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

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



THE AUDITOR
STATE OF HAWAII

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

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

Report No. 94-4
January 1994

THE AUDITOR
STATE OF HAWAII

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

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

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 94-4
January 1994

Foreword

This is a report on our review of revolving and trust funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources. It includes our review of the funds of agencies administratively attached to the Department of Budget and Finance: the Employees' Retirement System, Hawaii Public Employees Health Fund, Rental Housing Trust Fund, and the Housing Finance and Development Corporation.

Act 280, Session Laws of Hawaii 1993, amended Chapter 23, HRS to require 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 first required under the new law.

We wish to acknowledge the excellent cooperation extended by the officials and staff of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources. We also wish to acknowledge the excellent cooperation extended by the officials and staff of the Employees' Retirement System, Hawaii Public Employees Health Fund, and the Housing Finance and Development Corporation.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background 1
Description of Revolving and Trust Funds 3
Criteria for Reviewing Revolving and Trust Funds 4
Objectives of the Review 5
Scope and Methodology 5

Chapter 2 Department of Accounting and General Services

Funds Established Under Statutory Authority 7
Accounts Established Under Administrative Authority 11

Chapter 3 Department of Agriculture

Funds Established Under Statutory Authority 19
Accounts Established Under Administrative Authority 23

Chapter 4 Department of Budget and Finance 29

Chapter 5 Department of Land and Natural Resources

Funds Established Under Statutory Authority 39
Accounts Established Under Administrative Authority 40

Notes 47

Responses of the Affected Agencies 49

Chapter 1

Introduction

This is a report on our review of revolving and trust funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.

Section 37-40, Hawaii Revised Statutes, 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.

Act 280, Session Laws of Hawaii, 1993, amended Chapter 23, HRS to require 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 first required under the new law.

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 legislative staff must review programs and decide 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 gives 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

In Act 280, 1993 session, the Legislature expanded 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 Act 280 amends 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.

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.”¹ Most trust accounts that we reviewed were established administratively. Some are clearing accounts that agencies are authorized to hold outside the State Treasury.

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.² 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 Act 280 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 purpose 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 Act 280 asking for (1) an evaluation of the original intent of each funds, 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 continuing general fund appropriation.

Objectives of the Review

1. To identify and review each of the revolving and trust funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.
2. To provide a five-year fiscal summary for each fund reviewed.

Scope and Methodology

This review examines those funds administered by or administratively attached to the Departments of Accounting and General Services, Agriculture, Land and Natural Resources, and Budget and Finance. It also includes a review of the revolving and trust funds of agencies attached administratively to the Department of Budget and Finance—the Employees’ Retirement System, Public Employees Health Fund, Rental Housing Trust Fund, and the Housing Finance and Development Corporation.

We researched the legislative history and 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 1993 through November 1993 in accordance with generally accepted government auditing standards.

Chapter 2

Department of Accounting and General Services

This chapter presents the results of our review of four revolving funds, one trust fund, and thirteen trust accounts used by or administratively attached to the Department of Accounting and General Services (DAGS). 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 these funds and accounts established under statutory authority followed by those accounts established under administrative authority.

Funds Established Under Statutory Authority

Captain Cook Memorial Fund, Section 6E-33, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993
Beginning Balance	\$2	\$2	\$2	\$2	\$3
Receipts	0	0	0	1	2
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$2	\$2	\$2	\$3	\$5

The Captain Cook Memorial Fund was created in 1928 with the proceeds of the sale of 10,000 fifty-cent coins minted for the Captain Cook sesquicentennial celebration. Statutory authority for this trust fund was provided by Act 104, SLH 1976. The purpose of the fund is to obtain for the State Archives various documents of historical value relating to the life of Captain Cook or connected with the history, discovery, and exploration of the Hawaiian Islands. Revenues for the fund are from the sale of the publication "Official Publications of the Territory of Hawaii" and cash gifts to the State Archives. The moneys are used to purchase materials for the archives' historical collections on early Pacific voyages and Hawaiiana. Funds are also used to preserve and increase access to the collections. This fund serves the purpose for which it was originally created and continues to serve the intended beneficiary—the State Archives. The fund receives no general fund appropriations.

**Stadium Authority's Account (Not in State Treasury),
Section 109-6, HRS**

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$107	\$204	\$59	\$101	\$64
Receipts	2,944	3,455	2,295	2,235	2,141
Interest	0	0	0	0	0
Expenditures	(2,847)	(3,600)	(2,253)	(2,272)	(2,119)
Transfers	0	0	0	0	0
Ending Balance	\$204	\$59	\$101	\$64	\$86

The Legislature authorized the Stadium Authority to establish the Stadium Special Account in 1978. Receipts collected from the sale of admission tickets for events held at the stadium, and good faith security deposits from licensees are accounted for in this account. All ticket sales and deposits are deposited into this account until the event is over. At the conclusion of stadium events, this account pays for the stadium rental and expenses and pays the balance to the event promoter. This account is being used as a trust account and serves the purpose for which it was created.

State Motor Pool Revolving Fund, Section 105-11, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$745	\$705	\$317	\$837	\$981
Receipts	649	724	733	975	1,050
Appropriations	0	0	0	0	0
Interest	0	7	1	19	37
Vacation Transfers	12	0	2	14	0
Special Fund Transfers	0	0	0	0	0
Expenditures	(701)	(727)	(608)	(866)	(851)
Transfers	0	(392)	392	2	0
Ending Balance	\$705	\$317	\$837	\$981	\$1,217

This fund was created to finance the expenses of the state's motor pool. The expenses include the acquisition, operation, repair, maintenance, storage, and disposal of state-owned vehicles. The fund continues to serve the purpose for which it was created. The relationship between the benefit

sought and the charges made upon the users is direct, because agencies are assessed fees for motor pool rentals which are then deposited into the revolving fund. This fund is also self-sufficient—it does not receive subsidies from the general fund. This fund therefore meets all three criteria for revolving funds.

State Parking Revolving Fund, Section 107-11, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$7,141	\$7,581	\$2,961	\$2,278	\$1,887
Receipts	1,747	1,811	1,833	2,172	2,424
Appropriations	0	0	0	0	0
Interest	440	250	125	70	496
Vacation					
Transfers	7	0	0	6	0
Special Fund					
Transfers	0	0	0	0	5
Expenditures	0	0	0	0	0
Transfers	(1,754)	(6,681)	(2,641)	(2,639)	(3,331)
Ending Balance	\$7,581	\$2,961	\$2,278	\$1,887	\$1,481

The purpose of this fund is to receive all revenues from and pay all expenses for state parking facilities and programs. This includes holding the revenue and user taxes by which revenue bonds pertaining to the State's parking facilities are secured. Formerly, a State Parking Control Fund that received revenues for repayment of bond debt was used in tandem with this revolving fund. Act 280, SLH 1993, consolidated the State Parking Control Fund with the State Parking Revolving Fund. Now, this revolving fund will account for all revenues and user taxes received from the issuance of revenue bonds and revenues from parking rentals and meter tolls. The fund will pay all expenses of operating state parking facilities. The benefits sought and charges made upon the users are directly linked. Those who use parking areas either pay a monthly fee or pay parking meters, and these fees are then deposited into the fund. The fund is self-sufficient and requires no appropriation from the general fund. It meets all three criteria for a revolving fund.

State Risk Management Revolving Fund, Section 41-D4, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$2,572	\$4,794	\$7,944	\$11,446
Receipts	245	315	1,291	1,951	26,103
Appropriations	4,462	5,975	5,455	5,690	2,860
Interest	72	61	206	486	327
Expenditures	(2,207)	(4,129)	(3,802)	(4,625)	(20,655)
Transfers	0	0	0	0	0
Ending Balance	\$2,572	\$4,794	\$7,944	\$11,446	\$20,081

This fund was created in 1988 to support the expenses of state risk management including insurance administration and the purchase of commercial insurance coverage. Also, the fund serves as a pool for the payment of future claims for self-insured losses. Chapter 41, HRS, authorizes the department to assess each state agency its pro-rata share of the costs of risk management based upon its history of losses. Our review of this revolving fund during 1991 found that the department assessed agencies only for losses involving state-owned vehicles of programs not funded by the general fund. We concluded that there was no direct link between the benefits sought and the charges made upon users. We also found that the fund was not self-sustaining and was primarily supported by the general fund.

The department plans to assess all departments a risk charge based on past history and anticipated needs beginning in FY1993-94. In turn, departments will have to request funds for these risk assessments in their budget requests. Since the source of funding for most departments is primarily the general fund, this new procedure will have little effect on the linkage between benefits and charges and on whether the fund will be self-sustainable. Instead of general fund appropriations being made directly to this revolving fund, the appropriations will be made to the departments who will then transfer the money to the revolving fund. This fund does not operate as a revolving fund but rather as a rainy day fund to set aside general fund appropriations to pay for future losses. It does not meet the criteria for a revolving fund but serves a useful purpose as a reserve fund.

Surplus Federal Property Revolving Fund, Section 29-22, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$127	\$130	\$104	\$63	\$88
Receipts	123	108	127	152	109
Appropriations	0	0	0	0	0
Interest	0	0	5	2	0
Expenditures	(125)	(134)	(173)	(129)	(137)
Transfers	5	0	0	0	1
Ending Balance	\$130	\$104	\$63	\$88	\$61

The purpose of this fund is to defray the costs of procuring, storing, handling, and disposing of surplus property donated to the State under federal laws. Pursuant to Public Law 94-519, revenues generated by the disposal of federal surplus property can only be used to support the federal program. This fund covers all payroll and other expenses incurred for the Surplus Property Branch operations which includes the state surplus property program. Beginning July 1, 1993, the State will reimburse the Surplus Federal Property Revolving Fund for its share of administrative expenses and operating costs. This fund continues to serve the purpose for which it was created. The benefit sought and the charges made upon the users are directly linked, because those who purchase federal surplus property are assessed a handling fee for its disposition. The fund is also self-sustaining. Although labeled a revolving fund, this fund has characteristics more commonly associated with a special fund—it charges fees to cover costs of services instead of replenishing itself.

Accounts Established Under Administrative Authority

Central Payroll Clearance

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$2	\$4	\$7	\$6
Receipts	1,127,221	1,266,113	1,441,541	1,574,677	1,715,499
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(1,127,219)	(1,266,111)	(1,441,538)	(1,574,678)	(1,715,494)
Transfers	0	0	0	0	0
Ending Balance	\$2	\$4	\$7	\$6	\$11

This trust account serves as a clearing account that was administratively established to facilitate the processing, disbursement and reconciliation of the State's payroll. The expenditures represent the entire cost of the State's payroll, and the receipts represent the reimbursements from state programs for their share of the payroll cost. The actual payroll expenditure is reflected in the program that makes the reimbursement. This trust account is being used as a clearing account and continues to serve the purpose for which it was created.

Employees Sequestered Funds—Central Payroll

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$10	\$15	\$21	\$24	\$7
Receipts	42	65	47	38	32
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(37)	(59)	(44)	(55)	(31)
Transfers	0	0	0	0	0
Ending Balance	\$15	\$21	\$24	\$7	\$8

This trust account was established to serve as a holding account for garnishment deductions made from payrolls of State employees. The deductions are held in trust until payment is made to the legally directed party. This trust account is being used as a holding account and serves the purpose for which it was created.

Hawaii State Employees U.S. Savings Bonds—Central Payroll

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$67	\$93	\$108	\$148	\$426
Receipts	2,691	3,288	3,842	4,482	4,983
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(2,665)	(3,273)	(3,802)	(4,204)	(4,964)
Transfers	0	0	0	0	0
Ending Balance	\$93	\$108	\$148	\$426	\$445

This trust account was established to serve as a holding account for employees' payroll deductions made under the U.S. Savings Bond Plan. Payroll deductions are held in the account until sufficient funds accumulate for the purchase of the savings bond authorized by the employee. Expenditures also include occasional refunds of deductions due to employee termination and the discontinuation of employee participation. This trust account is being used as a holding account and serves the purpose for which it was created.

Motor Vehicle Rental & Personal Car Mileage/CIP Revolving Fund

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$29	\$7	\$32	\$46	\$113
Receipts	57	138	131	202	117
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(79)	(113)	(117)	(135)	(180)
Transfers	0	0	0	0	0
Ending Balance	\$7	\$32	\$46	\$113	\$50

This account was created to reimburse DAGS Public Works Division employees who use their personal vehicles for their work. Each CIP project is assessed differing amounts of money which is deposited into this account. The amount of the assessments is based on employee estimates of the number of trips and mileage at a reimbursement rate of 37 cents per mile. Employees submit claims for mileage reimbursement for different projects that are paid from this account. The account serves the purpose for which it was originally created. It accounts for funds assessed of CIP projects for mileage expenses for the projects and pays the mileage claims of state employees working on those projects. Although labeled a revolving fund, this account actually operates as a holding account to facilitate processing DAGS employees' mileage claims relating to CIP projects.

Payroll Clearance, Public Works

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Receipts	3,381	3,989	4,036	5,270	6,284
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Transfers	0	0	0	0	0
Expenditures	(3,381)	(3,989)	(4,036)	(5,270)	(6,284)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0

This trust account serves as a clearing account to facilitate the disbursement of payroll. Payroll costs for all DAGS project-funded employees are accumulated in and disbursed from this trust account. The payroll cost is charged to the respective capital improvement projects and the trust account is reimbursed based on employee timesheets or other documentation. This trust account is being used as a clearing account and serves the purpose for which it was created.

Public Works Accrued Vacation/Sick Leave Revolving Fund

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$1,251	\$1,482	\$1,375	\$1,441	\$1,373
Receipts	428	208	345	350	303
Appropriations	0	0	0	0	0
Interest	0	0	0	24	1
Vacation					
Transfers	70	22	42	56	10
Prior Year					
Reimbursements	0	0	0	387	465
Expenditures	(267)	(337)	(321)	(885)	(839)
Transfers	0	0	0	0	0
Ending Balance	\$1,482	\$1,375	\$1,441	\$1,373	\$1,313

The purpose of this account is to pay the vacation and sick leave of DAGS employees who are paid from capital improvement project funds. Estimated vacation and sick leave costs are charged to capital improvement projects and deposited in this account. When vacation or sick leave is taken, it is paid from this account. The account serves the purpose for which it was created. Although labeled a revolving fund, this

account operates more like a holding account to charge vacation and sick leave to CIP projects and then pay for vacation and sick leave taken by employees working on CIP projects.

Special Deposits—Tenant Deposits

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$1	\$1	\$1	\$2	\$2
Receipts	0	0	1	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$1	\$1	\$2	\$2	\$2

This trust account was established as a holding account for security deposits received from each of eight escrow companies utilizing a small room on the first floor of the Kalanimoku Building. Miscellaneous other receipts have been deposited in this account also. Escrow companies no longer occupy the facility and the account no longer serves its original purpose. The department plans to return deposits to rightful owners. Unclaimed or unidentified balances will then be transferred to the Department of Budget and Finance for final resolution.

Stadium Authority's Security Deposits

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$1	\$1	\$1	\$0	\$0
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(1)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$1	\$1	\$0	\$0	\$0

This trust account was established to account for \$5 security deposits collected from part-time employees for stadium property issued to employees, including uniforms and identification cards. The deposits are held in trust and returned to employees when stadium property is returned. Deposits for property not returned are deposited into the Stadium Special

Fund that was established to hold revenues collected by the Stadium Authority and to pay for the operation, maintenance, and management of the stadium and related facilities. Security deposits are no longer collected from employees and fund activity is minimal. The fund's beginning and ending balances for the last two years have been \$20. The balances result from the department's inability to locate former employees and uncashed checks issued to former employees. Since the fund is no longer used for security deposits it would be appropriate to close the account and transfer the ending balance into the Stadium Special Fund.

State Foundation on Culture and the Arts

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$18	\$316	\$51	\$40	\$16
Receipts	303	54	37	12	26
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(5)	(319)	(48)	(36)	(1)
Transfers	0	0	0	0	0
Ending Balance	\$316	\$51	\$40	\$16	\$41

This trust account was established to account for all private donations made to the State Foundation on Culture and the Arts. Private donations are held in trust for nonprofit organizations and artists who are either specified as beneficiaries of the funds or who meet the purpose established by the donor. Past donations have financed cultural education, support for the arts and museums, and relief for Hurricane Iniki. This trust account is being used as a holding account and continues to serve the purpose for which it was created.

Supplies, Services and Equipment for CIP Projects Revolving Fund

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$183	\$319	\$60	\$187	\$325
Receipts	266	132	737	1,545	1,204
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(130)	(391)	(610)	(1,407)	(1,256)
Transfers	0	0	0	0	0
Ending Balance	\$319	\$60	\$187	\$325	\$273

This account was created to distribute the costs of supplies, services, and equipment equitably among the various DAGS projects. Each project pays into this account an assessment for supplies and other costs based on project size and other contributing variables. Miscellaneous supplies, equipment, and services are purchased using money from this account. The projects can obtain most supplies, services and equipment from this account at no cost. The account serves the purpose for which it was originally created. Although labeled a revolving fund, this account operates as a holding account to pay for miscellaneous CIP expenses and charge them to CIP projects.

Temporary Deposits—Central Purchasing

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$203	\$128	\$256	\$228	\$378
Receipts	623	567	554	1,176	939
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(698)	(439)	(582)	(1,026)	(858)
Transfers	0	0	0	0	0
Ending Balance	\$128	\$256	\$228	\$378	\$459

This trust account was established to serve as a temporary holding account for bid deposits that are required by Section 103-28, HRS to accompany bids for contracts. The deposits in this account are for contracts for goods and services. The amount of the deposit depends on the amount bid. Bid deposits are returned to bidders unless forfeited in accordance with Section 103-30, HRS, in which case the money is deposited into the general fund. This trust account is being used as a holding account and serves the purpose for which it was created.

Temporary Deposits—Public Works

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$54	\$54	\$54	\$54	\$54
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(1)	0	0
Transfers	0	0	1	0	0
Ending Balance	\$54	\$54	\$54	\$54	\$54

This trust account was established to account for security deposits made by individuals borrowing project plans and specifications for bidding purposes. Security deposits are refunded when project specifications and plans are returned. Permanent security deposits were also deposited into the account by individuals who frequently reviewed specifications and plans and did not want to submit deposits for each review. The department informed us that the trust account has been inactive since 1985 and that it plans to publish a public notice for claims to the balance in the account. The department plans to transfer any unclaimed balance into the general fund.

Chapter 3

Department of Agriculture

This chapter presents the results of our review of five revolving funds, one trust fund, and ten trust accounts used by the Department of Agriculture. 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 established under statutory authority, followed by those accounts established under administrative authority.

Funds Established Under Statutory Authority

Agriculture Loan Revolving Fund, Section 155-14, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$5,236	\$7,466	\$8,277	\$7,486	\$4,195
Receipts	6,413	11,299	2,343	2,687	4,010
Interest	**				
Expenditures	(5,583)	(10,488)	(4,184)	(5,978)	(5,824)
Transfers*	1,400	0	1,250 (200)**	0	1,625
Ending Balance	\$7,466	\$8,277	\$7,486	\$4,195	\$4,007

*Transfer from Loan Reserve Special Fund

**Transfer to Aquaculture Revolving Fund

Note: Interest earned is not deposited into the revolving fund, but is deposited into the Loan Reserve Special Fund. The following are the amounts deposited into the reserve fund in thousands:

FY1989	FY1990	FY1991	FY1992	FY1993
\$1,440	\$1,840	\$1,620	\$1,678	\$1,652

The purpose of this fund is to promote agricultural development by granting loans, securing credit for qualified farmers, and providing management advice. The fund continues to serve its purpose. During FY1992-93, 70 loans totaling \$5,824,230 were disbursed. The relationship between benefits sought and charges made upon the users is direct—those who receive loans are required to pay the principal and interest. Except for large emergency loans to sugar companies that were

subsidized by the general fund, the fund is self-sustaining. Repayments on principal are sufficient to replenish the fund and to make new loans. As required by law, repayments on interest are credited to the Agriculture Loan Reserve Fund, from which moneys are periodically transferred to the Agriculture Loan Revolving Fund. The \$200,000 transfer to the Aquaculture Revolving Fund was authorized under Section 154-3, HRS, which allows the transfer of excess cash to other loan programs. This fund meets all three criteria for revolving funds.

Aquaculture Loan Revolving Fund, Section 219-4, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$247	\$281	\$328	\$496	\$501
Receipts	43	21	26	65	63
Interest	**				
Expenditures	(23)	(12)	(78)	(60)	(130)
Transfers*	14	38	20	0	67
			200**		
Ending Balance	\$281	\$328	\$496	\$501	\$501

*Transfer from Aquaculture Reserve Special Fund

**Transfer from Agriculture Loan Revolving Fund

Note: Interest earned is not deposited into the revolving fund, but is deposited into the Aquaculture Reserve Special Fund. The following amounts were deposited into the reserve fund in thousands:

FY1989	FY1990	FY1991	FY1992	FY1993
\$28	\$24	\$26	\$28	\$19

The purpose of this fund is to support the development of the aquaculture industry by granting loans, securing credit for qualified applicants, and providing related financial management services. Two loans totaling \$130,000 were disbursed in fiscal year 1993. The fund continues to serve its purpose. It sustains itself through repayments on principal. A direct link exists between the benefits sought and charges made upon the users. Those who receive loans must repay the principal and interest. As required by the law, repayments on interest are credited to the Aquaculture Reserve Special Fund from which moneys are transferred periodically to the Aquaculture Loan Revolving Fund. This fund meets all three criteria for revolving funds.

Hawaii Agricultural Products Revolving Fund, Section 153-3, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$324	\$253	\$253	\$239	\$222
Receipts	2	10	14	8	20
Interest	17	15	12	9	6
Expenditures	(90)	(25)	(40)	(34)	0
Transfers	0	0	0	0	0
Ending Balance	\$253	\$253	\$239	\$222	\$248

The purpose of this fund is to support zero interest loans in order to stimulate new agricultural crops and agricultural product activities and to encourage practical research in crop diversification and innovations in crop development. Activity has been minimal for the last few years, but this fund is serving the purpose for which it was created. Repayments on previous loans replenish the fund and enable new loans to be made. A direct link exists between the benefits sought and the charges made upon the users because those who receive loans are required to repay the principal. The fund is self-sustaining. This fund meets all three criteria for revolving funds.

Irrigation System Revolving Fund, Section 167-22, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$109	\$268	\$595	\$898	\$1,066
Appropriations	1,115	523	501	400	294
Receipts	412	417	477	509	455
Interest	12	10	18	26	22
Expenditures	(1,426)	(623)	(693)	(767)	(885)
Transfers	0	0	0	0	0
Other	46	0	0	0	0
Ending Balance	\$268	\$595	\$898	\$1,066	\$952

The purpose of this fund is to finance the administrative and development costs of water conveyance projects for agricultural production. The fund was transferred to the Department of Agriculture in 1989 from the Department of Land and Natural Resources. The Department of

Agriculture services three irrigation systems on Hawaii, Molokai, and Oahu that provide water services to about 400 farmers. Another irrigation system will begin operation later this year in Kahuku, Oahu.

The fund meets the first criterion and continues to serve the purposes for which it was created. Expenditures are primarily for salaries and the costs of electricity to pump water. A direct link exists between the benefits sought and charges made upon the users. Revenues consist of water sales to farmers and acreage assessments which amounted to \$454,854 in fiscal year 1993. Revenues support other current expenses, equipment, vehicles, and about one-half of salaries. This fund does not meet the third criterion of being self-sustaining. Operating costs of the irrigation systems program are heavily supported by the general fund. For FY1992-93, general fund support amounted to almost \$300,000. Capital improvement projects for this program are also supported through the general fund. This fund does not meet all the criteria for a revolving fund.

Marketing Order Revolving Fund, Section 163-31, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$77	\$138	\$235	\$247	\$270
Receipts	364	439	365	352	284
Interest					
Expenditures	(303)	(342)	(353)	(329)	(272)
Transfers	0	0	0	0	0
Ending Balance	\$138	\$235	\$247	\$270	\$282

The purpose of this fund is to support inspection services for state and federal marketing order programs. Currently, papayas are the only commodity inspected under a marketing order. This fund continues to serve the purpose for which it was originally created. A direct link exists between benefits sought and charges made upon the users because papaya farmers, who must have their produce inspected under the marketing order, are charged for such inspection services. The fund is self-sustaining. This fund meets all three criteria for a revolving fund.

Hamakua Sugar Loan Guaranty Trust Fund, Act 85, SLH 1993

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	THIS FUND WAS NOT CREATED UNTIL FY1993				\$0
Appropriations					800
Interest					0
Expenditures					0
Transfers					0
Ending Balance					\$800

Act 85, SLH 1993, created the Hamakua Sugar Loan Guaranty Trust Fund to deposit reserve money for all loans guaranteed under the Act. The act authorized the Department of Agriculture to guarantee up to \$8 million in loans made by private lending institutions to the Hamakua Sugar Company. To establish the reserve fund, the act appropriated \$800,000 to be deposited into the fund. Hamakua Sugar is now in bankruptcy and the total amount of the loan guarantee that will be needed is not yet known. This fund serves the purpose for which it was created. Money is held in trust to guarantee repayment of loans.

Accounts Established Under Administrative Authority

Contribution of Overtime—Plant Quarantine Inspection

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$18	\$14	\$13	\$11	\$22
Receipts	151	168	204	249	246
Interest	0	0	0	0	0
Expenditures	(155)	(169)	(206)	(238)	(243)
Transfers	0	0	0	0	0
Ending Balance	\$14	\$13	\$11	\$22	\$25

This trust account is used to account for deposits made by two private carriers to pay the overtime costs of agricultural inspectors who inspect incoming cargo at the carriers' facilities. The private carriers requested the inspection service and agreed to pay any overtime costs incurred. This trust account is being used as intended. Deposits made to the account are held in trust to be used to pay overtime costs of inspectors.

Loan Repayments Collected For County of Hawaii

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$5	\$39	\$58	\$27	\$17
Receipts	64	64	64	53	43
Interest Expenditures	(30)	(44)	(95)	(63)	(60)
Transfers					
Ending Balance	\$39	\$58	\$27	\$17	\$0

This trust account was established to account for the County of Hawaii's share of Kohala Task Force loan repayments. When the Kohala Task Force was abolished, the Department of Agriculture was made responsible for collecting money from the companies that had received loans to develop new industries in the north Kohala area. Currently, two companies are making loan repayments that are deposited in the holding account before being paid to the County of Hawaii. This trust account is being used as a holding account and serves the purpose for which it was created.

Papaya Ring Spot Virus Program

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	THIS ACCOUNT WAS NOT CREATED UNTIL FY1993				\$0
Receipts					2
Interest					0
Expenditures					(2)
Transfers					0
Ending Balance					\$0

This trust account was established in 1993 so that a Papaya Administrative Committee could make a cash contribution to the Department of Agriculture for its work to eradicate the papaya ring spot virus in Puna. The industry committee made a one time contribution of \$2,400 to help defray the cost of eradication. The Department has spent the money and the trust account has been closed. This trust account served the purpose for which it was created.

Producer's Settlement Fund

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$53	\$0	\$1	\$0	\$0
Receipts	128	\$14	25	\$8	41
Interest	0	0	0	0	0
Expenditures	(181)	(13)	(26)	(8)	(40)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$1	\$0	\$0	\$1

This trust account was established by administrative rule to account for payments received from dairy processors and to make distribution and adjustment payments to the processors to effectuate a marketwide pooling of milk produced for use in the State of Hawaii. This trust account is being used as a holding account and serves the purpose for which it was created.

Temporary Deposit

The department established this trust account on June 28, 1993, to account for private contributions, gifts, and other funds received by the Department of Agriculture. It has just been established and had no activity at June 30, 1993.

Temporary Deposits for Agricultural Parks

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$1				
Receipts	0				
Interest	0				
Expenditures	(1)				
Transfers	0				
Ending Balance	\$0				

This trust account was established administratively in 1988 to account for closing costs charged lessees when a new agricultural park is developed by the Department of Agriculture. The closing costs include the costs for notices in newspapers and appraisals. Once the leases have been

awarded, the total closing costs that were incurred are charged to the lessees. This trust account has not been used since 1989 and no longer serves the purpose for which it was created. Deposits for agricultural parks can now be accounted for in the newly established Temporary Deposit account.

Temporary Deposits—Market Development Tradeshow

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$30	\$8	\$4	\$3
Receipts	108	0	9	0	0
Interest	0	0	0	0	0
Expenditures	(78)	(22)	(13)	(1)	(2)
Transfers	0	0	0	0	0
Ending Balance	\$30	\$8	\$4	\$3	\$1

This trust account was established to account for deposits from industry participants in trade shows. The department uses promotional funds in its general fund budget to pay the costs of participating in national and foreign agricultural trade shows. The costs include renting booth space, preparing the booths and coordinating the exhibits. The department recruits participants to use the booths and to make a deposit as a commitment to participating in the trade show. The trust account holds these deposits and returns them to industry participants who have fulfilled their participation obligations. Forfeitures are transferred to the general fund. This trust account is being used as a holding account and serves the purpose for which it was created.

Temporary Deposit—Marketing

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$3	\$0	\$0	\$10	\$11
Receipts	51	57	51	48	75
Interest	0	0	0	0	0
Expenditures	(54)	(57)	(41)	(47)	(48)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$10	\$11	\$38

This trust account was established to account for a variety of commodity inspection fees. The fees for inspections are set by state and federal rules and regulations. The fees are deposited into the account and cleared on a regular basis. A percentage of the fees is transmitted to the federal government and the balance deposited into the general fund. This trust account is being used as a holding account and serves the purpose for which it was created.

Temporary Deposit—Meat Grading

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$25	\$43	\$56	\$70	\$43
Receipts	55	53	31	21	39
Interest					
Expenditures	(37)	(40)	(17)	(48)	(40)
Transfers	0	0	0	0	0
Ending Balance	\$43	\$56	\$70	\$43	\$42

This trust account was established administratively to account for fees charged beef slaughterhouses for U.S. Department of Agriculture (USDA) grading services. The State has entered into a written agreement with the USDA which guarantees the cost of one federal grader in-state. The cost for this federal grader is budgeted through the general fund. The USDA bills the department for the grading services. The department then bills the beef slaughterhouses according to the USDA charges. These fees are deposited into the trust account and then used to pay the USDA charges.

The beef slaughterhouses that use the grading services are charged for such services, but the demand for grading services is insufficient to cover the full cost of the federal grader. The remaining cost is subsidized through the general fund. The demand for grading services has declined and is anticipated to continue to decline. This trust account is being used as a holding account and serves the purpose for which it was created. Since the general fund subsidy requirement is projected to increase, the continued need for this trust account appears questionable.

Temporary Deposit—Monkey Bond

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$12	\$14	\$14	\$18	\$28
Receipts	6	1	4	11	28
Interest	0	0	0	0	0
Expenditures	(4)	(1)	0	(1)	(2)
Transfers	0	0	0	0	0
Ending Balance	\$14	\$14	\$18	\$28	\$54

This trust account was established to account for cash bonds that are required for people to obtain a permit to bring monkeys and other specified animals into Hawaii. Animals that require bonding are those designated by the Board of Agriculture to be possibly harmful to Hawaii should they escape. If the animal does escape or is let loose, the bond is forfeited and the money is deposited into the state general fund. If the animal dies or if the owner sells the animal or takes the animal out of the state, the bond money is returned. This trust account is being used as a holding account and serves the purpose for which it was created.

Chapter 4

Department of Budget and Finance

This chapter presents the results of our review of three trust funds administratively attached to the Department of Budget and Finance (B&F). It also presents our review of seven revolving funds of the Housing Finance and Development Corporation (HFDC) which is administratively attached to the department. 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. All ten funds are established under statutory authority and are presented in alphabetical order.

Dwelling Unit Revolving Fund, Section 201E-204, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$48,418	\$51,802	\$33,088	\$17,480	\$32,379
Receipts	28,401	8,425	47,165	75,119	63,478
Interest	3,203	4,700	2,417	646	691
Expenditures	(26,955)	(29,807)	(62,408)	(57,362)	(37,454)
Transfers*	(1,265)	(2,032)	(2,782)	(3,504)	(3,844)
Ending Balance	\$51,802	\$33,088	\$17,480	\$32,379	\$55,250

* Transfers to pay for the administrative cost of operating the State Program BUF 225, a portion of the administrative expenses of HFDC, and \$60,000 to the Housing Finance Revolving Fund.

Created within the Hawaii Housing Authority in 1970 and transferred to the Housing Finance and Development Corporation (HFDC) in 1987, this fund had as its purpose the accounting for financial transactions related to all phases of development, construction, sale, or rental of housing units for certain low income projects. The legislation is sufficiently broad to allow the fund to pay for state Program BUF 225, a program receiving both general and special funds to encourage private housing development and ownership. The fund allows HFDC to provide developers with interim financing and other assistance to expedite the completion of low income housing units. This very active fund continues to serve the purpose for which it was created—it finances various low income housing

programs. A direct link exists between benefits and charges because those who borrow from the fund are required to repay the loans with interest, thereby generating the revenues that support the program. Repayments on loans and sales of units replenish the fund.

**Employees' Retirement System of the State of Hawaii,
Section 88-22, HRS**

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$3,415,913	\$3,676,822	\$3,849,470	\$4,084,804	\$4,506,783
Receipts & Other					
Earnings	212,677	200,762	176,974	379,791	329,063
Appropriations	43,612	12,917	119,176	120,427	246,605
Contributions	56,588	62,330	64,785	65,946	66,378
Interest	178,927	159,960	169,105	161,074	163,043
Expenditures	(230,895)	(263,321)	(294,706)	(305,259)	(330,468)
Transfers	0	0	0	0	0
Ending Balance	\$3,676,822	\$3,849,470	\$4,084,804	\$4,506,783	\$4,981,404

The Employees' Retirement System was established in 1925 to provide a pension benefits program for all state and county employees, including teachers, police, firefighters, corrections officers, judges, and elected officials. The system is administered by a seven member board including the Director of Finance, who is an ex officio member. Statutes require the system to maintain five separate funds for accounting purposes. We have combined the five funds for presentation purposes

The system provides pension, disability, and death benefits to members and their designated beneficiaries. Monthly retirement allowances are based on the member's age, type of membership, and employment category; years of credited service; retirement option selected; and depending upon the date of hire, the average salary earned during the three or five highest paid years of service. Although changes have been made to the system over time, it continues to provide pension benefits for all state and county employees.

Receipts of the system include state appropriations and county contributions made on behalf of employees, employee contributions for those who are under the employee contribution option of the plan, earnings on assets, and interest on investments. The system is self-sustaining.

Fee Simple Residential Revolving Fund, Section 516-44, HRS**Financial Data for Fiscal Years 1989-93 (In Thousands)**

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$818	\$1,055	\$966	\$1,116	\$1,208
Receipts	476	90	458	257	376
Interest	43	88	75	49	35
Expenditures	(94)	(97)	(90)	(35)	(68)
Transfers*	(188)	(170)	(293)	(179)	(273)
Ending Balance	\$1,055	\$966	\$1,116	\$1,208	\$1,278

* Transfers to pay for the administrative cost of operating the program and a portion of the administrative expenses of HFDC.

The fund was created in 1967 to account for the revenues, receipts and expenditures of the leasehold-to-fee conversion program established under the Land Reform Act (Act 307, SLH 1967). It also pays for the administrative cost of operating the program and a portion of the administrative cost of operating HFDC. The fund continues to serve the purpose for which it was created. It finances the costs of assisting lessees who wish to purchase the fee interest in their homes. There is a direct link between the benefits of expediting the conversion process and the charges for conversion made upon the users. Lessees who obtain fee simple ownership of their residential lots pay the costs of condemnation procedures, and these payments sustain the fund. This fund therefore meets all three criteria for revolving funds.

Hawaii Development Revolving Fund, Section 201E-217, HRS**Financial Data for Fiscal Years 1989-93 (In Thousands)**

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$435	\$460	\$502	\$535	\$515
Receipts	0	0	0	0	0
Interest	25	42	33	27	14
Expenditures	0	0	0	(47)	(29)
Transfers	0	0	0	0	0
Ending Balance	\$460	\$502	\$535	\$515	\$500

This fund was created within the Hawaii Housing Authority in 1970 and transferred to HFDC in 1987 to provide loans for the planning, development, and initial costs of projects for low and moderate cost housing. This fund did not make any loans in fiscal years ending June 30, 1989, 1990 and 1991. Loans totaling \$46,000 and \$27,400 were made in FY1991-92 and FY1992-93 respectively. Because of the limited loan activity, Act 280, SLH 1993 transferred \$250,000 from the revolving fund to the state general fund on July 31, 1993. The fund will be self-sustaining—repayments on loans replenish the fund and enable new loans. There is a direct link between the benefits sought and the charges made upon the users because those who receive loans are required to repay the principal with interest.

Hawaii Public Employees Health Fund, Section 87-3, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$2,189	\$2,195	\$2,202	\$3,494	\$3,415
Receipts	89,008	115,690	146,034	190,607	222,956
Interest	128	229	321	178	131
Expenditures	(89,532)	(116,237)	(146,608)	(191,199)	(222,956)
Other Changes	402	325	1,545	335	0
Ending Balance	\$2,195	\$2,202	\$3,494	\$3,415	\$3,546

The Hawaii Public Employees Health Fund was created in 1961 to provide employee-beneficiaries and dependent beneficiaries with a health benefits plan and a long-term care benefits plan that would include the costs of hospitalization, surgery, and medical treatment and care. The fund is administered by a nine-member Board of Trustees through the health fund administrator. The Director of Finance is a member of the board and custodian of the fund.

The fund finances health and group life insurance benefits for all state and county active and retired employees. It has not implemented a long-term care benefits plan. Receipts of the fund include state, county, and employee contributions, and interest earned. Premium payments to insurance carriers and medicare premium reimbursements to eligible retirees and their spouses are major expenditures of the fund. The fund is operating as intended and is self-sustaining.

Homes Revolving Fund, Section 201E-207, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$101,319	\$122,570	\$130,101	\$97,843
Receipts	0	20,007	9,071	3,932	19,867
Interest	1,803	9,675	9,655	8,292	3,434
Bond Proceeds	0	0	0	0	120,000
Expenditures	(20,484)	(8,431)	(11,195)	(44,482)	(62,975)
Transfers	120,000	0	0	0	(120,000)
Ending Balance	\$101,319	\$122,570	\$130,101	\$97,843	\$58,169

This fund was created in 1988 to finance the development of affordable homes on large tracts of land on each of the four major islands. Originally capitalized with \$120 million advanced from the general fund, the advance has been repaid with proceeds of general obligation bonds. The fund continues to serve the purpose for which it was created. It is used for interim financing for the development and construction of infrastructure including roadways and utilities as well as the housing project units. The interim loans are repaid and the moneys replenish the fund so new loans can be made. There is a direct link between benefits and charges since the loans are repaid with interest. The fund is self-sustaining and meets all three criteria for revolving funds.

Housing Alteration Revolving Loan Fund, Section 201E-191, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$0	\$0	\$206	\$218
Appropriations	0	0	200	0	0
Interest	0	0	6	14	6
Expenditures	0	0	0	(2)	(1)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$206	\$218	\$223

This fund was created in 1990 to provide the physically disabled with loans of up to \$25,000 for home alterations that would enable them to be more independent. The Legislature provided an initial general fund appropriation of \$200,000. Administrative rules for making loans from

the revolving fund were adopted in January 1992. No loans have been made to date. The fund will link benefits sought and the charges made upon the users. Those who receive loans will be required to repay the principal and interest which will sustain the fund and enable new loans to be made. Once the fund begins making loans to the physically disabled, it will meet all three criteria for revolving funds.

Housing Finance Revolving Fund, Section 201-57, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$754	\$1,546	\$2,042	\$1,973	\$4,538
Appropriations	1,346	0	0	1,750	0
Receipts	1,670	1,454	1,218	2,032	1,673
Interest	274	385	399	378	329
Expenditures	(2,007)	(529)	(422)	(305)	(137)
Transfers*	(491)	(814)	(1,264)	(1,290)	(1,065)
Ending Balance	\$1,546	\$2,042	\$1,973	\$4,538	\$5,338

* Transfers to pay for the administrative cost of operating the State Program BUF 227, and a portion of the administrative expenses of HFDC.

This fund was created in 1987 to account for the expenses of administering HFDC and to be used for long-term financing and other special financings of the corporation. Act 242, SLH 1991, appropriated the sum of \$1,750,000 to be deposited into the Housing Finance Revolving Fund in FY1991-92 to provide low-interest loans of up to \$35,000 to the residents and citizens on the island of Hawaii who had lost their homes and lands to volcanic eruptions on the island of Hawaii. In addition, the fund pays the administrative expenses of State Housing Finance Program (BUF 227) and a portion of the administrative expenses of HFDC. Receipts of the fund include interest earnings, charges for services to programs, and mortgage loan repayments. The fund pays for administrative expenses and provides certain long-term financing for HFDC projects and therefore, serves the purpose for which it was created. There is direct linkage between benefits and user charges in the form of loan interest, principal repayments, and charges to other programs of HFDC. The fund is self-sustaining. This fund meets all three criteria for revolving funds.

Rental Assistance Revolving Fund, Section 201E-132, HRS**Financial Data for Fiscal Years 1989-93 (In Thousands)**

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$8,917	\$19,788	\$36,878	\$51,935	\$60,447
Appropriations	9,900	15,000	12,000	5,700	0
Receipts	205	19	7	7	5
Interest	1,111	2,597	3,739	3,769	3,252
Expenditures	(345)	(492)	(674)	(944)	(1,660)
Transfers*	0	(34)	(15)	(20)	(15,023)
Ending Balance	\$19,788	\$36,878	\$51,935	\$60,447	\$47,022

* Transfers to pay for a portion of the administrative expenses of HFDC and the \$15,000,000 transfer to Rental Housing Trust Fund

The fund was created in 1987 with the purpose of receiving moneys from the State to support the rental assistance program and to subsidize rental payments for low or moderate income families and individuals. The fund was financed by earmarking the interest earned on approximately \$50 million of state general fund cash investments. The fund also pays for a portion of the administrative expenses of HFDC.

Act 307, SLH 1992, made significant amendments to the rental assistance program and the purpose of the rental assistance revolving fund. HFDC may now use the fund to make commitments to provide rental assistance subsidies for a period of up to 35 years. The director of finance is authorized to guarantee these commitments up to \$100 million. Act 307 also restructured the rental assistance program by authorizing HFDC to use up to \$25 million in the revolving fund plus any bond proceeds for interim construction financing for affordable rental housing projects. Act 308, SLH 1992 established a rental housing trust fund administratively attached to B&F to which \$15 million was transferred from the rental assistance revolving fund.

This fund serves the purpose for which it is created. For rental assistance payments, there is no linkage between benefits and user charges and the fund is not self-sustaining. For the interim construction financing program, there will be a direct link between benefits and user charges in the form of repayments of loan principal and interest, and it will be self-sustaining.

Rental Housing Trust Fund, Section 201F-2, HRS

Financial Data for Fiscal Years 1989-1993 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	THIS FUND WAS NOT CREATED UNTIL FY1993				\$0
Receipts					0
Interest					278
Expenditures					0
Transfers					15,000*
Ending Balance					\$15,278

* \$15,000,000 was transferred into the Rental Housing Trust Fund from the Rental Assistance Revolving during FY 1992-93.

Act 308, SLH 1992, established the Rental Housing Trust Fund as a continuous renewable resource to assist very low- and low- income families and individuals in obtaining rental housing. Act 308, placed the Rental Housing Trust Fund within the Department of Budget and Finance for administrative purposes and established a Rental Housing Trust Fund Commission to administer the trust fund.

The trust fund is to be used to provide loans and grants for qualified affordable rental units. Funds may be used for development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units. In addition, grants may be awarded to nonprofit organizations to increase their in-house skills to undertake development activities. Any project utilizing trust fund loans or grants must make at least 50 percent of the units available to persons and families with incomes at or below 60 percent of the median family income. Remaining units must be designated for persons or families with incomes at or below 100 percent of the median income.

Deposits into the trust fund may consist of appropriations made by the Legislature, private contributions, repayment of loans and interest. Act 308 required that \$15 million be transferred from the Rental Assistance Revolving Fund administered by the Housing Finance and Development Corporation to the Rental Housing Trust Fund. The \$15 million plus \$278,000 in interest income has been transferred into the trust fund. Effective July 1, 1993, Act 195, SLH 1993 requires that 25 percent of the conveyance tax revenues be transferred to the trust fund (conveyance tax revenues amounted to a total of \$3.8 million in 1993).

For loans, there will be a direct link between the benefit and the charges because those who borrow from the fund will be required to repay the loans, thereby generating revenues to support the program. There will be no such linkage for grants because there will be no obligation to repay the moneys. General fund appropriations and future earmarked conveyance tax revenues will be the primary revenue sources of the fund. Earmarked tax revenues and general fund appropriations will be required to subsidize the fund for grants awarded to provide for low income rental housing. This fund does not meet the definition or the criteria for a trust fund.

Chapter 5

Department of Land and Natural Resources

This chapter presents the results of our review of four trust funds, one revolving fund, and eight trust accounts used by the Department of Land and Natural Resources (DLNR). 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 established under statutory authority, followed by those accounts established under administrative authority.

Funds Established Under Statutory Authority

Public Land Trust Funds—Oahu, Maui, Hawaii, Kauai, Section 171-18, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Receipts	1,218	1,594	3,573	2,326	1,476
Interest	5	5	6	2	1
Expenditures	(1,223)	(1,599)	(3,579)	(2,328)	(1,477)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0

These are four trust funds, one for each major island. The financial data is the total for the four funds. The funds were established in 1962 to account for all revenues derived from the sale of ceded public lands and the rents from leases, licenses, and permits of ceded lands (less 30 percent of the total revenues derived from sugarcane leases and water licenses that the State Constitution requires to be transferred to Department of Hawaiian Home Lands). The revenues were to be held as a public trust for the support of the public schools and other public educational institutions, the betterment of the conditions of native Hawaiians, the development of farm and home ownership, the making of public improvements, and for the provision of lands for public use. Act 273, SLH 1980 requires that 20 percent of the income from the public land trust be paid to the Office of Hawaiian Affairs (OHA).

The trust funds are now being used as temporary holding accounts to transfer revenues to OHA on a quarterly basis. The Public Land Trust Funds continue to serve the purpose for which they were intended.

Wildlife Revolving Fund, Section 183D-10.5, HRS

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$90	\$194	\$197	\$177
Receipts	93	111	110	109	103
Interest	0	5	0	7	4
Expenditures	(3)	(12)	(107)	(136)	(108)
Transfers	0	0	0	0	0
Ending Balance	\$90	\$194	\$197	\$177	\$176

This fund was created in 1988 to support the department’s wildlife and endangered species programs. A primary purpose of this fund was to provide matching state funds for federal grants available under the Pittman-Robertson Federal Aid in Wildlife Restoration Act. This fund continues to serve the purpose for which it was created. Receipts consist mostly of fees for hunting licenses, hunter education activities, game bird farmer licenses, and interest on investments. Most of the receipts are used for wildlife programs. There is a direct link between charges made on hunters and the benefits of having wildlife programs. The fund is also self-sustaining—expenditures are not allowed to exceed the funds available.

Accounts Established Under Administrative Authority

Accrued Vacation and Sick Leave Fund

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$504	\$584	\$560	\$589	\$624
Receipts	110	75	86	100	101
Interest	24	28	17	30	20
Expenditures	(64)	(129)	(103)	(104)	(153)
Transfers	10	2	29	9	0
Ending Balance	\$584	\$560	\$589	\$624	\$592

The purpose of this account is to pay for vacation and sick leave of employees whose salaries are charged to capital improvement projects. Capital improvement projects deposit into the account a percentage of estimated payroll costs for accrued vacation and sick leave. Vacation or sick leave taken is paid from this account. The account serves the purpose for which it was created. It operates as a holding account to charge vacation and sick leave to CIP projects and then pay for vacation and sick leave taken by employees working on CIP projects.

Boating Security Deposits

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Receipts	0	0	0	0	62
Interest	0	0	0	0	0
Expenditures	0	0	0	0	(35)
Transfers	0	0	0	0	507
Ending Balance	\$0	\$0	\$0	\$0	\$534

This trust account was transferred from the Department of Transportation to the Department of Land and Natural Resources on July 1, 1992. The purpose of this account was to hold security deposits collected from boating tenants of small boat harbors. The security deposits are usually equivalent to three months' rent. This trust account is being used as a holding account for security deposits and continues to serve the purpose for which it was created. Deposits are returned when rental agreements are terminated.

Donations, Gifts, and Grants

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$88	\$104	\$121	\$65	\$78
Receipts	57	17	5	61	0
Interest	0	0	0	0	0
Expenditures	(41)	0	(61)	(48)	(48)
Transfers	0	0	0	0	0
Ending Balance	\$104	\$121	\$65	\$78	\$30

This trust account was created administratively to account for donations received from various subsidiaries of sugar plantations. The donations were to be used for the operation and maintenance of sugarcane irrigation stations. No donations, gifts, or grants have been made to this account.

The account actually serves as a clearing account for private parties to obtain and pay for stream gauging services rendered by the United States Geological Survey (USGS). Since the USGS is not authorized to enter into agreements or contracts with private parties, the State has entered into a cooperative agreement whereby the USGS bills the State and the State in turn bills the private parties. The DLNR requires that state water licensees install and maintain stream gauging equipment to measure the amount of water they use. The USGS installs gauging stations in the stream to measure water usage that the State uses for billing purposes.

The trust account no longer serves the purpose of accounting for donations received from various subsidiaries of sugar plantations. Instead, it serves as a clearing account for the State/USGS cooperative agreement.

Payroll Clearance

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Receipts	918	949	1,138	1,275	1,329
Interest	0	0	0	0	0
Expenditures	(918)	(949)	(1,138)	(1,275)	(1,329)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0

This administratively established account serves as a clearing account to facilitate the disbursement of payroll. Capital improvement projects deposit moneys to this trust account to pay project employees based on employee timesheets. Payroll costs for project-funded employees of the Division of State Parks and the Division of Water and Land Development are paid from this account. This trust account is being used as a clearing account and serves the purpose for which it was created.

Preservation of Endangered Plants

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$3	\$3	\$6	\$2
Receipts	3	3	3	1	1
Interest	0	0	0	0	0
Expenditures	0	(3)	0	(5)	0
Transfers	0	0	0	0	0
Ending Balance	\$3	\$3	\$6	\$2	\$3

The purpose of this account is to make expenditures of donated revenues for activities related to endangered plants. Revenues consist of donations from the Hawaii Credit Union League which are required to be used for the preservation of Hawaii's endangered plants. Expenditures from this account have been made for fencing off areas for endangered plants. The account continues to serve the purpose for which it was created as current expenditures are made for preservation of endangered plants.

Temporary Deposits

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$664	\$479	\$559	4,948	\$988
Receipts	3,321	4,495	7,531	239	208
Interest	0	0	0	0	0
Expenditures	(3,506)	(4,415)	(3,142)	(199)	(542)
Transfers	0	0	0	(4,000)	0
Ending Balance	\$479	\$559	\$4,948	\$988	\$654

This trust account was created as a temporary holding account for security deposits for leases, permits, licenses, and construction bids. It is also used to account for the payment of appraisal fees. An impact fee of \$4 million was received from a developer of a golf course and was deposited in this account in 1991. The department was subsequently instructed to transfer the \$4 million to the Special Land & Development Fund. This trust account is being used as a holding account and serves the purpose for which it was created.

Temporary Deposits—Undistributed Proceeds Due to Other Agencies

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Receipts	0	0	0	895	518
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	(895)	(518)
Ending Balance	\$0	\$0	\$0	\$0	\$0

This trust account was established to deposit land rental and water license revenues that are collected by DLNR for, and later transferred to, the Department of Hawaiian Home Lands (DHHL), the Department of Agriculture (DOA), the Department of Transportation (DOT), and the Hawaii Community Development Authority (HCDA). This account continues to serve its original purpose of being a holding account for revenues generated by the rental of property or from water licenses managed by DLNR for other state agencies.

Temporary Deposits—Water Development

Financial Data for Fiscal Years 1989-93 (In Thousands)

	FY1989	FY1990	FY1991	FY1992	FY1993
Beginning Balance	\$6,194	\$6,285	\$6,462	\$6,305	\$8,129
Receipts	220	177	326	2,344	935
Interest	0	0	0	0	0
Expenditures	(129)	0	(483)	(520)	(797)
Ending Balance	\$6,285	\$6,462	\$6,305	\$8,129	\$8,267

The trust account was created administratively to account for security deposits made by individuals who reviewed water development specifications and plans. These security deposits amount to a small percentage of the temporary deposits that go into this account. This account is used for moneys received that do not meet the criteria for deposit in any other DLNR fund or account. The account balance also includes \$6 million which was transferred from DOT-Airports as the result of a land exchange agreement. Because the exchange involved

public trust lands, the proceeds are invested by DLNR for the benefit of DHHL. The account is no longer used solely for holding temporary deposits related to water development. The fund is being used primarily as a holding account for miscellaneous receipts and revenues generated without a designated place for deposit.

Notes

Chapter 1

1. Hawaii, Department of Accounting and General Services, Accounting Manual, Page 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 Relation, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety, Report No. 92-11, Honolulu, April 1992

Responses of the Affected Agencies

Comments on Agencies Responses

We transmitted a draft of this review to the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources on January 4, 1994. A copy of the transmittal letter to the Department of Accounting and General Services is included as Attachment 1. Similar letters were sent to the Departments of Agriculture, Budget and Finance, and Land and Natural Resources. Responses of the Departments of Accounting and General Services, Agriculture, and Budget and Finance, are included as Attachments 2, 3, and 4, respectively. The Department of Land and Natural Resources did not respond.

The state comptroller does not agree with our conclusion that the State Risk Management Revolving Fund does not meet the criteria for a revolving fund. He cites the value of having a reserve fund to deal with future losses for which the State is self-insured. We still believe that the fund does not meet the criteria of a revolving fund, but it does serve a useful purpose as a reserve fund for future losses and have so noted in our report. The state comptroller also provided new information on the Special Deposits—Tenant Deposits trust account which we included in our report. The response also provided additional details on the Temporary Deposits—Public Works trust account.

The Departments of Agriculture and Budget and Finance provided some clarifying information that we have incorporated in the report.

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

January 4, 1994

C O P Y

The Honorable Robert P. Takushi
Comptroller
Department of Accounting and General Services
Kalanimoku Building
1151 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Takushi:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources*. We ask that you telephone us by Thursday, January 6, 1994, on whether you intend to comment on our review of the trust and revolving funds of your department. If you wish your comments to be included in the report, please submit them no later than Tuesday, January 11, 1994.

The Departments of Agriculture, Budget and Finance, Land and Natural Resources, the Governor, and 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

JOHN WAIHEE
GOVERNOR



ROBERT P. TAKUSHI
COMPTROLLER

LLOYD I. UNEBASAMI
DEPUTY COMPTROLLER

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES

P.O. BOX 119
HONOLULU, HAWAII 96810-0119

January 10, 1994

RECEIVED

JAN 11 2 45 PM '94

OFF. OF THE AUDITOR
STATE OF HAWAII

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

Dear Ms. Higa:

Thank you for allowing us the opportunity to review and respond to the draft report of the "Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources".

As covered in your report, the conclusions about the uses of the trust and revolving funds pertaining to the Department of Accounting and General Services are discussed in Chapter 2 and to which our following comments are directed for the fund with which we disagree with your conclusion.

State Risk Management Revolving Fund, Section 41D-4, H.R.S.

Auditor's Conclusion: The fund does not meet the criteria for a revolving fund.

The Department disagrees with the conclusion of the State Auditor regarding the State Risk Management Revolving Fund.

Recognizing the volatile and unpredictable nature of losses and their potential to adversely impact the financial and operational integrity of the State Government, the State Risk Management Revolving Fund was created with the passage of Act 266, SLH 1988 (Chapter 41D, H.R.S.). The Fund was created to purchase statewide property, public liability and crime insurance policies; to pay for self-insured losses; and to retain and use the proceeds received from insurance settlements to restore losses.

The Act also permitted the Comptroller to apportion and collect funds from agencies, regardless of their source of funds, based on their exposures and loss experience with the purpose of increasing the agencies' awareness of the cost of risk and to hold them accountable for such costs. Steps to implement the cost allocation system for fiscal year 1995 were taken with all departments and agencies being advised of their allocated share of projected risk management

Ms. Marion Higa

Page 2

costs. A last minute decision by the administration was made to utilize a lump-sum appropriation for the State's general funded programs. Only non-general funded State programs will participate in the cost allocation system for fiscal year 1995. Because of the critical need for accountability required of all State agencies to better control their losses, the Department plans to continue to pursue the implementation of the cost allocation system in the next biennium irregardless of the sources of funding.

The Department disagrees with the Auditor's report that the cost allocation system does not link the benefits from the program with the charges. The benefits received from the Risk Management Program are clear. There are many agencies that are dependent on the Fund for the coverage and services which are not just for a rainy day. The availability of funds to pay for self-insured losses eliminates the need for departments to purchase first-dollar (no deductible) insurance policies or establish their own self-insurance reserves. Purchasing insurance policies on a statewide basis provide superior coverage and rates, as compared to policies purchased separately by the agencies. The Fund also retains and disburses insurance settlements to insure government services are restored in a timely and efficient manner.

We are also in disagreement with the stated reasoning that "Since the source of funding for most departments is primarily the general fund, this new procedure (the cost allocation system) will have little effect on the linkage between benefits and charges and on whether the fund will be self-sustainable. Instead of general fund appropriations being made directly to this revolving fund, the appropriations will be made to the departments who will then transfer the money to the revolving fund." We find this method of funding to be no different from other recognized revolving funds, such as the example of the State Motor Pool Fund which is replenished by charges to State agencies, of which a substantial portion is being paid with general funded monies.

The repeal of the Fund will be a major setback to the State. Without the Revolving Fund, the Risk Management Program has no financial credibility to self-insure recurring or expected losses or to make decisions on which exposures should be insured or self-insured. The State would be unable to provide certifications as to the self-insurance status of the State of Hawaii for exposures the Program does not cover by insurance, thereby requiring those agencies to establish their own mini-insurance programs. Insurance settlements will be deposited into the general fund, leaving State agencies and other interested parties, such as bondholders, uncertain as to the final disposition of the monies. Statewide insurance policies can be canceled due to large, unbudgeted premium increases, leaving the State without vital insurance coverage. Loss control activities would be significantly compromised due to lack of accountability, as we discussed earlier.

Financing of losses other than through the State Risk Management Revolving Fund will prevent the timely restoration of facilities and services and lead to budgetary instability.

Ms. Marion Higa
Page 3

We would also like to expand on the conclusion for the Special Deposits - Tenant Deposits trust account, with which we concur that it no longer serves its original purpose. The Department plans to return the proceeds in the account to the rightful owners, and if not possible, will follow the proper State procedures to transfer any remaining balance to the Department of Budget and Finance's Unclaimed Property Branch. The trust account will be subsequently closed.

Similarly, the Department has attempted over the years to contact parties with monies in the trust account, Temporary Deposits-Public Works, and has from time to time processed requests for refunds. The effort expended for each refund, however, requires much staff time in tracing and proving that the refunds are due. Plans are being made to turn the remaining funds over to the Department of Budget and Finance, Unclaimed Property Branch, for disposition in accordance with the Uniform Unclaimed Property Act (Chapter 523A, H.R.S.).

We again thank you for giving us the opportunity to review and comment on the report.

Very truly yours,



ROBERT P. TAKUSHI
Comptroller

cc: Office of the Governor

JOHN WAIHEE
Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 So. King Street
Honolulu, Hawaii 96814-2512

January 11, 1994

YUKIO KITAGAWA
Chairperson, Board of Agriculture
LETITIA N. UYEHARA
Deputy to the Chairperson

FAX: 973-9613

Mailing Address:
P. O. Box 22159
Honolulu, Hawaii 96823-2159

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

RECEIVED
JAN 11 4 11 PM '94
OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to comment on your draft report, Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources.

Chapter 3 of the report covers your review of the trust and revolving funds used by the Department of Agriculture. We provide comments on the following revolving fund and trust account.

1. Aquaculture Loan Revolving Fund, Section 219-4, HRS

The chart reflecting Financial Data for Fiscal Years 1989-93 is missing amounts transferred from the Aquaculture Reserve Special Fund in FY 1989, FY 1990, FY 1991 and FY 1993.

2. Temporary Deposit-Meat Grading

As indicated in your report, this trust account was established administratively to account for fees charged beef slaughterhouses for meat grading services provided by a U.S. Department of Agriculture (USDA) federal meat grader under a cooperative agreement. The agreement requires the department to provide a separate trust account into which funds collected for work performed shall be deposited. The federal meat grader's services is covered through fees charged to beef slaughterhouses and a portion budgeted through general fund. Fees collected from the beef slaughterhouses are deposited into the trust account and subsequently transmitted to USDA to pay the federal meat grader's services. The fees are not transferred to the general fund.

Your consideration of our comments will be greatly appreciated.

Sincerely,

Letitia N. Uyehara
for YUKIO KITAGAWA
Chairperson, Board of Agriculture

c: Office of the Governor

ADMA641



JOHN WAIHEE
GOVERNOR



ATTACHMENT 4
EUGENE S. IMAI
DIRECTOR

BARBARA KIM STANTON
DEPUTY DIRECTOR
CELIA L. JACOBY
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII INC
HAWAII PUBLIC EMPLOYEES HEALTH FUND
HOUSING FINANCE AND DEVELOPMENT
CORPORATION
OFFICE OF THE PUBLIC DEFENDER
PUBLIC UTILITIES COMMISSION
RENTAL HOUSING TRUST FUND COMMISSION

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
INFORMATION AND COMMUNICATION
SERVICES DIVISION

January 11, 1994

RECEIVED
JAN 11 3 43 PM '94
OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion Higa
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

Thank you for the opportunity to respond to your "Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources." We would like to make some comments on Chapter 4 which covers funds within the Department of Budget and Finance.

Regarding the **Hawaii Public Employees Health Fund (Health Fund), Section 87-3, Hawaii Revised Statutes**, the Health Fund also provides group life insurance benefits to employee-beneficiaries. Also, while the Health Fund is authorized to provide a long-term care insurance plan, the plan has not been implemented.

The section covering the **Employees' Retirement System of the State of Hawaii, Section 88-22, HRS**, should be clarified to include that pension, disability, and death benefits are also based on the employees' membership in the contributory or noncontributory plan, employment category (e.g., general employee, police, elected official, judge, etc.), and retirement option selected. A second point of clarification is that the receipts of the system include earnings on the system's assets.

Again, thank you for the opportunity to provide comments on the study.

Sincerely,

EUGENE S. IMAI
Director of Finance