industry, the loan program has experienced a high delinquency rate. New loans for the purchase or construction of vessels have been indefinitely suspended. However, loans for repair and maintenance are being accepted. Since 1988, only two loans have been made. In light of minimum loan activity, \$200,000 was transferred to the Hawaii Capital Loan Revolving Fund and \$1 million was transferred to the general fund.

In prior years, a number of loans were made and the fund serves the purpose for which it was originally created. At June 30, 1994, this fund had 15 loans outstanding totaling \$273,533. There is a link between the benefits sought and the charges made upon the users because those who receive loans replenish the fund through principal and interest payments. The fund has been self-sustaining since its creation. The fund therefore meets all three criteria for revolving funds. However, perhaps this fund could be merged with the Hawaii Capital Loan Revolving Fund due to the changing state economy.

### Hawaii Strategic Development Corporation Revolving Fund, Section 211F-5, HRS

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$6,196	\$6,474	\$6,544
Receipts	0	0	0	0	0
Appropriations	0	6,000	0	0	0
Interest	0	196	278	118	231
Expenditures	0	0	0	(48)	(2)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$6,196	\$6,474	\$6,544	\$6,773

The purpose of this fund is to support the Hawaii Strategic Development Corporation. The corporation was created to encourage Hawaii's economic development through innovative financing programs carried out in cooperation with private enterprise. The 1990 statute provides broadly as follows: "The following moneys shall be deposited into the . . . corporation revolving fund and shall not be considered part of the general fund: all moneys appropriated by the legislature, received as repayments of loans, earned on investments, received pursuant to a venture agreement, received as royalties, received as premiums or fees charged by the corporation, or otherwise received by the corporation." At June 30, 1994, fund receipts consisted of a \$6 million appropriation from the general fund in FY1989-90 and interest of \$822,579 earned since FY1990-91. The corporation's board of directors has decided on an indirect investment program whereby approximately \$6.25 million will be invested as a limited partner in three venture capital funds being established in Hawaii. The fund is being used as intended, and there will be linkage between benefits sought and payment by those who benefit. The investments in the venture funds are expected to be recovered by the fund. The fund therefore meets all three criteria for revolving funds.

### Molokai Revolving Loan Program, Act 384, SLH 1988

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$241	\$183	\$412	\$449	\$451
Receipts	4	12	20	18	16
Appropriations	0	235	0	0	0
Interest	0	15	17	11	12
Expenditures	(62)	(33)	0	(27)	(33)
Transfers	0	0	0	0	0
Ending Balance	\$183	\$412	\$449	\$451	\$446

This fund was created in 1988 by Act 384 to provide loans to stimulate business development and growth on the island of Molokai due to the island's high unemployment rate and depressed economic situation. The act had a sunset date of June 30, 1993. Although this fund had minimal loan activity, the sunset date was extended to June 30, 1995. The fund offers low interest rate/high risk loans to Molokai businesses that are unable to obtain financial assistance elsewhere. The fund continues to serve the purpose for which it was originally created. Because businesses receiving loans support the fund through principal and interest payments, there is a link between the benefits sought and the charges made upon the users. The payment of principal and interest replenishes the fund and enables it to make additional loans and sustain itself. This fund meets all three criteria for a revolving fund. However, since the program was established, only seven loans have been made totaling \$154,305. If the Molokai Revolving Loan Program continues to experience limited activity, the fund should be allowed to lapse on the sunset date of June 30, 1995.

**Petroleum Products Control Revolving Fund,  
Section 125C-7, HRS**

**Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$0	\$250
Receipts	0	0	0	0	0
Appropriations	0	0	0	250	0
Interest	0	0	0	0	6
Expenditures	0	0	0	0	(31)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$250	\$225

This fund was created in 1975 but was not activated until Act 182, SLH 1992 appropriated \$250,000. The appropriation was \$130,000 to this fund and \$30,000 to each of the four counties. The original purpose was to receive and expend funds as necessary during an energy shortage. The fund has never been used to carry out its original purpose. The appropriation for the counties was placed in the fund under an agreement with the counties to develop coordinated and consistent energy emergency preparedness plans. The \$130,000 is to be used for purposes of the fund. The fund does not meet the second and third criteria. There are no user charges, and the program is supported completely by general funds.

**State Disaster Revolving Loan Fund, Section 209-34, HRS****Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$621	\$701	\$718	\$702	\$461
Receipts	38	2	7	17	69
Appropriations	0	0	0	0	0
Interest	42	46	29	10	11
Expenditures	0	(31)	(52)	(268)	(11)
Transfers	0	0	0	0	0
Ending Balance	\$701	\$718	\$702	\$461	\$530

The purpose of this fund, created in 1976, was to provide loans to individuals and small businesses suffering loss or damage as a result of a state-declared disaster. Loans from this fund are made available to businesses, families, and individuals who are not covered by insurance or who are unable to receive sufficient assistance from the U.S. Small Business Administration or other disaster relief agencies. On September 11, 1992, the governor issued a proclamation declaring the entire state a major disaster area as the result of Hurricane Iniki. As of December 30, 1993, the fund had made 46 Iniki loans (44 personal and 2 business loans) for a total of \$235,950. The fund continues to serve the purpose for which it was created. There is a direct link between benefits sought and charges made upon users because those who receive loans are required to repay the principal with interest. The fund is self-sustaining. The fund meets all three criteria for revolving funds.

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**Accounts  
Established Under  
Administrative  
Authority**
**Kakaako Development District—Donations****Financial Data for Fiscal Years 1990-94 (in Thousands)**

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$0	\$6
Receipts	0	0	0	106	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	(6)
Transfers*	0	0	0	(100)	0
Ending Balance	\$0	\$0	\$0	\$6	\$0

\*Transfers: \$100,000 good-faith refundable deposit was transferred to the Kakaako Development District-Temporary Deposits Account.

This trust account was created in 1993 as a temporary holding account for monetary donations and refundable deposits for special events and activities at the Kakaako Waterfront Park. This trust account is being used as a holding account and serves the purpose for which it was created.

### Kakaako Development District-Temporary Deposits

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$0	\$0	\$0	\$0	\$126
Receipts	0	0	0	25	75
Appropriations	0	0	0	0	0
Interest	0	0	0	1	3
Expenditures	0	0	0	0	(100)
Transfers*	0	0	0	100	0
Ending Balance	\$0	\$0	\$0	\$126	\$104

\*Transfers: \$100,000 good-faith refundable deposit was transferred from the Kakaako Development District-Donations Account.

This trust account was created in 1993 as a temporary holding account for temporary deposits such as refundable security deposits. For example, the account is used to deposit a developer's refundable check submitted with a proposal in response to a request for proposals. If the developer is not awarded the contract, the check is returned. This trust account is being used as a holding account and serves the purpose for which it was created.

### Private Contributions and Grants

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$103	\$103	\$103	\$103	\$100
Receipts	32	8	22	8	18
Appropriations	0	0	0	0	0
Interest	0	0	0	0	4
Expenditures	(32)	(8)	(22)	(11)	0
Transfers	0	0	0	0	0
Ending Balance	\$103	\$103	\$103	\$100	\$122

This trust account was created as a holding account for large contributions and grants that are received by DBEDT for specific projects. The account receives federal funds that are used to contract with the Research Corporation of the University of Hawaii for studies on marine minerals. The account is also holding \$100,000 contributed by the Hawaii Electric Company, Inc. for alternate energy development. The trust account is being used as a holding account and serves the purpose for which it was created.

### Temporary Deposits

#### Financial Data for Fiscal Years 1990-94 (in Thousands)

	FY1990	FY1991	FY1992	FY1993	FY1994
Beginning Balance	\$37	\$130	\$133	\$185	\$214
Receipts	159	275	159	190	307
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(66)	(272)	(107)	(161)	(231)
Transfers	0	0	0	0	0
Ending Balance	\$130	\$133	\$185	\$214	\$290

This trust account was created as a temporary holding account for deposits, contributions, and other miscellaneous receipts. It is used primarily to account for refundable security deposits for rental space that is being provided by the Foreign Trade Zone and the High Technology Development Corporation. Certain contributions for energy projects are also deposited in this account. In addition, it is used to account for deposits and registration fees for various seminars conducted by DBEDT. This trust account is being used as a holding account and serves the purpose for which it was created.



# Notes

## Chapter 1

1. Hawaii Department of Accounting and General Services, *Accounting Manual*, p. 903.13, July 1, 1969.

2. Hawaii, Office of the Auditor,

*Review of Special and Revolving Funds of the Departments of Accounting and General Services, Agriculture, and Budget and Finance*, Report No. 91-10, Honolulu, February 1991.

*Review of Special and Revolving Funds of the Housing Finance and Development Corporation and the Department of Business, Economic Development, and Tourism*, Report No. 92-3, Honolulu, January 1992.

*Review of Special and Revolving Funds of the Departments of Commerce and Consumer Affairs, Education, Health, and Human Services*, Report No. 92-4, Honolulu, February 1992.

*Review of Special and Revolving Funds of the University of Hawaii*, Report No. 92-9, Honolulu, April 1992

*Review of Special and Revolving Funds of the Judiciary and the Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety*, Report No. 92-11, Honolulu, April 1992.



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## Responses of the Affected Agencies

### Comments on Agencies Responses

We transmitted a draft of this review to the University of Hawaii, the Department of the Attorney General, and the Department of Business, Economic Development and Tourism on November 1, 1994. A copy of the transmittal letter to the University of Hawaii is included as Attachment 1. Similar letters were sent to the Departments of the Attorney General and Business, Economic Development and Tourism. Responses of the University of Hawaii, the Department of the Attorney General, and the Department of Business, Economic Development and Tourism are included as Attachments 2, 3, and 4, respectively.

The University of Hawaii responded that it had reviewed our report and found no errors in fact. It noted, however, that although state statutes exempt revolving funds from the appropriation process, the University as a matter of practice has always submitted revolving fund budgets to the Legislature.

The Department of the Attorney General does not agree with our conclusion that the Criminal Forfeiture Fund be allowed to lapse on the sunset date of July 1, 1996. It agrees that the fund cannot meet the criterion of linkage, but it believes that this criterion should not be applied to this fund. It seems to be confused that our conclusion the fund be allowed to sunset means we recommend the end of the forfeiture *program*. This is not the case—we believe the *fund* should be allowed to sunset so that forfeiture moneys not required to be distributed to the counties be subject to the legislative appropriation process. The department also provided some clarifying information on the Temporary Deposit—Child Support Enforcement Services Trust Account that we have incorporated in the report.

The Department of Business, Economic Development and Tourism responded that our statement that the Petroleum Products Control Revolving Fund does not meet the second and third criteria does not seem to take into account the intended use of the fund. The department states that the fund is intended for the benefit of the general public and was never intended to be financially self-sustaining. These comments only confirm our conclusion that the fund does not meet the second and third criteria for revolving funds. The department does not agree that the operations of the Hawaii Community Development Revolving Fund are more consistent with a special fund than a revolving fund. We still contend that the operation of this fund should be subject to the legislative appropriations process since there is no corpus to be revolved and preserved. The department provided some clarifying

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revolved and preserved. The department provided some clarifying information that we have incorporated in the report related to the Private Contributions and Grants Trust Account.

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor

(808) 587-0800  
FAX: (808) 587-0830

C O P Y

November 1, 1994

The Honorable Kenneth P. Mortimer  
President & Chancellor  
University of Hawaii  
Honolulu, Hawaii 96822

Dear President Mortimer:

Enclosed for your information are three copies, numbered 12 to 14 of our draft report, *Review of Revolving and Trust Funds of the University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism*. We ask that you telephone us by November 3, 1994, on whether or not you intend to comment on Chapter 4 of the report. If you wish your comments to be included in the report, please submit them no later than November 14, 1994.

The Board of Regents, the Attorney General, the Department of Business, Economic Development and Tourism, the Governor, and the presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa  
State Auditor

Enclosures



**UNIVERSITY OF HAWAII**

PRESIDENT, UNIVERSITY OF HAWAII  
AND CHANCELLOR, UNIVERSITY OF HAWAII AT MANOA

November 9, 1994

Ms. Marion M. Higa  
State Auditor  
465 S. King Street, Room 500  
Honolulu, HI 96813-2917

RECEIVED  
Nov 14 12 39 PM '94  
OFF. OF THE AUDITOR  
STATE OF HAWAII

Dear Ms. Higa:

We have reviewed your report on the trust and revolving funds of the University of Hawaii. We find no errors in fact. However, we do want to note that although State statutes exempt revolving funds from the appropriation process, the University as a matter of practice has always submitted revolving fund budgets to the Department of Budget and Finance. In turn, the revolving funds have been appropriated by the Legislature and subjected to the budget controls of both the Appropriations Act and the Governor's budget execution policies. Hence, revolving funds have been reviewed and are controlled.

Thank you for the opportunity to review your report, and as always, feel free to call on members of my staff should you have any questions.

Sincerely,

Kenneth P. Mortimer  
President, University of Hawaii and  
Chancellor, University of Hawaii at Manoa

c: Senior Vice President Horii  
Director Yamamura

JOHN WAIHEE  
GOVERNOR



ROBERT A. MARKS  
ATTORNEY GENERAL

RUTH I. TSUJIMURA  
FIRST DEPUTY ATTORNEY GENERAL

STATE OF HAWAII  
DEPARTMENT OF THE ATTORNEY GENERAL

425 QUEEN STREET  
HONOLULU, HAWAII 96813  
(808) 586-1500

November 15, 1994

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OFF. OF THE AUDITOR  
STATE OF HAWAII

Ms. Marion Higa, State Auditor  
Office of the Legislative Auditor  
465 So. King Street, Room 500  
Honolulu, Hawaii 96813

Dear Ms. Higa:

Re: Review of Revolving and Trust Funds of the Department of the Attorney General

We have received and reviewed the draft report prepared by your office regarding the revolving and trust funds administered by our Department. We submit for inclusion in the final report the following comments regarding the Criminal Forfeiture Fund and the Temporary Deposit - Child Support Enforcement Services Account.

Criminal Forfeiture Fund

Inasmuch as your recommendation parallels that which was made in Report No. 92-11, we need not repeat our response to the report in detail here. However, we do wish to emphasize the following, especially since the draft report does not appear to have taken our earlier response into consideration in reaching its conclusion that the Criminal Forfeiture Fund, ("Fund"), be allowed to lapse on June 30, 1996, the date on which the law establishing the fund is now scheduled to sunset.

First, it appears that the recommendation is based principally on your conclusion that the Fund cannot meet the linkage criteria set out in Haw. Rev. Stat. §23-11 governing your review of proposed new special or revolving funds. This criterion requires "a clear link between the benefit sought and the changes [sic] made upon the users or beneficiaries of the program." However, we note that linkage is not one of the enumerated criteria in Haw. Rev. Stat. §23-12 governing review of existing revolving funds such as the Criminal Forfeiture Fund.

We believe this change is significant because the Legislature chose to continue the Fund despite your earlier recommendation and has now requested a review of the Fund using different criteria, all of which you appear to conclude that the Fund meets. Your continued reliance on the

Ms. Marion Higa  
November 15, 1994  
Page 2

linkage criterion to reach your recommendation appears, therefore, to be misplaced. This conclusion is reinforced by the fact that, as pointed out in our response to Report No. 92-11, the Legislature clearly established the Fund so as to deprive those upon whom charges are made, the criminal offenders whose property is forfeited, of the benefits of those charges and instead confer them on law enforcement.

Second, to the extent that you continue to rely on Haw. Rev. Stat. §23-11 and other provisions of Act 240 in performing your review, you have not mentioned other elements of the review process specified therein. Specifically, the report does not "assess alternative forms of funding" or, despite the lapse recommendation, "nevertheless evaluate the effectiveness and efficiency of the fund and make appropriate recommendations to improve the policies, procedures, and practices." These omissions are somewhat surprising since the report states that "[t]o gain an understanding of fund operations, we interviewed key fiscal and program personnel."

Finally, if the repeal of revolving funds is intended to regain budgetary control over funds which have not been subject to the appropriations process, that purpose will not be achieved by repeal of the Criminal Forfeiture Fund. As we pointed out in our response to Report No. 92-11, the funds which are generated by the asset forfeiture law would not be generated but for the existence of the Fund. If law enforcement agencies must choose between using State law which will use the proceeds of asset forfeiture for non-law enforcement purposes and federal law which requires that the proceeds be used for law enforcement purposes, it is clear federal law will be used. In the end, legislative oversight of asset forfeiture and the benefits that come with it will be lost.

#### Temporary Deposit - Child Support Enforcement Services Account

The Department of the Attorney General did not confer with the legislative auditor's financial audit report, issued November, 1992, on the incentive payments received by the Child Support Enforcement Agency. (Note: At the time of the 1992 audit, the account with the incentive monies was not reflected as part of the child support enforcement program's budget).

However, during the 1993 legislative session, and via the initiative of the legislature itself, the program budgets of all State agencies with "other" funds, such as special or trust accounts, were changed to reflect these accounts. The end result was that the legislature authorized the executive branch to use these "other" funds for fiscal year 1993-1994, via Act 289 of the appropriations act. This act included ATG 500, the Department of the Attorney General, child support enforcement program, with a trust account appropriation of \$2,561,860, comprised of incentive monies received from the federal government.

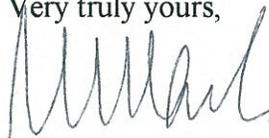
In turn, the expenditure of these funds appropriated by Act 289 was to be administered in accordance with Executive Memorandum 93-06, Fiscal Year 1994 Budget Execution Policies and

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Instructions. Similar procedures were followed during the 1994 legislative session for the fiscal year 1994-1995 budget. Because of the legislative action described above, the incentive payments that are not shared with the counties have been appropriated for use by the Department.

We appreciate the opportunity to review and comment upon your report and hope that you will give the points we have raised some consideration before it is published in final form. Please feel free to call me if you need additional information or clarification of our comments.

Very truly yours,

A handwritten signature in dark ink, appearing to read "R. Marks", written over a horizontal line.

Robert A. Marks  
Attorney General

RAM/ct



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

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November 14, 1994

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STATE OF HAWAII

The Honorable Marion M. Higa  
State Auditor  
Office of the Auditor  
465 South King Street, Room 500  
Honolulu, HI 96813-2917

Dear Ms. Higa:

Thank you for your November 1, 1994, letter requesting comments on the draft report, "Review of Revolving and Trust Fund of The University of Hawaii and the Departments of the Attorney General and Business, Economic Development and Tourism." We have reviewed Chapter 3 of the draft report which covers funds within the Department of Business, Economic Development and Tourism and offer comments on the following revolving fund and trust accounts. (The statements in bold are taken from the report):

1. Hawaii Community Development Revolving Fund, Section 206E-16, HRS  
**STATEMENT: "Although its operations are more consistent with a special fund than a revolving fund, the fund meets all three criteria (page 14)."** We believe that the operations of the HCDA revolving fund are more consistent with a revolving fund than a special fund. Section 37-62, HRS, defines a revolving fund as one in which the cost of goods and services rendered or furnished are paid from and replenished through charges made for these goods and services or through transfers from other sources of funds. As noted in this report, the receipts and revenues deposited in the HCDA revolving fund are used to fund development projects within the Kakaako District. The sources of funds include project development fees, rent, and public utility fees for infrastructure improvements. The funds are then used for the purposes described in Chapter 206E-1, HRS, namely community development programs, which include public facilities and affordable housing projects. We therefore believe that the operations of the HCDA revolving fund are consistent with the definition of a revolving fund in that development costs are paid for from the fund and are replenished through charges made for further development.

2. Petroleum Products Control Revolving Fund, Section 125C-7, HRS  
**STATEMENT: "The fund has never been used to carry out its original purpose (page 20)."** This statement is misleading. Until Act 182,

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Session Laws of Hawaii 1992, no monies had ever been appropriated or deposited to this fund for the purpose of planning for and/or managing energy emergencies. Act 182 not only revised energy emergency preparedness (EEP) planning requirements for the state and counties, but also clarified the administrative authority for the use of this fund. This includes: "The governor's authorized representative (DBEDT Director) may expend funds from the petroleum products control fund during ordinary petroleum market conditions for planning and preparation to respond to a shortage [Chapter 125C-7(d)]." The statute has also been expanded to include not only energy emergencies affecting petroleum products, but also energy emergencies affecting electric and gas utilities and other energy suppliers. This fund is currently being used by the counties and the state to develop coordinated plans consistent with the intent of Act 182. The state is leading this EEP planning project. Thus, the fund is currently being used to carry out its purpose.

**STATEMENT:** "The fund does not meet the second and third criteria (page 20)." This statement does not seem to take into account the intended use of this fund, with regard to the second and third criteria.

\* **CRITERIA 2:** "Reflects a clear link between the benefit sought and charges made upon users or beneficiaries of the program, as opposed to serving primarily as a means to provide the program or users with an automatic means of support that is removed from the normal budget and appropriations process (page 4)." The primary use of the Petroleum Products Control Fund is intended for the benefit of the general public. However, where appropriate, certain users benefiting from specific energy emergency response and recovery measures being conducted may be assessed fees and charges, which are deposited into the fund. These fees and charges apply to those who receive special services for which they are required to repay the state for applicable administrative, processing, and material costs. An example is the program to exempt commercial vehicles from possible retail fuel sales restrictions.

Also, the fund and monies deposited do not serve and never were intended to be self-sustaining, nor is the fund used to circumvent the normal budget and appropriations process. The general fund appropriation currently deposited to this fund simply functions as a modest reserve for the purpose of preparing for and managing an energy emergency.

\* **CRITERIA 3:** "Demonstrates the capacity to be financially self-sustaining (page 4)." The Petroleum Products Control Fund was never intended to be financially self-sustaining. The use of this fund represents the direct costs of the state in preparing for and implementing measures (programs) essential to the health, welfare, and safety of the public in response to an energy emergency. However, the

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fund is designed to receive a limited amount of funds collected as fees or charges for special services provided to users. One such program is the commercial vehicle exemption program, in which applicants would obtain vehicle stickers to allow the exemption of commercial vehicles from government fuel restrictions on retail sales. Users of this program would pay a fee of \$2.00 - \$5.00 to reimburse the fund for administrative, processing, and material expenses. These fees and charges would then be used to repay the costs of operating the program and would further support energy emergency response and recovery operations.

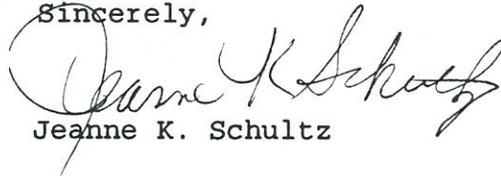
3. Private Contributions and Grants

**STATEMENT:** "The account is also holding \$100,000.00 contributed by the Hawaii Electric Company, Inc. for geothermal exploration (page 23)." The \$100,000.00 is being held in reserve with the knowledge and agreement of the Hawaiian Electric Company (HECO) for some future purpose to support alternate energy development in a manner mutually agreeable to HECO and the state.

If you require additional information, please call  
Gerald K.L. Dang, Administrative Services Officer, at 586-2432.

Thank you for the opportunity to provide these comments.

Sincerely,



Jeanne K. Schultz

JKS:dad