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

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

Report No. 02-15
October 2002



THE AUDITOR
STATE OF HAWAII

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 are 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.



THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 S. King Street, Room 500
Honolulu, Hawaii 96813

OVERVIEW

Report on the Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation

Report No. 02-15, October 2002

Summary

Section 23-12, Hawaii Revised Statutes, 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 or account, and the degree to which each fund or account achieves its stated and claimed purpose. These reviews are scheduled so that the funds and accounts administered by each state department will be reviewed once every five years. This is our second review of the revolving funds, trust funds, and trust accounts of the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.

Revolving funds are often established with an appropriation of seed money from the general fund. Revolving funds must demonstrate the capacity to be self-sustaining. Activities commonly financed through revolving funds include loan programs that are initially established with 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 assets held for those who will benefit from the trust fund. A pension fund is an example of a trust fund. *Trust accounts* are typically separate holding or clearing accounts for state agencies. A trust account is often used as an accounting device to credit or charge agencies or projects for payroll or other costs.

We reviewed a total of 37 funds and accounts: nine revolving funds, 11 trust funds, and 17 trust accounts. We used criteria established by the Legislature and developed by our office from a review of public finance literature. The revolving funds, trust funds, and trust accounts must continue to serve the purpose for which they were originally created and not require continuing general fund appropriations. In addition, revolving funds must reflect a clear link between the benefit sought and charges made upon the users or beneficiaries of the program, and be an appropriate financing mechanism for the program or operation. A trust fund must also provide benefits or services for its intended beneficiaries and meet the statutory definition of a trust fund. For each fund or account reviewed, we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not include any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We did not audit the agencies' financial data.



Recommendations and Response

We transmitted a draft of this review to the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. All agencies except the Department of Human Resources Development submitted written responses by the requested deadline.

The Department of Labor and Industrial Relations generally agreed with most of our review of its funds. However, the department disagreed with our conclusion to transfer unneeded fund balances from the Special Fund for Disability Benefits to the general fund. We continue to point out that the \$7.6 million fund balance is far in excess of the approximately \$77,000 it needs for annual expenses.

The Department of Public Safety also concurs with most of our review of its funds. However, it takes exception to our conclusion that the Controlled Substance Registration Revolving Fund lacks a clear link between benefits sought and the source of its revenues. After considering the department's argument, we continue to maintain that fees imposed on those handling or manufacturing prescription drugs have no direct link to the benefits of paying for the cost of an electronic accounting system and staff.

The Department of Taxation agreed with our review of its funds, and responded that it will close the Unsettled Tax Collections – 1st Division – Honolulu Account and seek a change in the statutory designation of the Tax Reserve Fund.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 02-15
October 2002

Foreword

This is a report of our review of revolving funds, trust funds, and trust accounts used by the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.

Section 23-12, Hawaii Revised Statutes, requires that the State Auditor review all existing revolving and trust funds every five years. These reviews are scheduled so that the funds and accounts administered by each state department will be reviewed once every five years. This is our second such review of the subject funds of these four departments.

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

Marion M. Higa
State Auditor

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Chapter 1

Introduction

This is a report of our review of revolving funds, trust funds, and trust accounts of the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. Section 23-12, Hawaii Revised Statutes (HRS), requires the State Auditor to submit a review of each revolving or trust fund every five years. These reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of revolving funds, trust funds, and trust accounts of the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. Our first report, issued in 1997 (Report No. 97-20), reviewed 35 revolving funds, trust funds, and trust accounts within these departments. In this report, we review a total of 37 revolving funds, trust funds, and trust accounts.

Background

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

We completed our review of special and revolving funds required by Act 240, SLH 1990, 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 be repealed, discontinued, or allowed to sunset in the future. We also found that many funds held cash balances far in excess of program needs and recommended that unneeded cash be transferred to the general fund.

In July 2001, we updated our 1992 review of special and revolving funds and presented the results of our review in Report No. 01-12. We found that 71 special and revolving funds had been repealed or discontinued. However, a majority (106 out of 166) of the funds previously reviewed were still in existence as of July 1, 1999.

Section 23-12, HRS, expands the concept of Act 240, SLH 1990, by requiring our office to review each revolving or trust fund at least once every five years. The section specifies that the review shall include, but not be limited to:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. An assessment of the degree to which each fund achieves its stated and claimed purposes;
3. An evaluation of the fund's performance standards established by the agency; and
4. A summary statement reflecting total fund transactions in the preceding five years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund, and the ending fund balance for each fiscal year.

Description of Revolving Funds, Trust Funds, and Trust Accounts

Revolving Funds

Section 37-62, HRS, defines a revolving fund as a fund

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 commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and then replenished through the repayment of loans. The State Motor Pool Revolving 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 those who will benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments deposited into the fund are held for beneficiaries of the pension fund. Another example is tenants' security deposits, which are held in trust for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust Accounts

The Department of Accounting and General Services defines a trust account as a separate holding or clearing account for state agencies. A trust account is often used as an accounting device to credit or charge agencies or individuals for project payrolls or other costs.

Criteria for Reviewing Revolving Funds, Trust Funds, and Trust Accounts

The criteria we used to review revolving funds are similar to the ones used in previous reviews of revolving funds. Specifically, they 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 are taken from Act 240, SLH 1990. Our office developed the third and fourth criteria 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;

- Does not require general fund appropriations; and
- Meets the definition of a trust fund.

The first two criteria are derived from the initial objectives of Section 23-12, HRS, which asks 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 the fund's 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 are used for the review of trust accounts. They are the extent to which each account:

- Continues to serve the purpose for which it was originally created; and
- Does not require general fund appropriations.

We also reviewed any performance standards established by each agency for its funds and accounts.

Objectives of the Review

1. Identify and review all revolving funds, trust funds, and trust accounts of the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.
2. For each of these revolving funds, trust funds, and trust accounts, determine the original intent and purpose of the fund or account, both pursuant to statute and as understood by the agency, and determine the degree to which the fund or account achieves its stated and claimed purposes.
3. Evaluate fund performance standards established by the agencies, where applicable.
4. Provide a five-year, unaudited financial summary for each fund or account reviewed.

Scope and Methodology

This review examines those revolving funds, trust funds, and trust accounts administered by the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation during the five-year period under review. We reviewed funds and accounts statutorily and administratively established.

We researched statutes, session laws, legislative history, and other supporting documents to determine each fund or account's intent and purpose. We also reviewed performance standards reported by the agencies, and determined that the standards identified were pertinent to our review in only one case.

To gain an understanding of fund operations, we obtained information from key fiscal and program personnel. In reviewing each fund or account, we applied the criteria previously defined in this chapter.

We also note that ending balances for FY1996-97 shown in our Report No. 97-20's financial summaries were estimates provided by the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation and may not correspond to beginning balances for FY1997-98 presented in the financial summaries in this report. Transfers are reported as a net amount for each respective year.

Our work was performed from June 2002 through August 2002 in accordance with generally accepted government auditing standards, except that we did not audit the agencies' financial data, and it is provided only for informational purposes.

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Chapter 2

Department of Human Resources Development

This chapter presents the results of our review of the Department of Human Resources Development's one revolving fund and two trust funds. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically, first the statutorily established funds, followed by the fund established under administrative authority.

Funds Established Under Statutory Authority

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$5	\$21	\$37	\$40	\$37
Prior Year Carryover	6	0	0	0	7
Revenues	51	48	22	43	12
Interest	0	0	0	0	0
Expenditures	(41)	(32)	(19)	(46)	(56)
Transfers	0	0	0	0	0
Ending Fund Balance	\$21	\$37	\$40	\$37	\$0
Encumbrances	\$8	\$26	\$9	\$7	\$0

This fund was established in 1978 to support the department's training programs for government employees. Expenses related to developing and conducting employee training programs are paid from the fund. Fees cover program expenses, such as instructor and trainee materials, books, audio-visual equipment and aids, consultant fees, and conference facilities. The fund meets the review criteria for a revolving fund. It continues to serve the purpose for which it was created, demonstrates the capacity to be financially self-sustaining, and is an appropriate mechanism for the operations it supports. A link exists between the benefits sought and the source of the funds' revenues. State agencies benefit from participation in the training programs and the registration fees for the programs are paid from their general fund appropriations.

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$541,710	\$635,330	\$736,406	\$820,599	\$800,690
Revenues	117,456	149,278	135,206	98,245	125,192
Interest	0	0	0	0	0
Expenditures	(23,836)	(48,202)	(51,013)	(118,154)	(130,133)
Transfers	0	0	0	0	0
Ending Fund Balance	\$635,330	\$736,406	\$820,599	\$800,690	\$795,749
Encumbrances	\$0	\$0	\$0	\$0	\$0

The Deferred Compensation Plan, an eligible plan under Section 457 of the United States Internal Revenue Code, is a voluntary tax-deferred supplemental retirement savings plan. The State Deferred Compensation Plan Trust Fund was established in 1983 as a holding account to segregate contributions and investment earnings 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 holds voluntary contributions and investment earnings for the benefit of employees who elect to defer a portion of their compensation to a future time. The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund. In addition, the department has established appropriate performance standards for evaluating investment option performance.

Fund Established Under Administrative Authority

University of Hawaii Non-Indemnity Payments Fund

Financial Data for Fiscal Years 2000-2002 (in thousands)

	FY2000	FY2001	FY2002
Beginning Fund Balance	\$0	\$0	\$0
Revenues	526	606	945
Interest	0	0	0
Expenditures	(526)	(606)	(945)
Transfers	0	0	0
Ending Fund Balance	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0

This fund was established to account for all non-indemnity benefits and costs associated with workers' compensation claims filed by University of Hawaii employees whose injury dates were prior to July 1, 1999. In March 2001, the department agreed to assume all claims management administration services for the program and to represent the university on related matters. All fund revenues are from the University of Hawaii. The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

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Chapter 3

Department of Labor and Industrial Relations

This chapter presents the results of our review of the Department of Labor and Industrial Relations' two revolving funds, five trust funds, and four trust accounts. 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 provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically, first the statutorily established funds, followed by the accounts established under administrative authority.

Inconsistencies and Confusion in Classifying and Operating Funds Persist

Several funds in the Department of Labor and Industrial Relations illustrate a point we have made in previous reports, that funds are classified and/or operated incongruently from their statutory designations. The confusion in classifying funds may be due to the inconsistency between the name given to a fund by the statute that establishes it; the accounting definitions provided by the Department of Accounting and General Services; and the definitions of special, revolving, and trust funds contained in the Hawaii Revised Statutes. The department has at least five funds with conflicting classifications. For example, the Special Fund for Disability Benefits, specifically designated in the Hawaii Revised Statutes as a special fund, is classified as a revolving fund by the Department of Accounting and General Services and is deemed a trust fund by the attorney general, based on its purpose or operation. The attorney general has recommended that such discrepancies be addressed legislatively.

Funds Established Under Statutory Authority

Boiler and Elevator Safety Revolving Fund, Section 397-5.5, HRS

Financial Data for Fiscal Years 1999-2002 (in thousands)

	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$0	\$544	\$770	\$1,302
Revenues	694	973	1,121	865
Interest	9	26	63	54
Expenditures	(159)	(773)	(652)	(616)
Transfers	0	0	0	0
Ending Fund Balance	\$544	\$770	\$1,302*	\$1,605*
Encumbrances	\$0	\$0	\$0	\$0

* FY2000-01 and FY2001-02 ending balances exceed \$1.2 million. Section 397-5.5, HRS, requires the deposit of balances in excess of \$1.2 million to the State's general fund.

This fund was established in 1998 to support the department's boiler and elevator inspection branch and provide materials, salaries, equipment, and training for employees performing inspection services. Revenues are from fees charged to inspect boilers, pressure systems, elevators, kindred equipment, and amusement rides; and short-term investments. The fund meets the review criteria for a revolving fund. It continues to serve the purpose for which it was created, demonstrates the capacity to be financially self-sustaining, and is an appropriate mechanism for the operations it supports. A link exists between the benefits sought and the source of the funds' revenues because owners, users, contractors, and vendors pay fees for the inspection and issuance of permits to install or operate their boilers, pressure systems, elevators, and amusement rides. In FY2000-01 and FY2001-02, the fund's ending balances exceeded the maximum of \$1.2 million set by law. Section 397-5.5, HRS, requires that balances in excess of \$1.2 million at fiscal year-end be deposited into the State's general fund. The Boiler and Elevator Safety Revolving Fund is scheduled for repeal on July 31, 2003.

Employment and Training Special Fund, Section 383-128, HRS

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$11,206	\$10,699	\$8,994	\$9,193	\$6,297
Revenues	1,065	493	4,539	3,497	2,019
Interest	588	373	361	460	206
Expenditures	(2,160)	(2,571)	(4,701)	(6,853)	(4,835)
Transfers	0	0	0	0	0
Ending Fund Balance	\$10,699	\$8,994	\$9,193	\$6,297	\$3,687
Encumbrances	\$6,320	\$1,882	\$2,511	\$1,284	\$0

This fund was established in 1991 to assist employers and workers by providing them with programs to improve the long-term employability of Hawaii's people. Moneys in the fund may be used for the operation of state employment services for which no federal funds have been allocated, such as business-, industry-, employer-, or job-specific training programs; and retraining. Revenues are primarily from a 0.01 percent employer assessment on employees' wages that are taxable for unemployment insurance. Employers, who provide the fund's sole revenue source, indirectly benefit by having better skilled employees on the job as a result of the program. However, specific classes of unemployed persons may also access the fund even though they do not contribute to it. The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

However, this fund was established by statute as a special fund. In 1993, the attorney general concluded that this fund is a trust fund and recommended consideration of a legislative proposal clarifying the fund's characterization.

Hoisting Machine Operators' Certification Revolving Fund, Section 396-20, HRS

Financial Data for Fiscal Year 1999 (in thousands)

	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$0	\$0	\$0	\$0
Revenues	50	0	0	0
Interest	0	0	0	0
Expenditures	(38)	0	0	0
Transfers*	(12)	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0

* \$12,500 of the original \$50,000 start-up appropriation was transferred back to the State's general fund.

This fund was established in 1998 to support the certification and oversight of hoisting machine operators. The fund has not been active because administrative rules detailing the schedule of certification fees and penalties are still undergoing the approval process. Revenues to the fund will come from application and certification fees from hoisting machine operators. The fund's expenses will include personnel and operating costs for an advisory board, preparation and dissemination of information on hoisting machine operators' certification, and training. The fund is an appropriate financing mechanism and is expected to serve its intended purpose; however, we cannot determine its self-sufficiency until it becomes operational.

Special Compensation Fund, Section 386-151, HRS

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$16,524	\$13,092	\$14,718	\$13,025	\$13,433
Revenues	12,978	17,532	14,705	15,560	21,505
Interest	730	625	598	757	562
Expenditures	(17,140)	(16,531)	(16,996)	(15,909)	(16,956)
Transfers	0	0	0	0	0
Ending Fund Balance	\$13,092	\$14,718	\$13,025	\$13,433	\$18,544
Encumbrances	\$0	\$0	\$0	\$7,997	\$0

This fund was established 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 employees' losses sustained while 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. Revenues are from 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 fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

However, the department classifies this fund as a special fund and in our prior reviews we found that it met the criteria of a special fund. In 1994, the attorney general concluded that the Special Compensation Fund is a trust fund or functions as a trust fund. We recommend that the department clarify the classification of this fund.

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$6,353	\$6,632	\$6,915	\$7,194	\$7,596
Revenues	1	1	18	0	0
Interest	346	333	308	450	307
Expenditures	(68)	(51)	(47)	(48)	(77)
Transfers	0	0	0	0	0
Ending Fund Balance	\$6,632	\$6,915	\$7,194	\$7,596	\$7,826
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1969 to pay benefits to individuals who become temporarily disabled while 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 on employers was used to establish the fund. Since then, revenues are primarily from interest income and receipts from fines and penalties enforced through the Temporary Disability Insurance Law.

The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

However, the Special Fund for Disability Benefits was statutorily established as a special fund. The Department of Accounting and General Services classifies it as a revolving fund. In 1986, the attorney general concluded that this fund falls within the definition of a trust fund. We recommend that the department clarify the classification of this fund. Also, in previous reviews, we have recommended that unneeded cash from this fund’s substantial balance be transferred to the general fund; however, the fund balance remains far in excess of operating needs.

Special Premium Supplementation Fund, Section 393-41, HRS

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$2,918	\$2,993	\$3,116	\$3,209	\$3,347
Revenues	0	5	1	0	0
Interest	156	148	133	199	135
Expenditures	(81)	(30)	(41)	(61)	(47)
Transfers	0	0	0	0	0
Ending Fund Balance	\$2,993	\$3,116	\$3,209	\$3,347	\$3,435
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1974 to supplement health care insurance premium payments for certain employers with fewer than eight employees. In 1978, prepaid health care benefits coverage was added for employees who are entitled to receive benefits but whose employers are bankrupt or noncompliant with the state’s Prepaid Health Care Act. The fund was established by an initial appropriation from the State’s general fund. Since then, revenues have been primarily from interest income and receipts from fines and penalties collected under the Prepaid Health Care Act. Interest earned on the fund balance has substantially exceeded expenditures.

The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund. We have previously reported that the fund does not meet the criteria for a revolving fund as there is little linkage between benefits sought and charges made upon users. We continue to recommend that this fund be repealed and budgeted through the general fund.

However, the Special Premium Supplementation Fund was statutorily established as a special fund, but is classified by the Department of Accounting and General Services as a revolving fund. In 1986, the

attorney general concluded that the fund falls within the definition of a trust fund. We recommend that the department clarify the fund's classification.

Unemployment Compensation Fund, Section 383-121, HRS

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$212,003	\$217,871	\$232,221	\$274,559	\$324,064
Revenues	162,747	155,242	153,269	145,936	165,798
Interest	11,344	15,374	16,473	19,686	20,562
Expenditures	(168,223)	(156,266)	(127,404)	(116,117)	(213,773)
Transfers	0	0	0	0	0
Ending Fund Balance	\$217,871	\$232,221	\$274,559	\$324,064	\$296,651
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1937 to provide temporary income to unemployed individuals as required by the federal Social Security and National Employment Acts. The program pays benefits to eligible unemployed individuals and is financed primarily through payroll taxes assessed on employers and interest earned on the fund balance.

The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

However, the Unemployment Compensation Fund was statutorily established as a special fund and classified accordingly by the Department of Accounting and General Services. The attorney general has concluded that the fund falls within the definition of a trust fund or functions as a trust fund. We recommend that the department clarify the classification of this fund.

Accounts Established Under Administrative Authority

Non-Profit Employers Deposit Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$686	\$596	\$596	\$600	\$606
Revenues	1	4	5	6	5
Interest	0	0	0	0	0
Expenditures	(91)	(4)	(1)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$596	\$596	\$600	\$606	\$611
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1972 as a holding, or escrow account for security deposits as required under the Hawaii Employment Security Law. Any non-profit organization that elects to become liable for unemployment benefit payments in lieu of contributions is required to deposit a sum of money as security with the department. These security deposits are the account's sole revenue source. Once a non-profit organization terminates its liability, the deposit is returned to the non-profit organization, minus deductions for any unpaid unemployment benefit charges. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Temporary Deposits Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$33	\$33	\$33	\$33	\$33
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$33	\$33	\$33	\$33	\$33
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1970 as a holding account for bonds posted upon filing appeals to the Hawaii Supreme Court. These bonds were required to defray court costs. If there were no court costs upon final disposition of the appeal, the bond was refunded to the appellant. This account does not meet the review criteria for a trust account and should be closed. It no longer serves its original purpose, as bonds are

no longer required. However, a balance of \$33,000 has remained unresolved in the account for at least eight years. The department recognizes that the account is no longer needed and is working on closing it.

Temporary Disability Insurance Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$18	\$18	\$19	\$2	\$2
Revenues	1	1	1	0	2
Interest	0	0	0	0	0
Expenditures	(1)	0	(18)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$18	\$19	\$2	\$2	\$4
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1970 to account for excessive or unauthorized temporary disability insurance and prepaid health care premium withholdings that were owed to terminated employees who could not be located by their employers. Terminated employees receive refunds if they are located. However, if the employee cannot be located after two years, moneys are deposited into the Special Fund for Disability Benefits or the Special Premium Supplementation Fund. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Wage Claim Fund Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$207	\$228	\$438	\$922	\$1,158
Revenues	138	463	497	607	179
Interest	0	0	0	0	0
Expenditures	(117)	(253)	(13)	(371)	(563)
Transfers	0	0	0	0	0
Ending Fund Balance	\$228	\$438	\$922	\$1,158	\$774
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1987 as a holding account for back pay collections and disbursements owed to employees. Back wages are collected from employers and disbursed to employees as a result of investigations conducted by the Wage Standards Division. If an

employee is owed back wages and cannot be located within one year, the back wages are deposited into the state treasury. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Chapter 4

Department of Public Safety

This chapter presents the results of our review of the Department of Public Safety's six revolving funds, two trust funds, and seven trust accounts. 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 provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present alphabetically, first the statutorily established funds and accounts, followed by the funds and accounts established under administrative authority.

Funds and Accounts Established Under Statutory Authority

Controlled Substance Registration Revolving Fund, Section 329-59, HRS

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$78	\$269	\$408	\$483	\$532
Revenues	266	275	261	300	329
Interest	0	0	0	0	0
Expenditures	(75)	(136)	(186)	(251)	(257)
Transfers	0	0	0	0	0
Rounding Adjustment*	0	0	0	0	2
Ending Fund Balance	\$269	\$408	\$483	\$532	\$606
Encumbrances	\$28	\$7	\$42	\$51	\$9

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

This fund was established to improve the efficiency and cost-effectiveness of the State's ability to stop illegal diversion of prescription drugs. The fund has three purposes: (1) to offset the cost of an electronic prescription accountability system, (2) to offset the cost of registering and controlling the manufacture, distribution, prescription, and dispensation of controlled substances and regulated chemicals, and (3) to fund positions authorized by the Legislature. The fund's revenues are from registration fees relating to the manufacture and handling of controlled substances, regulated chemicals, and medical use marijuana. The fund supports the electronic prescription accountability system, which serves as a central repository of information on all dispensed controlled substances, three investigator positions, and one data processing systems analyst. While the fund continues to serve its

original purpose, there is no clear link between the benefits sought and the source of the funds' revenue. The fund primarily benefits the Department of Public Safety by providing a revenue source to offset operating costs of the Narcotics Enforcement Division; however, it is financed through fees collected from those who handle controlled substances. In addition, the fund is not self-sustaining because the Narcotics Enforcement Division requires some general fund support. This fund does not meet the review criteria for a revolving fund and is not an appropriate mechanism for the operations it supports. We reiterate our previous recommendation to repeal the Controlled Substance Registration Revolving Fund.

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$1,153	\$682	\$801	\$552	\$398
Revenues	5,034	5,661	4,773	5,124	4,965
Interest	0	0	0	0	0
Expenditures	(5,505)	(5,542)	(5,021)	(5,277)	(5,187)
Transfers	0	0	0	0	0
Rounding Adjustment*	0	0	(1)	(1)	3
Ending Fund Balance	\$682	\$801	\$552	\$398	\$179
Encumbrances	\$200	\$188	\$537	\$480	\$312

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

This fund was established in 1990 to account for transactions of the department's Correctional Industries Program. This program provides inmates with specific training skills in a workplace environment to improve their employment prospects after release. Receipts from the sale of goods and services produced by inmates are used to support the vocational training program. The fund meets the review criteria for a revolving fund. It continues to serve the purpose for which it was created, demonstrates the capacity to be financially self-sustaining, and is an appropriate mechanism for the operations it supports. A link between the benefits sought and the source of the funds' revenues exists, as inmates benefit from the training and also receive pay from the sale of their goods and services.

Correctional Program Revolving Fund, Section 353-33, HRS

This fund was established to offset the cost of inmate programs. Revenues were derived from fees charged to committed or detained persons participating in correctional programs. The fund was closed in

1996 due to inactivity; however, Section 353-33, HRS, still requires its existence. We recommend a legislative reassessment of the need for, or repeal of, this section.

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$10	\$11	\$15	\$3	\$3
Revenues	1	7	0	10	0
Interest	0	0	0	0	0
Expenditures	0	(3)	(12)	(10)	(3)
Transfers	0	0	0	0	0
Ending Fund Balance	\$11	\$15	\$3	\$3	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1995 as a holding account for monetary gifts received by the department from sources other than the Legislature or the federal government. The department has received monetary gifts designated for the Toys for Keikis Project, inmate arts and crafts festival, Waiawa Father/Son Program, and food purchases for inmates. The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$963	\$1,130	\$1,015	\$1,038	\$921
Revenues	4,990	5,177	4,920	5,548	4,513
Interest	0	0	0	0	0
Expenditures	(4,823)	(5,292)	(4,897)	(5,666)	(4,362)
Transfers	0	0	0	0	0
Rounding Adjustment*	0	0	0	1	0
Ending Fund Balance	\$1,130	\$1,015	\$1,038	\$921	\$1,072
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

These accounts were established in 1989 as holding accounts for moneys earned by inmates through their labor or training programs. Individual accounts are maintained for each inmate to collect all wages earned. The department reports that 7,818 of these accounts currently exist. Inmates are permitted to withdraw funds from their accounts for approved purposes. The balance remaining in the account is paid to the inmates upon parole or discharge. These accounts meet the review criteria for trust accounts. They continue to serve their original purpose and do not require general fund appropriations.

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

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$429	\$391	\$622	\$734	\$771
Revenues	648	832	178	66	79
Interest	0	0	0	0	0
Expenditures	(687)	(600)	(66)	(29)	(30)
Transfers	0	0	0	0	0
Rounding Adjustment*	1	(1)	0	0	0
Ending Fund Balance	\$391	\$622	\$734	\$771	\$820
Encumbrances	\$77	\$35	\$13	\$1	\$0

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

Three revolving funds were established in 1989 for stores at the Oahu Community, Halawa, and Waiawa correctional centers. The stores stock items, such as health products, recreational clothing, cigarettes, snacks, and paper supplies for resale to inmates. According to the department, store services are contracted to outside vendors, from whom the department receives a 2.5 percent rebate. Rebates are used to purchase store supplies and equipment, and to pay wages of inmates who work at the stores inspecting and packaging merchandise. These funds meet the review criteria for revolving funds. They continue to serve the purpose for which they were created, demonstrate the capacity to be financially self-sustaining, and are an appropriate mechanism for the operations they support. A link exists between the benefits sought and the source of the funds' revenues.

Funds and Accounts Established Under Administrative Authority

Administrator/Inmate Activity Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$21	\$25	\$41	\$58	\$57
Revenues	28	40	47	30	52
Interest	0	0	0	0	0
Expenditures	(24)	(24)	(31)	(30)	(69)
Transfers	0	0	0	0	0
Rounding Adjustment*	0	0	1	(1)	2
Ending Fund Balance	\$25	\$41	\$58	\$57	\$42
Encumbrances	\$1	\$7	\$8	\$3	\$6

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

This account was established in 1989 to purchase miscellaneous items for the benefit of all inmates. The account is funded by 25 percent of the correctional facilities inmate stores' net annual profits and interest derived from a commercial banking account that maintains the Prisoners' Trust Accounts. 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 meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Criminal Injuries Compensation Fund - Inmate Wages Withholding Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$90	\$150	\$150	\$150	\$150
Revenues	60	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$150	\$150	\$150	\$150	\$150
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1993 as a holding account for a portion of the proceeds and wages owed to qualified, able-bodied inmates incarcerated for violent crimes. Amounts representing not less than 5

percent nor more than 20 percent of the earnings of inmates incarcerated for violent crimes are deposited into this holding account and subsequently deposited into the Criminal Injuries Compensation Fund on a quarterly basis. The Crime Victims Compensation Fund, created by the Legislature in 1998, currently performs the functions of this account, making it obsolete. The department reports that efforts are underway to transfer the balance in the Criminal Injuries Compensation Fund - Inmate Wages Withholding Account to the Crime Victims Compensation Fund. The account should be closed once the proper disposition of its balance has been determined.

Detwiler Foundation Computers for Schools Trust Fund

Financial Data for Fiscal Year 1998 (in thousands)

	FY1998
Beginning Fund Balance	\$0
Revenues	2
Interest	0
Expenditures	(2)
Transfers	0
Ending Fund Balance	\$0
Encumbrances	\$0

This fund was established to support a program to repair and refurbish computers for public schools. Revenues from a not-for-profit foundation provided materials and vocational training for inmates to repair and refurbish computers for Hawaii’s public schools. Funding was received for only one year, and the account was subsequently closed. No appropriations from the general fund were required.

Drug Law Enforcement Equipment Procurement Trust Account

Financial Data for Fiscal Years 1999-2002 (in thousands)

	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$0	\$331	\$774	\$224
Revenues	331	1,302	972	2,772
Interest	0	0	0	0
Expenditures	0	(859)	(1,522)	(259)
Transfers	0	0	0	0
Rounding Adjustment*	0	0	0	(1)
Ending Fund Balance	\$331	\$774	\$224	\$2,736
Encumbrances	\$0	\$0	\$0	\$0

* Rounding adjustments are made to reconcile to the agency’s reported ending balance.

This account was established to serve as a clearing account for funds received from state and county law enforcement agencies' purchases of drug law enforcement equipment and supplies from the federal government. The department acts as the State's point of contact for these purchases. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Hurricane Iniki Insurance Proceeds Revolving Fund Account

Financial Data for Fiscal Year 1998 (in thousands)

	FY1998
Beginning Fund Balance	\$48
Revenues	0
Interest	0
Expenditures	(48)
Transfers	0
Ending Fund Balance	\$0
Encumbrances	\$0

This fund was established in 1993 to account for proceeds from the Federal Emergency Management Agency and the Department of Accounting and General Services. Equipment and buildings at the Kauai Community Correctional Center, damaged in Hurricane Iniki, were repaired or replaced with the proceeds. This fund did not meet the review criteria for a revolving fund as no loans were repaid to the fund. The fund was not an appropriate financing mechanism for this program. The fund operated more like a trust account than a revolving fund. It was closed in November 1997.

Narcotics Enforcement Agency Trust Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$289	\$193	\$165	\$178	\$164
Revenues	14	162	107	60	31
Interest	0	0	0	0	0
Expenditures	(110)	(190)	(94)	(74)	(98)
Transfers	0	0	0	0	0
Rounding Adjustment*	0	0	0	0	1
Ending Fund Balance	\$193	\$165	\$178	\$164	\$98
Encumbrances	\$106	\$14	\$15	\$0	\$0

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

This account was established in 1991 to hold forfeiture proceeds derived from unlawful activities. The department's Narcotics Enforcement Division receives a portion of forfeiture receipts when it participates in law enforcement activities with other state and federal agencies. According to the department, funds are used only for goods and services that enhance narcotics law enforcement operations, such as training, equipment, and operational supplies. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Personnel/Other Expenditures - Controlled Substances Revolving Fund

Financial Data for Fiscal Years 2000-2002 (in thousands)

	FY2000	FY2001	FY2002
Beginning Fund Balance	\$0	\$15	\$1
Revenues	50	0	0
Interest	0	0	0
Expenditures	(35)	(14)	0
Transfers	0	0	0
Ending Fund Balance	\$15	\$1	\$1
Encumbrances	\$0	\$0	\$0

This fund was established to account for a FY1999-2000 appropriation from the Controlled Substance Registration Revolving Fund. The funds were used to pay for an outside vendor's contract to maintain the central repository for controlled substances. This fund does not meet the review criteria for a revolving fund and is not an appropriate mechanism for the operations it supports. We recommend that the necessary steps be taken to close this fund.

Sheriff Division Processing Service Clearing Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$43	\$44	\$53	\$55	\$68
Revenues	110	116	171	84	24
Interest	0	0	0	0	0
Expenditures	(109)	(107)	(169)	(71)	(32)
Transfers	0	0	0	0	0
Rounding Adjustment*	0	0	0	0	1
Ending Fund Balance	\$44	\$53	\$55	\$68	\$61
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Rounding adjustments are made to reconcile to the agency's reported ending balance.

This account was established in 1996 to account for civil deputy service fees. Civil process services user fees are deposited into the account to cover the costs of serving legal documents for the courts. Civil process servers are independent contractors who are paid a fee for serving legal papers. Any remaining moneys are refunded to the individual who paid for the service. Civil process servers on Oahu have been required to self-administer service fees and deal directly with their clients since July 1, 2001. However, the account is still maintained for neighbor island services. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Temporary Deposits – Payroll Assignment Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$98	\$184	\$270	\$606	\$835
Revenues	123	214	336	230	185
Interest	0	0	0	0	0
Expenditures	(37)	(128)	(0)	(1)	(293)
Transfers	0	0	0	0	0
Ending Fund Balance	\$184	\$270	\$606	\$835	\$727
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1994 to serve as a clearing account for salary overpayments. Salary overpayments made to departmental employees who are on leave without pay or 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. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

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Chapter 5

Department of Taxation

This chapter presents the results of our review of the Department of Taxation’s two trust funds and six trust accounts. 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 provide any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first the statutorily established fund, followed alphabetically by the fund and accounts established under administrative authority.

Fund Established Under Statutory Authority

Tax Reserve Fund, Section 231-23, HRS

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002*
Beginning Fund Balance	\$0	\$0	\$3,192	\$0	\$0
Revenues	282,574	302,391	312,271	328,428	362,660
Interest	0	0	0	0	0
Expenditures	(282,574)	(299,199)	(315,463)	(328,428)	(368,141)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$3,192	\$0	\$0	\$(5,481)
Encumbrances	\$0	\$3,192	\$0	\$0	\$0

* The FY2001-02 negative ending balance is attributable to a timing difference in posting transactions between the departments of Taxation and Accounting and General Services.

This fund was established as a clearing account to enable the department to refund taxes collected. The fund collects amounts from the Undistributed Tax Collections Accounts and disburses them to taxpayers as refunds on overpaid taxes. Taxpayers who are owed tax refunds benefit from the fund and have a vested interest in it. The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

However, the Legislature established this fund as a special fund. The Department of Taxation operates it as a trust fund, and it is classified accordingly by the Department of Accounting and General Services. We recommend that the Department of Taxation take steps to change the fund’s statutory designation if it cannot be properly operated within that designation.

Fund and Accounts Established Under Administrative Authority

IRS Refund Intercept Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$346	\$180	\$1	\$1	\$1
Revenues	965	53	0	0	0
Interest	0	0	0	0	0
Expenditures	(1,131)	(232)	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$180	\$1	\$1	\$1	\$1
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust account was established as a clearing 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 owed to Hawaii taxpayers to cover delinquent federal taxes owed by those taxpayers. Delinquent taxes owed to the IRS are disbursed from the Undistributed Tax Collections Accounts to this account and subsequently disbursed to the IRS. Although the account is currently inactive, the department periodically evaluates the continued need for it. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Litigated Claims Fund

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$1,721	\$2,454	\$871	\$2,238	\$5,171
Revenues	2,097	345	1,761	4,117	4,842
Interest	0	0	0	0	0
Expenditures	(1,364)	(1,928)	(394)	(1,184)	(8,548)
Transfers	0	0	0	0	0
Ending Fund Balance	\$2,454	\$871	\$2,238	\$5,171	\$1,465
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established as a holding account for amounts in dispute when tax appeal cases are litigated. The disputed amount is disbursed to either the State's general fund or the taxpayer after the case is settled. The fund meets the review criteria for a trust fund. It continues to serve its original purpose, provides the benefits originally intended to the beneficiaries, does not require general fund appropriations, and meets the definition of a trust fund.

Taxes Paid Under Protest Accounts

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$4,588	\$3,986	\$1,467	\$2,630	\$6,526
Revenues	1,205	944	1,780	4,686	665
Interest	0	0	0	0	0
Expenditures	(1,807)	(3,463)	(617)	(790)	(1,184)
Transfers	0	0	0	0	0
Ending Fund Balance	\$3,986	\$1,467	\$2,630	\$6,526	\$6,007
Encumbrances	\$0	\$0	\$0	\$0	\$0

These accounts were established to collect amounts related to taxes paid under protest. Moneys are disbursed from the Undistributed Tax Collections Accounts to the Taxes Paid Under Protest Accounts. When a tax appeal case is litigated, the amounts in dispute are disbursed to the Litigated Claims Fund. Separate accounts were established for the Honolulu, Maui, and Kauai districts. The accounts meet the review criteria for trust accounts. They continue to serve their original purpose and do not require general fund appropriations.

Taxes Payable to Counties - Fuel Accounts

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$0	\$0	\$5,268	\$0	\$5,368
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(60,680)	(55,142)	(65,649)	(58,507)	(63,067)
Transfers*	60,680	60,410	60,381	63,875	57,699
Ending Fund Balance	\$0	\$5,268	\$0	\$5,368	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

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

These accounts were established in the 1950s as clearing accounts for fuel tax collections payable to the counties. Separate accounts were established for the Honolulu, Maui, Hawaii, and Kauai districts. The accounts meet the review criteria for trust accounts. They continue to serve their original purpose and do not require general fund appropriations.

Taxes Payable to Counties – Transient Accommodations Tax Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$8,669	\$9,227	\$6,171	\$6,157	\$4,707
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(100,044)	(84,803)	(75,533)	(80,819)	(71,697)
Transfers*	100,602	81,747	75,519	79,369	66,990
Ending Fund Balance	\$9,227	\$6,171	\$6,157	\$4,707	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

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

This account was established in 1987 to deposit the portion of transient accommodations tax owed to the counties. Beginning on January 1, 1999, the transient accommodations tax collections are allocated as follows: the Convention Center Capital Special Fund receives 17.3 percent, the Tourism Special Fund receives 37.9 percent, and the counties share the remaining 44.8 percent. The 44.8 percent county allocation is then distributed as follows: Kauai County receives 14.5 percent, Hawaii County receives 18.6 percent, Maui County receives 22.8 percent, and the City and County of Honolulu receives 44.1 percent. The account meets the review criteria for a trust account. It continues to serve its original purpose and does not require general fund appropriations.

Undistributed Tax Collections Accounts

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998*	FY1999*	FY2000*	FY2001	FY2002
Beginning Fund Balance	\$100	\$(1,535)	\$(19,510)	\$(1,123)	\$1,559
Revenues	3,355,243	3,378,801	3,576,277	3,753,996	3,659,508
Interest	0	0	0	0	0
Expenditures	(3,195,597)	(3,254,621)	(3,421,992)	(3,608,076)	(3,313,933)
Transfers**	(161,281)	(142,155)	(135,898)	(143,238)	(124,687)
Ending Fund Balance	\$(1,535)	\$(19,510)	\$(1,123)	\$1,559	\$222,447
Encumbrances	\$0	\$0	\$0	\$0	\$0

* The FY1997-98-FY1999-2000 negative ending balances are attributable to timing differences in posting transactions between the departments of Taxation and Accounting and General Services.

** Transfers primarily allocate fuel and transient accommodations tax collections from the Undistributed Tax Collections Accounts to the appropriate districts and counties.

These accounts were established as clearing accounts for taxes collected on behalf of the various districts. Separate accounts were established for the Honolulu, Maui, Hawaii, and Kauai districts. All taxes collected by the department are deposited into these accounts and then disbursed to other trust accounts. Funds and accounts receiving disbursements from these accounts may include the Tax Reserve Fund (to provide taxpayers refunds for overpayments), the IRS Refund Intercept Account (for delinquent taxes owed to the IRS), the Taxes Paid Under Protest Accounts, the Taxes Payable to Counties - Fuel Accounts, and the Taxes Payable to Counties - Transient Accommodations Tax Account. The accounts meet the review criteria for trust accounts. They continue to serve their original purpose and do not require general fund appropriations.

Unsettled Tax Collections – 1st Division - Honolulu Account

Financial Data for Fiscal Years 1998-2002 (in thousands)

	FY1998	FY1999	FY2000	FY2001	FY2002
Beginning Fund Balance	\$3	\$3	\$3	\$3	\$3
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$3	\$3	\$3	\$3	\$3
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established as a holding account for proceeds received from property sales. Moneys collected from property sales were used to pay for delinquent real property taxes and expenses incurred to sell the properties. The State no longer collects real property taxes, and the account has been inactive for at least ten years. We reiterate our prior report's recommendation to close this account.

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Responses of the Affected Agencies

Comments on Agency Responses

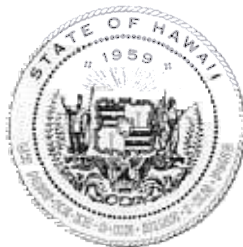
We transmitted a draft of this review to the departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation on September 18, 2002. A copy of the transmittal letter to the Department of Human Resources Development is included as Attachment 1. Similar letters were sent to the departments of Labor and Industrial Relations, Public Safety, and Taxation. The responses from the departments of Labor and Industrial Relations, Public Safety, and Taxation are included as Attachments 2, 3, and 4, respectively. The Department of Human Resources Development did not submit a written response by the requested deadline.

The Department of Labor and Industrial Relations generally concurs with most of our review of its funds. However, the department disagreed with our conclusion that unneeded fund balances be transferred from the Special Fund for Disability Benefits to the general fund. The department noted that the program has been self-sustaining for over 30 years and was established through a special assessment on employers and not from general fund appropriations. We reiterate our basic conclusion that the \$7.6 million fund balance earns over \$300,000 of interest annually, which is far more than needed to fund the approximately \$77,000 in annual expenditures. In addition, the fund balance has increased over \$1 million in five years while the average annual expenditures, for the same period, have been less than \$60,000 per year.

The Department of Public Safety generally concurs with most of our review of its funds. However, it takes exception with our conclusion that the Controlled Substance Registration Revolving Fund lacks a clear link between the benefits sought and the source of its revenues. The department responded that physicians, hospitals, pharmacies, and others receive direct benefits from the revenues they provide to the fund. However, we note that the statutory purpose of the fund is to stop the illegal diversion of prescription drugs while protecting the patients' interest. Since the fund revenues are derived from fees imposed on those handling or manufacturing prescription drugs, we find no clear link to the expenses of the fund—paying for an electronic accounting system and staff.

The Department of Taxation agreed with our review of its funds. The department noted that it will close the Unsettled Tax Collections – 1st Division – Honolulu Account, and seek a change in the statutory designation of the Tax Reserve Fund.

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

September 18, 2002

COPY

The Honorable Davis K. Yogi, Director
Department of Human Resources Development
Leiopapa a Kamehameha Building
235 South Beretania Street
Honolulu, Hawaii 96813

Dear Mr. Yogi:

Enclosed for your information are three copies, numbered 6 to 8 of our confidential draft report, *Report on the Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation*. We ask that you telephone us by Friday, September 20, 2002, 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, September 27, 2002.

The Departments of Labor and Industrial Relations, Public Safety, and Taxation; Governor; and presiding officers of the two houses of the Legislature have also been provided copies of this confidential 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 that reads "Marion M. Higa".

Marion M. Higa
State Auditor

Enclosures



LEONARD AGOR
DIRECTOR

AUDREY HIDANO
DEPUTY DIRECTOR

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

September 26, 2002

RECEIVED
SEP 27 3 07 PM '02
OFC. OF THE AUDITOR
STATE OF HAWAII

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

Dear Ms. Higa:

In response to your September 18, 2002 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 Fund for Disability Benefits (ref., draft report, page 15)

The DLIR believes that excess monies should not be transferred because the fund was created through a special assessment on employers and no General Funds were ever appropriated to this fund. It was established to be self-sustaining and there is a provision in the law, which requires a levy against insurers of employers insured under Section 392-41, HRS, and from all other employers not insured under 392-41, should the balance of the fund fall below \$500,000.

Interest was earned on employers' monies and any excess does not rightfully belong to the General Fund. Revenues are slightly increased through collection of premium over withholdings and penalties assessed against non-complying employers. The fund was established thirty three years ago with an initial assessment totaling a little over a million dollars. Since then we have administered the program with no request for more money from the general fund to sustain the special fund.

(2) Inconsistencies and Confusion in Classifying Funds (ref. draft report, page 11)

The DLIR concurs and will consider legislative proposals to clarify the fund characterization (i.e. special versus trust) for those funds identified by the auditor.

Ms. Marion M. Higa

September 26, 2002
Page 2

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Leonard Agor". The signature is fluid and cursive, with a large initial "L" and "A".

Leonard Agor
Director of Labor and
Industrial Relations

BENJAMIN J. CAYETANO
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF PUBLIC SAFETY
919 Ala Moana Boulevard, 4th Floor
Honolulu, Hawaii 96814

TED SAKAI
DIRECTOR

PAULINE N. NAMUO
Deputy Director
Administration

MARIAN E. TSUJI
Deputy Director
Corrections

SIDNEY A. HAYAKAWA
Deputy Director
Law Enforcement

No. _____

September 27, 2002

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

RECEIVED
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STATE OF HAWAII

Dear Ms. Higa:

Thank you for allowing us to respond to your draft Report on the Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resource Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation.

Our only comment pertains to the section on the Controlled Substance Registration Revolving Fund. We disagree with your finding that there is no clear link between the benefits sought and the source of the funds revenue. As detailed in the enclosed Inter-Office Memorandum from Narcotics Enforcement Division Administrator Keith Kamita, programs supported by this fund provide multiple direct benefits to physicians, hospitals, pharmacies and others who provide revenue for the Fund. Therefore, we request that you amend your finding as regards to this fund.

Please feel free to call me at 587-1350 or Mr. Kamita at 837-8470 if there are any questions.

Very truly yours,

TED SAKAI
Director

TS:wsf
Enclosure

Suspense:

September 27, 2002

TO: Ted Sakai, Director

THROUGH: Herman Moore, Acting DEP-E

FROM: Keith Kamita, Administrator NED

SUBJECT: RESPONSE TO AUDITORS REPORT ON NED'S CONTROLLED
SUBSTANCE REGISTRATION REVOLVING FUND

Auditor's comment: "While the fund continues to serve its original purpose, there is no clear link between benefits sought and the source of the funds' revenue."

I beg to differ on this point; I feel that the S 325 Special Revolving Fund provides invaluable services to the physicians, hospitals, pharmacies and other persons who pay the fees to handle controlled substances and regulated chemicals. The S 325 Special Revolving Fund also services qualifying patients authorized by their physicians to utilize marijuana for medical purposes by issuing the patient a registry identification certificates designated under Chapter 329 part IX HRS (Hawaii's Medical Use of Marijuana Program).

It is NED's position that the special fund S325 meets all applicable criteria and should remain in force for the benefit of NED operations in terms of support to registrants and ultimately the general public. Below is a sample of some of the Division's programs that benefit the public as well as the physicians, pharmacies, hospitals and other individuals who pay the registration fees that are placed into the Controlled Substance Registration Revolving Fund:

REGISTRATION SECTION

The Narcotics Enforcement Division's Registration staff during FY 2002, handled 16,105 administrative transactions relating to the registration individuals administering, prescribing or dispensing of controlled substances, dispensing, sale or purchase of regulated chemicals and transactions for the registration of patients in the medical use of marijuana program, with 8 reported errors or complaints. During this time period the Registration Staff issued 4,858 controlled substance registrations, 31 regulated chemical permits and 195 patient registry identification certificates for the medical use of marijuana. During FY 2002, NED's registration section:

- Processed 11424 controlled substance, regulated chemical and medical marijuana certificates without error and within the NED five day imposed processing time frame.
Conducted 3680 records verifications requested by physicians, hospitals or pharmacies for controlled substance, regulated chemical and for patients with medical use of marijuana registry certificates.
Responded to 1040 inquiries relating to controlled substances, regulated chemicals or the medical use of marijuana program.
- Had only 8 complaints relating to the processing of controlled substances, regulated chemicals or the medical use of marijuana program.

Hawaii's Electronic Prescription Monitoring Program (previously referred to as HISTEM) has proven to be a major asset in the effort to detect, if not prevent, the diversion of controlled substances. The Division was able to transition this program through Act 268 SLH in 1996 to become Chapter 329 Part VIII, HRS. This program is fully funded through the Controlled Substance Registration revolving fund S325 and is one of the Division's tools in its war against pharmaceutical controlled substance diversion. In 1999 the program was expanded to encompass all Schedule II through IV controlled substance prescriptions. This expansion of scope provides for a greater information collection, drug diversion detection and analysis, and ultimately greater feedback and guidance for registrants regarding drug abusers and criminal violators, all in an effort to foster a public/private partnership to address drug diversion and abuse. Act 145 passed in 1999, which allowed the Division to share the information obtained through its electronic prescription-monitoring program with physicians. This expansion of the program resulted in the formation of a program named "Operation Sentinel." As of August 2002, NED's Electronic Prescription Monitoring Program has collected in its database 991,467 Schedule II through IV controlled substance prescriptions. In FY 2002 the program also conducted 188 electronic patient / physician prescription injuries for NED investigators.

"Operation Sentinel" a program to allow the Division to provide information collected from the electronic prescription-monitoring program to a physician on his/her patient. This program coupled with the Divisions Pharmacy Alert Program would allow a physician to better manage his/her patients pharmaceutical controlled substance prescriptions. It is NED's experience that physicians are unaware that some of their problem patients are knowingly receiving controlled substances from multiple practitioners, which is a violation of chapter 329-46 and 329-42 HRS both Class C Felonies. Operation Sentinel has the ability to:

- Track and confront patients at the onset of his/her abusive behavior, allowing NED investigators the ability to deter these patients from committing further violations.
- Identify patients that are legitimately being prescribed narcotics for chronic pain. Operation Sentinel will allow NED to present controlled substance prescription information to a practitioner on his/her patient enabling the practitioner to use his/her professional expertise to better assess his /her patient who may be attempting to abuse controlled substances. During FY 2002 NED responded to 33 requests from physicians for prescription information on their patients.

The *NED Pharmacy Alert System*, also funded by the special fund, provides substantial, routine benefit to 215 registered pharmacies throughout the state. Using criminal intelligence, public complaints, registrant complaints and other information, some of which is derived from the HISTEM program, NED prepares bulletins that are disseminated, via a computer automated system, to all pharmacies as a means of preventing or detecting drug diversion activities such as forged prescriptions, altered prescriptions, fraudulent identities, “doctor shoppers” (those who obtain drugs from numerous doctors and who use many different pharmacies to avoid detection), and other diversion schemes by individuals or groups. Additionally, this system, through rapid information distribution, supports NED efforts to address the theft or diversion of over-the-counter (OTC) medications used to manufacture Methamphetamine since many of these medications are sold in pharmacies. The pharmacies greatly benefit from the alert system in terms of their ability to prevent diversion, deter theft and ultimately ensure that controlled substances are in the custody of appropriate parties. In FY 2002, NED’s Pharmacy Alert Program issued 78 alert bulletins to all pharmacies operating in Hawaii. As of August 2002, NED’s Pharmacy Alert Program is currently monitoring 422 individuals for controlled substance violations.

Chemical Diversion Control Program (CDC) provides invaluable data to the Narcotics Enforcement Division that, in turn, results in benefits to specific segments of the registrant population. More specifically, the CDC program provides for the registration and monitoring of those individuals and business entities that handle controlled chemicals that can be diverted to illegal distribution channels for the express purpose of making controlled substances in clandestine laboratories. This type of diversion is a growing problem in Hawaii. The CDC program collects chemical sales transaction data, analyzes the data, collates the data with other criminal and non-criminal information and advises the registrant in terms of the validity of pending or future chemical sales to specified parties. The program also provides the registrant with security inspections, formal or informal education, timely informational bulletins and other advisement, as well as a rapid response to a registrant’s reports of suspicious circumstances or suspicious chemical sales. NED Investigators also provide information and answer questions asked by regulated chemical distributors and retail stores relating to reporting requirements, security and suspicious sales reporting. As previously noted, many of these benefits, particularly the NED investigative response, are available 24 hours per day every day. During FY 2002, NED’s CDC program issued 31 regulated chemical permits, responded to 42 inquiries, 9 chemical inspections, 59 suspicious chemical sales reports, 45 request for research by law enforcement and 6 incidents where NED investigators responded to Clandestine laboratory or dump sites.

Education, both formal and informal, is provided to all registrants and is funded, in large part, by the special fund S325. NED Investigators provide informal education to registrants during all contacts with them at their places of business, during routine inspections and in response to criminal acts where the registrant or his/her staff members are witnesses. In terms of formal education, the NED Division Administrator or his designated representatives, usually senior narcotics investigators, provide formal

periods of instruction or seminars to registrant groups such as the Hawaii Pharmacists' Association, Hawaii Medication Association, Hawaii Dental Association and the like. These educational sessions are invaluable to both the registrants and NED in terms of promoting greater communication and providing a forum for the discussion and resolution of challenges common to both NED and the controlled substance registrant community. During FY 2002, NED Investigators conducted 49 drugs and regulated chemical presentations to approximately 1025 medical professionals, educators, law enforcement agencies and the public.

NED Disposal of Excess or Expired Controlled Substances or Controlled Chemicals is also a major benefit to registrants and is funded from the special fund S325. Registrant beneficiaries include, but are not limited to, state hospitals, state prisons, cruise ships, hospice facilities, long-term care facilities, nursing homes, physicians' offices, ambulances services both public and private, and feed and tack stores (relative to controlled chemicals). Disposal of controlled substances would be quite an expensive, detailed and laborious service if a registrant contracted for this service in the private sector. Furthermore, there is a state mandate for NED to provide this service to other state agencies and facilities (i.e., prisons). Each year NED collects, processes, inventories, destroys and documents tens of thousands of dosage units of controlled substances. This destruction process involves time, personnel and materials, to include post-destruction written notification to the source of the controlled substances; all costs being absorbed by NED. During FY 2002, NED Investigators received 40 requests to dispose of controlled substances from physicians and hospitals, resulting in the disposal of 17,093 units of controlled substances.

Registrant Inspections conducted by NED are also supported by the special fund S325. In addition to the inspection processes inherent in the above-described programs, NED provides on-call inspections of registrant facilities, inventory and associated records and other documentation. This is done to promote administrative and statutory compliance and to enhance two-way communication relative to any number of pertinent issues, the most important being efforts to combat drug or chemical diversion. Via these inspections, the registrant receives a particularly valuable benefit in that the registrant has the opportunity to examine and refine policies and procedures related to the handling of controlled substances. For example, in the case of clinics and hospitals, effective, appropriate policies and procedures are critical to the acquisition and maintenance of the facility's professional accreditation. During FY 2002, NED Investigators conducted 40 controlled substance registrant inspections.

If you have any questions regarding this matter please contact me at 837-8477.

ATTACHMENT 4

BENJAMIN J. CAYETANO
GOVERNOR

MAZIE HIRONO
LT. GOVERNOR



MARIE Y. OKAMURA
DIRECTOR OF TAXATION

GRANT TANIMOTO
DEPUTY DIRECTOR

Tel: (808) 587-1540
Fax: (808) 587-1560

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

September 23, 2002

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OFF. OF THE AUDITOR
STATE OF HAWAII

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

Dear Ms. Higa:

We have reviewed the draft of Chapter 5 in the Report on the Revolving, Trust Funds, and Trust Accounts. Our responses to the audit comments follow.

- Tax Reserve Fund, Section 231-23, HRS: We concur with the recommendation in the report to change the fund's statutory designation. We will draft a bill proposing the change.
- Unsettled Tax Collections – 1st Division – Honolulu Account: We concur with the recommendation and will take appropriate steps to close this account.

Should there be need for clarification, Kerry Yoneshige, Taxation Services Administrator, is our contact person. His telephone number is 587-1460.

Very truly yours,

Handwritten signature of Marie Y. Okamura in cursive.

MARIE Y. OKAMURA
Director of Taxation

c: Grant Tanimoto