
**Review of Revolving and Trust
Funds of the Department of
Human Resources Development,
Department of Labor and
Industrial Relations, Department
of Public Safety, and the
Department of Taxation**

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

Report No. 97-20
December 1997

THE AUDITOR
STATE OF HAWAII

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Submitted by

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Foreword

This is a report of our review of revolving and trust funds used by or administratively attached to the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation.

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 fifth required under the law.

We wish to acknowledge the cooperation extended to us by the officials and staff of the four departments.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

This is a report on our review of revolving and trust funds of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation. 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 scheduled so that the funds administered by each state department will be reviewed once every five years. This report is the fifth 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to conduct a review of special and revolving funds and to recommend whether they should be continued, modified, or repealed.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 funds had diverted resources from the general fund and, as a result, 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.

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. 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.

Section 23-12, HRS, expands the concept in 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. 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.

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 loan repayments. 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

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.”

Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. A pension fund is an example of a trust fund. Contributions and payments into the fund are held in trust by the State for beneficiaries of the pension fund. Tenants’ security deposits are another type of trust fund held in accounts until forfeited or returned. The security deposits held in trust are the property of the tenants and should be accounted for accordingly.

Trust accounts

Trust accounts are typically a separate holding or clearing account for state agencies. Often a 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 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 the Auditor's Office based on 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. 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. 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*. The criteria 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 Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation.
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 Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation.

We researched the legislative history or other supporting documents to determine each fund's intent and purpose. We also reviewed other documents as appropriate. 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 as described in this chapter.

Our work was performed from May 1997 through November 1997 in accordance with generally accepted government auditing standards.

Chapter 2

Department of Human Resources Development

This chapter presents the results of our review of one revolving fund and one trust fund used by the Department of Human Resources Development. 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. Both funds were established under statutory authority and are presented alphabetically.

Funds Established Under Statutory Authority

In-Service Training Revolving Fund, Section 81-3, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 207	\$ 261	\$ 242	\$ 192	\$ 3
Receipts	221	241	305	24	23
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(167)	(260)	(355)	(21)	(21)
Transfers*	0	0	0	(192)	0
Ending Balance	\$ 261	\$ 242	\$ 192	\$ 3	\$ 5

*FY 1996 - \$192,000 transferred to the general fund pursuant to Act 15, SLH 1995.

The In-service Training Fund was created to support the department's development programs for government employees. The fund continues to serve the purpose for which it was originally created. Moneys from the fund pay for expenses related to developing and conducting employee training programs. During the past year, the department provided medic first aid, time management, conflict management, and stress management training. A clear link between the benefits sought and the charges to users was evidenced. The state agencies pay registration fees for in-service training programs and conferences. Fees cover program expenses such as instructor and trainee materials, books, audio-visual equipment and aids, consultant fees, and conference facilities.

However, the fund is not financially self-sustaining. The training program receives general fund support for administrative costs such as staff salaries. Although a revolving fund is an appropriate financing

mechanism for the in-service training program, it is not self-sustaining through fees paid into it, and therefore, does not meet all the criteria of a revolving fund.

**State Deferred Compensation Plan Trust Fund,
Section 88E-9, HRS**

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$235,758	\$291,308	\$347,539	\$408,586	\$462,531
Receipts	67,456	71,163	88,935	257,313	121,089
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(11,906)	(14,932)	(27,888)	(203,368)	(41,910)
Transfers	0	0	0	0	0
Ending Balance	\$291,308	\$347,539	\$408,586	\$462,531	\$541,710

This trust fund was created in 1983 as a holding account to segregate funds or assets accrued from employees' deferred compensation. The fund also covers administrative expenses for the deferred compensation plan. The plan is overseen by a Board of Trustees and administered by a third-party administrator—Hawaii Benefits, Inc. The fund continues to serve its original purpose. It holds voluntary contributions and investment earnings for the benefit of employees who elect to defer a portion of their compensation to a future time. It requires no general fund appropriations and meets the definition of a trust fund.

Chapter 3

Department of Labor and Industrial Relations

This chapter presents the results of our review of one revolving fund and four trust accounts of the Department of Labor and Industrial Relations. For each fund or account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We first present the fund and accounts established under administrative authority in alphabetical order.

We next present brief descriptions of five funds that have been identified by the department and/or the attorney general as trust funds. However, these funds are identified by the Department of Accounting and General Services as special funds and are currently appropriated as special funds. Furthermore, our office identified four of the funds as special funds in a previous report, *Review of Special and Revolving Funds of the Judiciary, Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety* (Report No. 92-11).

Accounts Established Under Administrative Authority

Non-Profit Employers Deposit Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$541	\$546	\$565	\$568	\$667
Receipts	5	31	24	110	20
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(12)	(21)	(11)	(1)
Transfers	0	0	0	0	0
Ending Balance	\$546	\$565	\$568	\$667	\$686

This account was administratively created in 1972 as a holding account for security deposits as required under the Hawaii Employment Security Law. Any nonprofit organization that elects to become liable for unemployment benefit payments, in lieu of contributions, is required to deposit an amount of money as security with the department. The account continues to serve the purpose for which it was created and basically serves as an escrow account. Once the nonprofit organization terminates

its liability, the deposit is returned to the nonprofit organization less deductions for any unpaid unemployment benefit charges. The account does not require general fund appropriations—the sole source of receipts is the set of security deposits.

Hurricane Iniki Insurance Proceeds Revolving Fund Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$1	\$1	\$0	\$0
Receipts	37	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(36)	0	(1)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$1	\$1	\$0	\$0	\$0

This fund was created in 1992 with moneys received from insurance proceeds through the Department of Accounting and General Services. Moneys were used to reimburse the department for losses incurred during Hurricane Iniki. Although all proceeds were expended during FY1994-95, the fund did not meet the criteria of a revolving fund. A revolving fund was not an appropriate financing mechanism for the program. The fund did not operate as a revolving fund but rather as a trust account.

Temporary Deposits Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$33	\$34	\$33	\$33	\$33
Receipts	1	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(1)	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$34	\$33	\$33	\$33	\$33

This account was created in 1970 as a holding account for moneys posted upon filing appeals to the Hawaii Supreme Court. As a holding account,

this account does not require any general fund appropriations. Anyone appealing a workers compensation decision or order by the Labor and Industrial Relations Appeals Board to the Hawaii Supreme Court is required to file a \$250 bond to defray any court costs. If there are no court costs upon final disposition of the appeal, the bond is refunded to the appellant. However, this account does not continue to serve its original purpose. As of FY1993-94, bonds are no longer required but the account still maintains a balance of approximately \$33,000. If the department cannot refund bond moneys to the original appellants who posted them, it would appear that the moneys could be used for some other purpose related to the Workers Compensation Appeals Board.

Temporary Disability Insurance Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 11	\$ 12	\$ 7	\$ 18	\$ 19
Receipts	6	1	13	3	12
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(5)	(6)	(2)	(2)	(13)
Transfers	0	0	0	0	0
Ending Balance	\$ 12	\$ 7	\$ 18	\$ 19	\$ 18

This account was established administratively in 1970 to account for excessive and unauthorized temporary disability insurance and withheld prepaid health care payments due to terminated employees who cannot be located by their employers. This account does not require any general fund appropriations and continues to serve as a holding account for excessive and unauthorized premium deductions. Terminated employees receive refunds if they are located. However, if the employee cannot be located after two years, moneys are transferred to the Special Fund for Disability Benefits or the Special Premium Supplementation Fund.

Wage Claim Fund Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 53	\$ 102	\$ 135	\$ 199	\$ 185
Receipts	168	111	189	86	239
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(119)	(78)	(125)	(100)	(217)
Transfers	0	0	0	0	0
Ending Balance	\$ 102	\$ 135	\$ 199	\$ 185	\$ 207

This account was established in 1987 to process back pay collections and disbursements due employees. The account continues to serve as a holding account and does not require any general fund appropriations. Back wages, owed to employees, are collected as a result of investigations conducted by the Wage Standards and Fair Employment Practices Enforcement Division. If an employee is due back wages and cannot be located after one year, the employee's back wage funds are transferred to the state treasury.

Funds Identified By The Department As Trust Funds

Employment and Training Fund, Section 383-128, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 0	\$ 2,651	\$ 4,352	\$ 6,911	\$ 8,928
Receipts	3,512	3,151	3,792	3,667	3,708
Appropriations	0	0	0	0	0
Interest	32	79	236	333	331
Expenditures	(893)	(1,529)	(1,469)	(1,983)	(1,761)
Transfers	0	0	0	0	0
Ending Balance	\$ 2,651	\$ 4,352	\$ 6,911	\$ 8,928	\$ 11,206

The Employment and Training Fund was established in 1991 to assist employers and workers through programs that improve the long-term employability of Hawaii's people. The major source of revenues for the fund is derived from a .05% assessment of an employee's wages that are taxable for unemployment insurance and payable by employers. Moneys in the fund may be used for the operation of state employment services for which no federal funds have been allocated, business-specific training programs, industry or employer-specific training programs, retraining

programs, and job-specific training programs. However, in light of the fund's growing and substantial cash balance, the 1997 Legislature placed an eighteen month moratorium on employer assessments to the fund effective July 1, 1997 through December 31, 1998 to provide employers with immediate economic relief.

This fund was established by statute as a special fund. However, the attorney general concluded in 1993 that this fund is a trust fund and recommended that clarification of the characterization of the fund by legislative proposal be considered.

Special Fund for Disability Benefits, Section 392-61, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$5,304	\$5,471	\$5,602	\$5,832	\$6,134
Receipts	3	3	1	0	2
Appropriations	0	0	0	0	0
Interest	209	166	286	337	296
Expenditures	(45)	(38)	(57)	(35)	(79)
Transfers	0	0	0	0	0
Ending Balance	\$5,471	\$5,602	\$5,832	\$6,134	\$6,353

This fund was statutorily established as a special fund in 1969 to pay benefits to individuals who become temporarily disabled when unemployed and are ineligible for unemployment insurance benefits. The fund also pays temporary disability benefits to employees who are entitled to benefits but cannot receive them because of employer bankruptcy or employer noncompliance with the Temporary Disability Insurance Law. In 1969, a one-time assessment of employers started the fund. Since then, no assessment has been levied and the fund operates principally on interest income and receipts from fines and penalties as enforced through the Temporary Disability Insurance Law.

The attorney general concluded in 1986 that this fund falls within the definition of a trust fund. However, the fund was identified as a special fund in our 1992 report, *Review of Special and Revolving Funds of the Judiciary, Departments of the Attorney General, Labor and Industrial Relations, Land and Natural Resources, Personnel Services, Taxation, Transportation, and Public Safety* (Report No. 92-11). We found that the fund met all the criteria of a special fund and recommended that it be continued. We also recommended that unneeded cash be transferred to the general fund in light of the growing and substantial cash balance.

Special Premium Supplementation Fund, Section 393-41, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$2,336	\$2,436	\$2,500	\$2,618	\$2,767
Receipts	7	3	2	16	16
Appropriations	0	0	0	0	0
Interest	100	76	130	141	139
Expenditures	(7)	(15)	(14)	(8)	(4)
Transfers	0	0	0	0	0
Ending Balance	\$2,436	\$2,500	\$2,618	\$2,767	\$2,918

This fund was statutorily created as a special fund in 1974 to supplement health care insurance premium payments for certain employers who employ less than eight employees. In 1978, the fund was extended to cover prepaid health care benefits payments to employees who are entitled to receive benefits but cannot receive the benefits because of employer bankruptcy or noncompliance with the state's Prepaid Health Care Act. Although the fund was established by an initial appropriation from the state general fund, it no longer requires any general fund appropriations. Revenues are primarily from interest income, fines, and penalties collected under the Prepaid Health Care Act.

The attorney general concluded in 1986 that the Special Premium Supplementation Fund falls within the definition of a trust fund. However, this fund was also identified as a special fund in our 1992 report (Report No. 92-11). In 1992, we found little linkage between the benefits sought and the charges made on the users. The fund did not meet all the criteria of a special fund and we recommended that it be repealed and that the program be budgeted through the general fund.

Special Compensation Fund, Section 386-151, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$7,873	\$6,128	\$11,789	\$18,226	\$16,618
Receipts	13,820	22,377	23,599	17,389	15,965
Appropriations	0	0	0	0	0
Interest	192	112	438	840	771
Expenditures	(15,757)	(16,828)	(17,600)	(19,837)	(16,830)
Transfers	0	0	0	0	0
Ending Balance	\$6,128	\$11,789	\$18,226	\$16,618	\$16,524

This fund was created in 1937 to enhance the employability of persons with pre-existing injuries, reduce discrimination against persons with dependents, and require employers to pay compensation for loss sustained in their employment. The fund provides compensation benefits to qualifying employees in certain circumstances involving permanent total disability benefit adjustments, subsequent injuries and preexisting conditions, defaulting employers, total disability under previous laws, concurrent employment, and benefit adjustments for services of attendants. Sources of revenues for this fund include levies on workers' compensation carriers and self-insured employers, interest income, reimbursements from defaulting employers, unpaid benefits in certain cases, and fines for noncompliance with the Workers Compensation Law.

The attorney general concluded in 1994 that the Special Compensation Fund is a trust fund or functions as a trust fund. However, this fund was also identified as a special fund in our 1992 report (Report No. 92-11). We found that the fund met all the criteria of a special fund and recommended that it be continued.

Unemployment Compensation Fund, Section 383-121, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 383	\$ 323	\$ 263	\$ 209	\$ 204
Receipts	\$ 158	\$ 166	147	207	191
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(219)	(226)	(201)	(212)	(189)
Transfers	0	0	0	0	0
Ending Balance	\$ 323	\$ 263	\$ 209	\$ 204	\$ 207

This fund was statutorily created as a special fund in 1937 to provide temporary income to unemployed individuals as required by the federal Social Security and National Employment Acts. The fund collects employer contributions and all compensation and benefits payable pursuant to the Hawaii Employment Security Law are paid from the fund. The program pays bi-weekly benefits to unemployed eligible individuals up to 26 weeks. The fund is financed primarily through payroll taxes assessed on employers.

Although the department identified this fund as a trust fund, it was identified as a special fund in our 1992 report (Report No. 92-11). We found that the fund met all the criteria of a special fund and recommended that it be continued.

Chapter 4

Department of Public Safety

This chapter presents the results of our review of three revolving funds, one trust fund, and six trust accounts used by the Department of Public Safety. For each fund and account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first those funds established by statutory authority followed by those accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Correctional Industries Revolving Fund, Section 354D-10, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$759	\$850	\$479	\$423	\$984
Receipts	2,238	5,236	6,779	6,733	5,240
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(2,161)	(5,607)	(6,835)	(6,172)	(5,098)
Transfers*	14	0	0	0	0
Ending Balance	\$850	\$479	\$423	\$984	\$1,126

* FY1993 - \$14,056 transferred from the Department of Human Services

This fund was created in 1990 to support the correctional industries program. The program provides training to inmates to increase their skills and employment prospects after release. Training program areas include construction; renovation; and repairs of facilities, grounds, furniture, vehicles, and equipment for the correctional facilities, government agencies, and nonprofit organizations. The fund continues to serve the purpose for which it was created and is an appropriate financing mechanism for the program. Receipts from the sale or disposition of goods and services produced by the inmates are used to operate the training programs. Linkage between the benefits sought and charges assessed is evidenced. Inmates benefit from the training work program and receive pay from the sale of goods and services. The fund demonstrates the capacity to be self-sustaining and meets the criteria of a revolving fund.

Gifts to Department of Public Safety Trust Fund, Section 353-32, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$0	\$0	\$1.0	\$0.5
Receipts	0	0	0.7	0.3	10.0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	(0.8)	0
Transfers*	0	0	0.3	0	0
Ending Balance	\$0	\$0	\$1.0	\$0.5	\$10.5

*Funds transferred from the Administrator/Inmate Activity Account where gift moneys were kept prior to FY1995.

This account was created in 1995 to account for any gifts of money received by the department from sources other than the Legislature or the federal government. The fund is used as a holding account and does not require any general fund appropriations. The department has received gifts of money designated for the Toys for Keikis Project, inmate arts and crafts festival, Waiawa Father/Son Program, and food purchases for inmates.

Revolving Funds for Correctional Facility Stores, Section 353-31, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$273	\$333	\$432	\$385	\$470
Receipts	1,047	1,261	1,051	1,039	408
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(991)	(1,163)	(1,098)	(954)	(463)
Transfers*	4	1	0	0	0
Ending Balance	\$333	\$432	\$385	\$470	\$415

*Funds transferred from the Department of Human Services.

Three revolving funds were created in 1989 for stores at each of the correctional facilities: Oahu Community Correctional Center, Halawa Correctional Center, and Waiawa Correctional Center. The stores purchase items to resell to inmates. The funds continue to serve the purpose for which they were created. Moneys received from the sales of store items (i.e. candies and cigarettes) are deposited into the funds and used for purchasing more items for sales to inmates. Linkage between the benefits sought and user charges is clear—inmates benefit by being able to purchase items at the stores and are charged for such items. The funds are also self-sustaining. The revolving funds are appropriate financing mechanisms for the operation of inmate stores.

Prisoners' Trust Account (Not in State Treasury), Section 353-20, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$1,020	\$1,103	\$972	\$820	\$1,105
Receipts	3,805	3,907	5,083	4,893	3,143
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(3,722)	(4,038)	(5,235)	(4,608)	(3,231)
Transfers	0	0	0	0	0
Ending Balance	\$1,103	\$972	\$820	\$1,105	\$1,017

These accounts were created in 1989 to hold moneys earned by inmates through their labor or training programs. The accounts continue to serve their original purpose. Individual accounts are maintained for each inmate to collect all wages earned by the inmate. Inmates are permitted to withdraw funds from their accounts for purposes deemed proper. These accounts serve as holding accounts and require no general fund appropriations. Moneys in the accounts are paid to inmates once they are paroled or discharged.

Accounts Established Under Administrative Authority

Administrator/Inmate Activity Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$98	\$68	\$102	\$85	\$53
Receipts	22	84	47	30	21
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(53)	(50)	(54)	(62)	(51)
Transfers*	1	0	(10)	0	0
Ending Balance	\$68	\$102	\$85	\$53	\$23

* \$10,112 transferred to the Temporary Deposits-Payroll Assignment account. Prior to FY1995, all collections for salary overpayments were deposited into this account. In FY1995 the Temporary Deposits-Payroll Assignment account was established and the funds relating to salary overpayments were transferred to that account.

This account was established administratively in 1989 to purchase miscellaneous items for the benefit of all inmates. The account is funded through a 25 percent amount of net annual profits of the correctional facilities inmate stores and interest derived from inmate's compensation funds. The account continues to serve the purpose for which it was established. Moneys from this account are used to purchase food supplies for special activities, repair and maintain recreational equipment, and purchase musical instruments, televisions, VCRs, and videotapes. The account does not require any general fund appropriations.

Criminal Injuries Compensation Fund-Inmate Wages Withholding Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$2	\$6	\$19	\$67
Receipts	13	35	36	48	22
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(11)	(31)	(23)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$2	\$6	\$19	\$67	\$89

This account was created in 1993 as a holding account for a portion of the proceeds and wages owed to qualified, able-bodied inmates incarcerated for a violent crime. Amounts representing not less than five percent nor more than twenty percent of the earnings of all inmates incarcerated for a violent crime are deposited into the holding account and then paid to the criminal injuries compensation fund on a quarterly basis. The account continues to serve this purpose and requires no general fund appropriations.

Hurricane Iniki Insurance Proceeds Revolving Fund Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$73	\$65	\$48	\$48
Receipts	73	39	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(47)	(17)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$73	\$65	\$48	\$48	\$48

This fund was administratively created in 1993 to collect Hurricane Iniki insurance proceeds from the Federal Emergency Management Agency (FEMA) and the Department of Accounting and General Services. Proceeds were used to renovate and replace damaged equipment and building structures at the Kauai Community Correctional Center as a result of Hurricane Iniki. This fund does not meet the criteria of a revolving fund as no loans are repaid to the fund. A balance of \$47,600 remains. A revolving fund is not an appropriate financing mechanism for this program. This fund does not operate as a revolving fund but rather as a trust account.

Narcotics Enforcement Agency Trust Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 188	\$ 206	\$ 139	\$ 94	\$ 97
Receipts	33	24	1	25	341
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(15)	(91)	(46)	(22)	(142)
Transfers	0	0	0	0	0
Ending Balance	\$ 206	\$ 139	\$ 94	\$ 97	\$ 296

This account was established administratively in 1991 to hold forfeiture proceeds derived from unlawful activities. It continues to serve the purpose for which it was created and does not require any general fund appropriations. Revenues of this account are derived from a portion of the forfeited property and sale proceeds distributed to the department's Narcotics Enforcement Division. Funds are used only for narcotics law enforcement activities. Forfeiture funds are used for training, equipment, and operational supplies that enhance narcotics law enforcement operations.

Sheriff Division Processing Service Clearing Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 38
Receipts	0	0	0	103	78
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	(65)	(76)
Transfers	0	0	0	0	0
Ending Balance	\$ 0	\$ 0	\$ 0	\$ 38	\$ 40

This account was established administratively in 1996 to account for civil deputy service fees. The account continues to serve this purpose and requires no general fund appropriations. Individuals (the general public) deposit a fee into the account to cover the costs of civil deputies who serve legal documents for the courts. Deputies are independent contractors who are paid a fee after the legal papers are served. Any remaining moneys are refunded to the individual who paid for the service.

Temporary Deposits-Payroll Assignment Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$0	\$2	\$16	\$61
Receipts	0	2	16	72	54
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(12)	(27)	(26)
Transfers*	0	0	10	0	0
Ending Balance	\$0	\$2	\$16	\$61	\$89

* \$10,112 transferred from the Administrator/Inmate Activity Account where salary overpayments were kept prior to FY1995.

This account was established in 1994 to serve as a clearing account for salary overpayments. The account continues to serve this purpose. Salary overpayments made to department employees on leave without pay or who are no longer employed by the department are deposited into the account. Moneys are returned to the general fund for prior year collections or returned to the specific program that incurred the overpayment expense during the current year.

Chapter 5

Department of Taxation

This chapter presents the results of our review of one revolving fund, two trust funds, and ten trust accounts used by the Department of Taxation. For each fund and account, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first the funds established by statutory authority followed by those accounts established under administrative authority in alphabetical order.

Funds Established Under Statutory Authority

Litigated Claims Fund, Section 232-24, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$611	\$1,183	\$810	\$961	\$628
Receipts	1,406	401	484	315	1,658
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(834)	(774)	(333)	(648)	(565)
Transfers	0	0	0	0	0
Ending Balance	\$1,183	\$810	\$961	\$628	\$1,721

The Litigated Claims Fund was created in the 1930s as a holding account to collect moneys disbursed from the Taxes Paid Under Protest Accounts. The fund continues to serve the purpose for which it was created and does not require any general fund appropriations. The fund receives amounts in dispute when tax appeal cases are litigated. The disputed amount is disbursed to either the State or the taxpayer after the case is settled.

Tax Reserve Fund, Section 231-23, HRS

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$25	\$25	\$0	\$0	\$0
Receipts	325,992	324,153	398,689	332,737	328,390
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(325,992)	(324,178)	(398,689)	(332,737)	(328,390)
Transfers*	0	0	0	0	0
Ending Balance	\$25	\$0	\$0	\$0	\$0

The Tax Reserve Fund was created in the 1930s to enable the department to refund taxes collected. The fund is used as a clearing account and continues to serve its original purpose. The fund collects amounts disbursed from the Undistributed Tax Collection Account and disburses them to taxpayers as refunds on overpaid taxes. The fund meets the definition of a trust fund. Taxpayers who are due tax refunds benefit from the fund and have a vested interest in it.

Accounts Established Under Administrative Authority

Deposits-Real Property Tax Appeal Accounts

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$2	\$2	\$2	\$2	\$0
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	(2)	0
Transfers*	0	0	0	0	0
Ending Balance	\$2	\$2	\$2	\$0	\$0

These accounts were created in the 1930s to hold fees collected from taxpayers for their real property tax appeals made to the State Board of Review. Accounts were established for each of the four counties and continue to serve the purpose for which they were created. Fees are returned if the decision of the Supreme Court is in favor of the taxpayer. If the decision is in favor of the State, the fees are deposited into the Tax Reserve Fund as tax collections. If the decision is partially in favor of the taxpayer, the fees are prorated.

Hurricane Iniki Insurance Proceeds Revolving Fund Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$4	\$3	\$3	\$0
Receipts	5	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(1)	(1)	0	(3)	0
Transfers	0	0	0	0	0
Ending Balance	\$4	\$3	\$3	\$0	\$0

This account was administratively created in 1993 from moneys received from insurance proceeds through the Department of Accounting and General Services. Moneys from this account repaired office space and cars that were damaged by Hurricane Iniki at the Kauai Tax Office. The unused insurance proceeds were returned to the general fund during FY1995-96.

IRS Refund Intercept Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$115	\$291	\$425	\$477	\$393
Receipts	816	1,113	1,350	1,123	1,426
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(640)	(979)	(1,298)	(1,207)	(1,473)
Transfers	0	0	0	0	0
Ending Balance	\$291	\$425	\$477	\$393	\$346

This account was established in the 1930s to account for delinquent tax collections owed to the Internal Revenue Service (IRS). In accordance with a federal/state agreement, the department intercepts state tax refunds due Hawaii taxpayers to cover delinquent federal taxes owed by those taxpayers. The account continues to serve as a clearing account and does not require any general fund appropriations. Delinquent taxes owed to the IRS are collected from the Undistributed Tax Collection Account then are disbursed to the IRS.

Sale of Properties Delinquent Taxes Accounts

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$31	\$31	\$31	\$31	\$0
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	(31)	0
Transfers*	0	0	0	0	0
Ending Balance	\$31	\$31	\$31	\$0	\$0

These accounts were created in the 1930s as holding accounts for the proceeds received from property sales. Accounts were established for the districts of Honolulu, Maui, and Hawaii. Properties were sold to pay for delinquent real property taxes owed to the State. After paying all expenses incurred from the property sales, the remaining proceeds were disbursed to known beneficiaries. Unclaimed proceeds were deposited into the Department of Budget and Finance's Unclaimed Properties Program and any remaining proceeds due unknown beneficiaries were deposited into the general fund. The State no longer collects real property taxes and these accounts were closed during FY1995-96. According to the department, two other accounts were created for the same purpose—the Unsettled Tax Collections-1st Division-Honolulu Account and the Unsettled Tax Collections-Temporary Deposits Account. The Unsettled Tax Collections-Temporary Deposits Account was also closed during FY1995-96, however, the Unsettled Tax Collections-1st Division-Honolulu Account maintains a small balance. The department should also close this account.

Taxes Paid Under Protest Accounts

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$1,419	\$432	\$538	\$1,110	\$1,520
Receipts	193	545	883	2,165	3,873
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(1,180)	(439)	(311)	(1,755)	(805)
Transfers	0	0	0	0	0
Ending Balance	\$432	\$538	\$1,110	\$1,520	\$4,588

This account was created in the 1930s to collect amounts for taxes paid under protest. Taxes are disbursed from the Undistributed Tax Collection Accounts. Accounts are maintained for the Honolulu, Maui, and Kauai districts. The accounts continue to serve the purpose for which they were created and do not require any general fund appropriations. When a tax appeal case is litigated, the amounts in dispute are transferred to the Litigated Claims Fund. After the case is settled, the amount is disbursed to the State or the taxpayer depending on the final determination.

Taxes Payable to Counties-Fuel Accounts

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$0	\$6,050	\$0	\$0
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(51,806)	(53,500)	(64,636)	(60,910)	(61,701)
Transfers*	51,806	59,550	58,586	60,910	61,701
Ending Balance	\$0	\$6,050	\$0	\$0	\$0

*The transfers allocate the tax collections to the appropriate districts and counties.

This account was created in the 1950s to account for fuel tax collections payable to the counties. Separate accounts were established for the Honolulu, Maui, Hawaii, and Kauai districts. These accounts continue to serve as clearing accounts for fuel taxes and do not require any general fund appropriations.

Taxes Payable to Counties - Transient Accommodations Tax Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$5,082	\$5,188	\$6,491	\$6,411	\$5,608
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(70,823)	(71,323)	(78,640)	(92,431)	(96,258)
Transfers*	70,929	72,626	78,560	91,628	99,319
Ending Balance	\$5,188	\$6,491	\$6,411	\$5,608	\$8,669

*Transfers allocate the tax collections to the appropriate districts and counties.

This account was created in 1987 to deposit funds collected from the transient accommodations tax from which counties receive a portion. The account continues to serve the purpose for which it was created and does not require any general fund appropriations. Since FY1994-95, the State retained 4.17 percent of the total transient accommodations tax collections. Kauai County receives 11.48 percent; Hawaii County receives 14.72 percent; Maui County receives 18.05 percent; and the City and County of Honolulu receives 34.91 percent. The remaining 16.67 percent of the revenues collected are deposited into the Convention Center Capital and Operations Special Fund.

Temporary Deposits Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Receipts	0	1	1	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(1)	(1)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0

This account was established administratively in 1994 to account for overpayments to employees. The account continues to serve the purpose for which it was created and does not require any general fund appropriations. When overpaid wages are collected from the employee and deposited into the account, the amounts are then deposited in the Department of Accounting and General Services' Payroll Clearance Fund. The Payroll Clearance Fund is a trust account used to facilitate processing, disbursement, and reconciliation of the State's payroll.

Undistributed Tax Collections Accounts

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$211	\$314	\$294	\$261	(\$8,319)
Receipts	2,999,551	3,114,071	3,182,620	3,301,183	3,341,606
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(2,876,713)	(2,981,915)	(3,045,507)	(3,157,225)	(3,172,167)
Transfers*	(122,735)	(132,176)	(137,146)	(152,538)	(161,020)
Ending Balance**	\$314	\$294	\$261	(\$8,319)	\$100

*Transfers allocate tax collections to the appropriate districts and counties.

**FY1995-96 negative ending balance is attributed to a timing difference of posting transactions by the Departments of Taxation and Accounting and General Services.

These accounts were created in the 1930s to collect taxes for the various districts. Separate accounts were established for the districts of Honolulu, Maui, Hawaii, and Kauai. All taxes collected by the department are deposited into these accounts and then disbursed to other trust accounts. The accounts continue to serve as clearing accounts and do not receive any general fund appropriations. Moneys from the accounts may be disbursed to the Tax Reserve Fund to provide refunds to taxpayers for overpayments, the IRS Refund Intercept Account for delinquent taxes owed to the IRS, and the Taxes Paid Under Protest Accounts.

Unsettled Tax Collections-1st District-Honolulu Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$3	\$3	\$3	\$3	\$3
Receipts	0	0	0	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	\$3	\$3	\$3	\$3	\$3

This account was created in the 1930s as a holding account for the proceeds received from property sales. This account was created for the same purpose as the Sale of Properties Delinquent Taxes Accounts and the Unsettled Tax Collections-Temporary Deposits Account. Moneys

collected from the property sales were used to pay for delinquent real property taxes and expenses incurred to sell the property. The State no longer collects real property taxes and we recommend that the department close this account.

Unsettled Tax Collections-Temporary Deposits Account

Financial Data for Fiscal Years 1993-1997 (In Thousands)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Beginning Balance	\$ 148	\$ 148	\$ 148	\$ 110	\$ 0
Receipts	0	0	0	0	0
Appropriations	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(38)	(110)	0
Transfers*	0	0	0	0	0
Ending Balance	\$ 148	\$ 148	\$ 110	\$ 0	\$ 0

This account was created in the 1930s as a holding account for the proceeds received from property sales. This account was created for the same purpose as the Sale of Properties Delinquent Taxes Accounts and the Unsettled Tax Collections-1st District-Honolulu Account. Moneys collected from the sales were used to pay for delinquent real property taxes and expenses incurred to sell the property. The State no longer collects real property taxes and the department closed this account in FY1995-96.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this review to the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation. A copy of the transmittal letter to the Department of Human Resources Development is included as Attachment 1. Similar letters were sent to the Departments of Labor and Industrial Relations, Public Safety, and Taxation. A copy of the responses of the Department of Human Resources Development and Department of Labor and Industrial Relations are included as Attachments 2 and 3, respectively. The Department of Public Safety and the Department of Taxation did not submit written responses.

The Department of Human Resources Development responded that it was in partial agreement that the In-Service Training Revolving Fund is not financially self-sustaining. The department pointed out that the Legislature authorized the use of general fund appropriations when it established the fund. The Department of Labor and Industrial Relations responded that attempts were made to better define the purpose of the Employment and Training Fund and limit its use to benefit designated classes of persons in accordance with the definition of a trust fund. The department also commented on findings of our 1992 report and made a point of clarification that was incorporated into the report.

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 5, 1997

COPY

The Honorable James H. Takushi, Director
Department of Human Resources Development
Leiopapa A Kamehameha Building
235 South Beretania Street, 14th Floor
Honolulu, Hawaii 96813

Dear Mr. Takushi:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Review of Revolving and Trust Funds of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and the Department of Taxation*. We ask that you telephone us by Tuesday, December 9, 1997, 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 Monday, December 15, 1997.

The Departments of Labor and Industrial Relations, Public Safety, and Taxation; 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

BENJAMIN J. CAYETANO
GOVERNOR OF HAWAII



STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

ATTACHMENT 2

JAMES H. TAKUSHI
DIRECTOR

JAMES C. KIRCHHOFER
DEPUTY DIRECTOR

December 15, 1997

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

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STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to review and respond to recommendations set forth in your draft report, "Review of Revolving and Trust Funds of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and the Department of Taxation.

The Department of Human Resources Development is in partial agreement that the In-Service Training Revolving Fund is not financially self-sustaining. However, under Section 81-3, HRS, the Legislature, in establishing a revolving fund for this department's in-service training programs and activities, authorized the use of general fund appropriations.

The In-Service Training Revolving Fund has been instrumental and crucial in helping the department meet the training needs of state government employees. Funds have not only been used to pay for scheduled programs but also as seed money for the development of new programs that have been given high priority due to unforeseen circumstances. Expenses have also been paid from the fund for conference and consultant costs before registration fees have been fully collected. Registration fees deposited to the fund are used to develop and implement training programs to meet employee needs and upgrade employee skills on new or improved technology. These fees directly support the fund's requirement to be self-sustaining and to meet the public's demand that we be prudent and timely in the use of government funds. Consequently, much needed training has been

Ms. Marion Higa
Page 2

conducted from funds in a revolving account that were readily available and not lapsed at the end of each fiscal year. As the report indicates, there is a clear link between the benefits sought and the charges to users. This fund, while not entirely self-sustaining, is a very necessary supplement to training funds that would not otherwise be available from regular general fund appropriations.

Sincerely,

A handwritten signature in black ink, appearing to read "James H. Takushi". The signature is fluid and cursive, with a long horizontal stroke at the end.

JAMES H. TAKUSHI
Director of Human Resources Development

BENJAMIN J. CAYETANO
GOVERNOR



LORRAINE H. AKIBA
DIRECTOR

LEONARD AGOR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
830 PUNCHBOWL STREET
HONOLULU, HAWAII 96813

December 15, 1997

RECEIVED

DEC 16 3 25 PM '97

OFF. OF THE AUDITOR
STATE OF HAWAII

Honorable Marion M. Higa
State Auditor
Office of the Auditor
465 South King Street, Room 305
Honolulu, HI 96813-2917

Dear Ms. Higa:

In response to your December 5, 1997 letter, we provide comments to your draft report, copy number 9, Review of Revolving and Trust Funds of the Department of Human Resources Development, Department of Labor and Industrial Relations (DLIR), Department of Public Safety and Department of Taxation.

- (1) Special Compensation Fund (ref., draft report, page 12)

The statutory reference for the Workers' Compensation Special Compensation Fund should be Section 386-151, Hawaii Revised Statutes, instead of Section 383-151, HRS.

- (2) Special Fund for Disability Benefits (ref., draft report, page 11)

We do not believe that monies from this Fund, which were derived from a one-time assessment of employers, should be transferred to the General Fund. The fund continues to serve the purpose for which it was created and also serves that group of the population whose contributions created the Fund.

- (3) Special Premium Supplementation Fund (ref. draft report, page 12)

As indicated to previous auditors who reviewed this Fund in 1992 and in our subsequent testimony on bills before the Legislature to eliminate this Fund, substantive changes to the Prepaid Health Care statute will jeopardize the State's exemption to the national Employee Retirement Income Security Act (ERISA) which allows Hawaii to continue to mandate health care coverage for employees and their dependents. Repealing

Honorable Marion M. Higa
December 15, 1997
Page 2

the Fund may also violate a court-ordered mandate (reference, Council of Hawaii Hotels v. the Department of Labor and Industrial Relations, Civil No. 84-0047) that no substantive changes to the Prepaid Health Care law be allowed. In addition, payment of premium supplementation and medical benefits could be delayed should required payments exceed appropriated funds.

(4) Employment and Training Fund, (ref. draft report, page 10)

As cited in your draft, "...the attorney general concluded in 1993 that this fund is a trust fund and recommended that clarification of the characterization of the fund by legislative proposal be considered". Pursuant to this recommendation, attempts were made through Act 223, Session Laws of Hawaii, 1996, to better define the purpose of the Fund and limit its use to benefit designated classes of persons in accordance with the definition of a trust fund as established in Section 37-62, Hawaii Revised Statutes.

If you have any questions regarding our comments, please call me or have your staff contact Gordon Ing, DLIR Business Management Officer, at ext. (6)-8888.

Thank you for the opportunity to provide comments on your draft report.

Sincerely,



Lorraine H. Akiba
Director of Labor and
Industrial Relations