
Review of Revolving and Trust Funds of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education

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

Report No. 96-21
December 1996



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



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OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Revolving and Trust Funds of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education

Summary

Section 23-12, Hawaii Revised Statutes (HRS), requires the State Auditor to review all existing revolving and trust funds every five years. The review is to include a five-year financial summary, an evaluation of the original intent and purpose of each fund, and the degree to which each fund achieves its stated purpose. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This report is the fourth required under the law.

Revolving funds are often established with an appropriation of seed money from the general fund. They are supposed to be self-sustaining. Activities financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. **Trust funds** invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. They may include donations to be used for specific beneficiaries. **Trust accounts** are typically separate holding or clearing accounts for state agencies. The trust account is often an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 22 funds we reviewed this year, 4 were revolving funds, 17 were trust funds and 1 was a trust account. We used criteria developed by the Legislature and developed by our office from a review of public finance and accounting literature. These funds must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, a revolving fund must reflect a linkage between benefits and charges made on users and also be an appropriate financing for the program or operation. A trust fund must meet the statutory definition of a trust fund. Section 37-62, HRS, defines a trust fund as "a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes."

For each fund we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.



Responses

The Office of the Governor, Office of Hawaiian Affairs, and the Department of Education did not submit written responses.

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Submitted by

THE AUDITOR
STATE OF HAWAII

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Foreword

This is a report of our review of revolving and trust funds used by or administratively attached to the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education.

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

We wish to acknowledge the cooperation extended by the officials and staff of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

This is a report of our review of revolving and trust funds of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education. Section 23-12, Hawaii Revised Statutes (HRS), requires the State Auditor to review all existing revolving and trust funds every five years. The reviews are statutorily scheduled so that the funds administered by each state department will be reviewed once every five years. This report is the fourth such review required under the law.

Background

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.

We completed the review of special and revolving funds required by Act 240 and presented the results of those reviews in five separate reports issued in 1991 and 1992. In our review of 166 special and revolving funds, we recommended that 70 be repealed, discontinued, or sunset 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.

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

Description of Revolving and Trust Funds

Revolving funds

Section 37-62, HRS, defines a revolving fund as one "from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is 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, then replenished through the repayment of loans. The state motor pool fund is an 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

Section 37-62, HRS, defines a trust fund as "a fund in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes."

State government has a fiduciary responsibility to safekeep and use trust funds for their designated beneficiaries. The Hawaii State Employees Retirement Fund is one example of a trust fund. Contributions and payments into the fund are held to benefit beneficiaries of the pension fund. Security deposits required by the State from its land lessees are held in a trust fund account. Until forfeited or returned, the deposits are the property of the tenants held in trust by the State and should be accounted for accordingly.

Trust accounts

Trust accounts are typically separate holding or clearing accounts for state agencies. Often the trust account is an accounting device to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Revolving and Trust Funds

We essentially used the same criteria to review *revolving funds* as we had used in our prior review of special and revolving funds. 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;
- Demonstrates the capacity to be financially self-sustaining; and
- Is an appropriate financing mechanism for the program or operation.

The first and second criteria were taken from Act 240, SLH 1990. The third and fourth were developed by our office. The third criterion of the funds being financially self-sustaining was from a review of public finance literature.

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;
- Requires no general fund appropriation; and
- Meets the definition of a trust fund.

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

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

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

Objectives of the Review

1. To identify and review each of the revolving and trust funds of the Office of the Governor, the Office of Hawaiian Affairs, and the Department of Education.
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 Office of the Governor, the Office of Hawaiian Affairs, and the Department of Education.

We researched the legislative history and 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 is from unaudited amounts obtained from the agencies. To these we applied the criteria explained in this chapter.

Our work was performed from June 1996 through November 1996 in accordance with generally accepted government auditing standards.

Chapter 2

Office of the Governor

This chapter presents the results of our review of three trust funds and one trust account used by the Office of the Governor. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present the funds established by the Legislature and the Judiciary followed by the trust account established under administrative authority.

Funds Established By the Legislature and the Judiciary

Columbian Quincentennial Observance Trust Fund, Act 175, SLH 1990

Financial Data for Fiscal Years 1992-1996 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$200	\$53	\$28.6	\$15.6	\$15.6
Receipts	65	55.5	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(212)	(79.9)	(13)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$53	\$28.6	\$15.6	\$15.6	\$15.6

This trust fund was established in 1990 to support the activities of the Commission on the Columbian Quincentennial Observance. The temporary commission's purpose was to prepare a program to observe the 500th anniversary of Christopher Columbus' arrival in the new world and to promote community understanding of cultural, political, scientific, and other transformations from exploration, encounter, and exchange in the world. Revenues for this fund were derived from community and corporate donations. Expenditures from this fund included the costs of producing a book entitled "Discovery," radio air time advertisements, and bus poster advertisements of the observance. This fund meets the definition of a trust fund, has not received general fund appropriations, has served the purpose for which it was originally created, and has provided benefits to the intended beneficiaries—the general public. Although the commission ceased to operate after FY1993, the fund has maintained a small balance of \$15,600 which could be transferred to the general fund.

Shippers' Wharf Committee Fund, Third Circuit Court Order

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$836.6	\$914.6	\$970.4	\$1,023.3	\$1,040.1
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	88	65.8	62.9	62.4	97.2
Expenditures	0	0	0	0	0
Transfers*	(10)	(10)	(10)	(45.6)	0
Ending Balance	\$914.6	\$970.4	\$1,023.3	\$1,040.1	\$1,137.3

*Transfers to replenish Department of Health (DOH) controlled account for program expenditure disbursements

Actual expenditures by DOH:	\$9.4	\$9.9	\$9.7	\$17.2	\$14.7
Ending balance at DOH FY1996 estimated at	\$31.5				
Combined ending balance is	\$1,168.8 (\$1,137.3 trust fund + \$31.5 DOH)				

This fund was established in 1954 after the dissolution of the Shippers' Wharf Committee, an unincorporated association in Hilo, Hawaii. The committee was organized in 1904 to receive and administer voluntary contributions from importers on the island of Hawaii to combat plague and promote public health and safety on that island. In 1941, the funds were declared to be trust funds by the Circuit Court of the Fourth Judicial Circuit. In 1953, the Third Circuit Court ordered that, upon the dissolution of the Shippers' Wharf Committee, the funds remaining be transferred to the Territory of Hawaii and administered by the governor. The purposes of the trust fund at that time were to safeguard public health and improve public sanitation, prevent the spread of and remove possible causes of dangerous epidemics and diseases, to provide public disaster relief, and to promote public safety on the island of Hawaii.

The Office of the Governor continues to administer the trust fund as directed by the 1953 order. Interest generated by the fund through investments has been more than sufficient to cover operating expenses. Moneys are currently transferred from the fund to the Department of Health's Environmental Health Services Division which uses the moneys to cover the costs of controlling organisms, such as disease transmitting insects, on the island of Hawaii. The Shippers' Wharf Committee Fund is pending review by the Office of the Governor and a decision may be made by the governor to transfer the fund to the Department of Health by the end of 1996. The fund continues to serve the purpose for which it was originally created and continues to serve the intended beneficiaries— island of Hawaii residents. It also meets the definition of a trust fund. The fund does not receive general fund appropriations.

Year of the Family Celebration Fund, Act 337, SLH 1990

Financial Data for Fiscal Years 1992-1996 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$47.9	\$26.9	\$15.7	0	0
Receipts	9.4	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(29.0)	(11.2)	(5.2)	0	0
Transfers*	(1.4)	0	(10.5)	0	0
Ending Balance	\$26.9	\$15.7	\$0	0	0

*FY92 and FY94 transfers were lapsed funds transferred to the general fund

This trust fund was established in 1990 to support the activities of the Year of the Family Celebration Commission. The temporary commission's purpose was to develop and coordinate various program activities for all segments of the state's population. Activities were scheduled throughout 1992, the year of the celebration. The temporary commission was placed within the Office of the Governor for administrative purposes and ceased operation after 1992. The main sources of revenue were derived from donations and the transfer of a \$50,000 general fund appropriation in FY1991. Expenditures from this fund included the costs of beginning the celebration, advertising it, and producing "Year of the Family" calendars. Although the fund received an initial general fund appropriation, it served the purpose for which it was created and served the intended beneficiaries—the general public. The fund meets the definition of a trust fund, but ceased to exist when the balance in the account was transferred to the general fund in FY1994.

Account Established Under Administrative Authority

Governor's Volunteer Programs and Services Account

Financial Data for Fiscal Years 1992-1996 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$20.9	\$9.5	\$10.2	\$3.7	\$3.0
Receipts	0	5.6	4.0	.1	10.0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(11.4)	(4.9)	(10.5)	(.8)	(9.2)
Transfers	0	0	0	0	0
Ending Balance	\$9.5	\$10.2	\$3.7	\$3.0	\$3.8

This trust account was established administratively in 1983 to support the Kilohana program which recognizes outstanding volunteers throughout the state. Revenues for this account are generated through community donations, primarily from corporations. Trust account funds are used for expenses related to holding ceremonies on Oahu and the neighbor islands. This account does not require general fund appropriations and continues to serve the purpose for which it was created.

Chapter 3

Office of Hawaiian Affairs

This chapter presents the results of our review of one revolving fund and six trust funds used by the Office of Hawaiian Affairs. 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 of the funds that we reviewed were established under statutory authority except for the Public Land Trust which is a constitutional provision. The funds are presented alphabetically.

Funds Established Under Statutory Authority

Affordable Housing Program - Waimanalo Kupuna Project Fund, Section 10-13, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	THIS FUND WAS NOT CREATED UNTIL FY1995			\$0	\$100
Receipts				100	0
Appropriations				0	0
Interest				0	4
Expenditures				0	(3)
Transfers				0	0
Ending Balance				\$100	\$101

This trust fund was established in 1995 to receive revenues for the Office of Hawaiian Affairs' Waimanalo Kupuna Housing construction project. An initial \$100,000 was received from the Federal Home Loan Bank of Seattle's Affordable Housing Program. The housing project, currently in the pre-development stage, is intended to be an active retirement community for Hawaiian elderly in Waimanalo. Located on a seven-acre parcel of the Department of Hawaiian Home Lands, the community will consist of clustered living units for low and moderate-income elderly Hawaiians, landscaped grounds, a multi-purpose community center, and a marketplace. The fund meets the definition of a trust fund and continues to serve the purpose for which it was created—to receive grant revenues for the kupuna housing project. This fund requires no general fund appropriations and continues to serve the intended beneficiaries.

Hawaiian Projects Fund, Section 10-13, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$107	\$132	\$267	\$222	\$116
Receipts	34	440	106	84	61
Appropriations	0	0	0	0	0
Interest	0	0	1	0	1
Expenditures	(9)	(305)	(152)	(190)	(26)
Transfers*	0	0	0	0	0
Ending Balance	\$132	\$267	\$222	\$116	\$152

This trust fund was established in 1987 to receive revenues from the sale of goods or services directed at the Hawaiian community. Major revenue sources for this fund include sales of advertising space in OHA's monthly newspaper, *Ka Wai Ola O OHA*; OHA's portion of proceeds from the sale of publications or books; and private donations designated for OHA's programs. The fund supplements the costs of OHA program activities such as postage costs for the monthly OHA newspaper and costs for producing books and videos for special projects. This fund is being used as intended, does not require general fund appropriations, and continues to provide services to the intended beneficiary—the Hawaiian community. This fund meets the definition and criteria of a trust fund.

Historic Properties Fund, Section 10-13, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$1	NOT USED SINCE FY1992			
Receipts	0				
Appropriations	0				
Interest	0				
Expenditures	(1)				
Transfers	0				
Ending Balance	\$0				

This trust fund was established in 1989 to receive donations for the maintenance of the Pahua heiau. The Office of Hawaiian Affairs received one-time private donations for the maintenance of the heiau upon the transfer of its ownership to OHA. The office has spent the money and the fund has been closed. Subsequent maintenance costs have been incorporated into the office's land and natural resources program operating budget. This fund did not require general fund appropriations

and served the purpose for which it was created. It also met the definition of a trust fund and served the intended beneficiary—the Hawaiian community.

Mauna 'Ala Repository for Royal Native Hawaiian Remains Fund, Section 10-13, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$0	\$200	\$400	\$413	\$413
Receipts	200	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	13	0	0
Expenditures	0	0	0	0	0
Transfers*	0	200	0	0	0
Ending Balance	\$200	\$400	\$413	\$413	\$413

*Transfer of public land trust funds for OHA's matching amount to DLNR pursuant to Act 296, Section 107, 1991 Session Laws of Hawai'i.

This trust fund was established in 1992, in agreement with the Department of Land and Natural Resources (DLNR), to account for funds received for the design and construction of a facility at Mauna 'Ala to store royal native Hawaiian remains. A general fund appropriation of \$200,000 was initially provided to DLNR pursuant to Act 296, Section 107, SLH 1991. The Legislature stipulated that no funds could be expended unless the appropriation was matched by the Office of Hawaiian Affairs. The OHA matching requirement was satisfied through the transfer of OHA public land trust funds in FY1993. OHA and DLNR have entered into a cooperative joint venture to plan, design, and construct the repository for two ka'ai (sennit caskets) containing the remains of two deified royal native Hawaiians moved from the island of Hawaii by the Kamehamehas. There have been no expenditures from this fund. In February 1994, the ka'ai were removed from the Bishop Museum and have not yet been located. This fund does not meet all the criteria of a trust fund because it required an initial general fund appropriation.

Native Hawaiian Revolving Loan Fund, Section 10-13, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$2,905	\$2,791	\$4,690	\$5,497	\$8,210
Receipts	0	1,000	992	1,000	1,000
Appropriations	0	0	0	0	0
Interest	142	129	70	228	301
Expenditures**	(256)	(230)	(255)	(507)	(502)
Transfers*	0	1,000	0	1,992	1,000
Ending Balance	\$2,791	\$4,690	\$5,497	\$8,210	\$10,009

*OHA public land trust funds match of ANA grant funds pursuant to Board of Trustees resolution in 1991.

**Expenditures represent bad debt expense; FY96 bad debt expense is an unaudited estimate.

Set up in 1988, the Native Hawaiian Revolving Loan Program is jointly funded by OHA and a series of seven grants from the U.S. Administration for Native Americans. This loan program provides funds for the start up or expansion of Hawaiian-owned businesses that are unable to secure financing from conventional lending institutions. In 1991, the OHA Board of Trustees resolved to match, up to \$1 million, any federal grant funds with public land trust funds. The fund is an appropriate financing mechanism for the loan program and continues to serve the purpose for which it was originally created. The benefits sought and charges made upon the users are directly linked. Along with the repayments of loan principal, the fund also collects interest proceeds on the outstanding loan balances and invested funds, and any applicable loan fees. Hawaiian business entrepreneurs who cannot secure conventional financing are the direct beneficiaries of the loans that are disbursed from this fund. The fund is self-sufficient and requires no appropriation from the general fund. This fund therefore meets the criteria for revolving funds.

Native Hawaiian Rights Fund, Section 10-13, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$59	\$142	\$163	\$138	\$124
Receipts	100	38	82	178	190
Appropriations	0	0	0	0	0
Interest	0	0	0	1	0
Expenditures	(17)	(17)	(107)	(193)	(80)
Transfers	0	0	0	0	0
Ending Balance	\$142	\$163	\$138	\$124	\$234

This trust fund was established in 1987 to receive OHA's portion of legal fees recovered through settlements of Native Hawaiian Legal Corporation land title cases. The legal corporation provides legal services to native Hawaiians defending their property interests in quiet title actions (formal court actions by a land owner to extinguish and acquire an unclouded title). Typically, these actions are initiated against kuleana parcels (defined by Section 669-2, HRS, to be "land granted to native tenants pursuant to L 1850, p.202") situated within a larger land holding. This fund also receives settlements recovered in connection with quiet title actions in which the Office of Hawaiian Affairs is joined as a defendant. OHA uses these funds to protect or represent the interests of native Hawaiians in such instances as water rights hearings and historic site protection. Although the Native Hawaiian Rights Fund was established by the OHA Board of Trustees in 1987, it was not requested to be set up as a separate fund in the State's Financial Accounting and Management Information System until 1992, when the kuleana settlements (court-ordered cash payments to quiet or remove the cloud on title to the larger property owner by "buying" kuleana interest) were also included in this fund by the Board of Trustees. This fund requires no general fund appropriations and continues to serve its intended purpose. It also continues to benefit native Hawaiians and meets the definition and criteria of a trust fund.

Public Land Trust, Hawaii State Constitution, Article XII, Section 4

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$14,344	\$20,486	\$155,046	\$167,247	\$187,206
Receipts	9,007	70,748	18,893	25,092	12,452
Appropriations	0	0	0	0	0
Interest*	1,228	70,721	421	7,556	17,550
Expenditures	(690)	(1,355)	(1,840)	(5,272)	(3,703)
Transfers**	(3,403)	(5,554)	(5,273)	(7,417)	(6,765)
Ending Balance	\$20,486	\$155,046	\$167,247	\$187,206	\$206,740

*Includes dividends, realized and unrealized gains/(losses) on investments and marketable equity securities.

**Transfers represent public land trust funds expended for legislative appropriations (include matching of general funds), board appropriations to supplement OHA's operating budget, and public land trust funds to match Native Hawaiian Loan fund and other matching requirements.

This fund was established in 1981 to account for the Office of Hawaiian Affairs' portion of revenues derived from the public land trust as defined in Section 10-2, HRS. OHA receives twenty percent of all revenue derived from the public land trust. Revenue derived from the public land trust is expended by OHA, as approved by the Board of Trustees, for the betterment of native Hawaiian conditions. Funds are transferred to OHA on a periodic basis from the various state departments and agencies that receive revenues from their administration of public lands. For the purposes of this report, all accounts funded with public land trust funds (as legislatively and board mandated) were combined to show the total revenues and expenditures related to the public land trust. Act 176, SLH 1996, changed the designation of public land trust funds from "special funds" to "trust funds." The fund is operating as intended. The public land trust continues to serve the purpose for which it was created and provides the benefits and services originally intended to the native Hawaiian beneficiaries. The fund requires no general fund appropriation and meets the definition of a trust fund.

Chapter 4

Department of Education

This chapter presents the results of our review of three revolving funds and eight trust funds used by the Department of Education. 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 of the funds that we reviewed were established under statutory authority and are presented alphabetically.

Funds Established Under Statutory Authority

Adult Education Revolving Fund, Section 301-4, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$121	\$161	\$198	\$202	\$232
Receipts	168	176	165	191	202
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(128)	(139)	(161)	(161)	(206)
Transfers	0	0	0	0	0
Ending Balance	\$161	\$198	\$202	\$232	\$228

This revolving fund was created in 1970 to receive fees assessed for adult education courses. The moneys collected are used to purchase supplies and books for the Adult and Community Education Program. The fund is operating as intended and is an appropriate funding mechanism for the program. Benefits received and fees collected are directly related because adult students who are assessed fees benefit from the purchase of supplies and books. The fund, however, is not self-sustaining. General funds supplement the student fees collected to cover personnel and operating costs. The adult education program is also partially financed from the Adult Education Special Fund. The balance of the fund could be lapsed to the general fund, and the adult education program budgeted entirely through the general fund.

Athletic Trust Fund, Section 296-32, HRS**Financial Data for Fiscal Years 1992-96 (In Thousands)**

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$272	\$132	\$45	\$408	\$341
Receipts	575	535	961	455	481
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(715)	(622)	(598)	(522)	(525)
Transfers	0	0	0	0	0
Ending Balance	\$132	\$45	\$408	\$341	\$297

This trust fund was established over 30 years ago to account for funds collected from athletic event-related activities. The fund serves one intermediate and 35 high school athletic departments. Sources of revenues include admission fees collected from various sporting events, activity book sales, and donations to public school athletic programs. The beneficiaries are students participating in sports activities at the schools. Funds are expended for supplies, equipment, travel, and other expenses for the various sports programs at the schools. The fund serves the purpose for which it was created and provides the services to the intended beneficiaries—student athletes at the public schools. It requires no general fund appropriations and meets the definition and criteria of a trust fund.

Alu Like Trust Fund, Section 296-32, HRS**Financial Data for Fiscal Years 1992-96 (In Thousands)**

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$0	\$14	\$44	\$28	\$70
Receipts	373	460	355	413	128
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(359)	(430)	(371)	(371)	(188)
Transfers	0	0	0	0	0
Ending Balance	\$14	\$44	\$28	\$70	\$10

This fund was established in 1992 to account for moneys received through a memorandum of agreement with Alu Like, Inc. Native Hawaiian Vocational Education Program. Through the Carl D. Perkins Vocational and Applied Technology Education Act of 1990, the U.S. Department of Education grants federal funds to Alu Like, Inc. Alu Like uses a portion of the federal funds for the Hawaii Department of Education's vocational

education services for native Hawaiians in the Windward and Leeward districts. Educational projects provide career education counseling for students, staff development programs, and curriculum development of vocational education programs. Past projects in Windward and Leeward school districts include the Kailua High School Building and Construction Technology Academy Project, Waianae High Alternative Education Project, and Waianae Partnership Building Project. The fund continues to serve the purpose for which it was created and the intended beneficiaries—native Hawaiians in Windward and Leeward district public schools. The fund does not require any general fund appropriations and meets the definition of a trust fund.

Donations and Gifts Trust Fund, Section 296-32, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$37	\$47	\$57	\$160	\$322
Receipts	44	106	225	353	172
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(34)	(96)	(122)	(191)	(150)
Transfers	0	0	0	0	0
Ending Balance	\$47	\$57	\$160	\$322	\$344

The Donations and Gifts Trust Fund was established in 1961 to account for donations made to the schools for specific purposes. Donations are held in trust for students and schools named by the donor. Past donations have included grants in support of The Waianae Coast May Experience, Drug-Free Hawaii, and literacy programs. This fund meets the definition of a trust fund, requires no general fund support, and continues to serve the purpose for which it was created. Funds are held in trust for public schools and students to be used for purposes specified by the donors.

Foundation and Other Grants Trust Fund, Section 296-32, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$190	\$368	\$537	\$358	\$673
Receipts	924	850	402	1,133	1,193
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(746)	(681)	(581)	(818)	(828)
Transfers	0	0	0	0	0
Ending Balance	\$368	\$537	\$358	\$673	\$1,038

This trust fund was established in 1961 to account for grants received from foundations, other non-profit organizations, and other state agencies for various projects. Beneficiaries of this fund are the students named by the grants and projects. Past grants have supported career-oriented field trips for students from the Waianae coast, the JROTC Program, Healthy Kapolei Initiative, and Parent/Student Literacy Program. This trust fund continues to serve the purpose for which it was originally created and its intended beneficiaries. The fund receives no general fund appropriation and meets the definition of a trust fund.

Hurricane Iniki Insurance Proceeds Revolving Fund, Section 296-32, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	0	\$0	\$1,929	\$740	\$242
Receipts	0	2,301	1,418	38	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(372)	(2,607)	(536)	(232)
Transfers	0	0	0	0	0
Ending Balance	0	\$1,929	\$740	\$242	\$10

This fund was created in 1993 from moneys received from insurance proceeds through the Department of Accounting and General Services. Moneys from this fund were used for temporary replacements for structures destroyed during Hurricane Iniki. The Department of Education leased modular classrooms, mobile classrooms, modular library units, kitchen trailers, dining units, and other school equipment with

moneys from this revolving fund to allow schools to continue operating on a normal basis while repairs were being made. This fund maintains a \$10,000 balance because encumbrances and purchase orders are still being issued as a result of damages from Hurricane Iniki. Although this fund continues to serve the purpose for which it was originally created and does not require general fund appropriations, it does not meet the remaining two criteria for revolving funds. There is no clear link between the benefit received and charges made upon the beneficiaries of the program and the fund is not an appropriate financing mechanism for this program. This fund does not operate as a revolving fund but rather as a trust fund.

JTPA Work Hawaii Job Training Program Fund, Section 296-32, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$29	\$98	\$158	\$0	\$29
Receipts	489	391	231	291	6
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(420)	(331)	(389)	(262)	(34)
Transfers	0	0	0	0	0
Ending Balance	\$98	\$158	\$0	\$29	\$1

This trust fund was established in 1986 to account for funds received from the City and County of Honolulu to provide job training programs specified by the Job Training Partnership Act (JTPA). The Department of Labor and Industrial Relations' Office of Employment and Training Administration contracts with the City and County of Honolulu to administer various JTPA programs under subcontract with DOE. Funds are used by the department to provide preemployment and basic skills training services for economically disadvantaged youth at selected schools to maximize their employment opportunities and improve their self-sufficiency. Beneficiaries of this fund are public school youth in special population groups who may become unemployed. This fund meets the definition of a trust fund, continues to serve the purpose for which it was created, and requires no general fund appropriation. The contract with the City and County of Honolulu expired during FY1996.

Office of Hawaiian Affairs Fund, Section 296-32, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$19	\$17	\$70	\$30	\$49
Receipts	36	196	173	292	249
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(38)	(143)	(213)	(273)	(270)
Transfers	0	0	0	0	0
Ending Balance	\$17	\$70	\$30	\$49	\$28

This trust fund was established in 1991 to account for grants received from the Office of Hawaiian Affairs for tutorial and other educational projects at various schools. Projects focus on improving and uplifting educational conditions of students of Hawaiian ancestry. Approximately 1,400 students of Hawaiian ancestry at 28 elementary, intermediate, and high schools benefit from OHA educational grants every year. Past educational projects have included tutorial services emphasizing student literacy, vocabulary skills, reading, language arts, and mathematics. The fund continues to serve the purpose for which it was first created and provides the services originally intended to beneficiaries—educational opportunities for students of Hawaiian ancestry. The fund does not receive any general fund appropriations and meets the definition of a trust fund.

Olelo - Educational Program Public TV Fund, Section 296-32, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$117	\$67	\$208	\$47	\$96
Receipts	81	358	289	431	304
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(131)	(217)	(450)	(382)	(360)
Transfers	0	0	0	0	0
Ending Balance	\$67	\$208	\$47	\$96	\$40

This trust fund was established in 1992 to account for funds received under contract with Olelo: The Corporation for Community Television. Olelo is responsible for managing the public, educational, and

governmental television channels established by the state. Olelo contracts with the Department of Education to provide educational programs to the community. Past contracts with the department include the Distance Learning Program. Funding from Olelo for the DOE Distance Learning Program have enabled new and expanded programming created for and with the community. Beneficiaries of this program are students, adults, teachers, and the homebound. The general public also benefits from the cablecast of DOE meetings, programs, and other information about special events and activities. This fund meets the definition of a trust fund, receives no general fund appropriation and continues to serve its intended purpose and beneficiaries.

Non-Appropriated Local School Fund, Section 298-5, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$4,528	\$4,601	\$5,230	\$5,615	\$6,274
Receipts	14,000	15,039	16,163	17,761	20,643
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(13,927)	(14,410)	(15,778)	(17,102)	(19,939)
Transfers	0	0	0	0	0
Ending Balance	\$4,601	\$5,230	\$5,615	\$6,274	\$6,978

The Non-Appropriated Local School Fund was created in 1982 to account for money held in trust by the schools. Section 298-5, HRS, authorizes the Department of Education to assess and collect special fees and charges from students for co-curricular activities. Funds are deposited into insured checking or savings accounts and expended by individual schools. Sources of funds include collections from class dues, student association dues, yearbook fees, newspaper, school club dues, money-raising funds, excursion fees, and donations. This fund continues to serve its intended purpose and requires no general fund appropriation. It also meets the definition of a trust fund and provides the services originally intended to its beneficiaries.

Storeroom Revolving Fund, Section 296-36.5, HRS

Financial Data for Fiscal Years 1992-96 (In Thousands)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Beginning Balance	\$77	\$59	\$168	\$221	\$246
Receipts	1,928	1,964	1,669	2,036	2,696
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(1,054)	(517)	(632)	(937)	(1,449)
Encumbrances	(892)	(1,338)	(984)	(1,074)	(586)
Transfers*	0	0	0	0	(507)
Ending Balance	\$59	\$168	\$221	\$246	\$400

*Transfer made to the State Treasury per Section 296-36.5, HRS; carryover limited to \$400,000.

This revolving fund was created in 1990 pursuant to Section 296-36.5, HRS, and currently functions as the public school system's central purchasing center. The original purpose of this fund was to purchase educational, office, and custodial supplies used by the schools and to purchase equipment and services needed to operate the Department of Education's storeroom. The fund continues to serve the purpose for which it was originally created—supplies purchased for the storeroom are used by the schools. There is a direct link between the benefits sought and the charges made upon users because the public schools use the items they purchase from the storeroom. However, the storeroom is not self-sustaining. General fund appropriations pay for personal services and all operating costs of the storeroom. Although a revolving fund is an appropriate financing mechanism for the storeroom, it is not self-sustaining and therefore does not meet all the criteria of a revolving fund.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this review to the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education on December 3, 1996. A copy of the transmittal letter to the Office of the Governor is included as Attachment 1. Similar letters were sent to the Office of Hawaiian Affairs and the Department of Education. None of the affected agencies submitted written responses.

ATTACHMENT 1

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

December 3, 1996

COPY

The Honorable Benjamin J. Cayetano
Governor of the State of Hawaii
State Capitol, 5th Floor
Honolulu, Hawaii 96813

Dear Governor Cayetano:

Enclosed for your information are three copies, numbered 1 to 3 of our draft report, *Review of the Revolving and Trust Funds of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education*. We ask that you telephone us by Thursday, December 5, 1996, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, December 13, 1996.

The Office of Hawaiian Affairs, the Department of Education, 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,

A handwritten signature in cursive script, appearing to read 'Marion M. Higa'.

Marion M. Higa
State Auditor

Enclosures

